

FINANCIAL REVIEW

BOSS

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*Alesco's CEO Justin Ryan,
photographed by Rob Homer*



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STORY MICHAEL SMITH // PHOTOGRAPHY ROB HOMER

Keeping it real

FORMER PRIVATE EQUITY DEAL-MAKER JUSTIN RYAN'S MOVE INTO RUNNING A COMPANY PUT HIM BACK IN TOUCH WITH WHAT MATTERS

JUSTIN RYAN was only a month into his new job when he got the news no chief executive wants to hear. A worker had been killed in an industrial accident at one of his company's production sites. The tragedy was more than a shock for the chief executive of industrial brands group Alesco: Ryan thought his years as a private equity deal-maker had prepared him for any challenge the corporate world could throw at him.

Recalling the days after the event as the most confronting of his life, Ryan came back down to earth with a thud as he dealt with the human side of running a business. Safety quickly moved straight to the top of his agenda.

"It was a hell of a personal journey for me," the 42-year-old told *AFR BOSS* during an interview at Alesco's modest head office in central Sydney. "It is as far away as you can get from being the guy who writes a cheque and sits on a board, to going to a funeral and meeting the wife and children

of someone who has been killed in an industrial accident." A second fatality at Alesco only months later reinforced Ryan's resolution to fix the problem (see box page 20).

"It is very intense and very personal in this sort of role," he says. "When a fatality is involved it transcends that balance between work and personal life. This is someone on the front line somewhere. They get paid a modest salary and they live a life that is nowhere as privileged as the life I lead, yet they are the ones who in this case have paid the ultimate price. It is just not acceptable."

Alesco is an industrial brands manager that distributes everything from garage doors to kitchen sinks. It manufactures some itself and imports others. Revenues last year were \$738 million and it has more than 3500 staff.

It was a tough lesson for the former lawyer turned banker behind some of Australia's biggest private equity deals. The

■ *Staying grounded:*
Justin Ryan



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move to Alesco was Ryan's second career change. He started out as a lawyer with Allen & Allen in Australia and later moved to well-known New York law firm Davis Polk & Wardwell, where he started working with merchant banking funds, the forerunners of private equity. After seven years, he decided to ditch law for the corporate world and went to business school in the US.

"I had always been a more commercial kind of guy," he says. "I was not the kind of fellow who liked going home on the weekend and reading cases. At school no one ever said 'why don't you end up running a company?' It was more like, 'you

should become a doctor or a lawyer'." Returning to Australia, Ryan entered the world of private equity when it was still in its infancy. In 1995 there was only a handful of private equity firms in Australia and he signed up with one of them – Catalyst.

His first deal, in 1997, was the buyout of furniture removalist Wridgways, which he chaired until its sale in 1999. However the pinnacle came in 2001 when Catalyst bought the underwear group Pacific Brands and Just Jeans (now listed as Just Group), and started the Taverner Hotel Group, now owned by Woolworths.

"That was what you would call in the private equity world a fabulous vintage year," he says. "They were good times."

The good times were certainly rolling, with the buyout boom just warming up to last year's peak – which makes Ryan's decision to get out even more startling.

Ryan is remarkably open about his transition from the "shallow" world of private equity to one where he could get back in touch with the "real" people – the thousands of employees who work on the factory floor, far removed from the trappings of corporate life. These days he is more likely to spend a day on the road with a garage door salesman than in a Sydney boardroom negotiating the next big deal.

Ryan describes its environment as "a much nicer place to be" than where he was formerly.

"In private equity you are in a very privileged and unique group of people," says Ryan. "Because you are surrounded by Masters of the Universe, you don't appreciate how lucky you are to be doing what you are doing. You look at some of the guys [in

PLAYING IT SAFE PAYS OFF

TWO WORKPLACE fatalities in the space of a few months were a wake-up call for Alesco in 2006, prompting an overhaul of its safety policies.

The company now aims to be injury free, and has introduced a system of risk assessment, hazard certification and housekeeping changes across all its businesses to keep its 3500 staff out of danger. Alesco chief Justin Ryan says the idea is to introduce a culture of safety across the group, so it is at the top of the agenda for managers and staff.

Alesco has been introducing a range of new processes to engage people around the issue. Each February it holds an annual group-wide safety day to give staff time to reflect on safety and how it can be improved.

The board has established a Safety, Health and Environment Committee to ensure standards are met, and to monitor the impacts the company's practices were having on staff, contractors and customers.

All major worksites at Alesco undertook a systems audit and new training programs. Senior executives travel around the country regularly to

discuss safety with staff and are expected to get personally involved if there is a safety incident.

The company also sought external help. Last year it brought in US safety consultant Aubrey Daniels. A psychologist and author with some 40 years experience, Daniels works with business leaders to develop management strategies that reinforce preferred behaviours.

Liz Nicol from the consultancy SafetyWorks group, who has presented to the Alesco board, favours a system based on positive reinforcement (see box page 22). It starts with getting employees to observe each other (or themselves) at work. Feedback is then given, followed by appropriate one-on-one coaching to reinforce safe procedures. The approach evolved from the work of the late Alex Jankiewicz in 1989 with companies such as Alcoa and Dow in Australia.

Nicols and her colleagues have also worked with Alesco's senior management group on identifying what safety behaviours are critical and "how you take that down through the organisation to affect the frontline behaviours".

Ryan has since given several emotive talks to

senior management to bring home the realities of ensuring a safe workplace.

He says other companies have gone a long way on the safety journey and there are some excellent role models. They include the likes of mining group Rio Tinto and BlueScope Steel, as well as the plumbing and electrical supplies manufacturer Crane Group.

Like many other companies, Alesco discovered that when it took steps to lift its game on safety, it gained in other ways: "There are some real benefits in terms of lower costs, higher quality of management and the business generally."

Like most managers of listed companies, Ryan says he needs to prioritise safety – a long-term issue – while still finding ways to continue to improve shareholder returns, which are often based on short-term goals. The former private equity banker says it was not an issue in the world of leveraged buyouts.

"I never contemplated the significance of safety when I was in private equity – nowhere near the way I do now, having been at the coal face."

MICHAEL SMITH

Safety first

"THERE IS a whole range of behaviours that reinforce at-risk behaviours and discourage safe behaviours," says Liz Nicols of SafetyWorks. "Sometimes it's about a manager saying 'how quickly are you going to get this job done?' rather than 'what equipment do you need to get this done safely?'"

Nicols says it is important to look at what happens to people at the point at which someone gets hurt, when there's an accident or a near miss and they're under pressure to get a job completed quickly. "Typically, what we know about behaviours is that people will do anything that gives them positive reinforcement and avoid things if they get negative feedback," she says. "So if when I report an accident I'm chastised, I'm not going to report it anymore. But that information about an accident is information about potential risk."

She says that progressive organisations "talk about no-blame behaviour and when they report problems ... the reinforcement is through things such as thanking them for doing something about it and following up. And when near misses do occur, action is taken to correct it."

The companies that do this well typically go beyond compliance and have found a way to institutionalise safe behaviour, Nicols says. "They embed safety as a value – which is quite a journey. They've found a way to link safety into their business planning process, not as an add-on but as part of the way they do things."

The test? Nicols knows of one boss who stopped production at a hydro power station when the price of power was high because safety was an issue. "It's where there is a choice between productivity and safety and you choose safety."
NARELLE HOOPER

private equity] and think who has the biggest boat or whatever. It is not the real world and it is a very dangerous world."

Ryan was also lured to Alesco by his love of building up a business. While at Catalyst he oversaw the acquisition of B&D Doors and Openers, which he helped build from a company with annual revenues of \$18 million to one worth more than \$200 million. B&D eventually moved into the Alesco stable and Ryan decided to go with it after being approached in 2004 to join the senior management team – a risky appointment for an industrials firm where managers often work their way up from the factory floor.

Well-respected chief executive Kevin Clarke, who built up Alesco's portfolio of industrial brands, left big shoes to fill following his departure in 1996. Ryan, with his extensive deal-making experience, seemed just the person for the role.

He has continued down the acquisition path, buying into water infrastructure and hardware suppliers while growing existing businesses and cutting costs.

The recent credit crunch has brought new pressures. A depressed housing sector and volatile equity markets have thrown up headwinds, dragging the company's share price well down from last May's highs, although it continues to expand and grow profits. (Alesco shares have had a volatile run over the past year, touching highs of \$15 in May and now trading at around

\$7.50.) Alesco is under growing pressure from deteriorating housing demand, rising borrowing costs and slowing consumer demand but, unlike some of its competitors, it has avoided an earnings downgrade thanks to its restructure.

Ryan is quick to point out that the company is not another conglomerate like Wesfarmers ("although the comparison is flattering"), and has no plans to diversify too far from the industrial brands space into things such as retail or coal. However, he must still manage a diverse array of businesses in construction and mining, building products, water services, and scientific and medical, spread around Australia.

Ryan concedes that his former career taught him some invaluable lessons. His top tip is to surround yourself with senior people as good as or better than you are.

"I have learnt about operational management in recent years but at the end of the day I am probably more of a portfolio manager, so I surround myself with people who are outstanding operationally," he says. "My style is more of a coaching-mentoring-empowering style than being too hands-on, but I recognise that performance is critical and that people know if they don't perform we will have to look at that."

He also favours the personal touch, and tries to spend four to five days a year on the road with sales representatives from each of the company's business units. "I like human interaction," he says. "I can draw a lot of energy from getting out of this office and spending time with the business units. If I don't do it from time to time I feel a bit grubby."

However, he also feels it is important to step back and take time to reflect on the organisation and where it is going.

"It is very easy to get so caught up in the myriad things going on that you don't have time to think about where you are going," he says. He tries to go kayaking and get to the gym when he is not working or spending time at home in Sydney with his three young children.

When things go wrong, however, he expects to get personally involved. "Another thing that comes from private equity is that we are active managers," he says. "We don't sit around when things are going poorly and say 'that's a great shame'. We take action, and we take it sooner rather than later if things aren't working out. It is a fairly direct and active style, and it is quite demanding. As a head office team we will helicopter in when things aren't going well and get more involved."

Ryan has not had too many complaints from shareholders so far, although tough market conditions mean that things are unlikely to continue to be so easy. He owns about 0.75 per cent of the company. "It is probably foolish and naive but I don't have any other shares," he says. His long-term priority is managing projected growth in earnings by at least 10 per cent each year, both through organic growth and acquisitions.

But his other top priority goes back to safety: "The culture is about hitting the numbers and performance, but where do you trade off performance and safety? How do you find the right balance in all of that?" **B**