

# Michelin: Socially Responsible Industrial Restructuring (Research Report)

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## Introduction

This report describes Michelin's approach to socially responsible industrial restructuring.<sup>a</sup> The report was designed to serve two purposes—documentation and learning. The report provides *documentation* of Michelin's practices in socially responsible industrial restructuring and contains an agreed upon description of Michelin's planned, integrative, and humanistic approach.

The report was also written as an opportunity for *learning* for Michelin's leaders. The report traces the evolution in planning and practices that Michelin has used to conduct socially responsible restructuring over time. The resulting picture is both a view from the inside—told in the words and through the actions of Michelin's managers—and a view from the outside—incorporating the reactions of stakeholders to Michelin's restructuring approaches in various situations. Hopefully, it helps Michelin's leaders assess where they have been and where they are headed in their evolving journey in socially responsible industrial restructuring.

## Michelin: Socially Responsible Industrial Restructuring

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## Summary

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<sup>a</sup> Reviews Included: C. Poughon, A. Braud, T. Chiche, P. Lepercq, B. Ballarin, E. Andrieux, B. Jacob, Ch Reydi-Gramond, JM Guillon, E. Andrieux (V2), B. Jacob (V2), E. De Roffignac, and D. Bronner (03/02/2016), and J.D. Senard (02/01/2017).

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## Company Background

### *Company History*

In 1889 Edouard Michelin founded “Michelin et Cie.,” taking over with his brother André the company established by their grandfather and uncle in 1832. In 1891 Edouard Michelin invented the first detachable pneumatic bicycle tire. This technical feat produced a tire that took advantage of the smoother ride that pneumatic bicycle tires gave compared with the all-rubber tires that were common at the time. The innovation was in creating a pneumatic tire that was detachable in a matter of minutes—making it substantially easier and faster to change after a puncture, compared to the hours it would take to remove other pneumatic tires, which were cemented to the wheel rims of bicycles. A long list of ‘firsts’ in product design followed, and included milestones in the adaptation of pneumatic tires to different types of vehicles (cars in 1895, locomotives and railway cars in 1929) and then the industry-changing invention of radial tires (adapted for cars in 1949, truck tires in 1952, earthmovers in 1959, farm machinery in 1979, aircraft in 1981, and motorcycles in 1987). Concerns about the environment and sustainability would inspire the invention of low rolling resistance tires in 1992; the world’s largest earthmover tire would be created in 2001; and (coming full circle) the non-pneumatic, puncture-proof Michelin Tweel was presented to the public in 2006.

In 2014 Michelin introduced the world’s first anti-landmine tire. The tire’s footprint applies less pressure than a person walking, and as a result, the tire can be driven on minefields without setting off explosives and represents a major innovation for the safety of rescue and mine-clearing teams.”<sup>1</sup> It also featured the ten-year anniversary of Michelin Ultraflex, a tire technology that “protects farmland by reducing compaction by 25% to 50%, provides more efficient grip and ensures greater longevity, thereby simultaneously increasing productivity and output while reducing fuel consumption and equipment emissions.”<sup>2</sup> In May 2015, Michelin introduced the Michelin Cross Climate in Europe, the first summer tire that was certified for winter use.

Michelin was involved in travel support services beginning with the 1900 publication of the first Michelin guide, developed to help drivers maintain their automobiles and locate travel services. “This guide was born with this century and will last every bit as long,” stated the preface to the first edition. This new type of publication was designed to assist drivers during their travels. The Guide sought to provide practical information—“free of charge”—to help customers by facilitating their travels: locations of gas stations and garages, an instruction manual for tires, road maps, and a list of establishments [hotels].”<sup>3</sup> In 1908 Michelin opened its first office for support of people taking car journeys; in 1910 it published its first road map. In 1926 Michelin published the first of its many regional travel guides for tourists, and in 1931 Michelin became an approved manufacturer of road markers and signs.<sup>4</sup> Michelin’s rankings for hotels and especially restaurants became a highly coveted sign of excellence. More recently, Michelin moved travel support online, with the development of the online application Via Michelin and other travel support services. Michelin also expanded into fleet management through the new “pay as you drive” tire service called Michelin Solutions.

The icon of the brand, the Michelin Man (known at Michelin by his French name, “Bibendum”), was born in 1898. Bibendum has accompanied the brand ever since, achieving immediate and lasting recognition for the brand with the public. In 2000, *The Financial Times* and *R.O.B. (Report on Business) Magazine* assembled a panel of 20 judges drawn from the worlds of art and communication, architecture and design to identify the world’s top 50 corporate logos of all time. The winner? Bibendum. “The Michelin Man is an iconic logo that touches me in a very emotional way,” said one of the judges. Another added, “He’s probably the first example of a liquid identity. Whatever he does or wears, you always recognize him as the Michelin Man.”<sup>5</sup>

## *Michelin Company Profile*

In 2014 Michelin was the world's second largest tire maker, with net sales of €19,553MN and a 13.7% market share (as compared to world leader Bridgestone's share of 14.6% and third place tire manufacturer Goodyear's share of 9.4%).<sup>6</sup> Its 112,300 employees produced more than 178 million tires and 13 million maps and guides in 68 facilities in 17 countries<sup>7</sup>, and sold and serviced tires in 170 countries through 3,800 dealerships and service centers<sup>8</sup>. In addition to the premium Michelin brand, it also manufactured and marketed other tire brands: BF Goodrich, Kleber, Tigar, Riken, Kormoran, Uniroyal, etc. and made tires for all types of vehicles, including "cars, vans, trucks, buses, farm machinery, earthmovers, mining and handling equipment, tramways, metros, aircraft, motorcycles, scooters and bicycles."<sup>9</sup> Michelin's sales were roughly balanced between Europe (Michelin's mother zone) and North America, with a smaller percentage of sales – somewhat more than 20% – coming from the rest of the world (**Exhibit 1** contains the Sales and Capital Expenditures by Region in 2014.)

## *Company Organization*

In 2014, Jean-Dominique Senard, Managing General Partner of the *Compagnie Générale des Etablissements Michelin* ("CGEM," the holding company of the Michelin Group), made some major changes in the Executive Committee that manages the firm. The goal of this new "optimized organization" was to align all of its resources more closely with its priorities, accelerate the decision making process and increase flexibility and responsiveness.<sup>10</sup> Michelin is organized into three types of activities:

- 1) **The General Operations Divisions:** The Group's operating activities are headed by a General Operations Department and organized into four product lines, each of which defined its own strategy and was responsible for its results: (1) Passenger Car-Light Truck Products; (2) Truck Product Line; (3) Specialty Product Line; (4) Materials Product Line
- 2) **The Corporate Directions:** Brands and External Relations (overseeing Michelin Travel Partner/travel services and Michelin Lifestyle (licensed products); Corporate Development; Digital Operations (overseeing Michelin Solutions and Sascar); Distribution (overseeing Euromaster, TCI, franchising and wholesaling); Finance; IT; Legal; Personnel; Purchasing; Quality, Audit & Risk Management; R&D
- 3) **The Progress Department and Geographic Zones:** The department ensures that improvement initiatives are aligned with the Group's strategy while developing suitable progress methods for the Group's various units. It leads the product line support functions in seven host regions (Geographic Zones): Africa-India-Middle East; East Asia and Australia; China; Eastern Europe; Europe, North America; South America

## *Governance Structure*

The CGEM Supervisory Board is responsible for permanent oversight of the group's management and evaluates the quality of management for the benefit of the shareholders, presenting a report at each Annual Shareholders Meeting. In 2014, the Board expanded to include an employee member – Cyrille Poughon, which it did prior to the passage of a law that would require employee representatives on the Boards of major corporations in France. Poughon described his new role:

I have the same responsibilities as the other members of the Board. But in my case, as worker representative, I have a special role. Every time I speak about the workers. What

are the consequences for the workers? Can we help them? How can we anticipate? What can we do for them? Always in a constructive role.

For example, when we have an acquisition project, in the heart of Michelin we have good values and we say, 'We want workers with long-term jobs. It's important. And we want regular workers in Europe, in North America, in Brazil.' But in Asia it's not the same situation. In Asia the practice of many companies is to have fewer and fewer regular workers and more and more contract or agency workers. In the case of Michelin, it's my role to explain to the management, 'Why not have a project in Asia; but what are we going to do with the workers?' As worker representative, I want the company to commit that all will be regular workers and not agency workers. For some European companies, when they start new facilities in India, what will they decide? Will they decide to pay all of the workers 35,000 rupees? Or to have a large part of agency workers with only 5,000 rupees monthly salary?<sup>11</sup>

### *Strategic Issues*

In recent years, Michelin has faced three strategic issues that drove both the content and process it would use to restructure. The issues were to increase efficiency; respond to market shifts; and grow 'the right way.' (**Exhibit 2** contains a summary of Senard's strategic priorities.)

#### **Issue # 1: Increase Efficiency**

In 1905, Michelin opened its first foreign operation in the United Kingdom, and a subsidiary in Italy the year after.<sup>12</sup> In the 1920s and 1930s Michelin continued to expand outside of France, with facilities in Karlsruhe, Germany, and in Holland, Belgium, and Spain.<sup>13</sup> Following World War II, Michelin "declared a policy of expansion in both the industrialized and the developing world"<sup>14</sup>, and it opened new factories in France at a rapid pace, and both modernized and built new plants in the United Kingdom, Germany, and Italy. François Michelin, who headed the company from 1955 to 1999, continued the international expansion that had been started by his predecessors, and further established Michelin as a global company, with manufacturing plants and rubber plantations in locations around the world. (**Exhibit 3** contains a summary of Michelin's global tire and component manufacturing operations in 2014.)

This long period of expansion produced an industrial footprint that contained many plants – especially but not exclusively in France and Europe, that were old, small, with out of date technology, and sometimes without room to expand. These factors created an inefficient infrastructure for manufacturing tires and supporting components that was a drain on Michelin's profitability.

Michelin had a significant problem in the size of its plants and the geographic distribution of its industrial footprint and was less efficient than the industry. A Deutsche Bank analyst explained<sup>15</sup>, "The group is facing two handicaps: plants are too small and mostly in high cost countries." He described industry benchmarks as plants that produce 100,000 tons with a workforce of 1,500. "During 2009-2015, the group has closed 10 tire plants; however, with an average size of 75,000 tons and a workforce of 1,270 people, the group is still 25% and 15% below the industry benchmark production."

The analyst added, "By 2018, the group intends to i) increase the average size of plants by 27 thousand tons (close to the benchmark), ii) increase capacity utilization rate from 80% to 91%+ and iii) get bigger plants with 50% of production achieved by only 11 plants (or an average size of 180k tons).

We estimate that to achieve these targets, 7 more plants will be closed and more if the group's production is not growing in line with the market (+3% p.a.)."

In 2004, Michelin developed a strategy called, "Muscle the West, Develop the East." This strategy had a dual focus. One focus was on restructuring the manufacturing footprint in developed economies to create competitive, profitable, and sustainable factories in higher-cost countries to serve local markets and to provide production as needed outside of those markets. The levers for this focus were massification (increasing a plant's capacity), specialization, and modernization. The second focus was to build large, economically scaled production facilities to serve markets in the East and in other underdeveloped regions, including South America, China, and India. The combination of both sets of activities was intended to ensure that Michelin would, in the long run, be competitive against all the competitors it faced in all of its markets.

Consistent with this strategy, Michelin reorganized its industrial operations within the developed economies, maintaining the same volume of production across the developed regions, but closing plants in some locations, specializing others, and reducing or expanding the size of other existing plants to be in line with business segment needs.

## **Issue # 2: Respond to Market Shifts**

Within the strategy of "Muscle the West, Develop the East," Michelin also continued to expand globally, and developed new, very large-scale plants, including an Indonesian synthetic rubber plant, an Indian truck tire plant, a Brazilian plant for car tires, and a dramatically scaled-up plant in China to meet growth that was expected from those markets. Peter Selleck, president and chairman of Michelin North America, Inc, commented in 2014 on the company's growth plans: "We're putting a lot of capacity in those parts of the world because that's where the market's going to be in the future," Selleck said. "In most of those plants all over the world, the production employees that work for us don't own cars today. However, we're seeing the transition already start to where they're getting to the point where they can own cars."<sup>16</sup>

Developed markets like the US and Europe were being flooded with cheap Chinese imports, and the growth of car ownership in emerging markets like China, India, and Brazil produced a need for efficiently produced, lower-tier brands to compete with cheap Chinese exports.

In a 2015 interview, Jean-Dominique Senard,<sup>17</sup> described the steps Michelin was taking to meet its competitive challenges: "Michelin group will counter rising pressure from fast-growing, low-cost Chinese brands in Europe and North America by increasing the number of cheaper tires it offers from budget subbrands such as Tigar, and Riken."

He added, "Today, [the percentage of Michelin tire sales in those lower tiers] it's roughly 15 to 20%. It should probably move up to 25 to 30 per cent in the next five to 10 years. We used to be big in these areas, but our recent strategy has been to make sure that we did not produce tires that destroyed value. ... [We] were producing them in areas where the cost base was too high." Senard added that Michelin had to dramatically restructure its business to enable it to profitably cover the markets in Europe and North America for lower-cost tires. Senard described Michelin's commitment to manufacturing in Europe and North America: "We need to be there because our customers want Michelin Group tires but not necessarily all the performance of premium tires. Also, our distribution centers cannot live on just premium tires. They have to fill the racks with other brands, so if we don't offer these tires [under Michelin subbrands], they will go to the competition." He concluded, "We can now manufacture these tires profitably and still offer good performance and safety."

Senard also commented on the future. “Today our business in China is 1 billion to 1.5 billion euros (\$1.9 billion), so it’s not a huge part of the group” [which had total sales of 20.2 billion euros or \$25.55 billion, in 2013]. ...The long term potential for growth is much larger in China than it is in Europe and North America, as both could be flattish over the next 10 years for the domestic automotive and tire business.”

Senard summarized his views on Michelin’s industrial vision: “Our industrial vision is to have manufacturing capabilities spread across the major geographic and currency areas. It’s unusual to have the world’s three main economic regions in recession at the same time, and the best way to protect against currency fluctuations and the strong euro is to have facilities in US-dollar areas and in the Asia region.”<sup>18</sup>

**Issue #3: Grow ‘the right way’ –through innovation and sustainable products that aid the environment, provide high performance, and enhance customer safety. Regulation of tires is a positive force, supporting Michelin’s strategy.**

Senard was asked in the 2015 interview: “Is it your goal to pass Bridgestone to become the No. 1 tire maker?” He replied, “I’m not sure it’s the best goal to have in mind. We are a big player, and we are probably No. 1 or No. 2 depending on how you count things. Growth is at the center of our strategy, but it’s not our target to be No. 1 for the sake of No. 1. I’d rather be No. 1 in technology and sustainable mobility.” He elaborated, “The carmakers need tires to help them reach their goals to lower CO<sub>2</sub> emissions. We are bringing new solutions to help them reach their goals. The performance of our tires is going to increase.”

Senard was also asked: “Will tougher global carbon dioxide standards put more focus on premium tires?” He replied: “Absolutely. This is the point. Premium tires respond much better than others to these constraints. These regulations are extremely good for us. “

## Managing People at Michelin

Michelin has chosen not to use the term ‘Human Resources.’ Remi de Verdilhac, who worked in Personnel Management for 30 years, explained: “At Michelin we don’t speak about human resources. We speak about personnel. Why? Because first, a human being is not a resource. A human being is much more than that. People have potential to develop. Just to be sure that everyone can become who they are. That’s why we focus on each person who is much more than a resource, and is not a raw material. It is both labor that is required to perform and to achieve competitiveness targets, and to make people very happy and therefore perform better for the company.”

### *Culture and Values*

Frantz Bléhaut , Michelin’s Personnel Director for Europe, described the experience of being a Michelin employee. “We always had a key value about respecting people,” said Bléhaut . “We are people centered and have been people centered for many, many years and that’s the key factor.”

Respect emerged as a central value early in the history of Michelin. Family leaders guided the Group for more than 100 years. Together they created a firm with a distinct culture, set of values, and way of operating that has continued to be strongly influential, even as the company has changed and evolved. (Exhibit 4 contains the leadership history of Michelin.) The 2013 Annual Report included this description:<sup>19</sup>

The purpose of the company grounds all actions and collective behaviors: Because we believe mobility is essential for human development, we innovate passionately to make mobility safer, more convenient and environmentally friendly.

We are firmly committed to offering our customers uncompromising quality. That's our priority.

Because we believe in personal fulfillment, we want everyone to have the means to give the best of themselves. We want to turn our differences into an asset.

Proud of our values of respect, we share the same journey for a better way forward for everyone.

Michelin's values included a culture of respect for employees and the communities where the company does business, and a broad view of customer needs that extended beyond the manufacture of tires to encompass other needs such as travel support services and the promotion of customer safety. Michelin's values also included a commitment to fundamental and applied research and continuous innovation to produce tires that performed to increasingly rigorous standards, and that were environmentally friendly and safe for drivers and owners of all types of vehicles. Innovation was supported by a value of respecting the facts and an appetite for proving the capabilities of Michelin tires through competition.

Michelin developed a strong statement of its values and expected behaviors from its employees. It also established a reciprocal system of Rights and Responsibilities. (**Exhibit 5** contains Michelin's Employee Values and Behaviors and **Exhibit 6** contains Michelin's Employees Rights and Responsibilities.)

### *Recruitment*

Michelin invested great effort into its recruitment process, aiming to ensure that each employee is a good fit for the company and would act consistently with its unique set of values. Bléhaut explained the approach:

The key thing is that we don't only recruit for the job, the position. We recruit for the career. It can be a short one, a long one, a life one. But we don't only look at the competencies for a job or position, but starting the recruitment process, we look at other aspects: the margin that the person has to grow; the different kinds of jobs that she or he could have later on; soft skills, behaviors, values. Values is the key aspect. If we meet somebody with a very high mindset, very engaged, etc. if we feel that he doesn't share Michelin values about respect—respect for customers, for people, of the facts—we will not recruit him.

Michelin uses a progressive selection process. Each potential employee will meet five different people during the last day of recruiting including people practicing inside the company in the same occupation, a career manager and a functional or business leader. Through the exchange and dialogue in these conversations, Michelin executives gain a sense of who a person is and what they might be able to do. "And after that, an integration period will ensure—for both the company and for the individual—that we share the same vision and the same values. At the end of the day, the only person who will decide is the recruiter," said Bléhaut. "He will gather different opinions, recommendations, etc. and he will make the decision, sometimes with help from the career manager, about what this guy

could work on five years later, etc. When we recruit, we don't know exactly where we will assign the person."

### *Career Management*

Within Michelin, each of the 112,000<sup>b</sup> employees has a "Service Personnel" Referent who is in charge of the individual's development within the company. "We have a short phrase to describe that, which is, "Nobody owns nobody at Michelin," said Bléhaut .

While in many companies, the business unit or team in which a person works will be entirely in charge of his or her promotions and career path, within Michelin, the Service Personnel Referents are in charge of these decisions. Michelin employees have great mobility between different jobs, different occupations, and different geographies. Bléhaut explained: "Many of the SP Referents are at the site level. For some employees, it will depend on the level of the people—for some it would be at the country level, and for some at the group level—that would be for our main leaders. Those career managers are responsible for worldwide career management. The two big jobs are sales and factory management. Looking at our business scale—with huge markets like Europe—we need real leaders."<sup>20</sup>

### *Tenure and Composition of Michelin Workforce*

Michelin's employees tended to work at the company for long stretches of time, some, for their entire careers. In 2014, roughly half of Michelin's 112,000 employees had been with the company from between 10 to more than 20 years (27% had tenures of twenty years or longer), a little less than a third had between 2 and 10 years of service, and less than one-fifth had service of two years or less. Slightly more than 60% of Michelin employees served as production operators, while the remaining roles were divided between administrative, technical and support staff (30%) and management (8%).

## **Industrial Restructuring at Michelin: Foundations and Evolution**

The restructuring process at Michelin has evolved over more than three decades through a process of experimentation, shifts in understanding, learning, and growth. (**Exhibit 7** contains a summary of financial performance measures for Michelin during the period of 1981–2014.)

### *1889–1998: Michelin's Early History of Growth, International Expansion, Restructuring, and Social Relations*

The Michelin brothers created "Michelin and Cie." in 1889, in Clermont-Ferrand. At the time, Clermont-Ferrand was a small village in the rural Auvergne region of central France. There was not much industrial activity in the area and workers who came to work in the factories were typically farmers or artisans. In order to set up the basic infrastructure necessary to support its workers, Edouard Michelin established a group of communities in the outskirts of Clermont-Ferrand for its employees. The Group provided housing, schools, health clinics, swimming pools, and other recreational facilities in a system that became known as *paternalisme* (paternalism) or in more modern terms, *societal or responsible support*.<sup>21</sup>

As Michelin expanded and opened more tire factories across France in the first half of the twentieth century, it chose to locate in smaller communities. It drew its workforce from remote areas in order to keep its factories small and to avoid the surging waves of unionization and socialist ideologies that

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<sup>b</sup> 109,000 in 2015



were becoming commonplace in France. Rather than relying on union representation, Michelin management tried to foster the loyalty of employees through the generous provision of social benefits.  
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After World War II, the French government began to invest more in health and education. In 1955, François Michelin took over the management of the company. In the seventies, Michelin formally transferred the management of its health clinics, hospital and schools to the state. Patrick Lepercq, former director of the Public Affairs department of the Group, explained: “At the end of the day, if you want to be very realistic, we were asking, What will put our people in a full condition to work properly? If they don’t have the right food, or the right health, or the education, because it is not supplied by public services, Michelin will need to supply all of that up to the moment that the local government tries to put that in place. And when the local services start to exist, Michelin would start to withdraw its own support.”

Even as its provision of basic services was withdrawn, Michelin continued its focus on employee welfare. Yet François Michelin did not see the value in engaging in social dialogue with the unions in this process, preferring instead to maintain a paternalism approach to managing the workforce by providing for the needs of individual workers. The location selection strategy of avoiding areas that might be prone to union organizing continued as Michelin expanded abroad. When the Group opened its first plant in the United States in the 1970s, it chose Spartanburg, South Carolina, because it had among the lowest rates of unionization in the country. “Unions aren’t at all necessary for the existence of the company. They are only the expression of the inadequacy of company owners,”<sup>23</sup> François Michelin said in an interview in 1978.

### **Restructuring in the 1980s**

During the 1980s, Michelin faced more intense competition, driving the company with greater pressure to manage costs. At the same time, its markets were growing increasingly outside of France and Western Europe.

In 1980, Michelin began closing its production workshops in Clermont-Ferrand as it expanded its management and R&D facilities at the headquarters. Over the next decade, Michelin’s workforce in the town would fall from 30,000 to 16,000 employees.<sup>24</sup> In 1983, François Michelin began investing in local small businesses in Clermont-Ferrand to offset some of the impact on the local economy in Clermont-Ferrand of the restructuring activities. “François Michelin, at that time, asked informally among the various departments in Michelin, ‘Try to imagine and see if you could help some very small companies to succeed. To help with their business plan. To help with government matters. To help with marketing. On employment, etc.’ And from that time, we developed the concept that we call “revitalization,” Lepercq explained.

In 1989, Michelin purchased Uniroyal Goodrich, which increased the company’s debt. In 1990, the U.S. went into a recession that lowered demand in the car and truck sectors. That year, with Michelin poised to post a loss in net income, the Group announced a restructuring plan that would involve reducing 16,000 of its 130,000 worldwide workforce over the coming years.<sup>25</sup> Its goal was to cut costs \$600 million per year by 1995.<sup>26</sup> Facing such a large reduction in its personnel, the Group knew it would have to increase its activities supporting the territories in a more intensive way.

### **Restructuring in the 1990s**

In 1990, the Group’s investment activities in small businesses became formalized under a subsidiary called the Michelin Company for Industrial and Economic Development, known in France as “Michelin

Development” or “SIDE” (La Société d’Industrialisation et de Développement Economique). The purpose of Michelin Development was to help create jobs in the area where Michelin facilities were located (i.e., a catchment area of 50 kilometers or a one-hour drive away). Michelin Development also managed the revitalization of labor market areas when Michelin reduced manufacturing activities or closed a facility.

In France, the primary activities of Michelin Development were to manage and support the creation of jobs through small and medium-sized businesses using three tools: technical assistance; soft loans; and direct subsidies. Michelin Development also worked to attract companies to locate activities to the region. The criteria used to select companies to receive assistance from Michelin Development included the creation of sustainable jobs. Preference was given to jobs in industries that were linked to existing industries in the region. “This occurs at the time of investment in the region and also at the time of disinvestment. Michelin is not a stranger to the territory. We continue to take responsibility to ensure people are able to work 10 or 30 years with Michelin and that the territory will not collapse without some support,” Lepercq explained.

Michelin Development would expand over the next 25 years to Germany, Spain, Italy, United Kingdom, Canada and the United States. (**Exhibit 8** contains the results of the Michelin Development Company’s activities from 1990–2012.)

While Michelin started to develop better relations with the territories through the small business investment programs of Michelin Development, the Group’s Social Relations remained constrained throughout the 1990s. In 1993, only 4% of Michelin’s French workforce was unionized. “Workers tell us, ‘What’s the point of being in the union if it can’t protect us?’ “ said François Boisset of the General Labor Confederation. “The psychological pressure at the plant against the unions is terrible. Employees don’t want to be seen talking to us. They are afraid for their jobs.”<sup>27</sup>

François Michelin’s focus during this time was on developing Michelin’s career management system that would promote the individual development of all Michelin employees. He saw this individual approach to dialogue as a more effective means to look out for employee welfare that would also improve the business. “A ‘social’ dialogue’ should be conducted directly with the personnel. It is a direct exchange between persons; everyone should come out of it enhanced in one way or another. Why? Because each person has his own specific traits and talents. Like statistics, a collective entity is a lie,” he said. “I have always had the impression that a union lives and acts as if it were outside the business and apart from it.”<sup>28</sup>

Yet a conversation he had with a union member caused him to rethink his stance. “A union member once said to me: ‘Mr. François, you have to listen to what the unions and union members are saying; they will give you a temperature reading. They are a thermometer. But, you know, a sick man has never been cured with a thermometer.’ We shook hands and, lost in thought, I left him, saying to myself: What could we do to free up enough time to establish a real network of contacts between the different actors in the company?”<sup>29</sup> However, this would ultimately become a project for his successors.

In 1995, the Group decided to pursue a strategy of specialization whereby Michelin factories would specialize in only a few products rather than making many different products. During this period, the overall share of Michelin’s production in France began to fall further as it developed its industrial base elsewhere. Only 15% of Michelin’s tires were being made in France. Yet despite the improved profitability delivered by factory specialization, by the end of the 1990s, Michelin was losing market share to Bridgestone-Firestone.

In 1996, under the leadership of Edouard Michelin, the son of François Michelin and by then a Joint Managing Partner, the organization of the Group was dramatically changed to be more reactive to customer needs. He converted the Group from a functional and geographic organization to a matrix organization based on worldwide business divisions operating regional BUs, regional geographic directions, functional Group directions, and R&D centers.

### *1999-2003: Edouard Michelin's Restructuring Plan: Moving Toward a New Strategic Approach of Anticipation*

In June 1999, François Michelin retired and appointed 36 year-old Edouard as his successor. Edouard had worked for a decade at Michelin, having begun his career first as a tire manufacturing machine operator and then as a manager at a factory in France before becoming President and COO of Michelin North America. He returned to France in 1993 where he became a Partner and prepared for his succession.

In the month after taking over as CEO in 1999, Edouard announced the closure of the Wolber bicycle tire factory in Soissons in the north of France. The Group declared that the factory was no longer competitive with the lower-cost tires coming from its increasingly successful Asian competitors. The closure would affect 451 employees. The Group explained in its announcement that the closure would take place in March 2000, and that the development subsidiary SIDE would be made available to assist the territory of Soissons in its revitalization. The announcement was made on July 26, a few days before everyone left for the August holidays.

On September 8, the same day that the Group announced a 17% increase in profits for the first half of the year, Edouard Michelin put out a statement explaining his ambitions to improve the Group's profitability by 20% over the next three years in Europe, a goal that would involve the elimination of 7,500 jobs across the continent over that period. "Unlike other periods when we were fighting for our survival, we must now prepare our performance for tomorrow,"<sup>30</sup> the statement read. The plan announced no other sites that would be closing besides the Wolber factory in Soissons, with future details to be forthcoming.

This announcement did not resonate well with Michelin's employees, French political leaders, or the general public. "This is the first time that Michelin dares to announce such job cuts during such favorable economic conditions," said Hervé Carrusca, Secretary of the Force Ouvrière (FO) union. "We fear that with such figures, Michelin had decided to close certain production sites or services leading to these layoffs because they have reached their limits on the retirement measures in recent years."<sup>31</sup>

In response to the restructuring announcement, the CGT union organized a protest day in Clermont-Ferrand on September 21. Nearly 3,500 of the 15,000 Michelin employees took to the streets – stopping work at the five factories in the town to protest outside the headquarters. Some employees ripped down the street signs along Michelin Avenue and replaced them with signs reading "Avenue of Full Employment."<sup>32</sup>

A second protest was organized in Soissons, the only site at which a closure had been announced, for September 24. Soissons had already experienced layoffs at a few other companies earlier in the year. The loss of the Wolber factory would cut the local business tax base by an estimated 8%.<sup>33</sup> The court in Soissons put a hold on the factory closing. On September 24, the CGT union organized a protest in Soissons that gathered around 4,000 people in a community that had a population of only 30,000.<sup>34</sup>

With all the union organizing actions and subsequent media attention, the political leadership soon became involved. When asked what he intended to do about the Michelin announcement, French Prime

Minister Lionel Jospin said there was very little the government could do under the law to stop Michelin from restructuring.

Michelin was not the only French or foreign multinational company at the time that was undertaking significant restructuring actions. Yet this statement by the Prime Minister led to a revolt inside his socialist government, which saw his acquiescence to Michelin's announcement as a sign of his weakness. A political and media fury erupted in the subsequent weeks in what became known as '*l'affaire Michelin*.'<sup>35</sup>

In order to save face with his party, Jospin had to take action. "It is inadmissible to announce substantial profits in the same breath as demanding public funds to help pay for restructuring that involves a significant reduction in jobs,"<sup>36</sup> he said to an audience of French socialist parliamentarians on September 27. He vowed in his speech to deny state subsidies to any company that wanted to restructure that was not in financial difficulty, as well as to curb the use of part time and temporary employment contracts.

Jospin's government, along with trade unions, approached the European Parliament for assistance on the matter. On October 9th, the European Parliament agreed to host a hearing on the planned reductions at Michelin. Francis Wurtz, the President of the Confederal Group of European United Left (EUL) explained: "We have fought to obtain a debate on the Michelin case and redundancies in Europe. We are determined that it will not merely be a talking shop, but that the Parliament will propose concrete measures."<sup>37</sup>

On the 26<sup>th</sup> of that month the European Parliament met in Strasbourg. At the meeting they passed a resolution that mandated that the European Commission exercise greater control over company restructuring, including setting up a permanent observatory on restructuring, taking better care to include worker representatives in negotiations on restructuring, and ensuring that companies provided appropriate social remediation measures. Although the Resolution passed that day, the Parliament voted against including Michelin specifically by name in the Resolution by a vote of just 229 to 210, with five abstentions.<sup>38</sup>

On January 31, 2000, production stopped at the Wolber factory. In March 2000, the French courts accepted the Social Plan that included offers of internal mobility or 12 months of severance pay for those exiting the company.<sup>39</sup>

Despite the political and union backlash, Edouard pushed forward with the restructuring plan. He closed one of the production lines of the Troyes plant in the car business in 2001 and closed another car product line in the Tours plant in 2002, both within a massification strategy that added the production volumes from the two plants to other facilities that were being expanded.

At the same time, Michelin was undergoing a number of other major changes. In 2000, Michelin had to enact the newly mandated 35-hour workweek, an effort that took almost a year of negotiations with the unions to complete. Edouard Michelin opened up relationships with the unions, holding negotiations for the first time since the 1960s. Yet the first years were difficult, due to decades of hard relations and mistrust.<sup>40</sup>

Edouard Michelin also began to take steps to modernize Michelin, including lifting some of the intense secrecy requirements that had been common before, by hosting press and shareholder events at its factories and R&D centers. Edouard also wanted to begin to build better relationships with the Group's shareholders. In the past, Michelin had not paid much attention to shareholders, as its form of incorporation had allowed its shareholders limited influence over the company's management.

Edouard Michelin decided to dramatically change Michelin's approach, and he began to regard communication as a key factor to engage the different stakeholders of the firm. In 2001, Edouard Michelin instituted regular lunches and meetings with analysts and fund managers in an effort to bring more transparency and accountability to the firm's investors.<sup>41</sup>

By the end of 2003, Michelin was emerging from its restructuring. Yet the public relations surrounding the process had taken a toll on Edouard and François Michelin. During the Clermont-Ferrand strike in September 1999, Hippolyte Simon, Clermont-Ferrand's Bishop of the Catholic Church, came out and spoke in defense of the workers. "I am at pains to admit the joy of shareholders at the job cuts, as behind this is the suffering of men," he said. He went on to condemn the reaction as 'insolent and immoral.'<sup>42</sup> The Michelins were a devout Catholic family and did not take such a condemnation lightly. At the same time, they believed the criticism was unfair since they had offered the employees at Soissons a severance package that was more generous than what was typical.

After some additional consideration, the Michelins concluded that some things would have to change in how they managed restructuring in the future. In 2003, François Michelin reflected on the company's experience with restructuring. "Employers who think only of laying off people are not employers. Dismissing someone is a terrible human drama. When someone leaves the company, it is a part of our very substance that is going away. Believe me: Over the last fifteen years, and just about everywhere in the world, we have had to let a large number of people go. Each time we did it, it was a real ordeal for the company."<sup>43</sup> François Michelin knew that restructuring was inevitable for Michelin to modernize and be able to compete in the future. Yet something had to change in the way it was done. "What is missing nowadays is a way to let people go in an atmosphere of dignity. You ought to be able to say to them: 'Listen, two or three years from now, I will not be able to give you any more work. You are going to have to leave us. We are going to find ways to make this transition as smooth as possible. You can start looking for another job, and we will do all we can to help you find one.'"<sup>44</sup>

Even after the conclusion of his three-year restructuring program, Edouard Michelin still found himself having to defend his decision to the French public and government to conduct a large restructuring in a time when the company was not in financial difficulty. He remained steadfast in his belief that the Group should undertake restructuring while still profitable. He saw Michelin's challenge as being a lack of organization generally and specifically a lack of anticipation around restructuring and managing cycles of change. He wanted to develop what he called an "all-terrain capability" approach that would allow the company to manage through difficult economic situations as well as prosperous ones. "We are no longer waiting to get into trouble and we now anticipate perpetually to improve our all-terrain capability," he said in a 2003 interview.<sup>45</sup>

It was this combined vision—one of long-term anticipation and continual improvement inside a culture that would preserve the dignity and respect for the individual worker—that paved the way for what would become a new model of restructuring at Michelin.

## 2003–2013: Developing The 'Ramp Down & Up Model' of Restructuring

In the years that followed, Michelin pursued its massification, specialization, and modernization strategies of closing product lines in some plants while investing in others.

- **In 2003–2005**, Michelin closed a French truck manufacturing plant in Poitiers, moving the production of truck tires from Poitiers to the nearby Tours plant, and conducted a spin-off of the rim division formerly made in the Poitiers plant to the German company, Mefro.

- **In 2006–2010**, Michelin implemented a three-region competitive plan for its car tire production in Spain, Italy, and France. The plan required closing six car tire plants while investing heavily in four other plants in the three-country region.
- **In 2013**, the Group developed a new competitive plan for all of the Michelin industrial activities in France, which included closing the Tours truck plant and making substantial investments in many other French sites.

In all, from 2003 to 2013, Michelin implemented 15 restructuring programs. About half of the 35,000 people working in European industrial facilities were involved in the changes, as workers in sites that were closed or downsized, or in sites that were expanded through the transfer of production volumes from other facilities. The restructuring programs represented about 35% of the total industrial CapEx spent by Michelin in Europe during the ten-year period.

During those operations, Michelin developed what it called the ‘Ramp Down & Up Model’ of restructuring. The purpose of the model was to improve the management of large changes, which impacted individually and collectively thousands of employees, their families, and the communities in which Michelin had production sites.

Development of the model began in 2002 – 2003, when Patrick Lepercq, head of public affairs for Michelin, was asked, along with other key senior managers, to contribute to the creation of a more structured approach to Michelin’s restructuring process. Lepercq believed it would be helpful for Michelin to have a replicable model of planning that could be used for any restructuring project the Group was contemplating. He thought a more structured planning process could strengthen decision making and would better prepare the company to defend its actions in the public arena. He also wanted to improve the perception of Michelin’s restructuring activities among key stakeholders, including government and union officials and the public.

Assuming that the business case for restructuring had been established and approved, what came to be known as the ‘Ramp Down & Up Model’ of restructuring was guided by two goals. The first goal was to take care of the relocation or reemployment of Michelin employees affected by the changes. The second goal was to contribute to the creation of an equivalent (or close to an equivalent) number of jobs in the territories Michelin was leaving.

The new model would emphasize the development of a comprehensive analysis of the factory or facility that was under review. It would work with the involvement of only the plant manager and a few internal stakeholders of the local company. It would inform and seek counsel from a very small group of key outsiders, to ensure that the stakeholders would understand Michelin’s decision in the event that a shutdown was decided upon. The model would be applied to restructuring activities that involved downsizing or plant shutdowns.

The new model would use a formal task force approach, with the most important areas represented, and in which each individual had identified roles and responsibilities.

The task force was set up to engineer the changes while ensuring that all of the domains involved in the restructuring would be involved in its development. This included representatives of the business lines, social relations, public affairs, territory development, corporate development in the case of a potential spin off, and economic development.

The task force was in charge of the total transformation program, covering the anticipation phase as well as the program’s implementation. In 2006, Dominique Bronner was appointed Director of

European Industrial Transformation to develop the new model through its application in specific programs of downsizing, upsizing, and any factory shutdowns that Michelin would conduct.

According to Lepercq, there were three challenges to developing this more structured approach. First, was to convince Michelin's business leaders that "time spent before saves time later" – allowing time to study the restructuring situation properly. The second challenge was to make sure that the company would have trusting relationships with public authorities, so they would understand the reasons for the decision to downsize if and when it happens; such relationships would be needed with unions as well. The third challenge was to create clear definitions internally of who was responsible for each aspect of the new planning process, and to ensure that all the involved parties respected these roles and responsibilities.

### **The 'Ramp Down & Up Model' of Restructuring Planning**

The new process began with the creation of an internal task force. The task force would study the problem, answering the following kinds of questions: 1) What is the business problem to be solved? 2) What are the root causes of the problem? 3) Why is downsizing the only or best alternative? 4) What *could* be accepted by the various stakeholders?

Step by step, the task force built the proposed project together, taking time to anticipate the reactions of stakeholders and other issues that might arise. Lepercq would hold conversations with external parties with whom Michelin had long-standing relationships so they would understand the business rationale of the company's actions. The key goals were to ensure that the parties would not be taken by surprise by the announcement, and that they had information that accurately described Michelin's restructuring actions. The timeline was roughly one year of working internally to build the business case for the project and to anticipate issues and reactions.

The proposed course of action would then be presented for approval, and if approved, would be communicated to the affected Michelin facility leadership (and later, employees) as 'the' plan that would be followed during the restructuring.

### **Making the Decision to Restructure**

Thierry Chiche was head of industry for the European car and light truck business unit from 2006–2010. During his five years in that role he closed or restructured six sites. He described the fundamental challenge that restructuring posed for Michelin's managers and the philosophy, developed over time and embedded in the 'Ramp Down & Up Model,' that guided their restructuring activities.

We are a people company; we have very long-term relations with employees. People are spending their whole careers in the company, sometimes for generations. We have grandfathers, fathers, sons and daughters – it's a really different contract that we have with people. It's a long-term contract; it's a mutual responsibility. So in a company like ours, it is probably the hardest decision that you can make – the restructuring.

And therefore the very important first step is to be completely convinced that you have no other choice. It's not a decision that you make like that – OK, let's close this factory or let's open that one. In a company like ours, with the relationship we have with our employees, we have to be totally convinced that we have no other choice. And we have no other choice because at the end of the day we have to serve clients, and the factory and lines of production we will close have no viable option to become or to stay competitive, to serve our clients in the future.

It's absolutely crucial, because when you are a people company and you are starting this type of process, you will face many difficulties and pressures to change your decision so you need to be *deeply* convinced that you have no other choice.

This is what characterizes what we are doing. We are not taking business decisions quickly. We are thinking about them. We are thinking about the options. We are thinking about the alternatives, so that when we take the decision to restructure, there is nobody who believes we shouldn't do it.

### **Preparing the Case for Restructuring**

Lepercq described the role he played as head of public affairs to help prepare Michelin to implement a restructuring it was considering. "Right from the start we try to listen to what the business has to say, and then we say, "OK, now you are saying that. Can you show me the data that could substantiate your analysis of the situation, and why you have a real business problem?" And my role, from that moment and up to the end, is to represent inside the company what could be and what will be the questioning of government, of local government committees, or sometimes international organizations, depending on what country we are talking about. And to be as challenging as the questioning of the external parties will be, and to propose this kind of hard, challenging position, inside the company."

The task force would challenge department heads to consider the reality of the situation and the potential for alternatives. "I ask, "Could you show me the data that shows that; could you show me what kind of investment has been devoted to this factory over the last ten years, could you show me – the whole business history, to make sure that we have the hard data, and to make sure that in the . . . management of this site...that this activity has had a fair chance to succeed, and that we have not been in the situation of managing it to the point where it has to be closed." And that is the first question that we ask, "Can you show me that this entity has had fair conditions to succeed and that you have not been leading this site to closure?" said Lepercq.

From that stage, the task force constructed a document that contained the full history of the site from the time of its creation. Included in this document was any support or subsidies given by the territory, any commitments Michelin was expected to meet, and the past history of meeting those commitments. "The point is for us to know the truth, because we cannot represent, properly and rightly, the company to the outside if we don't know the truth," explained Lepercq.

The next stage was to prepare the external strategy. They prepared the various scenarios they looked at for the factory. Lepercq said they would have to be able to explain to the government and other stakeholders: "We have looked at scenario A, B, C, and to then explain what we have been able to test, what has been the conclusion, and why we have not followed through with those alternatives."

From that stage, they would begin to plan the closure and the necessary commitments. Lepercq explained:

We know the full data of this site in this territory; we have been able to seriously study some alternative scenarios and unfortunately, we have been unable to retain or select one of these scenarios, and then we have to look at the strong reality, which is what to do with the site.

We then have to answer two questions: a) how will we manage the closure of this activity? b) and then the driver for us is the social aspect, to help people make some kind of commitment, whether it is in the company or outside the company, to put in place some



kind of quite creative program to manage the transition between working on the shop floor over six months up to two years, to prepare the people to relocate to another Michelin site or to find a suitable job outside the company.

But before that we needed to structure a project that would be fully understandable for the government on the business side, on the social side (for the workers), and what we will do for the territory. What is the rationale for the business side? What is the rationale and commitment to look after the employees? What will be our commitment to look after the future of the territory?

Lepercq would discuss the answers to these questions on a regular basis with a network that had been built over time of individuals in government, in the territories, and in the national unions. “If you want to anticipate a crisis, you know you will have everybody against you. What we need to have at least is a national government with a full understanding of the position of the company. From the time we founded this process, that has been the practice of Michelin, to never have a member of government say, ‘Michelin has taken us by surprise.’ And nobody could tell us, ‘We have no idea about what Michelin is doing. We have no clue about its strategy.’ They have no fact to substantiate that kind of statement.”<sup>46</sup>

### **Communicating about Restructuring**

Since 2009, Bruno Jacob was responsible for developing the communications strategy for restructuring in France, as part of his function of France Communication management. He was first integrated into some French restructuring programs led by Dominique Bronner at that time, and in 2015 was asked to manage the network of communications directors in Europe. He identified the “main moments” for communication about restructuring. First was to develop a core message of the ‘why’ of the restructuring project.

The red line is to be transparent with the people, to be frank to the organization. And to do that, it is important to make understood not only what is happening in the closure, but also what is driving it—the external reasons coming from the market and from competitors—to understand the whole picture and the complete reason ‘why.’ We find that it is very important to engage people, and one of the best ways to engage them is for them to get the same message and share the same analysis, the same rationale. When people share the same analysis, they often reach the same conclusions.

The core message would then be adapted to each of the audiences that needed to be informed about the restructuring, beginning with the employees and their managers. As required by law, the first communication was to the unions. “We [then] immediately make the announcement so everyone hears it at the same time from their own management,” Jacob explained, with communication being led by the factory manager or by the managers of the morning, afternoon, and night teams. “But then we have a time of direct exchange with their managers. The people meet with them to hear the news again, to react, and to ask their first questions.” Jacob believed that one of the keys to successful communication was to provide an opportunity for employees to review with their managers the restructuring announcement that had just been communicated to the workforce as a whole. “When you get such a shock from this kind of information, there is disengagement. The managers can adapt the communication to what their employees are feeling and how they are responding, to re-explain the rationale.” Managers were supplied with presentations of the restructuring strategy and its rationale, complete with special guidance for how to respond to questions of the employees.

There had been an evolution in the communication process. Jacob explained: “In the beginning, we concentrated on the people who were losing their jobs. More and more, we are taking the whole population into consideration – it is important to engage the people who will stay in the company, because it is also a change for them.” The communications strategy had also evolved by providing an increasingly broader perspective on the changes at Michelin. “We have gone from communication on factory closures, to communication on changes in the company...to communication about the global organization – that’s a key change,” Jacob said.

The communications team also supported the effort to ensure that as many Michelin workers as possible considered internal moves within the company. They created information brochures about each of the Michelin factories that also included information of vital concern to parents, such as information about local schools. Jacob believed that all of these measures were “completely in line with our values. We will not leave the employees alone. The communication is an illustration and a materialization of the values of the group, which is to accompany people to their new professional project.”

Communication materials were also developed for Michelin staff who would discuss the changes with internal and external stakeholders. “What Patrick did with the politicians, it’s exactly the same with the press, and with the unions, to understand what kinds of questions we will be asked and to provide answers to them. We do the same for the personnel department: What will be the questions and answers for them to use with the employee representatives? In each of the communication documents we ensure that each of the company spokesmen has the core message and the answers to the questions that each of their stakeholders could ask.”

### **Managing the Emotional Transition of Restructuring**

Once a decision to restructure had been decided by the concerned company and made public, Michelin’s managers then needed to help the leadership teams of the site through the restructuring process. Thierry Chiche described the scale of a restructuring in human terms. “Then, of course we have to accept and manage the emotional transition we are starting. When you have to deal with 1,000 people, which might be a collective of five different groups of people, that’s five different sets of emotions at five different times, and also 1,000 individuals with their problems, their families, their specific cases, with their mindset – we have to manage that and we have to get prepared for that.”

Michelin’s business leaders were especially sensitive to the role they played in helping the on-site managers through the restructuring process. Chiche explained, “When we go public, when we announce – what we have done very successfully in all of these operations is that we have learned we cannot rely only on the team that is in the field, because they are experiencing intense emotion and pressure themselves. So we need to have a team, some individuals who are detached from this burning and very emotional place where the restructuring takes place, to manage the emotions and the transition the site goes through. Our target – of the team that is behind and managing the leadership team on the field – is to temper their high energy when they are in small battles, and then to boost their energy when they feel that the restructuring is just too hard. It is a very, very important phase just after the announcement. Anticipation is key to repairing relations in the factory.”

### **Helping Employees from Restructured Sites**

Franz Bléhaut, former head of the personnel department in France, described how the personnel department’s support for laid-off workers evolved as they discovered more effective ways to help employees stay in the company. “When restructuring, we have more mobile people within blue-collar

work than any other company, because they are part of Michelin, and many of them would make sacrifices to stay in Michelin. And we have learned to build personalized supports for them. Discovering the town they might move to, being able to spend one or two weeks in the plant or in the region they are looking at, testing – having time with their family to discover, to look for schools, to look for a house, etc. That is something we have learned to make happen if we actually want to have people move from one plant to another.” He elaborated, “So every time there is a restructuring, we organize some forums with people coming from all the other plants of the country – presenting their plants, their regions, their jobs, etc. and talking with the people of the restructured plant. And that’s useful to decrease employees’ fears of relocation. Since people are talking together; things change. You have a personal relationship with someone and it’s very helpful.”

He added that the “age pyramid” of Michelin made it easier for employees to relocate to other plants, because of the large number of employees who were near retirement age. “We have many retiring people and we are able to welcome everybody – or almost everybody – who volunteers to join another plant. Probably in some cases it’s not possible, but it’s been a favorable factor for us in increasing the number of employees who relocate to other plants.”

### **Credibility Over Time, A Real Asset**

“You’ve got to succeed,” Bronner said. “Each restructuring is a hard decision to take. Each program is risky because you create a shock for 500 persons – for 500 families – and you are responsible for accompanying each person in his professional transition. Each program is unique in its business case, in the history of the site, its culture and history of labour dialogue. And these factors often depend on the country and its legal constraints. As a company, you have to respect your commitments. You also have to be able to adjust the restructuring program as the market situation evolves over the five years of implementation, which can be a real challenge.”

The stakes were high. Michelin was aiming at “real strategic transformation.” Bronner explained, “The success of each operation is a must for corporate credibility. It affects the confidence of Michelin personnel, both those directly involved and their colleagues. It establishes credibility for Michelin’s commitments to Corporate Social Responsibility (CSR). It also builds the confidence of shareholders that the company is being well managed during periods of change.” Bronner added, “This is a global approach. The same general methodology in restructuring programs has been used in the U.K., France, Spain, Italy, Germany, Nigeria, and Algeria.”<sup>47</sup>

## **2013 – Forward: Developing the New Restructuring Process**

### *The Rationale for a New Restructuring Process*

Jean-Dominique Senard decided to reorganize the strategic planning process for restructuring at Michelin in 2013. He explained his rationale for sponsoring a change:

When you are an industrial leader, you have to understand that things move across the world and they move constantly, and your competition is moving fast and you need to make sure you have the right footprint as an industrial organization. At some point you find if you don’t do your analysis, you’ve got everything wrong. And then you end up having to make a decision in a short period of time. You are not prepared – nobody is prepared – and it ends up in a huge mess because you have to act in an urgent way and the result is generally a disaster in terms of social impact.

So as we think totally different from that point of view, I personally believe we need to be able to anticipate very early in the restructuring process. It might not happen, or if it has to happen, we need to be able to say that there should be no drama. There is no question that anybody must suffer; there should be no social problem at the end of such a process. So the question is, how can we anticipate changes to get the whole process running smoothly?

It's a matter of time. You just need time and you need to be organized. One of the reasons why Dominique's job is useful is that he helps coordinate all of the consequences that could occur if a restructuring decision had to be taken. It's common sense.

The way we operate is a best practice and it's a matter of good will, patience, and courage. Courage for bringing the questions on the table, and mentioning a few changes that might be a risk for everybody, and for analyzing and making the right diagnosis. That's courage because it's not obvious to anticipate the future, and we have to figure out together how to do anticipate correctly – and that's not easy to do.<sup>48</sup>

### *The Rationale for Employee Participation in Restructuring*

Senard also believed that Michelin's workers and their representatives could play a constructive role in Michelin's planning process and in the company's ability to respond flexibly to changing business conditions. He was especially interested in employee empowerment as a new model of involvement for employees, including in the planning process. He explained the reasons for connecting employee empowerment to restructuring planning:

That's the only way to have everybody realize what the diagnosis is. If you are confident of the fact that the workforce can bring wonderful ideas if it's directly involved and concerned in conversations about their future, you get the best of everything. Once again, it's only common sense.

We at Michelin believe in empowerment for people, and not only for their day-to-day jobs. It's the idea of having everyone sharing their understanding of the problem through training and lectures, understanding what is the risk and the real issues so everyone understands the global view and its consequences for their workplace. You can only do that if you trust people and if you help them know and better understand the issues they are talking about.

Sometimes you have strong representatives of the workforce who can help this process to work. Sometimes you have not got them; then you have to be directly linked to the workforce so you don't have any harmful interference with the process you're trying to set up. My view is that with time and with trust, you can build a fantastic understanding.

Senard commented on how Michelin's shareholders felt about the engagement and empowerment approaches of the company.

Sometimes it's quite a paradox for them. Some shareholders would think that the human way is detrimental to making profits. They'd be worried about that. I think it's something that will change in the coming years—all the questions about the way that people are treated humanely and the issues about the environment. I believe in the future investors *will* make social responsibility a factor in their decisions about investing in a

company. We can see that trend. But for now, I would say the vast majority does not care at all about these things.<sup>49</sup>

Bertrand Ballarin was appointed by Senard to be the Director of Social Relations at Michelin in 2013, after responding to a request that Senard had made to all of his executives for a proposal for a new approach to social relations. Ballarin described his definition of empowerment, which is at the heart of the new social relations policy of the firm.

I've been working on something that's real important to me, and that's *real* empowerment, which is different from typical or cynical empowerment. I make a distinction between empowering people just so you can get a little bit more agility, a little bit more engagement, a little bit more productivity. The difference between this vision, which is very common, and a real empowerment approach is based on a certain vision of the human person at work. How can we change the perception that people have of their professional activities? What we want to create is the personal idea that people *may grow* from their professional activities. To me it's not a slight difference.

Ballarin described the experiment in 'real empowerment' that he initiated at Michelin, which was conducted with "40 teams, 1,500 people, across 18 plants in 10 different countries, across all product lines." The purpose of the experiment was to test how autonomously the teams of production workers could operate, or, in other words, how self-managing they could be.

To do this, we asked them to work all together within the team and to try to find out social rules that would maximize their autonomy, which was defined as their collective power to decide matters without getting any authorization from anybody, and their power to solve their daily problems without having to count on intervention from support teams. ... And we did one more thing, which we learned: we forbade the management teams in the factory from giving any recommendation, or any guidelines, which they were prepared to do.

The teams' autonomy included decisions about the delegation of responsibilities during the production process, manning the machines, holiday scheduling, the integration and training of new hires, ongoing training of employees, and the general management of standards. There was also one person in the team who was in charge of relations with suppliers and customers. Ballarin continued:

When we launched the experiment, we visited all of the teams to give them personal permission to act as a self-managing unit. We told them, "During the experiment you are asked to do three things: 1) create new solutions; 2) test them; 3) assess the results you have with these new solutions. And if those results are good enough, we will say you have been demonstrating that this level of autonomy is possible, is reachable." We explained that we would assess the global results on two different dimensions: First, how do you feel at work? Second, how are your traditional industrial indicators going? If you feel better at work but you have worse industrial results, you don't demonstrate anything. If you feel better and keep the same results, we buy the solutions. If you don't feel better at work, but you have better industrial results, you don't demonstrate anything." We set up the experiment, but the move really came from the workers, and the results were fantastic.

Ballarin agreed with Senard that there was a strong link between empowered employees and their resilience in the face of changes like restructuring. He explained:

The real problem is with the blue-collar workers. The problem we have to solve is when we need to restructure, we are the victims of the problems we have created; we, the employer. Let's just say that the Taylor [time management production] system diminishes people, not globally, but in terms of their professional capabilities. And when for 20 years you have been diminishing people for their skills, their initiative, and so on, we tell them their job disappears. It is very difficult for them to manage the change. But that's what we have created.

If through real empowerment you help people develop the skills, the ability to take the initiative, the sense of risk and responsibility, you will have much less difficulty in putting people in front of and through change.

The psychological risk will be different. I don't say it will be happy. The psychological reaction may include some frustration, some disappointment toward the company. "We did our job well; I don't understand why." But you will not have this terrible feeling of fear in front of the future. It is the feeling of fear that creates bursts of anger, much more than the closing. So we can improve this.

Ballarin drafted a new *Michelin Group Labor Relations Policy*. The policy contained a specific provision on restructuring for Michelin's worldwide operations, quoted below. It described the company's commitment to involve workers and their representatives in restructuring where possible, and defined the parameters of successful resolution and treatment of employees from restructured sites.

**Specific case of restructuring**—Restructures are inevitable in certain circumstances in order to maintain the company's global competitiveness. These restructures must, as far as possible, take place at times when the company's health allows mobilization of adequate resources to attenuate the social consequences. Whenever possible, staff at the entities concerned and their representatives are invited to work together to seek and suggest solutions for restoring competitiveness and reducing overcapacity which may open up an alternative to closing an activity or site. When restructuring is unavoidable, it must be announced as soon as possible and carried out according to the procedures negotiated with the staff representatives. The ensuing changes on a personal level must be supported for as long as is necessary to ensure that the reclassified employees find a satisfactory solution in terms of standard of living, stability, family life and self-esteem. Social cohesion does not occur unless there is a general feeling that in difficult times the social structure will rally round those of its members who are in difficulty.<sup>50</sup>

Ballarin also viewed empowerment as a source of innovative ideas for factories that were identified as candidates for downsizing or closure. He elaborated:

Generally speaking, people who have been working for 20 or 30 years in factories, including the technicians, have a lot of ideas, and very sound ideas, that managers usually don't get to hear. And when you are able to ask those people, "You know, we are wondering about the future. We have big questions, but we've made no decisions yet. And we're not sure, but maybe there is a possibility of doing something clever with you. Provide us with your ideas and we'll see. Try to invent the new industrial project for this factory." And we've found that it works.

### *Integrating Empowerment and Restructuring Tools into Michelin*

Jean-Michel Guillon, Michelin's head of personnel, described the opportunities and challenges that were created by the restructuring program and the company's embrace of empowerment. "Our role is to ensure that we go beyond. Some of the success that we've had was in response to a specific issue, like restructuring, we then have to ask, 'What have we learned from it, and how can we apply it to our future business?'"

I can give you an example. A few years ago, there was a plant that had three activities: one producing passenger tires, a second producing earthmover tires, and a third producing semi-finished products.

In order to make this plant more competitive we decided to specialize it into only two activities. At that time, we didn't realize the trauma it represented for people who were used to producing passenger tires.... While this plant was still operating, it was nonetheless going through a big transformation. That led us to apply the same approach and the same tools that we were using for restructuring plants to a plant we wanted to prepare for the future.

The second way we learned was through empowerment. The day you start to develop empowerment, you develop competencies to get the performance in your organization short-term, but you are also preparing the employability of your people for the future. You have to make sure that your workforce is not only technically trained, but needs to get the soft skills that you don't develop when you are only focused on the technical job. Because through empowerment, employees need to develop a new type of relationship inside the team, outside the team, they need to have better communications, and so on. All of these skills we were obliged to give to our people in the plants that we were closing in a short period of time to help them to rebound. And when you develop empowerment, you see very clearly that you have people focusing more on the future than on the past, because the ways that they are trained in their soft skills keeps them always looking forward. We did a lot of things, but we now realize that the same things we did for restructuring can be used in other areas.

During his time in the US, Guillon participated to the first attempt of Michelin to develop empowerment. While he failed, he learned that it was necessary to establish the 'basics,' like common standards and management tools as well as a clear framework of what decisions the teams would control and which aspects of their performance were 'non-negotiable' demands that must be met before the teams qualified for greater autonomy. "It's like in sport: if you don't have the technique, you can't be empowered." He added, "Each time we launch the adventure of empowerment, we can't answer how long it will take to get there. The steps you will need to go through, this is an exploration. I see the same appetite of the people to go on this adventure, but I don't see the same speed. It's not a question of country or culture; it's a question of maturity of management."

Michelin's personnel function would also have to undergo major changes to support the changes the company was making. Guillon explained: "Up to two years ago, the message was, 'Trust us; we will take care of your career.'" But with empowerment, the role of the career manager would eventually have to change from decision-maker to coach, since empowered employees would expect visibility to job postings and the opportunity to say – and believe – "I am in charge of my career." Similarly, in developing remuneration packages, more emphasis would have to be placed on team aspects of compensation, rather than solely focusing on individual accomplishment. Finally, Guillon said, "If you continue to push more technical and OJT training and not give importance to soft skills training and

self-development, then you are not developing empowerment. If we want to implement empowerment, we will have to also change the way that we develop our HR practices.”

### *Assessing the ‘Ramp Down & Up Model’*

In response to a request from Jean-Dominique Senard in the last quarter of 2013, François d’Avout, president of Michelin Europe, asked Dominique Bronner to lead an internal analysis of the ‘Ramp Down & Up Model’ of restructuring with a team of senior colleagues. The team included Patrick Lepercq, Frantz Bléhaut, Remi de Verdilhac, Bertrand Ballarin, and Eric Le Corre of public affairs, as well as some leaders from the business lines. In the assessment, the team asked: What will be the new forces driving change in the future? In the next 10 to 15 years, how will Michelin have to evolve its social strategy to support the Group’s competitive strategy in Europe?

In addition to Jean-Dominique Senard’s prompting that it was time for a redesign, Lepercq commented on motivations that led to a new focus on how Michelin restructured. First, Lepercq believed that there was new awareness on the part of Michelin’s leadership team regarding business ethics, and a desire to make sure that everything that could be done *was* being done to save jobs and support employment. Second was a felt duty to not contribute negatively to unemployment, especially where jobs were being eliminated in settings where Michelin was a dominant employer. Third, was a recognition that the global environment was evolving. It was getting harder to “just downsize.” Many countries were increasing their oversight and involvement in restructuring. Regulations were being developed by national and local authorities and communities, which were increasingly sensitive to the complications that downsizing and plant closures caused.

These factors, as well as the Group’s support for employee empowerment and willingness to work with employee representatives, led the team to propose a change to the current restructuring planning model. In the revised model, stakeholders and other affected parties would be involved earlier in the project than they had been in the past. They would no longer just be implementers of decisions made by the local company based on recommendations from an internal task force at Michelin working on a confidential basis. Instead, another step would be added before the decision to eventually downsize was taken. This step would give the parties who were impacted – heads of the site and representatives of the workers – a chance to provide input and to be involved in the development of alternative actions and solutions to the problems their site was experiencing.

The team led by Bronner made a comprehensive internal and external diagnosis of Michelin’s approach to restructuring. As a result of their analysis, they recognized the need to include both internal and external partners in the strategic diagnosis of a site that was struggling to be competitive in its market. They also believed they would come up with better options for restructuring if they included internal and external partners in that stage of the planning as well. As part of the revision, they proposed to develop a new open social dialogue with both employees and their labor representatives.

“It’s a real change to manage but we think a lot of potential is at stake “ Bronner said.

### *Developing the New Model: Strategic Goals*

#### **The Competitiveness Strategy**

Like its predecessor, the new restructuring model was based on the business strategy, “Muscle the West, Develop the East.” According to Bronner, more than 40% of Michelin’s manufacturing base was located in the “mother zone” of Europe, Michelin’s historical market but also a stable, low-growth



market that was under increasing competitive and profit pressures from active, low-cost Asian competitors. The *business rationale* for the new planning process had three goals: 1) to keep or gain market share in key market segments; 2) to support the growth of focused segments; 3) to deliver the required profitability (in terms of operational margin and ROCE targets). The *operations* aspect of the strategy “Muscle the West, Develop the East” was based on a mix of the four strategic levers that could potentially be employed in restructuring Michelin production facilities.

- First was “*massification*” – designed to consolidate production in a specific site (by downsizing or closing other sites and transferring their production) to allow the consolidated site to achieve the economies of scale that were necessary to profitably manufacture mass-market products like car or truck tires.
- Second was *specialization*, a process that enabled a factory to focus on building company-leading expertise in a specific segment, eventually manufacturing a significant amount of the segment’s products.
- The third lever was *modernization of assets*, required for the launch of new products, or to upgrade selected plants with new equipment to enhance their productivity and profitability.
- The final lever was *localization*, which was aimed at shifting the location of production facilities for certain products to be closer to their markets within Europe.

In addition to these so-called “hardware” levers, there were also the so-called “soft levers” of deep involvement of employees and their representatives in the design and implementation of a possible “turnaround” project that could be used to boost the performance of a site facing strong competitive pressures.

The implication of these strategies for individual plants would be one of two restructuring options. The total process in both cases, including the strategic diagnosis, tactical planning, and implementation would generally take between six and seven years to accomplish in its entirety. The two restructuring options were:

- The *ramp down* of a plant (reducing the production of specific products or closing the plant entirely), if no other viable options existed. This would be accomplished through the ‘**Ramp Down & Up Model**’ described above.
- The *turnaround* of a plant, which is favoured<sup>51</sup>, in which the plant would change its mission and produce a different product or set of products while achieving a breakthrough in both business and social performance. This would be accomplished through a new ‘**Turnaround Model**.’
  - **Initiation of a Turnaround:**
    - After the strategic diagnosis of a site facing a large competitive disadvantage was completed, a new possible mission for the site was identified. In its new mission, the plant should have the potential to create a major turnaround in performance under specific requirements, with a high probability of success under the leadership of the local team. At this point, the ‘Turnaround Model’ was launched at the site level.
  - **Step 1: Site Diagnosis Phase; 4-6 months**

- The local Michelin company conducted a 360° business and social diagnosis of the targeted plant with the involvement of its labour representatives (when such representation exists) and all of its employees. The business unit of the product line that would be manufactured at the plant also supported the diagnosis. The diagnosis identified the current state of the plant from both a business and social perspective, and the changes that would be required for it to successfully implement the new mission.
- **Step 2: Proposal of a Credible Turnaround Project; 4-6 months**
  - If the plant's diagnosis and the proposed changes made by the local company were agreed to by the business unit, it recommended the new proposed mission for the site, with a targeted 360° business and performance radar of metrics to be achieved over three to five years, along with guidelines for implementation.
  - The plant developed a full business and social project plan for accomplishing its new mission, responding to the requirements identified by the business unit.
- **Step 3: Company Decision Phase; about 1 month**
  - The local company presented its plan for achieving the new mission to the Group's leadership.
  - After consideration of the Group's decision and recommendations, the local company would decide to move forward with the plant's new mission and turnaround plan.
- **Step 4: Implementation Phase; 3-5 years with intermediate milestones**
  - If the plan was accepted, the plant's leadership and managers, labour representatives (when such representation exists), and employees would implement the turnaround project over the following three to five years.
- Note: This model is currently engaged in some sites, but is still in a starting phase of implementation.

### **A Social Strategy Supporting the Competitiveness Strategy**

Bronner and the team also designed the social strategy for Michelin's restructuring activities to support the company's strategy for competitiveness.

Michelin's previous restructuring activities had always focused on social goals, but the new restructuring process was designed to formalize these commitments—to document them, build key performance indicators for them, and ensure that the focus on the social aspects of restructuring activities would remain a prominent concern, with high levels of visibility and oversight as part of the annual planning process. Four key performance indicators were established to determine whether the Group's social program for restructuring was a success.

First, was whether the program supported the development of a sustainable economic base for Michelin in Europe over the following five years.

Second, was to employ social dialogue as an asset for competitiveness. This required the program: 1) to work toward agreements with social partners at the site, local company and country level that enhanced flexibility and responsiveness; 2) to involve employee representatives (when such representation exists) and workers in restructuring activities.

Third, in the case of downsizing, was to respect and fulfill the commitments Michelin made to employees and communities through the restructuring program. These commitments included: 1) support for each employee in his or her professional project in or outside the company; 2) support for the creation of new jobs around sites that were downsized or closed; 3) reuse of eventually freed-up land and buildings for the benefit of the territories; 4) respect and fulfillment of investments committed to the region's sites as part of the restructuring program; 5) to become a 'reference set' for responsible transformation in each country that was home to a restructuring activity.

Fourth, was to positively contribute to Michelin's corporate image and brand.<sup>52</sup>

## Preparing the Annual Restructuring Plan

### *General Framework – Integrated Planning and Anticipation*

Dominique Bronner and Michel Génot, coordinator of the Michelin industrial strategy, were tasked by Senard to follow up on the analysis. Their mission was to lead the development of a more systematic anticipation, planning, implementation, and oversight process for restructuring.

The restructuring planning process was designed to achieve two primary goals: integrated planning and anticipation.

### **Integrated Strategic Planning**

The first goal was to *integrate three different annual and long-term planning processes covering the five following years:*

- 1) The process of planning the future of Michelin's four *product divisions* (the car and light truck product line; the truck product line; the specialty products product line; the materials product line)
- 2) The process of planning initiatives and activities *in the European regions* (at the level of individual large countries or groups of smaller countries)
- 3) The process of planning *transformation and restructuring activities* that were identified through the product and territory plans.

The process includes three steps each year:

- **First, a strategic business scenario is developed by the product divisions**

The product divisions led the planning process for the European markets based on their development of new products and their projected volumes sourced from plants in the different countries in the European zone. From these projections and plans, the product divisions would identify potential problems and opportunities in the European industrial footprint (and elsewhere) to discuss as part of the annual planning process.

- **Then, from that, a strategic scenario is set up for each European region**

A regional plan is established next to respond to the plans of the product divisions. It was understood that the product divisions' needs would drive the planning process, and that they would make the final decisions about the strategies they would pursue. It was also understood that there would be equality between the product division heads and the regional heads in the debate about the implications of product division plans for individual factories in the territories, knowing that any transformation would need to be implemented in the region and by the region and agreed to by the concerned local company.

The goal was to strike a strong balance between the business strategies and the social strategy of the European markets, through the support for open communication and the necessary back and forth loops of proposed plans and debates about them.

- **Finally, specific regional programs for transformation and restructuring are identified for development if required by the product and territory plans**

"My first job is to make it clear that the business unit strategy is clear," explained François d'Avout, president of the European region. The regional directors also test the proposed solutions to ensure that all possible scenarios have been considered by asking hard questions, "Are you sure you really don't need that capacity?" "If you needed to ramp-up again, how long would it take?" "Are you sure that these aren't competencies you would need in the future?"

The restructuring program team would then become involved. Its role was to manage the planning and implementation of site restructuring activities that had been identified through the product line and territory planning.

Two directors supported the planning process with a strong collaboration. Michel Génot was responsible for coordinating and supporting the development of plans for the four product divisions. Dominique Bronner, Director of European Industrial Transformation, was in charge of coordinating and managing all the social and operational implications of the planning process for restructuring and transformation activities.

The collaborative work between them, the product divisions, the regional direction teams, and the European functional directions is key to success of the integrated planning process.

## **Anticipation**

The second goal was to ensure that the strategic and tactical planning process was sufficiently forward looking to enable Michelin to *anticipate changes* that might be years in the future. Bronner explained, "To build a transformation, you must set up a vision for the region." That vision encompassed a five-year projection of how the Michelin activities of the region and the factories in it would develop and change over time.

The planning process was designed to accomplish several important objectives. First was to give organization members time to investigate problematic sites comprehensively. Second was to develop and analyze alternative strategies for the sites, working with site leaders, employee representatives, and other stakeholders on possible solutions. Third was to implement ramp down or turnaround activities, which also included helping employees secure new jobs, and aiding the territories by replacing jobs that were to be eliminated.

### *Decision Making and Oversight*

Bronner designed a planning process for Europe that was overseen and implemented through four types of committees, which reviewed and made decisions at each stage of a restructuring project's development.

**A- Michelin's Executive Committee (COMEX).** Headed by Jean-Dominique Senard, the COMEX reviewed the strategic plan for Europe (as well as all other geographic zones), and approved the growth plans and change scenarios for each product line and region. The COMEX would review which restructuring activities should be implemented, and the scenarios to be carried out in the regions.

**B- The European Coordination Committee (EIE).** Bronner headed up the next committee made up of senior leaders, which was divided into two missions:

**1- Serve as a Planning Committee** responsible for the creation of regional restructuring scenarios to support the product line plans. These scenarios were developed jointly with the directors of the regions and the business units and included draft ideas for restructuring models by site. The scenarios were developed to provide recommendations to the Executive Committee of potential restructuring programs in the regions.

**2- Serve as a Steering Committee** for the tactical and implementation phases of the different regional restructuring programs, which are led operationally by the local companies.

**C- Regional Program Committees.** These committees were led by regional directors, and were established for each restructuring program.

- The committees were responsible for performing an analysis of the entire regional restructuring program over the next five years that encompassed all of the Michelin restructuring activities to be carried out in the region.
- The regional restructuring program was formally recommended by the board of each local company.
- Regional Program Committees were responsible for aligning the many teams involved in a restructuring program, from the anticipation phase before the announcement day, through the activities that followed. The teams included: business teams (representing the product lines involved in the restructuring); a regional/local corporate team; a social team (responsible for negotiation of the package for laid-off workers, including both financial and non-financial support to aid people in obtaining new employment); a public affairs team; internal and external communication teams; a revitalization team (for reinvestment in the region and conversion of the site following closure); and a financial control team.

### *Responsible Transparency: A New Approach to Communicating about Restructuring*

During the last period analyzed in this study, Michelin's innovation continued to evolve, in particular with the implementation of a strategy in 2014 based on openness and transparency with its external stakeholders, and the media in particular. Known as one of the most secretive and closed of the major French companies - until recently, no television cameras were allowed to film inside the Michelin factories - a new cultural revolution was begun. It involved opening the Group's economic

and social information to the media, above and beyond the standard financial reporting and product information that had been disclosed in the past.

The increased transparency with the media applied to all aspects of the Group's industrial and social transformation, whether positive or negative. It was meant to not only share good news stories about transformation (for example, about managerial and social innovations) but to share any bad news stories that may emerge as well.

The goal of the new strategy was to change from "lecturing" in the media to *a dialogue with the public via the media*. The principle was to explain a restructuring decision at the same time as announcing it - even before announcing it - bringing a maximum amount of information about the decision to the attention of the media. In practice, this strategy required a significant change in media relations procedures and tools.

Previously, the Group would send a press release on the day of a restructuring announcement with the aim of limiting any negative impacts. Under the new strategy, media communication would be comprehensive - covering all aspects of the company's industrial and social transformation - it would be implemented over time, and it would use various media. Even in the absence of hard news, communication from the Group would regularly be used to explain its overall strategy (World, Europe, France) and reveal its constraints (competition, market volatility, competitiveness, etc.) so the representatives of the media would have a broad and continuous view of the changes underway in the Group.

The new press relations strategy was the direct result of the most recent developments in the way that Michelin had been conducting restructuring. The move to greater external transparency about restructuring was predated and facilitated by the move toward greater internal transparency about restructuring, as Michelin changed from a closed approach to an open approach to decision making about restructuring with its trade unions and employees. These internal changes have included an emphasis on anticipation, concern for employees' futures, and the growing involvement of employees in the process of adaptation. The goals of these changes were to create a process of change that was less drastic and more understandable, not only internally but also externally.

With this new transparency strategy, information is to be shared at several levels.

At the highest level of the Group, Jean-Dominique Senard's statements aim to emphasize the necessary industrial and social transformation of Europe, France and the company. For example, in an interview with Jean-Dominique Senard on 6 March 2016 in *Le Figaro*. Question: The competitiveness of Michelin sites in France? "*France is not yet as competitive as other European sites*" (...) but "*our empowerment strategy will enable us to raise the level of France to that of other countries*". Question: On the rumors about the closure of the Combaude plant in Clermont-Ferrand? "*Whatever happens, if we do close this site, we will offer all employees reclassification.*" Question: On labor law in France? "*The labor code is light years away from what it should be [and] I do not think [the reform initiated by the government] is enough to simplify [it]*". The goals of Senard's communication are to be direct, explicit, factual, and to cover the scope of necessary social changes (macro-political, Michelin France, local) that are required by Michelin's restructuring.

This openness at the highest level has been replicated in statements made by the Group's senior management. In the announcement of the transformation of Roanne, three spokespeople presented the signature of the Future Pact [that spelled out the details of the factory's transformation] to journalists from the local and national press. Thierry Chiche, member of the Group's Executive Committee and responsible for the car and light truck division, Remi de Verdilhac, director of Michelin France, and

Eric Percie du Sert, director of the Roanne site, explained various aspects of the Pact, including the challenges it presented to the product lines, to France, and to the local site. Trade union representatives attended the management's press conference, and, in agreement with Michelin, they held their own press conference in the wake of that held by the management.

Another recent example was in spring 2016 with the difficult reorganization of the Clermont-Ferrand sites, the historic seat of the Group. The strategy was to give all the information that could be communicated before the announcement as early as possible, and then, at the time of the announcement, to communicate widely and very openly with the media.

Managing communication about whether a restructuring will occur is very difficult, especially if the goal is to be transparent. The most difficult period to manage is the lapse in time - which can be several months - between when a possible restructuring action was being studied and when the decision was made to reorganize or not. This was the time when rumors and speculation about the decision abound. For management, communication becomes a complicated exercise, because by definition it cannot answer the practical question on everyone's minds: What is going to happen?

To handle the time lapse, the press office decided to put an end to its "no comment" policy with respect to options being studied in favor of being more transparent about the progress being made in the process of the Group's restructuring deliberations. A "social call" was organized on 11 September 2015 in which the Director of Social Relations France, Benoît de la Bretèche, shared with the media - on the same day - all the information that had been given to the trade unions about the reorganization announced in Clermont-Ferrand. The following day, *Les Echos* headed their article with "*Michelin prepares hearts and minds for further reorganization,*" adding "*on Friday the Group announced the optimization projects for its engineering and support services. It will make a decision in the next few months, and cannot exclude further job cuts.*" In December, an "off-news" press conference held by France management, with Remi de Verdilhac, Director Michelin France, Jean-Paul Chiochetti, Director of Personnel France and Benoît de la Bretèche as spokespeople, provided the opportunity to talk about the "*new industrial policy creating the impetus for progress and competitiveness,*" stressing that the wave of Michelin France employee retirements in the years to come "*could help to offset any job cuts in the sectors judged to be underperforming*" (*La Montagne*, 2 December).

On the day of the announcement, on 1 March, 2016, a comprehensive press release was sent to the media, together with an invitation to a press conference two hours later at Les Carmes, Michelin's head office - a first in Michelin's social history. The goal was to allow all of the interested journalists to put their questions directly to the two operations managers involved in the reorganization, Remi de Verdilhac and Jean-Paul Chiochetti, so the journalists could get clear and prompt answers from the company. This initiative helped to generate factual and balanced articles and reports, in which the views of the company were described at the same time as those of the trade unions.

The media transparency strategy in relation to social and economic issues is demanding, but for Michelin it was regarded as the culmination of the company's social responsibility approach, which was now not only practiced internally with employees, but also externally with the media and the public.

Michelin aims to meet the need for transparency that has been expressed not only by its employees but also by civil society, and to meet the demand for responsible management by assuming public accountability for the Group's decisions, however difficult they may be.

### *The Role of the CEO in Restructuring*

Jean-Dominique Senard was personally involved in Michelin's restructuring activities. He described the actions he takes to guide Michelin's restructuring program, and also offered advice to other CEOs whose firms were undertaking restructuring activities.

I'm always directly involved when there's a shut down. If the top management of the Group is not involved, there's a problem somewhere, a disconnect. It's best practice on paper and best practice in reality. I cannot have one of these situations and not be involved. My main job is to make sure that the values of this company are applied. That is why I chair the meetings that Dominique runs at the COMEX level so I am completely aware of what's going on.

There is a method, of course, and then there are personal feelings. If you're not sensitive at all, you need to have other people be sensitive for you. But if you are sensitive, the best advice I can give you is to get really involved from the very start and make sure that your troops are aligned on the facts so that whenever something occurs, everyone knows very early and starts thinking about how we can settle the problem and come up with a solution.

I strongly believe that the top management of the Group must be involved to make sure the process is happening. You don't need to be involved in the day-to-day discussions, but you need to make sure everyone is aligned, so everyone in the Group understands the consequences that could occur from decisions that are being made.

In an industrial group like ours with a complex process, decisions will immediately have consequences elsewhere in the group. You need to make a very thorough analysis to make sure the consequences are not bad. If they are, you have to set up another process to resolve them.

Leadership of restructuring is a matter of coordination, alignment, and making sure the Group's values prevail when discussions take place. And if you have people that need help, to make sure that these people are taken care of. Your job is to make sure that the process is going on and never stops, and if there is a stop, to get involved to take the roadblock out of the way.

Then, as I said, it's a matter of personal sensitivity. ... At some point, if you're totally cold, I don't understand how you can lead a company. It's not because if you're sensitive, you won't make tough decisions. I've made many tough decisions as a top manager of the Group, but then there is a way to get involved to ensure that decisions are made in a way that people won't suffer. I'm absolutely sure that people around the world will not want to be led by dictators. It generally ends very badly and I try to avoid that situation.<sup>53</sup>

### *Final Thoughts on Restructuring from Dominique Bronner*

In fact, restructuring means transforming. It should be managed in an anticipation mode when the company is profitable, rather than when it is in crisis. It is a strategic approach to support profitable growth. Even under these positive conditions, it is always a big challenge.



Restructuring is so important because the Group's sustainable competitiveness is at stake. The most important activity is to set up—at the right moment—the right regional strategic scenarios that will provide the foundation of the restructuring programs.

After that, it is important to set up the right kinds of restructuring processes. First, it is essential to create a change process that is powerful and productive on an individual basis, and on a collective basis as well. People should always be recognized as being at the center of the change and as the key players in the transformation. To honor the importance of people, you have to set up the conditions and processes that enable maximum engagement for everybody involved in the process.

Second, you need the persistence and focus to manage a process that lasts between six and seven years. One year or even more will be spent in doing the necessary anticipation work on the business and social strategy and in defining the regional strategic scenario.

You then have to develop the tactical processes that will enable the plant or regional plants to take the lead in the next phases of planning the restructuring. This could take an additional year of work, until a set of options is presented, and a decision is made by the local company to approve the restructuring program.

You then have to monitor the implementation of the project over a long period of time—four or five years—with intermediate milestones to chart progress (and identify problems and roadblocks) along the way.

Above all, in dealing with restructuring, you have to be factual. Your own people and all of the stakeholders deserve to be given the truth. What is the problem? What is at stake in the restructuring? What are the key objectives? The truth enables the people in the middle of the change, as well as those conducting the change, to empower the teams to do the hard work of restructuring. After the completion of a restructuring program, the teams are normally much stronger than when they started out. They are proud of what that have accomplished, even if the journey was not always smooth or easy.

## **Managing Stakeholders during Ramp Downs: Three Case Studies**

### *Case Study One – A Perfect Storm: Closing the Kleber Factory in Toul, France*

The Toul factory closure had been under discussion among Michelin executives for several years and was part of the ten-year competitiveness plan for Michelin's business in Europe.<sup>54</sup> The factory was dedicated to mid-range tires, a segment that was under extreme pressure from low-cost Asian competitors. Production costs at Toul were 50% higher than in tires from competing brands. Previous investments and attempts to streamline operations had not been effective. Michelin's leaders determined that a standalone mid-range tire plant was not viable in Western Europe, the option of modernizing the plant was not possible, and a spin-off option was not likely due to overcapacity in the mid-range segment. The cost of the Toul closure was estimated at €130 million, with a five to six year payback.

Despite the clear business rationale, the closure was problematic for a number of reasons. Toul was in the Lorraine region, a region of France that had experienced many other factory closures over the last half century, and which continued to struggle economically. It was also the first factory closure Michelin would implement in France in which the distance of the site from other Michelin factories

made it hard for employees to accept relocation. Thierry Chiche described the challenge for Michelin and for the employees: “Toul was the first restructuring where we had a large amount of people we couldn’t welcome easily in other factories nearby. It was located in a territory that was not so economically dynamic, where the people would have to fight to rebound in their professional life outside the company.”

The Toul plant was also the original production facility of the Kleber tire company, which had been integrated into the Michelin Group more than 25 years before the 2007 closure. The workers still had a strong Kleber identity: 40% of its 826 employees were over 50 years old, which meant that many of them had worked at the plant when it was an independent company. Alain Braud, Michelin’s Director of Social Relations, at the time of the closure explained, “In the other plants there was more of a relationship of trust because they were Michelin plants. I’m not saying it was easy, but it was easier for them to accept it because they were part of the family.”<sup>55</sup>

### Planning the Closure

Henri de la Gravière was Factory Director of the Toul site during the shutdown. He explained how he learned about the situation and how the planning process for the shutdown began. “I knew, even when I took responsibility for this factory in 2004, that the assumption of a shutdown was open so I never, ever said to the workforce that the future was guaranteed. So in my communication, I said, “Guys, we need to work. The situation is difficult. The future is not secure.” So nobody told me after, “Henri, you lied.” They knew that the situation was difficult. So somehow the people were expecting the closure at some point.” When the decision was taken by the management of the French company to close the factory, de la Gravière was given an option to transfer out of the plant. “The company was very fair to me. In 2006, when the decision was made to start the process, I was asked whether I wanted to stay or move. I didn’t consider leaving. I spent two years with those people and it was impossible to leave them like that.”

In January 2007, nine months before the closure, a support team was set up in Clermont-Ferrand to begin the planning process. It was Dominique Bronner’s second experience in leading the support team from Clermont. The team included Thierry Chiche, head of industry for the European car and light truck business, Patrick Lepercq, head of Public Affairs and facilitator with the government officials, Alain Braud, who was in charge of Social Relations, Frantz Bléhaut, Personnel director in France, Etienne Mercier, of corporate development, Bernard Bouchard, of the Michelin Development Company, and Alix de Dinechin, who supported the team.

Michelin had committed that each employee at Toul would be offered two jobs at other plants in France. At the same time, Braud was convinced that Michelin needed to improve the support that was offered to laid-off employees, a problem that was especially acute in Toul. He worked with a consultant on the design of a new process to help workers who were not willing or able to relocate to another Michelin site, to prepare themselves for their next steps. He described the shift in perspective that led to the new concept in employee support:

Up to then in French society, there was always this guilt: “I’m doing something shameful” – and we changed and explained why we had to do it; why it was necessary. ... The way we put it before was, “I’m compensating you for the bad thing I’ve done to you.” Now it’s more, “It’s necessary to do this, and I’m explaining why.” So instead of doing the compensation for the bad thing we had done in shutting down the plant, it was more an idea that we were accompanying you, the worker, on your change from situation

A to situation B. So it wasn't an end; it was the beginning of something new. And that was a real change.

Braud was concerned about the social aspect of the whole project, and notably what would happen to the employees once they heard the announcement, and in the period after the factory stopped production while they were looking for a new job. The decision was made to create a transitional space for the employees. "The reason we proposed this thing is that studies have shown that when you are laid off, you decline physically, you drink more, etc., and what we wanted to do was to create an environment where people could come together in groups every day, and work on the body and also the mind."

The new focus was summarized in the phrase, "the person in the center of the transformation." It was built on understanding the psychology of laid-off workers and the problems they had in obtaining new employment outside of Michelin. The problem was not just the lack of opportunity, a situation the team anticipated would be hard enough in the depressed region of the Toul factory. It was the difficulty employees would face in establishing a new professional identity for themselves independent of Michelin. Employees would have to go through a process of "professional transition" – a new concept that Braud introduced, with the initial plans for the professional development workshops that would comprise the new ATP program, in a space specifically devoted to the program.

Henri de la Gravière described how he met with Braud to learn about the concept and the role that he and his team at Toul would play in its development. "I remember several meetings in the night in the Gare de l'Est in Paris, working from 9pm until 4 in the morning, to understand the concept. Alain explained what we should do with the people. And what we did with the team is we 'industrialized' the concept. We made it real. We made the dream or concept into something that can now be used."

But before the employees could hear about the new support program, they would first have to hear about the closure itself.

### **Making the Announcement**

The timing of the Toul closure was problematic. The French presidential elections were in April 2007. Lepercq knew it was essential to not take the government by surprise, so he made sure that the critical situation at the factory was known by key stakeholders including the government.

The purpose of these meetings was to ensure that when the announcement was made, government officials would understand what triggered the Group's decision.<sup>56</sup>

### **Announcing the Closure to the Employees**

On October 3<sup>rd</sup>, 2007 the announcement was made to the employees and to the public in a press release. Because the Toul factory had rotating shifts, the announcement was made by shift. The three shifts were notified in small group meetings of between 20 – 30 people, that were held in 10 to 12 different locations in the factory. During the meetings, managers would explain the closure and listen to the people's first reaction. The idea was to avoid assembling a massive group that would be more difficult to manage if something went wrong. "By the third shift," de la Gravière explained, "the employees already knew. So the way we managed the third shift was obviously different from how we managed the other two shifts. That's where it's important to trust the first line-manager. This gave employees the opportunity to immediately put any questions they had to the managers and to express their feelings and concerns. He added, "And the managers did very well."

There was no strong reaction from the employees on the day of the announcement. “There was no strike, no battle. People were sad, really very sad,” de la Gravière recalled. The day after, production re-started.

### **Negotiating with Social Partners**

While the announcement day went well, five days after the closure, the CGT (*Confédération Générale du Travail*), and FO (*Force Ouvrière*) unions informed the media that they would seek to keep the plant open through an investment in new capital equipment to enable the plant to be more productive.<sup>57</sup> The unions brought in an auditor to look at potential alternatives that could save the plant. In December the unions sent representatives to Clermont-Ferrand to present the findings of the auditor’s special report. The auditor found that an investment substantially lower than the estimated cost of 130 million euros associated with the closure would be sufficient to enable operations to continue at the Toul factory.<sup>58</sup>

Early in February, Michelin Chairman Michel Rollier had a meeting with French President Nicolas Sarkozy in which the Toul closure plan was discussed. On February 7, 2008, Michelin confirmed to the media that it would close the factory.<sup>59</sup> President Sarkozy declared that the government was committed to finding new employment for the workers.<sup>60</sup>

On Wednesday February 13, the negotiations began to break down. On Wednesday night, the Kleber factory employees set fire to a pile of tires outside the factory. On Thursday morning, members of the union sequestered the Toul site personnel director and the site’s social relations director in a meeting room in the plant. On Friday, Michelin announced that its net profit had risen 35% during 2007, which further exacerbated the situation. The unions thought it was unfair to close the factory amid such a boost in profitability.<sup>61</sup>

On Saturday morning, the French Economy Minister Christine Lagarde sent a representative to Toul to mediate the dispute. Union representatives spoke to the government mediator, a local official in charge of employment, for more than an hour that morning but there was no agreement. “It was a first contact to discuss our demands and the conditions on which we will resume negotiations,” CGT union representative Pierre Kovalski said.<sup>62</sup>

At the same time, Michelin demanded the release of the two managers. “They have been in a meeting room for 48 hours now and I tell you that this situation is unacceptable,” Henri de la Gravière said in a press interview. “Nonetheless, I repeat that we want a dialogue with the trade unions to get out of this situation as quickly as possible.”<sup>63</sup>

On Sunday the two managers were finally released. As the two managers left the factory, the employees turned their backs on the two managers. “We turned our backs on the management because it has been turning its back on us for at least four years,” said one plant worker.<sup>64</sup>

Yet Rollier remained firm that there would be no negotiation to save the factory. “It is unavoidable,” he said in an interview. “We are offering each employee two jobs in one of our group’s 16 factories in France. For those who do not want to or cannot move, we are offering personalized help until they find a job. Until then, they will remain Michelin staff. The period will last up to twelve months,” Rollier said in an interview.<sup>65</sup>

On February 25, a preliminary agreement was reached with the unions. Michelin agreed to give the Toul workers an extra payment of between 2,000 and 3,000 euros per year worked at the company.<sup>66</sup> In April 2008, consultations and negotiations with the unions were concluded, which covered

compensation during the ramp down and afterwards. Employees were given 100% of their salary for the first six months after being relieved of their work obligations. Thereafter, they were given 4 to 7 months of retraining leave provided by law, which also entitled them to receive 65% of their earnings.

Henri de la Gravière , Alain Braud, and others had emphasized the Professional Transition Workshops (ATP) as a central support to the reemployment of Toul employees and proposed it during the negotiations, but it was not well understood. Braud said, “It was a tough sell, not just to the unions, but for the workers, for their line management, and also for the local authorities.” Braud explained why:

It was a complete change of mindset from what was happening in France. Normally if a company is laying off people, the company is ... a nasty guy laying off people. And people could not imagine that the company would actually want to help people change and accompany them on their journey. Who didn't believe us? The local government and national representatives from Toul. The reaction was not so extreme in Paris or with the national union. Six months to a year before we had explained to them why we had to do this.

There was a real lack of understanding when we presented this system, to the point that the unions actually locked up two managers in Toul in their offices.

The union representatives also had a difficult time understanding what an unlimited support for reemployment meant. Braud explained:

Normally in a layoff package there would be a packet with a certain budget, but here it was open-ended and we would give each person the training that they needed. So that wasn't understood, nor was the fact that the company would stop this support system only when the person had a professional job or a life project in place. This was so badly understood that people thought that this open-ended offer with no deadline was some kind of failure of communication—that it wasn't true... Then we made a deadline of two years to end the company support stage. It was the union and personnel who asked for the deadline.

Yet despite all of the difficulties, negotiations with the unions began on the day of the announcement, and the complete social package was part of the negotiations. The risk of such an approach was that it could be stressful for employees who would not know exactly what they would obtain, but it also enabled them to discuss all aspects of the package in a framework of negotiations with the company.

### **The Toul Factory Ramp Down**

The Toul factory stayed open until December 2008. Until that time, operations were ramped down gradually, with employees alternating between work and participation in the ATP Professional Transition Workshops.

In June 2008, the first “wave” of employees entered the ATP program. The Toul workforce was divided into five groups of roughly 120 people each, since it was not possible to have everyone attend the program at the same time. Every four to five weeks, a different group would be pulled out of production to join the ATP.

Henri de la Gravière commented, “For their self-esteem, it's important for those who were not in the first wave to keep working. ...” Following the first wave, the assignment of individuals to

subsequent groups was managed flexibly, adding in people who were especially eager to begin the ATP process.

For the workers, the process was managed in two phases:

- Phase 1. 5 weeks were spent alternating between work and ATP. Three days a week workers were in their job roles; two days they were at ATP working on their individual project.
- Phase 2. For 10 - 13 months from the end of their work responsibilities, workers had full access to ATP.

### **Professional Transition Workshops (ATP)**

The Professional Transition Workshops (*Les Ateliers de Transition Professionnelle*) (ATP) offered a physical space along with professional career coaching for employees. The ATP center was designed with an open floor plan with collective spaces, a cafeteria, a relaxation room and other activities. The space was also open to the public.

All employees who entered the ATP were assigned a counselor/advisor and were asked to put together an Individual Plan for themselves.

In general, employees needed six to nine months to implement a new solution. Employees were instructed to split their time at ATP among three activities: one-third of their time was to be devoted to rebuilding their self-esteem and confidence; one-third to developing their employability and skills; and one-third to the creation of their individual project.

Each employee was assigned to an Advisor to help him or her explore options and develop their individual projects and implement them. Each advisor was responsible for a group of 25 to 30 employees. The advisors reported to the head of ATP.

Michelin offered a variety of resources to assist the employees in these efforts:

- **General Skills Trainings** – The ATP offered a number of training offerings including refresher courses in languages, mathematics, office skills, technical skills, and accounting.
- **Discovery Trades Workshops** – The ATP offered special workshops to introduce employees to career paths they may have never considered before. The workshops focused on ‘voltage trades’ – the ones with the most job openings and projected future demand in the area. The employees were also given an opportunity to do an internship or have a job shadowing experience in a trade before deciding to complete a training course in it.
- **Entrepreneurship Workshops** – For employees considering starting their own businesses, ATP also offered training in creating business plans and in small business management. A special room in the center was dedicated to employees who were working on starting their own businesses.
- **Job Search Center** – Another room was dedicated to employees searching for jobs, internally or externally. Career coaches were provided in the center who helped employees search for vacancies and prepare their CVs and cover letters.
- **The Listening and Expression Space (*L’Espace d’Ecoute et d’Expression*) (EEE)** – Michelin created a physical space for employee well-being. The goal of the EEE center was to provide

resources that would help lessen the psycho-social risks of job loss. The center offered discussion groups in which employees could talk about their feelings of stress and anxiety concerning the transition. In addition, all employees had confidential access to meet individually with a psychologist to discuss their fears and challenges. The center also provided programs and activities on stress management, sleep, and relaxation as well as sports events.

### **Revitalization: New Jobs Created in the Toul Area**

Initially, Michelin had a vision that it could revitalize the Toul area by making it a major center for recycling in France, a plan that they proposed to government representatives. Under the plan, Michelin and Suez, a French utilities group, would create a recycling center for used rubber, metal and plastic goods. Together, Michelin and Suez planned to invest 50 million euros. The plan would have created between 300 and 400 new jobs.<sup>67</sup>

During the next two years, Michelin continued discussions with Suez. When the financial crisis came and the economic situation changed, Suez decided to withdraw from the partnership. Michelin eventually terminated the plan, and decided to use Michelin Development's conventional tools, loans, technical support, and subsidies, instead of attempting to revitalize the region through a single major investment. "It's a question of responsibility. Michelin does not take responsibility for the regions. We want to help everyone take responsibility. Michelin knows how to build an industry, but not how to fully revitalize a region," Bernard Bouchard explained.

Michelin Development SIDE thus played an important role in Toul through its soft loans program to support new businesses. By the end of March 2013, Michelin had supported the creation of 847 new jobs, to replace the 826 lost from the closure of the Toul Kleber factory, a replacement rate of 102%. The cost per job created was around €4,500.<sup>68</sup> Examples of SIDE's activities in Toul included:

- A company called Elodys that makes machines for baking artisan breads, that created 25 jobs over 4 years, which took a loan from SIDE
- A company called Acticall received a subsidy to open call center operations at the former factory site in Toul Kleber.

In Toul, by law Michelin had to commit €4,365,000 to the revitalization of the area. By March of 2013, they had committed more than €5.7 million.

### **Results and Lessons Learned from Toul**

In December 2010, two years after operations were ended, the outcomes for Toul's employees were: 21% took another job inside Michelin (internal mobility); 12% created a new business or bought an existing small business (i.e., vineyards, restaurants, etc.), and 67% found new employment outside Michelin (external mobility).<sup>69</sup> Of the 636 persons reclassified at Toul, 18 months later 94% had found solutions—370 found new jobs, 73 created their own business, 75 pursued a personal project, and 118 were involved in various other situations including being enrolled in a long term training course, having found short term employment, or had not communicated a solution to the company.<sup>70</sup>

In 2012, Géraldine Schmidt, a consultant and Professor at IAE Paris (*Institut d'Administration des Entreprises de Paris*) prepared an analysis<sup>71</sup> of the outcomes of the employees who had participated in the Toul ATP program. She found that the use of the ATP program overall provided better outcomes than other similar factory closings in France that relied on the current system of severance and other employee supports required under French law. The total rate of classification was above the average

and overall psychological outcomes were better as a group. However, individual employee outcomes were still tied to a variety of factors. She concluded that the primary difference between employees who had better outcomes and those who did not was whether the person was able to establish a new identity outside Michelin (i.e. a new occupation or corporate identity). Employees who were able to successfully find a new occupational identity or employment in a company with which they were satisfied were more likely to praise ATP as a positive experience post-fact than those who had found themselves in an employment situation that was less satisfactory than working at Michelin.

### **Lessons from The ATP Program**

The Toul closure allowed executives to appreciate how strongly employees identified with their Michelin identity. So even though the Toul employees were loyal to their Kleber origins, they were also the product of more than two decades of working in a Michelin plant. Thierry Chiche summarized that lesson, which was imbedded in the design of the ATP:

We realized that in a big company like Michelin that is people oriented—that we have “Michelinized” our people. Because when people are working in companies like ours, everything is done for them. They are in a cocoon. And the best gift we can give them to help them rebound with all of their qualities, confidence, and capabilities intact, is to help them get out of the cocoon. It’s not reality for many of the companies where they may end up working, or the way those companies see the world. So our employees have to be much more autonomous, much more active, and proactive in managing the “self-steps” — the development of themselves, which is essential.

About 90% of the participants said they were “satisfied” or “very satisfied” with the outcomes of the Toul ATP program.

In an internal analysis,<sup>72</sup> Michelin summarized key lessons the company had learned from implementing the Professional Transition Workshops in Toul.

1. Support is critical. The primary barrier to employees achieving re-employment is cultural and psychological. Individual advisors followed each employee and were accountable for ensuring that each employee had a plan ‘put in motion’ and was taking the necessary steps to implement his or her plan during the period of the ATP program.
2. The system should be flexible and adaptable. Employees who wanted to transfer internally inside Michelin needed to be carefully coached. Also, Michelin had to be mindful of which jobs inside the company were open (i.e. not posting jobs that were not actually ready to hire someone, which wasted valuable time while employees were waiting for a response).
3. Employees have to be given the right information necessary to make a good decision. This included awareness of their own skills, talents, and capabilities, what jobs were in good supply in the area, as well as the steps necessary to develop themselves as candidates for those jobs.

Henri de la Gravière stressed an additional lesson—“the power of time to help people build a new professional project.” He used as an example the identification of welding as one of the fields in which “work was looking for people.” More than 25 Toul employees who went through the ATP training course became professional welders. “People were able to test, to see if they liked it. With time they could build their professional goal and find their new role.”



Michelin has sought to expand what they learned implementing the ATP into their personnel management system during periods of normal operations. The key elements of the Toul program they have tried to implement in their normal operations elsewhere include:

- Improving the general employability of their employees through continuous learning and skill development during their time at Michelin. This helps ensure that employees adapt more easily to changes Michelin might need from them due to changes in the business environment, or in case they lost their jobs through strategic restructuring activities.
- Establishing a regional workshop (ATP Toul) for all businesses in the region to tap into skill development, employee transition planning, and other features of the Toul program.

### **Lessons about Working with Stakeholders – Inside and Outside the Company**

Toul showed the importance of the involvement and support of senior leaders, including the CEO, in helping make a complex and innovative restructuring program like Toul's possible. Even if the local company leads operations, it is the full support of the top management that enables the company to be ready for innovative programs. Henri de la Gravière concluded that the first piece of advice he would give another executive who had to restructure was that "the consistency has to be from the top of the company, from the senior leader. What we have done – it is not free. I think that as a factory manager, I would never have done that alone." But he also emphasized that "all the company was supporting us; it was really a team effort."

Toul allowed Michelin to test the limits of the role the Group could play in the economic revitalization of a region. Looking back at the plan to establish Toul as a major recycling center, Bernard Bouchard concluded, "You have to know your role in helping the region. The region has to know where it wants to go and how you can help. It's not Michelin's place – or any other company's place – to decide for the region."

Toul also demonstrated the importance of Michelin's communication policies of candor and advance information, where possible, in describing the company's activities.

Toul thus pointed to a goal that Michelin would continue to explore – to find a way to discuss restructuring more openly and with more involvement of those directly affected. This would give Michelin and all the involved parties more time to design restructuring activities that would be successful in supporting the development of the company, its employees, and the territories.

### *Case Study Two – Closure of a Truck Tire Factory in Budapest, Hungary*

In 2014, Michelin decided to close its truck tire factory in Budapest, Hungary. There was growing over-capacity in the truck tire market in the Eastern European region. Michelin had 10 truck tire factories in Europe, a zone with a market demand for 18.5 million new tires, and a total production capacity of 26 million tires. The site where the Budapest factory was located was first used as a rubber factory in 1882. It began manufacturing tires in 1912. The Michelin Group bought the factory in 1996 as part of the privatization of industry in Hungary after the fall of the Soviet Union. The factory site was located on 9 hectares. Once located on the outskirts of the city, over the last century the urban area had expanded around the factory. A railway switchyard, a highway overpass, and a shopping mall now surrounded the factory site. Across the street was a football stadium. There was no opportunity to buy any adjacent land to expand the factory. In addition, to alleviate road congestion, the city only allowed

trucks to deliver materials and leave with finished tires during the night hours, which constrained the factory's operating capacity as well. For these reasons, the factory in Budapest had less possibility than other Michelin factories to be developed over time.

Despite the known challenges of the site, for several years Michelin's unions had been working on a program to improve the Key Performance Indicators at the factory. Over the previous four years (2009-2013), the Budapest factory had improved performance on the Michelin Environmental Footprint indicator (MEF) by 29.6%, had reduced scrap rates by 15.6% and had improved productivity in the factory by 28%. The total volume of production had also risen 65% over this same period. In 2013, the turnover rate of factory employees was 0.9% (**Exhibit 9** contains the Key Performance Indicators).

### **Planning the Closure**

The critical situation of the Budapest factory led to the decision to close the factory. The process of closing the factory was led by Eric Faidy, who was Director of the Central and Southern European region for Michelin and was thus in charge of Michelin's local company in Hungary. Faidy participated in several meetings at the European level led by Dominique Bronner, Director of European Industrial Transformation, to identify the best strategy and timing for the closure. Faidy was put in charge of overseeing the factory closure process and committed 25% of his time to managing the closure over the next several months. He formed an initial planning team in the local Michelin companies of the Central South region that consisted of Béla Nagy, Director of Human Resources for Hungary and Katalin Nehéz, Director of Communications and Branding for Central and Southern Europe.

The three began by conducting research on other multinational companies that had closed factories in Hungary in recent years to try to understand what worked and what didn't. They also learned about Michelin's experiences closing factories in other European countries, including the innovations that were made during the Toul plant shutdown. They determined that certain elements of the Michelin factory closure process that were used, for example, in France would not translate well into the Hungarian cultural context. The principal change they recommended was to not establish a physical transition center for employees to go to after the plant's closure, as had been done in Toul. Instead, they decided to focus on how to obtain full reemployment of the factory workers over the period of time from announcement through plant ramp down and a post-closure transition.

"Our most important objective was to ensure that all the people had a new career," Nagy said.

To that end, the team hired a consultant to study what would be required for all 512 employees to achieve full employment. There were some significant challenges to attaining this goal. The employees had an unfavorable age structure—60 percent were over 40 years old and 35 percent were over 50 years old. The local unemployment rate in the Budapest area was moderately high, at around 11 percent. The employees would be offered internal mobility. Michelin had other factories in the Central and South Europe region as well as another Hungarian factory in Nyíregyháza. However, it was thought unlikely that more than a few dozen employees would be willing to relocate from the capital to a small city almost two hours away.

The consultant estimated that it would take approximately 18 months of active job search time for all of the employees to achieve full reemployment.

Thus, if they had a six-month transition period after stopping production, they would have to announce the factory closure to employees one year in advance. The employees would also need an exceptional level of support as many would have to retrain for new careers during this time frame.

The planning team was committed to making this happen, yet they didn't really know how the employees would respond to such a proposal. The typical practice in Hungary was to deliver severance packages with less support for employment. "It was revolutionary for Hungary. The normal practice in Hungary is to hand people an envelope with severance pay and say, 'Help yourself,'" said Nagy. "Of course it always has a risk – how would people react? That was the biggest question mark."

The factory team knew that careful planning and a clear communications approach would be key to the success of the closure.

To begin the planning process, the team prepared a SWOT [Strengths, Weaknesses, Opportunities, Threats], analysis of the factory closure. Among the risks they identified was uncertainty of how politicians would react; they were also unclear as to how the local media would respond. Hungary had been quite heavily affected by the economic crisis. It had averaged around a 0% net growth in GNP in the last few years. On top of these issues, countrywide parliamentary elections were to be held in the following year.

Yet there were also some reasons to be hopeful for a good outcome. The management team already had good relations with the factory's unions. In addition, Michelin's operations strategy for Central and South Europe was public, so the reasons for the closure could be discussed openly with all of the factory's stakeholders. Perhaps the most important advantage was the site itself. It was the last industrial site in the Budapest area. Thus, the local government might look at the closure as an opportunity to create a more suitable form of development for the city.

### **Communicating with Public Authorities and the Press**

In October 2013, the team began planning the government relations strategy and how they would manage the ramp down of operations at the factory. They brought in Jozséf Orosz, who was Michelin's Director of Public Affairs for Hungary, to develop the government relations strategy. His primary concern was the upcoming parliamentary elections in May 2014. Given the political climate and Michelin's prominence as a multinational company, Orosz thought it might be problematic to announce the closure before elections had been held. The timing of communication to the government was sensitive.

The team informed Ervin Sereghy, the Plant Director, about the closure at this time, so he could begin planning how to ramp down the factory's operations. The team also began developing different crisis scenarios, although none was really expected. "We tried to prepare for everything. Of course you cannot prepare for everything, but we tried to find a means to eliminate as much as possible the unexpected," Nehéz said.

To do this, they planned for problems such as violence during the announcement day, a strike in the ensuing weeks, or political, press or social media campaigns against Michelin and the factory closure.

As the Announcement date approached, the team developed a communications strategy for informing all of the external stakeholders on the date of the announcement. The team wanted to ensure that all the government officials and labor groups they worked with in Hungary would hear the news from a Michelin representative and not from the press. They first informed the Prime Minister of Hungary about the shutdown and then rapidly informed a group of senior government officials, including Hungary's Labor Minister, the Mayors of Budapest, their local district mayor, and the Mayor of Nyíregyháza, so they wouldn't be taken by surprise. Then, while the employees were being told of the closure outside the factory, members of the management team informed additional stakeholders,

including the Hungary Investment Promotion Agency, Trade Unions, as well as other officials with relations to the factory. The communications team had prepared a one page fact sheet for each stakeholder, emphasizing key points that were relevant to that individual's role and perspective. A briefing was also prepared for the plant's receptionist in case of media calls or in-person visits to the factory of people looking for information about the closure.

To ensure that all the external stakeholders understood how the Hungarian plant shutdown would be managed, the team put together a list of the commitments they were making to the individuals and groups directly affected by the closure. The commitments were:

- **Employees:** To provide each employee with customized "Get Back to Work" support through individual coaching and training sessions. The training sessions would be held during the one year ramp down of the factory, and continue during a six month transition period afterwards. Any employee who had not found a new job by December 2015 would be reassessed at that time.
- **Unions:** To exceed the legal obligation for consultation by committing to negotiate the social support package for employees until an agreement was reached, and to hold quarterly information and consultation meetings on the implementation of the agreement.
- **The Site:** To consult with public stakeholders on a site conversion plan that would be in line with long term redevelopment plans of the city and requirements for environmental remediation of the site.
- **Revitalization of Local Employment:** To commit €2 million to revitalize the job base in Budapest.
- **Government:** To sign a Strategic Partnership Agreement for the period 2015-2020 for Michelin's continued investment in Hungary and development of the factory in Nyíregyháza.

### Preparing the Factory Managers

The factory management team worked for 8 months during this preparation phase. "We wanted to involve people at just the right time, and not earlier," Nehéz said. The "right time" meant far enough in advance to involve and prepare the middle and line managers for the closure by strengthening their ability to support their employees on the day of the announcement and afterward. Middle and line managers were provided with training in crisis management, communications, and other skills they would need on the day of the announcement and in the subsequent weeks and months they would spend in managing the ramp down.

The managers were also offered individual support from a psychologist. This gave them an opportunity to discuss their concerns about managing their employees during the shutdown period and the worries they had about planning for their own transition to another job after the factory closed. The managers were all encouraged to meet with the psychologist so they could describe the experience to their employees and help them feel more comfortable about asking for, and receiving, such support.

### The Announcement Day

May 6, 2014 was chosen for the announcement, which was a few days after the Parliamentary elections were held. The team decided to divide the announcement into two parts. The first was a plenary session delivered to all of the factory's employees by Eric Faidy in which he described the

reasons for the factory closure. Ervin Sereghy, the Plant Director, next explained the steps the company would take to manage the closure and support the factory's employees over the coming days and throughout the next year.

At the same time that the announcement was being made, Michelin's Press Relations department in France, as well as the local media in Budapest, put out a press release. (**Exhibit 10** contains the text of the Press Release and **Exhibit 11** contains the text of the Plenary Speech delivered to the employees.) The employees who were not present for the announcement were informed individually by phone.

At the conclusion of the announcement speech to the workers, there was only dead silence.

"It was not unexpected; it had been lingering in the air because we knew we were badly located, and the capacity that we were manufacturing was low," recalled Lajos Jaczkó, one of the union leaders at the plant. "However, the announcement still came as a shock. Most of the workers did not even suspect this would happen. I was sitting at the front and looking back at the faces. I was astonished by how surprised they looked." Even though the workers knew that a closure would happen eventually, they did not expect it then. "We were always hoping and hoping that it would happen later and later."

"They were disciplined," Richárd Pálvölgyi, who was the head of the union at the time, recalled of the announcement day "They accepted the decision that was made."

The employees then attended smaller group discussions with their first line managers. In these meetings, they were encouraged to discuss their reactions to the justification that was given for factory closure. They also discussed how the reemployment program would work and how, over time, shifts would be reorganized to maintain production during the shutdown period.

As the employees moved into the small groups to discuss the closure plans with their line managers, and in subsequent days, more emotional reactions began to surface.

At the core of the discontent was the extensive program the unions had worked on to improve the factory's Key Performance Indicators (KPIs) in the previous years. "People were bitter because they had been trying their best to achieve the objectives," Pálvölgyi said. "They were able to meet those objectives in spite of the fact that there was a considerable lack of investment in the plant in recent years. They did this through human commitments."

Some of the employees did not understand or agree with the reasons that were given for why the factory had to be closed. They felt a sense of betrayal for the work they had done to improve their performance. "They would look at the results on the performance indicators and say that this was a viable factory in a successful company," Pálvölgyi said. "They met the expectations that were given to them, yet nonetheless, they felt they had been sentenced to death anyway."

For others, their reactions were mostly tied to sadness or uncertainty about their own futures outside Michelin. "Many of the factory workers had been employed here for as long as thirty years. They were emotionally attached to this plant. They built their lives here," Pálvölgyi explained.

"For some, it was the first workplace they had. They had a great time here. They seemed to like the company, the colleagues, and the atmosphere," said Jaczkó. "It just came as a sudden shock and some didn't know how to go on with their lives. As union leaders, we had to help them manage this situation."

## **Developing the Social Package**

The day after the announcement, the negotiations with the social partners began. Béla Nagy and Richárd Pálvölgyi led the negotiations.

“Even though there was no legal obligation to have a written agreement between us and the social partners, we chose to prepare one because it provided some stability for us. It formed the basis for how we would be operating for the 11 months before closing the factory,” Nagy explained. “It is also helpful to have a document to refer to in case there is some disagreement later on so we could say to our partners, ‘This is what we have agreed to do’.”

The primary issues that the social partners were concerned about were how the tiers of severance packages would be distributed by age and number of years at the company, as well as the size of the training grants. Nagy tried to focus the discussion away from levels of severance and toward how they could define the support that would be necessary for everyone to find new employment. “It was our objective to maximize the number of individuals who can continue their careers before the closing date,” he said.

Negotiations occurred each morning. At the end of the morning, a summary was prepared of what was discussed. The social partners were asked to communicate to the employees only what was in the summary.

“Everybody was hungry for information,” Jaczkó recalled. Nonetheless, they tried to avoid communicating specific numbers that were discussed during the day – only that an agreement had not yet been reached on certain items. They did this so it would not appear that one side was gaining or losing ground. “The biggest difficulty was not to say anything before the negotiation concluded, on our side and on the social partners’ side,” Nagy recalled.

During the afternoon the two sides would work on their proposals and they would meet again the next morning to continue the negotiations. At the conclusion of the allotted 15 days, an agreement was signed between the social partners and Michelin.

### **Ramping Down the Factory**

Following the announcement of the factory’s closure, there was no production for the rest of the day. Yet operations resumed, as planned, the day after.

The factory team knew the employees would be in shock for several weeks after the announcement and did not want to burden them further with the pressure of production quotas. So they decided that in the first month after the announcement that production quotas would be suspended. They had decided that whatever tires they produced that month would be sufficient. “There is no compromise concerning two things: the first is the safety of our employees; the second is the quality of the finished product. In all other areas, there could be compromise,” Nagy said, “And we repeated this message every day.”

Ervin Sereghy, the Plant Director, decided to change the communication structure after the announcement. The plant had 20 first line managers and also a group of more senior second line managers. Communication typically went initially to second line managers and then, from them, to the first line managers. Instead, Sereghy had meetings every day with the 20 first line managers to ensure that there was no miscommunication.

He also changed the roles of the first line managers, telling them that their only responsibility was to provide psychological support to the employees. Only the second line managers remained responsible for overseeing technical and production related issues.

To help workers meet quality and safety targets, employees were asked to stop work on their machines for some time if they felt too stressed or distracted and to talk with a line manager. Michelin had psychologists on site at their health clinic, as well as an option for employees to see a psychologist in the city.

The safety and quality control plan was successful and there were no major accidents or declines in quality levels during the ramp down period.

Employees were able to exit with their severance package at any point during the year. The biggest challenge during the ramp down was managing the unpredictable levels of headcount as individual employees found new jobs and left. The plant management team reorganized production from four shifts to three, and they eliminated weekend shifts.

“It was a risk; we calculated it, and we tried to prepare for it,” Sereghy said. “The tire production process is like a chain, if there is one piece that is missing, the entire production can stop. We had to continuously monitor who we had and what the critical headcount was, machine by machine.” Michelin already had training in place for employees to learn how to operate multiple machines. They increased the use of this training over the ramp down period, particularly with the older workers who were most likely to stay until the end. “There was not at the end a big problem because the training was continuous during this period,” Sereghy said.

In order to retain some employees, Michelin offered a Loyalty Bonus. Employees were offered a bonus of four months’ salary if they stayed until March 2015. While some employees found new opportunities quickly, the majority stayed until the end to take advantage of the training grant and the loyalty bonus.

### **Employee Support Program**

During the year, Michelin offered a number of supports to employees to help them find new jobs.

- **Internal Mobility** – All employees were offered opportunities to search internally for other jobs at Michelin
- **Job Search Support** – They provided a job search support center on site with a career counselor and a Michelin manager who was in charge of ensuring all employees were actively engaged in the job search process. Employees were given four half-days of paid time to learn about the job search
- **Training Grants** – Grants of up to €1,000 were offered to employees to train in short courses for a new job such as forklift operator, security guard, fire fighter, etc.
- **Entrepreneurship Grants** – They offered grants of up to €1,000 in support of individual projects or entrepreneurship plans.
- **Job Interviews** – Michelin also arranged for some companies to come to the factory and recruit employees. They organized days for recruiters to come and observe the employees at work on the factory floor in order to observe their diligence and skillfulness. They also had a job board and conducted interviews with companies on site at the factory throughout the year. Some employees referred other employees once they began work in their new companies.

## Employee Outcomes

In June 2014, one month after the factory closure announcement, 75 employees had accepted internal positions in Michelin, including 65 who transferred to Nyíregyháza and 10 who moved to Michelin sites in other countries. Three hundred and ninety-seven of the original staff of 512 employees were still searching for jobs. By early December 2015, more than 60% of the workforce had found a new stable position. For the employees still looking for a job, Michelin had decided to reinforce the outplacement support.

## Site Reuse

At the time of writing this report, options for re-using the site were under consideration and Michelin was in discussion with potential buyers. Options included a transfer of land as-is or a transfer after environmental reclamation. In early December 2015, discussions were taking place with the Hungarian government to pursue the development of cultural and sport facilities on the property.

## Success Factors and Lessons Learned

There was a general consensus among all the stakeholders that the Budapest factory closure was a success. The key factors they identified that contributed to the success included:

- **Rationale**—All the stakeholders generally agreed that the decision to close the factory was justified given its location and other constraints. All mentioned that Michelin had done a good job of putting the ‘writing on the wall’ well in advance about the challenges of the factory. “The decision to close the factory was absolutely fair,” said Gábor Simon of the Hungarian Investment Promotion Agency. “Companies can’t avoid restructuring or reorganizing to make production more efficient.”
- **Clear, Continuous, and Consistent Communication**—All members of the management team and union leaders reinforced the importance of having clear communication and trust throughout the process. In particular, daily communications were an important part of keeping all stakeholders informed and preventing rumors or the spreading of false information. Additionally, there was a strong relationship of trust between the Communications Director and the employees before the factory closure process began, which enabled the communications to have more credibility than they might have had otherwise.
- **One Year of Advance Notice**—All stakeholders eventually appreciated the advance notice, although in the beginning the reasoning for it was not understood. “There was some disagreement about the announcement date. Some said it was too early while others said it was done at the right time,” Jaczkó recalled. “A lot of people said it should be done a few months before the closure. They were convinced that Michelin should just get it over with. But then they changed their opinions, because they faced a lot of difficulty finding jobs. Later they looked back and realized it was better for them, that they had the extra time to search and do job training, and that it increased their chances for finding jobs.”
- **Bonuses and Incentives**—In general there was agreement that Michelin achieved the right balance between allowing attrition during the year and encouraging retention through the loyalty bonus. However, some noted that the severance package may have been too generous, discouraging the best employees from accepting an internal transfer offer to another Michelin site.



- **Support of First-Line Managers**—Members of the factory’s management team praised the commitment and support provided to the workers by the 20 first line managers during the period after the announcement. All the line managers stayed with Michelin until the last day of production, even though some had already arranged for other jobs.
- **Extra Assistance to Older Workers**—Hungary did not have a system of early retirement, so Michelin arranged special support for workers who were close to retirement age. For workers over 60 years of age, Michelin was able to keep people on the payroll as on-call employees, and contribute to their pension until their normal retirement age. Employees who were 50-60 years old were offered an extended contract that would make payments for 18 months. If these employees found a job between the day of the closure and the end of the 18 months, they would receive the difference of the money as a bonus. This was also helpful as it allowed employees to tell prospective employers that they were currently employed at Michelin, eliminating the stigma of being unemployed. These two systems helped improve the outcomes for the workers least likely to find new employment.
- **Fulfilling Social Responsibility**—All the stakeholders perceived that Michelin had acted in a socially responsible manner towards the employees. “Michelin was very honest when they came to us. They tried to behave as a sensitive employer,” said Gábor Simon of the Hungarian Investment Promotion Agency. “They informed the government that they would do their best with the 500 people. And they did their best to find work for the people.”

At the same time, the stakeholders pointed out some areas that might have been handled differently.

- **Managing Workflows and Shifts**—Union leaders noted that there was some confusion over the shifts and who would be required to work when. Some employees were paid for eight-hour shifts while only working four hours, while others were expected to work all eight hours. A better plan for distributing workloads during the ramp down would have been useful.
- **Training Grants**—The training grants were subject to a 27% VAT which led to some confusion about who would pay the taxes. There was some inconsistency in the rules about whether employees could use work time to complete training courses. A more consistent set of guidelines for when training could be completed would have been valuable.

Yet despite additional management and oversight complexities involved, at the end, all the stakeholders agreed Michelin made the right decision by using a one year notice and prioritizing the employee support programs instead of larger severance packages. Nagy explained, “It would have been much easier to just hand an envelope and say to our employees, “Help yourself.” It is easier technically but it hasn’t any social responsibility. And Michelin is a socially responsible company.”

Dominique Bronner summed up the status in October 2015: “The project has made good progress, but there are still months of work to be done to establish a new professional project for all of the people of the plant. It also is not yet clear what the best use of the site will be for the benefit of the community and its economic development.”

### *Case Study Three – Divestiture of a Rubber Plantation in Bahía, Brazil*

In 2004, Michelin decided to close its rubber plantation in Bahía, Brazil.<sup>73</sup> When Michelin bought the plantation in 1984, the Brazilian government saw rubber as a strategic industry and required that

companies operating locally must purchase 40% of their rubber needs from Brazilian plantations. Yet the Brazilian rubber industry was not competitive globally. By the early 2000s, Brazil held only one percent of the global production of rubber, far behind the other major producers in Thailand, Indonesia and Malaysia. South American Leaf Blight, a fungus that infected rubber trees throughout the region, affected the farms in Brazil making it difficult to achieve the same efficiencies as plantations in Asia and Africa.

Michelin at the time had six rubber plantations – two in Brazil and four in Nigeria – that together supplied three percent of Michelin’s rubber needs. In 1997 the Brazilian government changed its policy, allowing companies to import rubber from abroad. Michelin kept the plantation as a testing laboratory for developing new disease-resistant strains of trees. By the early 2000s the plantation was in trouble. The South American Leaf Blight fungus, *microcyclos-uiei*, had attacked the rubber trees and they were nearing the end of their productive lives. At the same time, Michelin was becoming less vertically integrated, and was looking to exit the plantation management business.

There were some significant challenges, though, to closing the plantation. Michelin was the largest employer within a 150 km radius. The plantation’s 600 employees had few prospects of finding new employment. Bahía was one of the least developed areas of Brazil and had the lowest rankings of any region in the country on the United Nation’s Human Development Index. It was also in an ecologically sensitive area inside the Atlantic Forest, home to an important hotspot of biodiversity and many endangered species. The Bahía region was also dealing with deforestation by the local agriculture industry. Rubber was a more environmentally sustainable crop, since once rubber trees were planted they had a productive life of between 30 and 40 years. Thus, any other industrial activity that replaced the plantation would likely have a negative environmental impact.

### **Planning for the Divestiture of the Bahía Plantation**

When Michelin began its planning process for deciding what to do with plantation, it formed a committee to examine the options. Daniela Demôro, who was Michelin’s Director of Sustainability for South America at the time, Carlos Eduardo Pinho, Director of Communications, along with Bertrand Vignes, who was head of the Group Natural Rubber Division, led the initial process in South America.

In this early stage, three options were studied. The first option was to transfer the plantation to the government to be redistributed through the national land reform program. Yet this option posed environmental and social risks if the people who received the land parcels didn’t receive adequate training and support in sustainable agricultural practices. The committee also considered transferring the plantation to a conservation NGO or selling it to another business. If they transferred it to a conservation group, they would have allowed the plantation to regrow the forest, eliminating any employment. Michelin also considered selling the plantation to another company, but they were concerned that a new company might not commit to uphold the same level of social and environmental practices that Michelin had established.

A third option was to divest the plantation to Michelin’s employees, by breaking up the land into smaller parcels. These small-scale farmers would then be able to sell the rubber to Michelin or to other buyers. Michelin ultimately chose this third option, as it would allow it some oversight in the future of the plantation, and at the same time promote job creation and responsible environmental management. “We had a huge obligation to preserve the Atlantic Forest,” explained Daniela Demôro.

The project was named *Projeto Ouro Verde Bahía* (POVB), or the Green Gold Bahía Project. This name recognized that the value of the plantation came from its environmental and sustainability aspect. It

also mirrored the name given to the rubber processing plant and its dependencies, the “White Gold City.” (The white being the latex produced by the processing plant.)

The choice of the third option was made following a proposal from Michelin’s South America division. Approval was given by the communications department in France, whose head at the time was Jacques Jordan.

### **Setting up the Projeto Ouro Verde Bahía (POVB)**

Once the decision had been made, Michelin assembled an internal team with representatives from the legal department, communications department, and the various technical departments that would be needed to create and support the small-scale farms. The team began a process of consultations with unions, NGOs, local, state and national officials, with the help of the local World Council for Sustainable Development (WCSD).

Once the consultations were complete, the parties signed a ‘Protocol of Intentions,’ formalizing the intent to move forward with the project. They set up a committee of key stakeholders from this group called the Support Committee, which oversaw the implementation of the project and facilitated communications with other stakeholders.

Michelin next conducted a feasibility study, which led to the conclusion to develop 12 plantations of 400 hectares each. Twelve owners would be selected, each to manage one plantation. “Everything was thoroughly studied. It was clear that the twelve chosen would only accept the challenge if they had the motivation for all this. After all, each had a job with Michelin, with market wages and considerable benefits. How much would they need to make to maintain the same standard of living?” a Michelin representative explained.<sup>74</sup>

#### *Establishing the Plantations*

Michelin next developed a selection process for choosing the twelve plantation owners. An outside consultant conducted interviews and reviewed the backgrounds, skills, motivation, and leadership potential of the candidates. Nineteen candidates applied and twelve were selected.

The selected candidates were given loans to purchase their plantations. Rubber trees take between five and seven years to reach maturity, at which point they can be tapped for their sap. To ensure that the farmers had an income during those initial years, Michelin developed a rotation system with other crops including bananas and cocoa that would allow the farmers to earn income while they waited for the rubber trees to mature. The cocoa trees and banana trees were harvested in different seasons so the farmers were able to achieve a sustainable income year round.

Payback of the loans began in the fifth year, when the rubber trees began producing. Michelin provided seeds and seedlings at cost to the farmers as well as technical assistance in how to cultivate the rubber trees.

Approximately 95% of the Michelin employees were absorbed into the new plantations, with the remainder choosing to find new employment elsewhere or establishing their own small farms. All of the employees were offered severance packages in accordance with Brazilian labor law.

As a condition of the transfer of ownership, the new owners had to apply the same labor rights to the workers as they had experienced as Michelin employees, including the right to organize and to collectively bargain over wages, hours, and working conditions.

### *Establishing the Cooperverde Cooperative*

Supported by Michelin, the twelve farmers and their families formed a cooperative called *Cooperverde*. The cooperative was able to take advantage of a special program for cooperatives in Brazil that provided low cost financing. The cooperative handled many of the issues that were common to all of the owners including the procurement of licenses, maintenance of roads inside the plantation network, as well as hiring of trained employees to manage issues such as accounting, hiring of personnel, and dialogue with the trade unions.

The cooperative also sold all of its production of latex and all of its production of cocoa to Nestlé, and negotiated prices on behalf of all of its members. Michelin chose not to have an exclusive buyer contract with the farmers, but instead established a preferred buyer agreement. Michelin guaranteed payments to buy the crop from the farmers, but the farmers were also free to sell to other buyers if they chose to, with both sides providing advance notice. The choice between selling to Michelin or to others depended on the negotiated price that could be achieved through the sale.

### *Technical Support to Plantation Owners*

Michelin also provided support to the farmers that included technical training on planting and maintaining a rubber plantation, and R&D support from the Research Center. Michelin also provided the farmers with financial support when necessary, such as when the receipt of loans was delayed from a bank.

## **Support to Local Communities**

When Michelin divested its plantations in 2005 the company set up several public-private partnerships to help the families working on the plantations. As of 2015, Michelin no longer bears any costs for these projects.

- **Schools** – The POVB established two schools and provided a bus to transport the children to the schools. The local government operates the schools.
- **Health Clinics** – The POVB also set up a health clinic. Michelin donated the buildings and equipment. The Municipality has employed the personnel and paid their salaries since.
- **Electricity** – Michelin paid part of the costs of installing the electrical network for the plantations and then transferred the maintenance of the network to the Bahia electricity company.
- **Water Supply** – Michelin built a water treatment station for household use.
- **Telecommunications** – Michelin established a partnership with a telecom company to provide mobile phone service to the area, which had not been available at the time the company owned the plantation.
- **Low-income Housing** – Michelin partnered with the local government to build 264 low-income housing units – 60% were for Michelin employees and the other 40% were for other residents of the local area. Michelin donated the land for the housing and paid for basic infrastructure and landscaping costs. The federal housing bank provided the financing for the construction of the homes. Residents were capped at paying no more than 20% of their salary towards their monthly housing payments. The cost of the home consisted only of the cost of

construction materials and of the building process. It did not include the land and infrastructure, which were donated by Michelin. The program, which was called Nova Igrapiúna, is in the process of being continued by the Federal Government housing program, *Minha Casa, Minha Vida.*"

### **The Atlantic Forest Ecological Reserve**

For the other lands that they owned, Michelin developed a conservation area, the first of its kind created by a corporation. In 2005, only 5-6% of the original forest area in Bahía state was still in existence. Michelin established three 1,500-hectare blocks of conservation land. Michelin also established a Center for Biodiversity that aimed to reforest another 1,500-hectare block with native plants over the next 20 years. The Center conducts research that is recognized by the state, and provides education on the ecology of the forest as well as overseeing its conservation activities. A partnership with eight universities has allowed over 100,000 trees (representing 205 species) to be planted since 2005. Annually, over a hundred scientists have registered more than two thousand species, including seven new species that had not been documented previously. The Center hired four forest wardens whose job was to prevent illegal harvesting of trees on the Reserve. An essential part of the sustainability of the conservation initiative was the maintenance of a rubber processing facility that would ensure the need for the harvested latex. Michelin also prevented the development of small hydroelectric dams that would have eliminated the "Big Break Waterfall Park" (*A Cachoeira da Pancada Grande*). The waterfall is the largest on the Brazilian coast at 61 m high.

### **Rebuilding the Agricultural Sector in Bahia State**

Michelin also has played a role in the building of agriculture in Bahia state.

#### *Seedling Donation Program*

Michelin began developing disease-resistant rubber plants for the plantation owners. In 2013, under an agreement with the government of Bahía, Michelin agreed to donate the plants to other farmers in the state of Bahía, through a state program called PRODEBOM that aimed at reintroducing rubber as an industry in the country. Michelin donated 20,000 seedlings to 120 low-income farmers who did not have the ability to pay for them. The Government of Bahía has a goal to give 50,000 farmers access to the plants over the next 10 years.

#### *Family Agriculture Program*

Michelin also developed a program to educate farmers from around the state. The family agricultural program provides a unique model of service, since Michelin is a leader in research to combat the major disease that attacks the rubber, the "Microcyclus ulei". At the early stage, in partnership with the federal government, tree clones were donated to the small farmers in order to foster a mixed/consorted cultivation. The business plan was for three crops: rubber tree; cocoa; and banana. Following the first stage, the technical assistance for the harvest was also guaranteed, so that the farmers could be supported throughout the agricultural cycle. The program enabled Michelin to offer, at cost, a tree clone that was productive and intolerant to major diseases. The goal was to bring technical assistance to small farmers settled on the family economy model, and promote social inclusion.

#### *Country/Rural House Project*

In 2007, in partnership with the regional department of education and a local foundation, Michelin donated land for the government to establish an agricultural technical school for the children of owners of small local farms. In the project, children ranging in age from 14 to 18 years old spent three years learning about modern agriculture practices. Through professional education, the students learned about techniques for the cultivation of crops, along with agricultural business strategies and management, giving them the skills and knowledge to develop sustainable small agricultural businesses. The goals of the program were to show young people that it was possible to have a good income and quality of life working in agriculture in Bahía, and also how to be socially and environmentally responsible with the right tools and techniques. One of the key objectives of the project was to reduce the rural population exit rate, which was one of the major social problems faced by the region.

### **Success Factors and Lessons Learned from POVB**

Several factors were important to the success of the POVB program:

- **Participation and Consultation in Program Design**—Michelin designed the POVB to be participatory with input from various stakeholders at each stage of the project. When the International Labor Organization (ILO) conducted an independent evaluation of the POVB in 2007 it found that the local, state, and federal governments were especially satisfied with the consultation process and with the outcomes of POVB. The agricultural ministry in particular was relieved that Michelin had chosen to stay and deal with the issue of the fungus rather than just closing down the rubber tapping business.

The ILO found that the workers and trade union groups were also generally satisfied with the project. However, they would have preferred that Michelin consult them when the options for the plantation were first being considered. Instead, the first consultations came at the point when the plan for divestiture to small-scale farms had been made and the criteria for selecting owners were being decided. As the ILO described the situation, “An essential component of social dialogue is demonstrating respect and appreciation. The perceived lack of dialogue with a key stakeholder can strongly shape perceptions – when people feel they are not respected and appreciated they are less likely to value company social responsibility efforts, even quite substantial efforts.”<sup>75</sup>

Michelin responded that they wanted to wait until they had a clear understanding of what was feasible for them to do to help the plantation employees. “For a long time we worked discreetly. Since it was a pilot project and we still did not know all the details and actions which would be necessary, we could not talk about it,”<sup>76</sup> said Paulo Roberto, who was the Human Resources Manager for the Michelin Plantations of Bahía at the time and was selected as one of the Michelin employees to become plantation owners. The company believed that announcing that they would close the plantation while providing no additional information on what would be done with the land would increase anxiety too much among the employees and local authorities.

- **Technical and Financial Support to Plantation Owners**—In order for the POVB to succeed, the new plantation owners had to receive extensive technical and financial support. The plantation owners were typically technical specialists and many did not have experience as business owners and did not possess the management skills that were necessary to become an entrepreneur. Ivo Cairo had been employed by Michelin for eight years as an Agronomist in the R&D Center when he was told that he had been selected as one of the twelve new plantation

owners. He recalled the greatest challenges he faced in his first years were to learn how to run his own business and how to master the challenges that came from taking on a large debt and having to repay it. He saw Michelin's support as essential to his success as an entrepreneur. In particular, he valued the technical support given to him and the guaranteed payments for the purchase of the rubber crops. "My biggest achievement was to become the owner of my own land in the place where my father was from, and to be an entrepreneur. I would have had to wait my entire life to achieve this had I done it on my own."

- **Safeguarding Employee Wages, Benefits, and Working Conditions** – In 2009, the International Labour Organization (ILO) conducted a study<sup>77</sup> of the outcomes of the POVB. They found that the overall social and environmental objectives of the project had been met. The independent farm workers were earning a fixed wage and productivity and quality bonus of R\$ 450,000, approximately 120% of minimum wage. Michelin also continued support in facilitating transportation for workers, housing, clinics, and schools. Some employees expressed concerns that certain benefits were lost when the independent farmers took over the plantations – subsidies they had received from Michelin that had covered transportation, health clinics, housing on plantations, day care facilities, and similar services. On the other hand, the local trade unions noted that collective bargaining rights had stayed in place, and that conditions remained better than at other farms in the region, but that there was less room to negotiate for benefits as the small farmers didn't have the financial resources or scale that Michelin had to provide these benefits. From 2005-2009, Michelin participated in the negotiations with the trade unions and the plantation owners. Beginning in 2009 Michelin no longer participated in the negotiations.
- **Education of Community on Ecological Conservation** – In order to achieve the environmental sustainability of the project, Michelin had to invest extensively in the education of the local community on the importance of conserving the ecosystem in Bahía as well as providing other farmers in the region with the skills to engage in sustainable agriculture.

### **POVB Project Outcomes – 10 years**

The POVB experience taught Michelin that it was possible to work with smallholder farmers in a way that was responsible to employees, surrounding communities and the environment.

In 2015, 10 years after the project began, the plantations were still operational. All the loans to the plantation owners had been reimbursed. In 2015, Michelin had 200 employees still on site working in the R&D center and rubber processing plant. The small plantations employed 350 more people than they did when Michelin owned the plantation.

More than 1,000 farmers in Bahía had also benefitted from participating in the agriculture training programs.

### **Replicating the Bahía Plantation Model**

In 2015, Michelin developed a Purchasing Policy for Natural Rubber that incorporated social and environmental responsibility principles used in the Bahía project for its purchasing of rubber around the world. (**Exhibit 12** contains the Purchasing Policy for Natural Rubber.) Worldwide 6 million people are involved in rubber tapping, supporting nearly 20 million dependents. "It is bread and butter for more than 20 million people on earth. That is a responsibility and we want to be a leader," said Thierry Serres, Michelin's Technical Director for Natural Rubber.

The POVB provided Michelin with a new approach to managing its supply chain in natural rubber. “This project led us to a different mindset,” said Serres. “We don’t own plantations anymore but we are minority shareholders of different plantation companies.” “Our philosophy is to stay very much involved in this business technically and financially, but through local partnerships.” The model is currently being scaled up with farmers on the islands of Sumatra and Kalimantan in Indonesia. These plantations will employ more than 15,000 people and cover 45,000 hectares, while contributing to the preservation of some of the most valuable environmental hot spots on earth.

The new plantation model has allowed Michelin to bring its financial and technical expertise to managing a key input to the tire production process. It has given the company a hedge against rubber prices, and a way to ensure social and environmental sustainability in its supply chain. “We feel it is a win-win partnership,” Serres said.

## Managing Collaboration During Turnarounds: Two Case Studies

### *Case Study One: Developing the Turnaround Option: Bourges, France*

Bertrand Ballarin joined Michelin as a factory manager following a 30-year career in the French army. It was in the army that Ballarin was first presented with the choice between turning around a struggling unit and closing it down. He was asked to meet with a senior officer who he knew well. At the meeting, the officer said, “I want to give you this regiment. You know it’s on the list of those that are supposed to disappear in one year, but I think we could do something else with the regiment. So I will give you one year to present to my staff something new. If it’s good enough, you will have a budget, you will have resources, and we will transform it. And if not, you will have to shut the regiment down in a year.” Ballarin added, “That was what first gave me the idea, when I joined Michelin, that it was possible to handle things another way, even if the context was not the same.”

### **Proposing to Collaborate on the Future**

Ballarin did not have to wait long for an opportunity to test out this approach to managing an organization that was at risk. His first job at Michelin was as a manager of a plant in Bourges, France that he had been told was “probably going to be shut down.” But the factory never shut down in the end.

### **Identifying an Option for Transformation**

The workers repeatedly raised the possibility of working on airplane tires, which were made at the factory, but were not its only product. “Their conviction was, ‘This is something that we are the only ones to do well, and we must take everything else worldwide and concentrate it here.’” But at the time that the workers first began talking about the possibility of specializing in airplane tires, in Ballarin’s view there was no opportunity to present the idea to Michelin’s senior leaders, who were not especially focused on the airplane tire business.

At the same time, Ballarin and his team began to examine the results of the other Michelin plants that produced airplane tires. One factory’s process, they believed, was more modern than theirs, but it was “not the right industrial process – not the right fit for the tire.” A second factory seemed to lack the ability to produce airplane tires consistently. He explained, “So at one moment we realized, with my direction team, that something was really at risk. It’s a very sensitive market and if you are not able to build enough tires, American Airlines, Air France and others – they would have no tires. And it’s a *really* big business. At this moment, the supply was extremely tight, and we made our proposal.”



## **Obtaining Approval and its Implications**

Ballarin then described how the situation changed:

As it turned out, part of the proposal met the expectation of another product line, which was the main fabrication line of the factory. They needed to massify and they wanted to withdraw from the factory, but couldn't because of the aircraft production, which, at the size it was, could not stay alone in such a large factory. We had 20 different stakeholders and someone finally said, 'The only solution if we want to withdraw the other product was to make a small, hyper-specialized factory for airplane tires. It would not only be a production center, but it would be a development center as well.' The catch was, it would have to be a really small factory, of only 500 people.

So Ballarin's factory would experience both a transformation and a downsizing. They benefitted from direct involvement of both the management team and the workers in designing and conducting the turnaround of the plant. At the same time, the factory also had to reduce the size of the workforce to just the people needed to manage the consolidated airplane tire production and its associated R&D process.

### **'Let the Sunshine In': A Better Way to Collaborate on Planning**

At that time, in 2005- 2006, the restructuring planning process was not yet fully organized. It was one of the reasons that Dominique Bronner was asked to create the job of Director of European Industrial Transformation.

Ballarin was convinced that there was a better way to handle the planning process, which was to have local companies study by themselves the potential options for their sites. "In this case, the first step would be to gather all of the managers *and* the union representatives in the same room. We would tell them, 'You have to know that if we are not able to change the industrial project of this plant, then we will have to shut it down. Our proposal is for you to work together, involving all the workers the way you want, to try to make us ready in six months to one year with a new plan. If we don't do this, we'll have to shut the plant down.' And that's the way we should introduce it."

The Bourges factory transformation was an experiment in employee involvement in transformation. Michelin's next transformation would build on the ideas that were tested in Bourges, and would be very much out in the open.

## *Case Study Two: A Beta-test for Empowerment: Restructuring the Roanne Factory*

### **Testing the New Approach**

In 2013 Michelin began the first public test case of its new empowerment approach to restructuring. The Roanne factory, a plant of a French Michelin local company located between Clermont-Ferrand and Lyons, was facing serious challenges to its competitiveness. Michelin opened up the restructuring process by sharing the strategic diagnosis with company's management and Roanne's unions and employee representatives and embarked on a plan to study potential turnaround options.

Bronner explained that it was the first plant to use the 'Turnaround Model,' and added, "We are learning a lot."

## **A Positive Context**

The Roanne experiment was a strategic decision of the company, which benefitted from both internal and external factors.

First, discussions at the national level in France between unions and federations of employers led to a requirement for companies to provide unions with transparent information about company strategy through a database system. Following the negotiations, such a database became mandatory for major companies under a 2013 law. The database enabled the unions and employee representatives to have a better understanding of the strategic challenges faced by the company. This would open the door to a better dialogue about the local situation in each of the company's French factories.

Second, there was a strong commitment at the Roanne factory to make a collaborative planning process work, both from the employee representative organization and its leader, Jérôme Lorton, and from the factory managers who worked in Roanne between 2008 and 2014, Pierre Alexandre Anstett, and (since 2014) Eric Percie du Sert.

### **Principle #1: Real, Honest Talk about the Diagnosis**

Remi de Verdilhac, Director of France and Corporate Officer of the main French Michelin local company, described the challenges and solutions Michelin developed. The first principle of the new transformation method was "real, honest talk." "Unfortunately, in France, too many laws prevent us from working together in a free relationship with our workers. It is a law just for labor communication. The laws constrain dialogue. So we have tried to overcome the preconditions and invent something specific." He described the process of coming up with a shared diagnostic of the factory's situation.

We worked all together, so it wasn't just a union diagnostic, or a worker diagnostic, or a management diagnostic, but we worked all together, with a mediator, just to trust each other. We asked the manager to listen to what was wrong with our company in terms of turnover, in terms of training, in terms of the way we ran our factories. But it was our responsibility.

OK, what do we do with this diagnostic? We shared it with the help of an outside consultant. We talked to all of the employees to be sure we had social cohesion, step by step. We let everyone know of our new approach to transformations – sharing the diagnostic, so we are clear on where we have to improve.

It was necessary to train the middle management to be comfortable with this diagnostic, because it involved them. But to overcome such a reaction, to ensure that we will have the right support and leadership, we did not go immediately to step two, which is how to address what is wrong.

First we asked the company what would be its real position on new targets? What competitiveness would you accept to review your decision about the factory? The company did its own analysis, and said you would need to produce such a level of quality, at such a level of price, in line with the diagnostic. The answer was encouraging. We felt we hadn't asked for a dream. We wanted to be pragmatic and to include competitors inside and out. We just wanted to know, at what level of competitiveness might we think about a new life for the plant?

“Everything was on the table -- quality, production costs, reactivity, safety, working conditions, the workforce, age structure... The sharing of results allowed a climate of trust,” said Eric Martin, the representative of the CFE-CGC union.<sup>78</sup>

### **Principle #2: High Levels of Participation in Planning the Transformation**

“The second principle,” Verdilhac said, “after very honest talk, is a very, very high level of participation.” From October 2014 to March 2015, six working groups involving over 70 people at Michelin’s headquarters, at the local company and at its plant in Roanne worked to develop a full plan for the plant. The working groups were asked to examine the 10 most important topics that, if improved, would enable the plant to meet the targets that had been identified by Michelin’s senior leadership. Verdilhac described how the next phase was described to the workers, union representatives, and managers.

We have given you information about everything. We have given you the targets and the potential new mission of the site. We have given you the sense that we want to save the factory, but everything has to be solved by yourselves. For example, we need to be reactive to have much better results, because we have clients who ask for production in a very short period of time. In France we are not used to being reactive. And we have to ask you what kind of system you would like for yourself, so it will be in line with the constraints we operate under—so work can be aligned and well balanced with your private life.

“One of the secret rules,” Verdilhac explained, “was to deeply investigate the key levers of competitiveness that are not just investment, it is as well what we do with social relationships, with quality management, with everything that is important. This includes work time, competencies, absenteeism, communication—everything that will help the workers take ownership of the project.”

### **The Outcome**

As Verdilhac explained, “The creativity and responsibility of the organization was so strong for all the workshops, and they came up with ideas on how to improve safety, competitiveness, training, the life of the worker. The company responded, ‘That’s great; we believe you.’”

On May 21, 2015, the local company and the unions signed a « pacte d’avenir 2019 » (Future Pact 2019) with the approval of 95% of the factory’s employees. In the agreement Michelin committed to invest at least €80 million to create a new production line of premium tires from 19 to 21 inches for luxury vehicles replacing an inefficient 16 to 17-inch tire production line.

The total headcount at the factory would fall from 850 to 720 over that period, which would happen through natural attrition. The plant would also reorganize into five teams, which would work seven days a week, around the clock, compared with the current structure of four teams that worked Monday to mid-day Saturday. The employees also agreed to work up to six additional days per year. As part of the investment, Michelin agreed to €2 million to improve the quality of life at work.<sup>79</sup>

The reorganization of working hours would allow the factory to increase or decrease its annual production volume by 12%.<sup>80</sup> “We maintained our level of wages and operating of 35 hours: it is a rather good agreement,”<sup>81</sup> said Eric Martin.

Bronner added: “And now we are engaged in a four year implementation phase, with great challenges that the plant will have to face and overcome. Let’s be realistic, it’s a big change for the plant.

We are very hopeful and supportive; we are looking at the real progress and also very much waiting for the success of the total project. We've got to succeed!"

### **A Proof of Concept for Collaboration and Empowerment in Restructuring Planning**

Cyrille Poughon, Employee Representative on Michelin's Supervisory Board, used the Roanne turnaround as an example of how much relations had changed between Michelin and its worker representatives. He explained:

Since two or three years, there has been a change from the unions *and* from the company. The unions said, 'OK, if we have a chance to keep the factory open, but with less workers, and it is necessary to have a confidential conversation, because we don't want the workers to go on strike.' It's a real change in behavior on the part of the unions. And the company said, 'If the unions are open to change the practice and work with us in confidence, it's possible to do it.'

He continued, "And that's what happened this year in the factory in Roanne, in France. They began just with the Director of the factory and one member of each union. And they discussed the future. They said, 'The market is in this situation. The production in the factory is like this. With perspective, we see that in five years, if we don't change, we will have to restructure the factory. So what can we do together, the unions and the management, to find solutions to this situation?' They started the conversation with five people and after that, they broadened the discussion to include all the members of the unions.

What is very interesting is that at the end of the process of developing the plan, the unions said, 'We saw that it was a good project for the future for the factory. But we have to ask the workers.' So they organized a vote. Both the management and the unions developed the text of the referendum. It was the first time that the company and the unions had prepared a referendum together, and 94% of the workers said, 'We agree with the project, because we keep our jobs in the factory. It's a good situation for the workers near retirement, so they can stay in Roanne.' For the young workers (between 30 and 40 years old), they have a long time to work until retirement, and they prefer to stay here. Roanne is in the countryside and there is not a lot of industry close by. So if the factory closed, they would have to leave industry and go to work in service businesses like restaurants. "

Poughon concluded, "It's absolutely necessary to have real social dialogue, not top-down, but bottom-up."

Bronner added: "I must say that this success, which I hope will be a cornerstone in the way we plan restructuring, has been possible thanks to the people locally. We had a great collaboration of people who wanted the process to succeed, both at the management level with the plant managers, Pierre Alexandre Ansttet and then Eric Percie du Sert, and at the union level, with the strong commitment of Jérôme Lorton. They helped the whole team get involved in the process with more than 90% of workers agreeing with the plan."

Jean-Dominique Senard also assessed the Roanne approach to restructuring:

You can save a tremendous number of jobs in places where you would have thought it would be impossible. We've been through an example in one of our industrial sites in

France, where we negotiated very forward in anticipation with the workforce and decided to keep the site alive. We have targets in terms of production and the rest.

It's a perfect example of what we are saying. So in my mind, it's absolutely possible. We have proof that it's possible, and everybody's asking us how we did it. I'm quite proud of it, but to me it's just common sense; courage and common sense.

## Summary

In our research we have seen how Michelin's values of respect for people and respect for the facts have grounded the company's approach to socially responsible industrial restructuring. These values have enabled Michelin to continuously evolve the approach it has taken to restructure its industrial footprint while holding true to the core beliefs that lie at the heart of the company. Over time, different leaders have interpreted the values in different ways, and the practices they employed have changed as they responded to market conditions and the shifting social relations between employees and their employers. Out of this evolution has come a robust approach to socially responsible industrial restructuring that is continuing to change even as this report is being written. Our core report and case studies detail the history, key moments, and lessons of Michelin's evolution.

In summary, we'd like to focus on three aspects of Michelin's approach that are especially unique and innovative. We believe these three practices – anticipation and planning, a humanistic approach to restructuring, and using empowerment to create transformation alternatives to plant shutdowns – can be powerful models for other companies that need to undertake restructuring.

The first innovative restructuring practice is Michelin's embrace of *anticipation* – its insistence on planning for what most companies treat as an unknowable future.

Michelin's restructuring planning process provides a structure to simultaneously plan the future of its products *and* the future of the territories and the manufacturing sites within them. Driving planning to the territory and factory level enables the company to identify factories that may have problems in the future. It provides time and a process to explore, with the concerned local companies' Boards and through systematic diagnosis, the conditions for success and competitiveness for the sites under review. These investigations are jointly developed by the product and territory leaders, and, increasingly, include input from the sites themselves.

A well-designed infrastructure of restructuring committees has been developed to provide both top-level and local decision-making and oversight, senior level plan development and issue management, and regional implementation and action-support. The process also directly addresses the needs of stakeholders for information tailored to the questions and concerns of the audiences they serve. Limited advance notification is offered in some cases. More generally, communication materials are specifically designed for local companies' Boards and internal stakeholders like personnel staff and site level managers, as well as for external stakeholders such as unions and employee representatives, local and national politicians, and members of the media. This communication program ensures that a consistent picture is presented to all the involved parties of why Michelin is undertaking restructuring actions, what the company aims to achieve, and how the changes will be carried out.

Michelin's planning process provides a solution to the problem of hasty workforce change decisions made by companies in response to their own changing environments. But this planning process cannot just be patched on to companies as a new tactic. It is driven by core beliefs in the value of the workers themselves, and in the facts that are revealed by a systematic exploration of root causes of problems

and through open, even at times contentious exchanges by individuals with different perspectives and functional responsibilities. These considerations shouldn't deter other companies from attempting to improve the ways in which they anticipate and plan for restructuring. But they should note carefully the kinds of beliefs that can sustain a commitment to planning restructuring, which by its very nature creates complexity and spillover effects, requires the commitment of resources, and takes years to implement.

The second innovative feature of Michelin's approach to restructuring is that it is a *humanistic* approach. By this we mean two things—an approach that demonstrates a humanistic *understanding* of the effects of professional change on individuals, and a humanistic commitment to *positive outcomes* for individuals.

The Toul plant closure was a watershed event for Michelin, as it pushed the managers involved in the restructuring, with the strong involvement of Alain Braud, to focus on “the person at the center of the change.”<sup>82</sup> This opened the door to seeing a plant closure through employees' eyes, and to appreciate the loss of personal identity that would come from no longer working at Michelin, a company that rewarded loyal employees with affiliation to a French business icon that tried to “do everything” for its employees.

The deep understanding of the psychology of vocational change (in Michelin terms, a change in the ‘professional project’ of the employee) led Michelin to create the ATP program to help employees make the transition to a different job inside Michelin, or a new job outside of it. Each employee was treated as an individual with his or her own family issues, openness to change, and unique ability to adapt to personal changes that were in the future. The ATP program acknowledged and made room for the emotional consequences of restructuring by providing safe spaces for venting negative feelings, as well as support from managers and the ability to have confidential sessions with psychologists. Training in self-awareness and self-expression and in the soft skills of communication and engagement were offered to augment the technical skills of employees, who were also given opportunities to try out and train for different vocations.

When preparing the Budapest Hungary plant closure, the local team added an analysis of the time it would take for the plant's employees to find new jobs, given economic conditions and job opportunities available in Hungary and beyond. The resulting 18-month timeframe set the communication and ramp down schedule of the factory closure, to try to ensure that all employees would find new jobs by time the factory closed. Throughout the ramp down, managers at the factory worked around the departure of employees who located new jobs, reinforcing the company's commitment to support Michelin employees in achieving positive outcomes in their job searches.

Michelin's *humanistic* approach and commitment to accompany workers on their employment journeys stands in stark contrast to the disengagement that many companies display toward their displaced employees. ‘Respect for people’ is a powerful guide to treating people well and for caring enough to devise a program of reemployment support that addresses the problem in its true form— as a loss of identity that requires courage and a willingness to change that is especially hard for long-term employees to master. Extra efforts must be made in these cases, and Michelin's *humanistic* model offers many useful practices that can help other companies make good on their obligations to be responsible employers, even in the midst of change.

Michelin's third innovative practice is the link it has created between *employee empowerment* and the process of developing *factory transformations* as an alternative to plant shutdowns.

Employee empowerment has been championed by Jean-Dominique Senard with the strong involvement of Jean-Michel Guillon, and aided by the conceptualization of empowerment and ‘proof of concept’ experiments led by Bertrand Ballarin. But from an historical perspective, Michelin leaders have always counted on their employees to be the company’s engine for innovation, quality, and competitiveness. Formalizing and institutionalizing empowerment is, however, new, as is the practice of drawing on employee and worker representative ideas and ingenuity to come up with new missions for struggling factories.

As the Bourges and Roanne examples make clear, transformation may come with a need for a smaller workforce, so some layoffs or attrition may be required to end up with a workforce that is correctly sized to the opportunities the factory will pursue. And the new mission is not charity, since it comes with investment as well as a robust array of operational measures that will determine whether the factory will continue to earn the right to exist.

Employee involvement in transformation requires the factory’s management to make a hard transition—from a traditional power hierarchy with management-owned decision rights to a more egalitarian structure that shares power and gives responsibility to teams to operate with far greater autonomy than they had before. These are significant changes for the individuals involved at all levels. Empowerment also requires changes in the people practices of the firm, from career management, to training, to compensation, to ensure that the new team-based organizations are supported consistently and without mixed signals or measures that point in a different direction.

Transforming a factory with a new mission, rather than shutting it down, is an innovation that is especially suited to large multi-product companies like Michelin. There are tens of thousands of such companies headquartered in countries around the world, which could use employee empowerment and involvement to give struggling factories a chance to rebuild themselves. These changes must be integrated into a structured planning process so top leaders maintain control over the shape, size, location, and composition of the company’s global footprint. And the trust and belief in the capacities of workers may not come easily to companies used to operating in a more traditional fashion.

But the *link between employee empowerment and plant transformations* is a powerful concept that holds promise for solving one of the most intractable problems facing corporations in a world of changing markets and opportunities. This problem is how to manage needed workforce changes while creating new and vital roles for employees whose skills and talents have supported the success of the company in the past, but whose current facilities are no longer viable for the company to maintain.

We believe that each of these innovative practices—*anticipation and planning, humanistic change, and linking empowerment with factory transformation*—have the potential to help companies do far better than the status quo. They will have to find their own ways, since each company is a unique environment with its own history, culture, operational and competitive challenges, and leadership strengths. And they will have to do something that Michelin is especially good at, which is learning. Of this capacity, the American leadership scholar Warren Bennis wrote:

If we view organizations as adaptive, problem-solving, organic structures, then inferences about effectiveness have to be made, not from static measures of output, but on the basis of the processes through which the organization approaches problems...The measure of health is flexibility, the freedom to learn from experience, the freedom to change with changing internal and external circumstances...<sup>83</sup>

**Exhibit 1** Michelin Sales and CapEX by Region, 2014

<b>2014 Sales &amp; CapEX</b>	<b>Europe (incl. Central and Eastern Europe)</b>	<b>North America and Mexico</b>	<b>Other Regions</b>
2014 Net Sales (€19,553MN)	41%	35%	24%
2014 CapEX (€1,883MN)	46%	28%	26%

Source: Michelin Annual Report, 2014



**Exhibit 2** Michelin's Six Ambitions, 2013-2020

**#1: WIDEN OUR LEAD IN PRODUCT PERFORMANCE by Delivering More Performance with Less Raw Material and Better Fuel Efficiency**

**2020 Objectives\***

Improve performance by **10%** while using less raw material

Reduce fuel consumption by **3 BILLION LITERS** and carbon emissions by **8 MILLION TONNES**

Ensure that **30%** of raw materials used to manufacture tires derive from renewable sources or recycled end-of-life tires

\*Compared with 2010.

**#2: BECOME AN INDUSTRY STANDARD for Responsible Manufacturing, Logistics, and Purchasing**

**2020 Objectives**

**REDUCE BY 40%\*** the environmental footprint of production sites, including a 25% energy efficiency gain

**REDUCE BY 10%** the CO<sub>2</sub> emissions generated by logistics operations

Evaluate the top **400** suppliers; ensure **70%** are confirmed as compliant with Michelin standards

\*Compared with 2010.

**#3: SECURE OUR FINANCIAL PERFORMANCE by Pursuing Excellence Across the Board**

**2020 Objectives\***

**€1 BILLION** in structural free cash flow<sup>a</sup>

ROCE of **15%** or higher<sup>b</sup>

\*Compared with 2010.

<sup>a</sup>Cash flow after recurring and non-recurring capital expenditure and proceeds from asset disposals, and before payment of the dividend.

<sup>b</sup>Operating profit after tax/economic assets employed (property, plant and equipment and intangible assets, non-recurrent financial assets and net working capital).

**#4: WORK TOGETHER TO CONTINUOUSLY IMPROVE EMPLOYEE WELL-BEING AND PERSONAL GROWTH by Fostering Health and Safety in the Workplace and Promoting Personal Development and Diversity**

**2020 Objectives**

TICR (Total Case Incident Rate\*) of **Less than 2**

**85%** of employees committed

75% of managers hired or promoted from within

30% of women in management and supervisory roles

80% top managers in growth regions from growth regions

\*Total Case Incident Rate: the number of workplace incidents affecting employee health per number of hours worked.

**#5: STRENGTHEN TIES WITH OUR HOST COMMUNITIES by Contributing to the Vitality of the Regions and Encouraging Employees to Get Involved in Society**

**2020 Objectives**

**ALL SITES** involved in community life

30,000 working days dedicated to local community involvement

2,000 local jobs created each year with the support of Michelin Development

**#6: IMPROVE EVERYONE'S QUALITY OF LIFE THROUGH SUSTAINABLE MOBILITY by Strengthening Our Road Safety Initiatives and Promoting Energy-Efficient, Low-Emissions Mobility, Especially in Cities**

**2020 Objectives**

Ensure **ALL** Michelin sites are ISO 39001-certified (The standard for road safety management systems.)

**REDUCE** the transport industry's CO<sub>2</sub> emissions and help to make the 2015 Climate Conference in Paris a success

**ENCOURAGE** the development of low pollutant emission zones in cities

Source: Michelin Annual Report, 2014.

**Exhibit 3** Michelin's Global Operations, 2014

	N. America	Europe	Asia (excl. India)	S. America	Africa, India, Middle East
<b>Employees*</b>	21,900	61,300	15,400	6,300	1,800
<b>R&amp;D</b>	1 R&D	1 R&D	3 R&D	1 R&D	0 R&D
<b>Plants</b>	10 Car & Light Truck	15 Car & Light Truck	4 Car & Light Truck	1 Car & Light Truck	0 Car & Light Truck
<b>C&amp;SFP= Component &amp; Semi Finished Product Plants</b>	4 Truck 2 Specialty tire 2 C&SFP	15 Truck 9 Specialty tire 7 C&SFP	3 Truck 2 Specialty tire 2 C&SFP	2 Truck 1 Specialty tire	1 Truck 0 Specialty tire
<b>+ or - Changes</b>	- Car and Light Truck Tires: Cutback in capacity in Pictou plant, Canada  + Earthmover tires: Ramp-up of mining tire plant in Anderson; commissioning of plant for airless tires in Piedmonth, SC	+R&D: Construction of new worldwide Ladoux center in CF  +Car & Light Truck tires: Ramp-up of factory in Pirot factory in Serbia  - Truck tires: Closing of Budapest plant by mid-2015  +Earthmover tire & Agricultural tire plants: capacity increased in Montceau-les-Mines, Le Puy, and Troyes sites in France	+Component & Semi-Finished: commissioning of composite rubber plant in Thailand  +Truck tire and Car and Light Truck tire plants: Ramp-up of Shenyang2 Plant in China	+Earthmover tires: Capacity increased at plant in Campo Grande, Brazil  +Car and Light Truck: Ramp-up of car tire plant in Itatiaia in Brazil	+Truck and Earthmover tires: Ramp-up of the Chennai plant in India

Source: Michelin

\*Full-time equivalent employees at December 31, 2014.

**Exhibit 4** Leadership at Michelin, 1832-2014

<b>1832</b>	Aristide Barbier [grandfather of Edouard and Andre Michelin] and Edouard Daubree [cousin of Barbier] open a factory to make farm machinery and rubber balls in Clermont-Ferrand
<b>1889</b>	Edouard Michelin takes over the company, which is named “Michelin et Cie”
<b>1938</b>	New Managing Partners: Edouard Michelin appoints Robert Puisieux [his son-in-law] and Pierre Boulanger as Managing Partners
<b>1955</b>	François Michelin [grandson of cofounder Edouard] becomes “geant,” or a [joint] Managing Partner of the company, [alongside Robert Puisieux] <sup>84</sup>
<b>1960</b>	“On Puisieux’s retirement in 1960, François became head partner, and over the next 30 years led Michelin to the number one position in the world tire market. Unlike many of its European competitors, which set up agreements with US manufacturers, Michelin had continued to undertake the vast majority of its research and development activities itself. <sup>85</sup>
<b>1991</b>	François Michelin appoints his son Edouard Michelin [fourth generation family member] as a Joint Managing Partner
<b>1999</b>	Edouard Michelin appointed sole Managing Partner of Michelin by François Michelin
<b>2005</b>	Michel Rollier [second cousin of Edouard Michelin, but not a descendent of cofounder Edouard Michelin] <sup>86</sup> becomes Managing Partner in 2005 and in 2006, after the accidental death of Edouard Michelin [in a boating accident], manages the company alone.
<b>2007</b>	Jean-Dominique Senard, who joined Michelin in 2005 as CFO and member of COMEX, appointed a Managing Partner of the Michelin Group, alongside Michel Rollier.
<b>2012</b>	Jean-Dominique Senard becomes the sole Managing Partner of the Michelin Group on May 11, 2012. <sup>87</sup>

Source: Michelin website.

**Exhibit 5** Michelin Employee Values and Behaviors

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**A Know-How**

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**Listen to and Satisfy Customers**

Identifying consumer needs is always the first stage of the life of a tyre. Answering our customers' expectations means delivering the required product on time and respecting quality. Our durability and growth depend on the long-term satisfaction of our customers, wherever they are based.

*My relations with our customers are honest sound, and built on mutual trust and professional excellence. I always strive to satisfy my customers' needs. I explain that our products and services answer our customers' expectations as well as those of society through the solutions they provide.*

**Contribute to the Group's Economic Performance**

Attaining an adequate level of results is vital to the Group's independence and sustainability. Each employee contributes to this objective, regardless of *métiers* or hierarchical positions. It is our primary responsibility toward our shareholders and the primary means to increase compensation for all personnel. Ensuring the Group's growth by generating the necessary financial resources is intrinsically linked to achieving our goal of social and environmental responsibility.

*I strive to make my activity more efficient. Through my know-how and initiatives I contribute to the profitable and sustainable growth of the Group.*

**Integrate Seamlessly into the Societies and Communities Where We are Present Throughout the World**

Each employee fulfills his or her responsibilities by striving to ensure the balanced integration of our activities into the diverse economic and social environment that surrounds our industrial and commercial activities. *Our global presence and our Brand's reputation in each country prompt me to keep in mind my responsibilities -I strive to uphold respect and improve the living conditions and well-being of the people I am in contact with.*

**Make our Activity More Environmentally Friendly**

Our passion for innovation also contributes to improving the environmental performance of our products. We constantly seek the optimal balance between fuel savings achieved through our tyres' energy efficiency and reducing raw material use through our tyres' longevity, while providing safer products. Our tyres represent progress for our customers in the field of environmental protection. Our responsibility also extends to implementing innovative solutions at each stage of tyre life. In each of our industrial sites, we manage our environmental performance to help control the impact of all our activities. particularly: emissions released into the water, soil and air (particles, noise, gas, odours, etc.), the consumption of energy and materials, and waste production. We guarantee our regulatory compliance.

*I focus all my attention on optimising our energy and water consumption and waste production. I strive to preserve the ecosystem of the site I work in.*

**Establish Truthful Relations with our Industrial and Commercial Partners and our Suppliers**

We expect high-quality services from each of them, thus helping us answer our customers' and employees' expectations in the long term.

*I rely on fair contractual conditions, as they aim to achieve the best possible balance between increasing the Group's results and ensuring our partners' development. I select my partners based on whether they embrace the principles of sustainable development.*

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## A Unique Culture

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### **Respect People**

We constantly strive to encourage personal development and fulfillment for all individuals as they carry out their responsibilities within the Group. This requires genuine discussions and constructive dialogue at all levels of the Company. This relationship is key to uphold the quality of interpersonal relations that from our beginnings characterizes us and differentiates us. *I endorse Michelin values. I am the main driver of my professional development and base my success on my commitment, professional excellence and respect for others. I am determined to behave as an honest and responsible person. I engage in open, constructive dialogue with my management, my colleagues and the personnel department.*

### **Guarantee Quality**

Since the foundation of the Group, we have fostered a strong culture of responsibility. Promoting the better mobility of people and goods implies an uncompromising requirement for safety and quality in all our products and services. One of the Group's key features is the organization and independence of our Quality guarantee. *I fulfill my responsibilities regarding the Quality supplied to our customers, and I know how quality assurance is applied in my area of activity.*

### **Promote Innovation**

Keep an open mind and strive to innovate. While Quality is the cornerstone of the Brand, innovation makes it unique. The combination of these two priorities helps ensure the Company's future. *I am inquisitive and receptive; I readily devise and welcome new ideas and try to incorporate them into my daily work.*

### **Make Continuous Progress**

Place an emphasis on taking initiative to operate outside the box, without contradicting our operating principles or decision-making processes. Share best practices and feedback to help constantly identify our areas of progress. *My ability to reevaluate my own ideas helps me make continuous progress in my activity and behaviour.*

### **Respect Facts**

Pay close attention to reality. An impartial observation of the facts governs our relations with all of our customers, as well as economic, social, public and community partners, etc. Internally, this approach based on listening and researching the facts applies to all our activities to help guarantee that we make sound decisions. *I ensure that I apply objectivity and intellectual honesty in all matter I deal with.*

### **Have a Long-Term Vision**

Have the courage to set up the basis of operations today that will be successful tomorrow. To ensure lasting success and make a real contribution to Company performance, we must adopt a long-term vision and consider the short- and long-term consequences of our actions. *I incorporate future consequences into my decisions and do not jeopardise the future for short-term gain.*

Source: "Michelin Performance and Responsibility: A Better Way Forward," Michelin internal document, Reference: GUI001DGCM\_PRM, June 2012.

**Exhibit 6** Michelin’s Employee Commitments and Responsibilities

	<b>What we are committed to</b>	<b>What you are committed to</b>
<p><b>Career Management</b></p> <p><i>A long-term, personalized career path.</i></p>	<ul style="list-style-type: none"> <li>• Mapping out possible career paths to help each Group employee make career choices.</li> <li>• Assigning a dedicated career manager to guide and support each employee throughout his/her career.</li> <li>• Giving employees the means to achieve their potential through individualized, varied career plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Using your talent for the Company so that you progress and achieve a high level of performance and professionalism.</li> <li>• Taking an active part in shaping your career by making known our aspirations during Periodic Development Reviews.</li> <li>• Viewing changes of job, job field or geographical location as opportunities for professional development.</li> </ul>
<p><b>Learning &amp; Development</b></p> <p><i>Organized training at each step of your career.</i></p>	<ul style="list-style-type: none"> <li>• Giving all employees an orientation course when they enter the company.</li> <li>• Drawing up an Individual Training Plan with the manager and the training team whenever an employee enters a new job.</li> <li>• Updating each employee’s ongoing training plan with his/her manager during Periodic Development Reviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Viewing training and mentoring as the Company’s investment in your development, right from the beginning.</li> <li>• Being prepared to make suggestions to your manager and your career manager to help you acquire new skills.</li> <li>• Making the most of every training and development opportunity offered by the Company.</li> </ul>
<p><b>Management Quality</b></p> <p><i>A close, trusting relationship that empowers and develops each employee.</i></p>	<ul style="list-style-type: none"> <li>• Managers are required to set the example, be available and receptive, set high standards, embody the Group’s values, take an interest in everyone and honor their commitments.</li> <li>• Making it easier for individual employees and the Group to achieve their objectives by ensuring that managers: empower their team members, put in writing clear, formalized objectives in relation to results and behavior, provide necessary support and resources, assess your results and help you identify ways in which you can improve and develop.</li> <li>• Supporting managers by providing training and measuring the Group’s management quality.</li> </ul>	<ul style="list-style-type: none"> <li>• Putting the Group’s values into practice on a daily basis and shouldering the responsibilities your manager assigns you.</li> <li>• Helping carry out the team’s decisions and achieve its objectives.</li> <li>• Building an open, trusting relationship with your manager by giving him/her constructive feedback.</li> </ul>
<p><b>Job Design</b></p> <p><i>A position that encourages continuous improvement in serving our customers.</i></p>	<ul style="list-style-type: none"> <li>• Giving each employee a clear job description, telling him/her what is expected in terms of results, and explaining his/her contribution within the Group.</li> <li>• Giving each employee a measure of latitude, based on his/her proficiency in the job, within an organization that empowers him/her.</li> <li>• Leading a drive to speed up continuous improvement, in which everyone can have his/her say.</li> </ul>	<ul style="list-style-type: none"> <li>• Being familiar with your job description and your annual objectives.</li> <li>• Having a responsible attitude in doing your job.</li> <li>• Upholding a continuous improvement approach.</li> </ul>

	What we are committed to	What you are committed to
<p><b>Quality of Work Life</b></p> <p><i>Good working conditions in which you can put your talent to use.</i></p>	<ul style="list-style-type: none"> <li>Guiding and supporting each employee through change.</li> <li>Keeping employees safe by continuously improving safety in the workplace.</li> <li>Working to improve the workplace environment – a modern and pleasant working environment, work post ergonomics that are suitable for everyone, a sound work-life balance and maintained health and well-being.</li> <li>Fostering the ability to get acquainted with one another (sporting and cultural activities, family events) and developing corporate social responsibility (involvement in local community life).</li> </ul>	<ul style="list-style-type: none"> <li>Following the Company's safety rules and making sure others do the same.</li> <li>Suggesting ways to improve safety.</li> <li>Making sure that what you do and say helps to build and maintain a good working environment and atmosphere for you and your colleagues.</li> <li>Being open to employees' diversity in the Company.</li> </ul>
<p><b>Compensation &amp; Benefits</b></p> <p><i>Fair compensation, based on your level of responsibility and your performance.</i></p>	<ul style="list-style-type: none"> <li>Using a fair compensation policy, based on the Group's common remuneration principles and adapted to local contexts.</li> <li>Giving each employee compensation based on the market and industry.</li> <li>Providing all Group employees with a pension, health coverage and life insurance that reflect the Company's social responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>Being prepared to make suggestions to help define objectives for you and your team.</li> <li>Achieving your individual objectives and contributing to those of the team and the Group.</li> <li>Preparing the financial investments for your retirement.</li> </ul>

Source: "Moving Forward Together: The Trademark of Mutual Commitment," Michelin internal document, Reference: AE\_MFT\_0169\_DGP, June 2012.



## Exhibit 7 Michelin Selected Financial Performance Indicators, 1981–2014

As of Dec 31	Net Revenues (€ millions)	Revenue Growth	Gross Profit	Gross Margin	EBITDA (€ millions)	EBITDA Margin	Net Income to Common Shareholders (€ millions)	Market Cap (€ Millions)	Capital Expenditure (€ millions)	Price Close	Stock Price % Change
2014	19,553.0	(3.43%)	6,254.0	31.98%	2,916.0	14.91%	1,025.0	13,979.6	1,839.0	75.3	(2.56%)
2013	20,247.0	(5.71%)	6,406.0	31.64%	3,059.0	15.11%	1,120.0	14,352.2	1,842.0	77.3	7.91%
2012	21,474.0	3.64%	6,710.0	31.25%	3,506.0	16.33%	1,560.0	13,069.2	1,894.0	71.6	56.74%
2011	20,719.0	15.81%	5,898.0	28.47%	3,173.0	15.31%	1,452.0	8,222.4	1,603.0	45.7	(14.94%)
2010	17,891.0	20.83%	5,488.0	30.67%	2,650.0	14.81%	1,036.0	9,483.8	1,001.0	53.7	3.73%
2009	14,807.0	(9.76%)	4,280.0	28.91%	1,376.0	9.29%	104.0	7,899.6	602.0	51.8	42.61%
2008	16,408.0	(2.72%)	4,384.0	26.72%	1,702.0	10.37%	360.0	5,447.6	1,159.0	36.3	(52.14%)
2007	16,867.0	2.95%	5,050.0	29.94%	2,207.0	13.08%	774.0	11,303.9	1,258.0	75.8	8.28%
2006	16,384.0	5.09%	4,731.0	28.88%	2,067.0	12.62%	572.0	10,414.8	1,351.0	70.1	52.70%
2005	15,590.0	3.60%	4,755.0	30.50%	2,357.0	15.12%	878.0	6,808.0	1,267.0	45.9	0.61%
2004	15,688.8	2.08%	4,422.5	28.19%	1,872.9	11.94%	515.1	6,766.5	1,065.3	45.6	29.71%
2003	15,369.8	(1.76%)	3,843.9	25.01%	1,967.3	12.80%	317.5	5,210.8	1,025.8	35.2	10.71%
2002	15,645.1	(0.82%)	4,279.0	27.35%	2,140.6	13.68%	580.8	4,617.8	967.0	31.8	(11.31%)
2001	15,774.6	2.46%	3,975.5	25.20%	1,906.9	12.09%	296.0	4,837.8	1,316.7	35.8	(3.89%)
2000	15,395.6	11.86%	4,049.3	26.30%	2,043.3	13.27%	399.0	5,044.7	1,201.2	37.2	(1.15%)
1999	13,763.1	10.23%	3,707.7	26.94%	1,892.9	13.75%	154.4	5,152.4	1,173.2	37.7	14.46%
1998	12,485.6	2.77%	3,285.0	26.31%	2,044.6	16.38%	535.6	4,655.4	1,100.2	32.9	(26.24%)
1997	12,149.0	11.85%	3,020.1	24.86%	1,993.0	16.40%	592.0	6,318.2	949.2	44.6	8.18%
1996	10,861.4	7.77%	2,366.5	21.79%	1,972.0	18.16%	440.8	5,124.9	772.4	41.3	43.42%
1995	10,078.5	(1.65%)	2,117.3	21.01%	1,862.1	18.48%	426.2	3,403.7	548.2	28.8	0.51%
1994	10,247.8	6.20%	1,928.7	18.82%	1,762.7	17.20%	196.8	3,177.2	391.7	28.6	(7.39%)
1993	9,649.7	(5.31%)	1,438.6	14.91%	1,020.2	10.57%	(559.5)	3,393.5	481.2	30.9	15.59%
1992	10,190.8	(1.19%)	1,808.6	17.75%	1,748.9	17.16%	101.6	2,935.3	625.3	26.7	48.77%
1991	10,313.0	7.83%	1,664.9	16.14%	1,387.1	13.45%	(106.6)	1,972.6	698.8	18.0	94.58%
1990	9,564.1	13.54%	1,338.3	13.99%	616.0	6.44%	(733.4)	1,013.8	1,053.8	9.2	(62.68%)
1989	8,423.7	6.63%	1,723.7	20.46%	1,709.2	20.29%	373.4	2,615.0	977.6	24.7	(10.82%)
1988	7,900.0	10.41%	455.9	5.77%	1,558.9	19.73%	360.8	2,498.9	739.6	27.7	7.18%
1987	7,155.4	1.31%	551.0	7.70%	1,408.1	19.68%	371.1	2,229.3	467.3	25.9	(20.70%)
1986	7,062.7	(0.67%)	541.7	7.67%	1,439.2	20.38%	291.1	2,707.5	340.8	32.6	178.26%
1985	7,110.4	5.09%	361.4	5.08%	1,425.5	20.05%	150.7	821.3	0.0	11.7	20.68%
1984	6,766.0	11.97%	204.7	3.03%	1,222.4	18.07%	(344.6)	552.1	0.0	9.7	8.97%
1983	6,042.7	14.67%	-	-	633.4	10.48%	(326.9)	506.7	0.1	8.9	28.89%
1982	5,269.7	10.31%	-	-	179.3	3.40%	(634.5)	393.1	-	6.9	(18.56%)
1981	4,777.3	1.23%	-	-	543.6	11.38%	(54.9)	482.7	-	8.5	-

Source: Thomson One, accessed August 2015.

**Exhibit 8** Jobs Created by Michelin Development Company's Activities, 1990-2014 in Europe

	German y	Spain	Franc e	Hungar y	Italy	Polan d	Romani a	Russi a	UK	Total
1990			30							30
1991			479							479
1992			925							925
1993			293							293
1994			794							794
1995			830							830
1996			807							807
1997			624							624
1998			1260							1260
1999			867							867
2000			827							827
2001			1115							1115
2002			898							898
2003	0	0	712	0	0	0	0	0	84	796
2004	80	543	645	0	0	11	0	28	178	1485
2005	101	358	639	32	191	44	0	0	247	1612
2006	155	183	394	20	174	76	0	0	280	1282
2007	172	318	782	17	180	51	32	0	307	1859
2008	90	256	1132	8	205	46	35	0	247	2019
2009	124	238	1117	13	223	26	0	0	513	2254
2010	77	175	1518	0	171	0	0	0	201	2142
2011	74	252	1186	11	174	0	0	0	153	1850
2012	0	177	1109	0	150	0	0	0	159	1595
2013	0	274	1077	0	167	0	0	0	129	1647
2014	0	263	1077	0	174	0	0	0	115	1629
<b>Total</b>	<b>873</b>	<b>3037</b>	<b>21137</b>	<b>101</b>	<b>1809</b>	<b>254</b>	<b>67</b>	<b>28</b>	<b>2613</b>	<b>29919</b>

Source: Michelin internal data.

**Exhibit 9** Key Performance Indicators of Budapest Factory, 2009–2014

KPI	Dimension	Results					
		2009	2010	2011	2012	2013	2014
Michelin Environmental Footprint (MEF)	--	28.8	31.01	26.5	24.31	20.28	20.2
International Productivity Indicator (IPI)	HC/t	5.34	4.5	4.33	4.24	3.85	4.37
Electrical Energy Consumption	MWh/T	0.488	0.423	0.403	0.385	0.353	0.41
Terminal Energy Conserved	MWh/T						
Scrap Level	%	1.328	1.523	1.266	1.09	1.12	1.26
Production	T	17,414	23,648	29,889	25,651	28,833	20,142

Source: Michelin Internal Records

Note: MEF - Includes energy consumption, COV, CO2 and Emissions; Scrap Level - Kg of good tires produce/kg of scrap

**Exhibit 10** Press Release for Budapest Factory Closure

**PRESS RELEASE**  
**Clermont-Ferrand — May 6, 2014**

**Michelin Plans to Reconfigure Production Base in Hungary**

***Michelin announced today a project to close its truck tire plant in Budapest, Hungary.***

In response to the adverse trends and aggressive competition in the European truck tire market, which remains volatile and 23% down on its historic peak in 2007, Michelin has announced its intention to close its truck tire production plant in Budapest. The decision reflects the fact that extending the facility is no longer possible, due to its location in an urban setting, and that improving its competitiveness would require excessive upgrading with new equipment.

The plant's production of tires sold under the Taurus, Riken and Kormoran brands would be terminated in mid-2015. As part of the information and consultation process, Michelin's priority will be to offer individual support measures to each of the 512 concerned employees.

Michelin will also meet with local authorities to discuss possibilities of reconverting the site in accordance with their urban development projects and intends to help develop business activities likely to create jobs in the region.

The Budapest plant's production will be mainly reallocated to the Michelin facilities in Olsztyn, Poland; Zalau, Romania; and Karlsruhe and Homburg, Germany.

***Michelin will retain a presence in Hungary with its facilities in Nyíregyháza, Vác and Tuzsér***

Michelin maintains a strong presence in Hungary and will continue to produce very high performance car tires at its Nyíregyháza plant, which is playing a major role in Europe in this segment. Michelin is also maintaining the operations of its logistics center in Vác, which serves countries in Central and Southern Europe, and its strategic raw materials marketing unit in Tuzsér.

In addition, Michelin will continue to manage its entry-level car tire operations from Budapest, while maintaining all of its Hungarian sales operations.

***Accounting impact***

To finance the project, Michelin will book a €39 million provision for non-recurring expenses in its first-half 2014 accounts.

Source: Michelin Internal Records

## **Exhibit 11** Plenary Speech of Budapest Factory Closure Announcement

**Delivered by: Eric Faidy, Director of Central and Southern Europe**

Bonjour à toutes et à tous. Je vous remercie de vous être rassemblés ce matin. Je souhaite partager avec vous une information grave et importante.

Vous savez tous que la ligne produit Poids Lourd souffre énormément depuis le début de la crise en 2007. Elle manque de croissance et de profitabilité en Europe. Les marchés européens ont chuté de 23% entre 2007 et 2013. Ces marchés n'ont pas retrouvé un niveau de croissance significatif. L'industrie des transports en Europe reste en dessous de son niveau d'activité de 2005.

Il existe aujourd'hui en Europe une surcapacité structurelle. Elle ne peut pas être maintenue durablement. Ceci conduit le Groupe à concentrer sa production. Michelin doit renforcer sa compétitivité pour regagner des parts de marché et donc de la croissance en Europe.

Pour répondre à cette situation très difficile, le Groupe a l'intention de cesser la production de notre usine de NEO. La production s'arrêterait dans une année à mi-2015. Dans une année.

Notre usine est en centre-ville, elle est relativement petite et sa technologie ne peut être modernisée rentablement. Tous les efforts et tous les progrès –nombreux- qui ont été réalisés par l'usine au sein du Groupe Michelin sont connus et reconnus de tous. Malgré cela, le site ne peut pas être développé plus avant

Nous commencerons dès aujourd'hui, juste après cette réunion, un premier échange d'information avec le comité d'entreprise et avec les syndicats. Nous débiterons les consultations officielles selon le calendrier réglementaire. Le Groupe souhaite conduire ce changement en partenariat étroit avec les partenaires sociaux et dans la transparence avec notre environnement externe.

Au nom de l'entreprise, de la direction de la Région ECS et de votre équipe de direction de Budapest, je veux souligner que chacun de vous recevra un support important de l'entreprise. Chacun d'entre vous sera contacté individuellement par le Service du Personnel de façon à discuter de votre cas individuel et des possibilités futures. Vous serez tenu informé régulièrement de l'avancement des consultations avec les partenaires sociaux. Nous avons une année pour rechercher et pour trouver la meilleure solution pour chacun d'entre vous.

Good morning, everyone. Thank you for coming together here this morning. I would like to share some important and serious information with you. As you all know, the truck tire product line has been suffering greatly since the beginning of the crisis in 2007. There has been a lack of growth and of profitability in Europe. European markets have fallen by 23% between 2007 and 2013. These markets have not returned to a significant level of growth. The transport industry in Europe remains below its 2005 level of activity.

Today there is a structural overcapacity in Europe. It cannot be maintained permanently. This led the Group to re-focus its production. Michelin needs to enhance its competitiveness to regain market share and thus its growth in Europe.

To address this very difficult situation, the Group intends to cease production in our factory. The production would stop in mid-2015. In one year.

Our factory is in the city center, it is relatively small and its technology can't be upgraded cost-effectively. All the effort and all the progress - numerous - that have been made by the factory are known and recognized by all within the Michelin Group. Despite this, the site cannot be further developed.

We will begin today, right after this meeting, with a first exchange of information with the Works Council and with the unions. We will begin formal consultations under the regulatory schedule. The Group wishes to lead this change in close partnership with the social partners and the transparency with our external environment.

On behalf of the company, the management team of the ECS Region and your team for Budapest, I want to emphasize that each of you will receive significant support from the company. Each of you will be contacted individually by the Service Personnel in order to discuss your individual case and future possibilities. You will be kept informed regularly on the progress of consultations with the social partners. We have one year to seek and to find the best solution for each and every one of you.

**Delivered by: Ervin Sereghy, Plant Director**

We continue working and all the regulations regarding work safety and product quality are valid – this is very important. Until this factory will be continuing production, there will be passengers riding on our tyres. This is a professional responsibility that we cannot give up!

Right now, you will have meetings in small teams where you will receive all important details on how we will organize ourselves in the coming days and in the next period. Your participation is key to be well-informed and to put all the questions that you have at the moment.

Source: Michelin Internal Document.

Note: Original speech written in French with Hungarian translation; English translation by authors

**Exhibit 12** Michelin’s Natural Rubber Purchasing Policy

In the area of rubber, the Michelin Group seeks to increase material efficiency. The design of new products (lighter, more durable), the choice of manufacturing processes which are more economic in raw materials, the increased durability of the tires through retreading and regrooving, and the treatment of tires at the end of their life (reuse, recycling) enable an increase in the number of kilometers driven per ton of raw material used. This pragmatic and responsible approach to the use of natural materials is at the heart of the sustainable development strategy of the Michelin Group.

In the area of natural rubber, the Michelin Group insists on the responsible and sustainable management of the natural rubber industry. As a producer and processor of natural rubber, it respects and undertakes to promote the five commitments listed below.

<p>Respecting People</p>	<p><b>Encourage the resolution of conflicts related to land ownership</b>                  Apart from respecting any applicable law, the Michelin Group recognizes the importance of identifying the possible existence of legitimate land use rights and derived rights linked to local communities or populations, which might have an influence on land use. The Michelin Group undertakes not to contribute voluntarily, directly or indirectly, to actions which might lead to the illegitimate appropriation of land to the detriment of local communities or populations. It will in particular ensure the free, prior, and informed consent of local communities or populations likely to be affected by its activities, and particularly when plantations are created or transformed.</p> <p><b>Improve working conditions and living conditions</b>                  The Michelin Group aims to promote the best social practices. It makes certain that it complies with international norms and standards intended to safeguard the health and safety of employees and their families, facilitate local access to employment, promote decent working conditions, ban child labor and all forms of forced labor, guarantee the right of association and the right to join a union, provide for decent accommodation conditions and foster satisfactory conditions of mobility - and ensures that its suppliers do likewise. Finally, it encourages the development of the local communities or populations.</p>
<p>Protecting the Environment</p>	<p><b>Combat deforestation</b>                  Attaching importance to the protection of primary forests and of zones of high environmental value likely to be endangered by the expansion of rubber plantations, the Michelin Group actively supports a policy of responsible land management. Within its means and the possibilities available through the organization of the natural rubber industry, the Michelin Group does all it can to ensure that the natural rubber which it produces or purchases originates exclusively from plantations which respect the principle of 'zero deforestation'.</p> <p><b>Control the potential impact of rubber growing activities on the local fauna, flora and environment</b>                  The Michelin Group does its utmost to ensure that its activities linked to the growing and processing of natural rubber do not have a negative impact on the fauna, flora, biodiversity, and more generally, on the environment of the affected territory. It seeks to agree with local and international stakeholders on the best land and territory use plans, bearing in mind the economic, social and environmental needs of the local communities concerned. The Michelin Group is especially vigilant in ensuring the conservation of surface and underground water, the preservation of peatlands, the responsible treatment of waste products, the careful use of chemical inputs and the reduction of offensive odors.</p>
<p>Improving Agricultural Practices</p>	<p><b>Promote the best agricultural practices</b>                  The Michelin Group actively promotes and supports the dissemination of best farming practices, which enable the grower to reduce production costs, improve working conditions and increase income in the long term. The Michelin Group encourages the transfer of technologies, mainly to benefit the local industry stakeholders. It actively promotes the best agricultural practices to its suppliers, professional organizations, local cooperatives or planters' groups.</p>

	<p><b>Take action to increase agricultural yields</b>                  The Michelin Group takes initiatives to support the increase of yields per hectare, as it is an essential tool in the fight against deforestation and hunger; it enables, to a certain extent, the increase in global demand for natural rubber to be met without an increase in cultivated land area, thus reducing the pressure for plantation land on the forest zones or food crop cultivations.</p>
<p>Careful Use of Natural Resources</p>	<p><b>Increasing the material efficiency of natural rubber</b>                  In order to satisfy the growing demand for tires without excessive expansion of farmland devoted to rubber plantations, the Michelin Group undertakes to pursue research efforts with a view to increasing the material efficiency of rubber, so reducing the quantity of natural rubber used per thousand kilometers driven.</p>
<p>Good Governance</p>	<p><b>Fight corruption</b>                  In the area of natural rubber, as in all other areas, the Michelin Group refuses all forms of corruption whether active or passive.</p> <p><b>Conduct dialogue with the stakeholders</b>                  The local and international stakeholders are regularly consulted as a contribution to the development of a sustainable natural rubber industry.</p> <p><b>Act transparently</b>                  The commitments made within the framework of the present Sustainable Natural Rubber initiative are the subject of an annual written evaluation. A summary report is published on the Michelin Group website.</p>

Source: Michelin Purchasing Principles: Natural Rubber Procurement Policy, Michelin internal document, Group Purchasing Department, March 2015.



## Endnotes

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