

## Securing the benefits of globalisation • Part III, Chapter 2

Conducted  
by

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Strategic  
conversation  
with

**Claude Brunet**

*Member of the Managing Board, AXA*

# Achieving efficiency and productivity within a network of companies

**In less than 20 years, a small French insurance company, Mutuelles Unies Drouot, has transformed itself into AXA, one of the world's leading financial protection institutions. How do you explain this rapid success? How has AXA negotiated the balance between external and internal growth?**

**Claude Brunet:** Two decades ago, our leader, Claude Bébéar, wanted to transform AXA into the biggest insurance company, first in France, then in Europe and later in the US. To achieve these aims, he correctly decided to focus on external growth and the name of the game became *acquisitions*. Thanks to Bébéar's fantastic flair, AXA has profited from a spiralling model of growth, consistently executing the best opportunities.

**Insurance is a highly regulated activity worldwide and regulatory constraints are different from one country to another. Is this a key factor AXA had to take into account in conducting its acquisition strategy? More specifically, do regulations prevent a company like AXA from executing a truly global strategy?**

**CB:** Regulation is far from being the main impediment to our global strategy,

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in general, and to acquisitions, in particular. In fact, I cannot remember any instance in which a regulatory restriction halted one of our acquisition attempts. The primary impediment to merger and acquisition opportunities has been resistance either from shareholders – we have had difficult cases in which shareholders prolonged an acquisitory bid as they waited for a ‘white knight’ to step in and offer a higher price for their company – or from management, directly. Indeed, it is never pleasant to be acquired when you think you can make it alone. However, I should point out that none of our takeovers has ever been hostile.

Regulation only becomes a defining factor when it restricts our ability to get control over companies. This is precisely the case in India, for example, where no foreign entity can own more than 26% of an insurance company’s shares, thus denying external control of such a firm and preventing us from entering the market. At the same time, regulations exist to evolve and as such, decisions on our behalf have to be taken on a long-term, not a short-term, basis. So, we conform to regulations but they will not impede our business strategy outright. However, if we are not in a market and prevailing regulations inhibit the possibility of sufficient margins, we will not privilege this market. In brief, we set our sights on the long-term potential of a market, and regulation simply is not a primary determinant in this analysis.

### **AXA Financial, your subsidiary in the US, acquired Mony in 2004. What type of resistance did you encounter in this endeavour?**

**CB:** With respect to Mony, it was the resistance of a few shareholders – in practice, a few hedge funds – that delayed the takeover, not that of regulation or management. In fact, AXA and Mony’s boards have cooperated excellently and our discussions have been truly beneficial. The offer was transparent from the outset and there was a clear understanding from Mony’s management – and also from most of the shareholders – that they could not stand alone. They knew they had a strategic problem with attaining profitability and they had already discussed this shortcoming with many US companies.

### **What types of benefits or synergies can AXA expect from this acquisition?**

**CB:** The first benefit we anticipate is to rapidly gain distribution capacity. Thus, Mony will allow AXA to increase its distribution capacity in the US by 25%, while it would have taken five years to reach the same result through organic

growth. Mony also has precious knowledge of US products and we are eager to profit from this insight, and vice-versa.

Last but not least, we also expect synergies in the back-office. AXA Financial is bigger than Mony, but our two business models are remarkably complementary. Mony is a company that broke-even for the last few years, so economies of synergy will not be tremendous, but we think that the combination of the two companies will allow them to raise efficiency and to build value in the long-term. Moreover, we feel that AXA Financial possesses the strong management capabilities that are needed for this type of acquisition to be successful.

**Do you anticipate further acquisitions in the near future? If so, which particular regions of the world does AXA favour?**

**CB:** We are always looking for true opportunities. However, we must remain selective as we don't have unlimited capital.

In Europe, the US, Japan and Asia Pacific, the question is whether we do or do not have a strong operating team. In essence, we invest where our current operations are particularly capable so that we can begin extracting value out of our acquisition quickly. If an acquisition opportunity exists in a strategic market where AXA's management is not strong enough, we may not proceed with the transaction. This does not mean that our management is bad; it may be that the management is working to turn around the situation or that the environment is difficult. For instance, in Germany and in the UK, we first need to consolidate our operations so as to be in a good position for future acquisitions. If an opportunity comes, we will consider it, but it is unlikely that we will pursue it before such internal improvements are realised. In the US, France, Belgium, the Mediterranean region, Australia and Spain, we already have sufficiently strong operations and could begin draw advantages immediately from new acquisitions.

However, the issue is different in other parts of the world. We will continue to grow in the Chinese market or we may enter India, but in both cases, it is going to be via small investments.

In sum, we invest in countries where we have either strong operations and sound management presently, or where we believe the market could develop to such a point as to become a strategic asset in the future.

**Your cautious approach to China, a market very high on the agenda of most global companies, may appear surprising as AXA has been the first**

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### **European insurance company to receive a license from Chinese authorities to provide life insurance there through a joint venture, AXA Minmetals. How do you foresee AXA's development in China in the forthcoming years?**

**CB:** Our Chinese operations are still very small, with revenues amounting to 12 million Euros versus our aggregate Group revenues of 75 billion Euros. Indeed, we only have licences for life insurance and investment products in two cities. Being so small in such a huge market is not an easy position. Yet, China is an extremely important long-term market for us strategically, so we have decided to enter. To be sure, we expect to obtain more licences in the next few months, or years, so our business will grow. However, our entry has been slow despite the fact that Hong Kong can now be used as a short-cut for some activities: people who live in China may cross the border and buy insurance contracts from Hong Kong, which is new.

China is a perfect example of strategic willingness: we want to be present in the market, so we have to conform to the regulatory environment. As you mentioned, we have a local affiliate – this is compulsory in China – and we share a 50%-50% partnership with them. Thus, because Minmetals is not in the insurance business, we control the operations and this is essential to delivering the results.

In China, we are presently trying to design a business blueprint that we will be able to duplicate as soon as we get more licences: as yet, we still need to establish the right structure and distribution channels, not to mention the appropriate commercial and marketing approaches. When in place, we hope to graft this business strategy onto a place like India later on.

### **AXA has grown rapidly in South East Asia and Japan, and you mentioned them as two of your global acquisitory priorities. What is your strategy in terms of geographic diversification? What type of balance between emerging and mature markets are you looking for in this part of the world?**

**CB:** Japan is our main focus in Asia as it is one of the biggest insurance markets in the world. So, we entered the market in 1999 when we bought a controlling interest in Nichidan, the thirtieth largest Japanese life insurance company. At the time of our acquisition it was almost bankrupt and we are still working to turn it around. Indeed, like many other insurance companies, we still have difficulties in Japan but this is no reason for us to give up. We are committed to a long-term engagement and in the future I believe we will continue to grow in Japan. Since our acquisition, the Nikkei declined from 40,000 to 10,000 and the value of Nichidan has nearly been halved. So, one could

argue this acquisition was not judicious. However, nobody can predict how markets will evolve, otherwise all acquisitions would be executed at the optimal points in time. In sum, the Japanese market is a strategic one for us and this acquisition has a twenty-year horizon. One day the market will rebound, but we simply don't know if this will occur over the course of the next year, or perhaps in a decade. The new management of AXA Japan has been very active turning around the operational performance of Japan despite those difficult market conditions.

Similarly, in South-East Asia, we have not grown dramatically due to the financial market crisis of 1998, and our investments, as the ones of our competitors, have weakened since then. However, it is a very promising market for us and we intend to accelerate the rate of our investments there in the future.

You see, our business is where the wealth is and the market's maturity is essential. In pre-market economies, people are not yet utilizing the investment products that are now commonplace in Europe, the Far East and the US. Consider South America. We have decided to exit these markets because we could not reach critical mass. It allows us to concentrate our efforts and resources in our key markets.

The rationale is different in China: we have decided to invest there because we think an early entrance is essential if we are to profit when the market matures. The same reasoning may also apply to India due to the size of the population.

#### **How global is AXA's strategy?**

**CB:** I don't know whether our objective is to become a truly 'global' company; one must be very careful when using such a catchword. Rather, I would say that our strategy is multi-national because we are highly selective in approaching the market's diverse geographic sectors. In this respect, we know where we want to be and what businesses we are interested in deploying, and we certainly don't want a presence everywhere. Thus, our vision is clear: we don't seek to be a patchwork of independent companies but a network of companies that mutually endow value upon one another. Whether I would call AXA a 'global' company is another question.

#### **Don't you think that frequent acquisitions prevent AXA from departing from the patchwork situation?**

**CB:** Not necessarily. The fact that we have established an organised network of companies makes it substantially easier for us to absorb the full potential of

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a new acquisition early on. Of course, if we bought a company tomorrow equal to our size, this situation could be entirely different.

During our rapid phase of growth in the past, the problem was different. Today, as AXA is already one of the world's biggest insurers, our merger and acquisition policy will less likely be transformational given our current size. At this stage, our acquisitions only serve to strengthen our structure.

### **What are the three top challenges facing AXA as it unrolls its international strategy?**

**CB:** The most important challenge is to clearly define the name of the game. For three years now, we have started calling our business 'financial protection,' thus phasing out the divide between 'insurance' and 'financial services.' I think this is a term that AXA coined and we have to continually attach meaning to it. It is not just that we want to differentiate ourselves from the competition, but that we think our business is more than insurance and banking, independently. Ideally, it is something hybrid, more dynamic.

The second challenge is to strengthen our platforms. After so many mergers and acquisitions over the last 20 years, AXA has developed tremendously and we must now strive to be a consistent, powerful and independent company, encompassing both operational and efficient processes.

Lastly, AXA must continue the acquisition track. We are already one of the biggest insurance companies in the world, but we do not yet reach the 10% global market-share that is commonplace in other industries. So, there is still room to grow and we'll need to pursue this objective very aggressively.

### **Let us now focus on the second challenge you just mentioned: operational excellence. You are in charge of transversal operations and projects, and you recently re-organised these operations under different units: AXA Technology Services (AXATech), AXA Group Solutions. What is the role of these units in achieving operational performance? What type of balance between centralisation and local initiatives is pursued? Are there key elements to making sure that AXA is a network rather than a patchwork of companies?**

**CB:** Claude Bébéar's vision was that of a decentralised company. Under his leadership, all activities and decisions were decentralised, except a few such as capital management, consolidation, branding and top executive management. This remains AXA's underlying concept.

However, the group has now reached such a scale that new opportunities to

leverage the size of the Group could be pursued while keeping our decentralised vision alive. In this vein, services can be provided to all the companies within the Group more efficiently than in a purely decentralised manner. So, AXA Investment Managers and Alliance Capital Management, separate entities within the AXA Group, are taking care of asset management for the whole group. This is also the case for AXA Corporate Solutions, a core business unit of AXA that is handling industrial risk insurance for the Group. AXA Tech is a further example: they provide IT infrastructure to most of the companies in the Group. Thus, in certain arenas we have decided to have one company that works as a shared service for the others and all these units allow AXA to act as a network of organisations, finding ways to use the Group's leverage while maintaining a decentralised environment.

**AXA has now created a new entity, Group Procurement, whose aim is to optimise IT, telecom and insurance-related expenditures, and general expenses. Are benefits expected to be limited to cost cutting or are they broader, perhaps encompassing transparency, efficient management and so on?**

**CB:** Obviously, Group Procurement can generate savings because negotiating purchases with one company globally versus having upwards of 50 suppliers does impact the price we incur. As of April 2002, we had no procurement organisation so we decided to create one while maintaining a decentralised spirit. Our new procurement board includes the top procurement people in each of our companies worldwide who jointly collaborate with the global procurement officers from the Group's Board. Acting together, they then decide on which type of products we are interested in pursuing and at which level – global, regional or local. This means that decisions are not imposed top down: everybody is part of the decision process on a global level. AXA Group Procurement also aims at creating internal transparency so that everybody knows what the others have done and can assess the local efficiency of global decisions.

As AXA's focus on improving productivity and efficiency is not limited to procurement processes, the same governance procedure is implemented across many other aspects of our business. For example, we have looked at all our premises – buildings and so on – and have tried to identify certain common measurement criteria. Some basic issues include measuring the number of square meters per employee, the cost per square meter for each AXA subsidiary in the world and assessing how these figures compare to local bench-

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marks. Having a procurement organisation helps provide data and analytical tools to local entities for them to optimise their production costs. In so doing, this also enables a continuous process improvement.

Taking premises as an example, a country may be excellent in terms of cost per square meter but may still have considerable amounts of underutilised space. What we hope is that such procurement policies can give each entity the ability to learn, and to profit from, the experience of others more familiar with particular facets of the business. Thus, it has to be a sort of win-win approach: the scope of the common analysis should allow us to identify the best practices in every operation and hence to develop a constant feedback loop of dialogue from one division, or employee, to the next.

In a decentralised system, decision makers are entrepreneurs: they interpret the data we provide them, and select the most relevant criteria, focusing on the bottom-line – management's basis for judgement. Conversely, centralisation would shift power from the local level to the benefit of the global one. If the job is less interesting locally, this may diminish the entrepreneurial spirit upon which our business model so heavily relies. We therefore have to be very cautious about using the Group's leverage without killing this entrepreneurial spirit, and also to ensure that each time we do something, our employees recognise the inherent value in it for them.

### **What type of indicators do you use?**

**CB:** We have defined nine key performance indicators (KPIs) that are recognised as important at the Group level. Among them, you find a customer and employee satisfaction combined ratio: this is an indicator on which one can only agree and we are measuring each of the entities within the Group. At the same time we have KPIs that are driven by what we call 'specific professional families:' procurement, IT, HR and finance people. So, continuing with the procurement example, members of the Procurement Group confer with each other about the relevant KPIs. Finally, we also have KPIs that are used locally for specific reasons and these we don't try to benchmark with other companies. Again, we strive to maintain a healthy balance between what we measure on a global and local basis, continually seeking to adapt to the local environment. Our products, distribution channels, customers and regulatory conditions are different by region and we have to accept these variations.



Lucio Loubet

9<sup>ème</sup> série de la Métamorphose n° 1  
(116 x 81 cm)

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**As part of its vast expense-reduction program undertaken after 9/11, AXA has created AXA Business Services in India. What is the scope of this off-shore operation? AXA UK was the first AXA company with off-shore operations in Bangalore. Do you plan to off-shore back-office activities from other countries?**

**CB:** Firstly, of the 1.2 billion Euros in cost reduction we have witnessed, off-shoring accounts for 40 or 50 million Euros, no more. So, we have reduced costs by improving productivity and efficiency company-wide, not merely by off-shoring back-office activities.

However, we do possess an off-shore operation. Or, to be more precise, AXA has a subsidiary in India that it acquired when it bought Guardian Royal Exchange, a UK company, in 1999. At that juncture, it was a 30-person operation but it has been growing since and allows us to increase our competitiveness. At the moment we have around 1,300 employed there and this figure may double over the next three years.

You may know that the UK market is highly competitive, and its regulatory environment very adverse. So, we use off-shoring as one way to increase the competitiveness of our UK operations. Some Australian and Japanese back-office operations are similarly off-shored to India. In total, we see this as one potential manner to boost our competitiveness in the long run, but we are playing it cautiously.

**AXA's values are frequently mentioned as one of the key elements of its success? What do you consider to be AXA's 'core values' and how do you intend to grow and sustain these at the global level?**

**CB:** First, let me underline that we have to be very cautious when mentioning 'values:' the best presentation of 'values' I have ever read was in Enron Annual Report! So, the key question is whether these values are believed, or not, to exist within the company. In the case of AXA, a few key people, particularly Claude Bébéar and Françoise Colloc'h, made sure that certain values permeate the company. We sum them up in five words: innovation, team spirit, pragmatism, integrity and professionalism.

Our approach is identical for sustainable development: we prefer to show what we are doing rather than what we would like people to think we are doing. Thus, AXA is very in touch with reality and one of our primary KPIs is our employee index: annually, we measure our employees' satisfaction and the way they perceive AXA's pursuit of its values worldwide.

**You mentioned sustainable development. Is AXA pushing actively in that direction? Would you say it is part of the company's mission?**

**CB:** *AXA Atout Cœur*<sup>1</sup> was created 15 years ago as a firm-wide initiative to encourage staff members to devote time and skills to charities and social work of their choice. When I was still with Ford, we looked at how to improve our performance in terms of 'corporate citizenship' – we did not call it 'sustainable development' at that time – and I realised that some of the most impressive initiatives in France at that time had been executed by AXA. Every year, approximately 20,000 people worldwide are involved in *AXA Atout Cœur* activities and it is now part of people's habitual lives. We are still trying to push this initiative, which predates the formal emergence of sustainable development.

Our present goal is to categorise our ongoing initiatives and to embark upon a few new ones. For instance, we have recently decided to begin assessing the precise environmental impact of our various sites in France: electricity and water consumption, transportation means used by employees, etc. This then gives comparative tools to all our employees and allows upper management to come to terms with potential deficiencies at diverse local levels. Our next step is then to turn to social rating agencies to assess how we rank versus other companies. This approach may not appear that fancy but it is important because it belongs to the people.

**How difficult is aligning different parts of your organisation? Do corporate values play any role in such an alignment?**

**CB:** Alignment without a focused agenda is valueless. It needs to bring value and to strengthen the bottom-line. Let me return to my previous comparison between network and patchwork. Network means something stronger than patchwork and to make a network happen, you need several elements. First you need trust. With regard to procurement, for instance, people locally need to trust that central management will create value locally. AXA must not betray this and we are very vigilant in this arena. All changes, unless mandatory for reasons that will be obvious to all, must create value both locally and centrally, and this is an essential element of credibility.

As you know, I come from an industrial environment and remain convinced that unless we measure, we don't know where we stand. So, one of AXA's

1. See Albert BRESSAND & Catherine DISTLER, *Enhanced Transparency* (Paris : PROMETHEE, 2003), p.26.

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main tasks is to build pertinent measurement systems with our employees to provide them a clearer picture of their competitiveness and performance. Employees may feel uncomfortable with this but it is not confrontational as we choose this measurement system together and everybody realises how significant this is to the development of the company in *real*, not theoretical, terms.

As I mentioned earlier, we are trying to bring real meaning to the agendas we advocate. Team spirit means a lot of things! If we want to improve, we have to both measure and face reality, and this means not ignoring the thermometer when the temperature is hot. These are very simple concepts and it always comes back to trust. You need to create an environment in which employees don't feel overly judged and then you need to put these managerial tools to use to assess where they stand and to expediently resolve their problems.

### **How does AXA ensure brand consistency?**

**CB:** Considerable progress has been made in the last five to seven years to establish convergence towards a unique brand. A good example exists in Belgium where we maintain both AXA Belgium and AXA Royal Belge. Initially, Royal Belge awareness was 95% and AXA awareness was 20%, but upon changing the name to AXA Royal Belge approximately three years ago, the AXA name now has a brand awareness of 90%. The situation was similar in Japan where Nichidan is now AXA Japan. In the US, the circumstance is different and although AXA Financial has been the name there for nearly five years, our customers remain more familiar with Equitable than with AXA Financial, despite the fact that we acquired Equitable in 1992 and no advertisements have promoted this brand since that time. Presently, then, awareness of Equitable is still at 70% while AXA is below 20% and in September 2004 we have changed the name to AXA Equitable in anticipation of profiting from the same turn-around exhibited in Belgium and Japan. In total, we are therefore highly focused on name convergence.

To return to your question, major efforts at addressing brand consistency have been enacted over the previous two to three years but we are still at an early stage. To further enhance this means to design a common charter. Thus, upon identifying a clearer brand positioning, all future advertisements will be tested against this before being aired. Nevertheless, you must realise that however significant advertising is for AXA – and it is substantial, accounting for about 25% of the company's perception – the rest of our image is rooted in behaviour; that is, the concrete services we provide our customers. So in the end,

we need to work with our customers to ensure that the services match the brand strategy we envision.

**Insurance is a retail business and you have some 50 million customers worldwide. If advertising represents 25% of the brand and 75% is individual experience, how do you plan to align the attitude of your employees to deliver a unique and coherent perception?**

**CB:** What we have defined is, in fact, what we must ideally achieve if we are to be successful over the next decades. In this respect, people must recognise AXA as capable of providing leading expertise in insurance solutions and simultaneously managing close relationships with its customers. This means that each time I, as a customer, contact AXA, I am sure to get the right answer in an expedient and efficient manner. This, of course, is the fundamental task of all our employees globally.

The more complex question is how to deliver consistent service from one locality to the next; indeed, the care and attention one anticipates in the West may greatly diverge from similar expectations in Asia. And, again, our brand will be influenced not merely by advertising, but principally via the behaviour of the employees. In this respect, every employee is an ambassador of AXA's brand. Thus, it is the behaviour of our employees on a global scale – in terms of distribution, in the shops, over the telephone, etc. – that will secure our prominence in the years to come and we feel that however they may diverge in execution, the fundamental tenets of these services will remain highly congruent from Japan, through France and into the US.

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Lucio Loubet

8<sup>ème</sup> série de la Métamorphose n° 61  
(162 x 130 cm)