

Power to the Workers - Out with the Capitalists

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1963 - CIO of hunting heads Executive Search International (www.huntingheads.de) – started his career in international sales. In 1997 he founded the internationally active executive search institute hunting heads and expanded it to become one of the largest businesses active in this field in Europe. In the Federal Republic of Germany, he became primarily known for his consulting services for the industry, government, and administrations. In 2006, he was given the position of Economic Senator for the Europäischer Wirtschaftssenat e.V. (EWS). Furthermore, in 2007 he founded the racing stable Hummer Racingteam Europe, which after only 18 months was able to attain the title of the German "Offroad Rallye Meister".

Introduction

The criticism of a system which is getting out of hand has its reasons. Some people believe that they can plunder entire economies. Speculations of every form were hardly subjected to restrictions. Global coherences and their deficits have become extremely transparent since the financial crisis. Investment and real estate speculators were not the only ones to be shaken; on the contrary, it affects all of us in some way or another. Globalisation, the merger between the global economy and the global capital, made this possible. Mr Marx already prophesied 150 years ago that “the entwinement in the net cast by the global market and with it the international character of the capitalist regime is what is in store for us.“

But with all respect for Karl Marx' analyses – we do not want to have the spectre of communism back. Our social market economy needs to be organised so that it takes on a more social form again. This is better than the old dream of nationalisation as a panacea which is being dreamt at some universities and which is again being warmly recommended to some politicians. Our current economic crisis is overshadowed by dozens of negative economic news items and that every day. That is not all, we Germans seem to enjoy wallowing in these negative headlines and complaining. Instead of seeing a crisis as also being a chance, one merely complains together with the masses. Many people repeatedly make demands on the state. The demand that the state should support the majority of the

ailing companies is wrong however. We should beware of interfering in the free and social market economy in a regulatory manner. It has always been the case that the wheat always separates from the chaff in such a situation and this will result in a healthy and future-oriented adjustment. Those who have worked well and kept house throughout the years, those who make use of globalisation and those who use modern business processes will remain successful – even if the markets are slightly weaker at the moment.

We have often had the situation in the past that sales have plummeted, no matter what the cause was and up to now, successful companies have found their way out of the crisis by adopting clever measures such as new product developments or sales market or product portfolio expansions or by making structural changes. Themes such as lean management, supply chain management or outsourcing are what are needed here. Lean management is the responsibility of the managerial staff. It is however the case that things are frequently simplified with this theme and this catchphrase is then used as a reason for staff reductions. However, lean management means an increase in economic viability so that the customer can be provided with a service which he really wants and which is worth something to him. It is an avoidance of unnecessary internal processes. A fundamental constituent is the permanent questioning of existing structures and that is the problem which many companies have. Processes which have been started are not permanently monitored and adapted. Lean management is then merely a whitewashing of the staff reductions and an alibi phrase. Lean management should actually be orientated towards the own strengths, an ongoing learning process which ensures the quality of the products and the directness of the organisation in addition to constantly perfecting it. Our experience as a head hunter has shown that there are especially real specialists on the 2nd and 3rd managerial levels which would be able to provide the company with the required orientation. The supply chain management is also still a problem in many companies. Often, the supply chain manager does not have a lobby in the shark tank. In this regard, supply chain management means the analysing of a value creation chain and the optimisation of the logistics. This is therefore a very positive field for a company which has to be worked on. It is our experience as a head-hunter that this professional group is under-represented at the middle and top management levels. The logistic supply chain is a network of organisational units which produce a product or provide a service as a result of their direct cooperation. The focus is on comprehensive processes which describe how products or services are created, transported and ultimately delivered to the customer.

The companies within a supply chain have to face increasing challenges. The customers expect the supplier to meet their wishes flexibly. It is important to them that they can order at short notice, receive their order quickly and that changes are possible in a flexible manner and that promises and deadlines are kept to. Modern logistics chains and logistics management have to repeatedly allow themselves to

be measured up against this and they are to adapt themselves to changing demands – and that along the entire cross-company supply chain. From the point of view of a customer, this has to do with the optimisation of this intra-company logistics chain. The company therefore considers all of the upstream and downstream processes from the procurement of raw materials to the ultimate customer. All of the activities which are oriented towards this can be summarised with the term Supply Chain Management (SCM). Globalisation is a positive factor in this case. The demand for outsourcing is growing strongly in the current crisis.

In the difficult situation which exists at the moment, even those companies who in the past were sceptical with regard to outsourcing are now giving consideration to outsourcing processes and services. The decision for outsourcing is also being made much faster. In the past, almost one year passed before a contract was signed. Clients hereby selected projects which reduced costs quickly in addition to increasing the efficiency and amortizing fast. Outsourcing can provide financial leeway in the crisis. The outsourcing providers can assist outsourcing companies with liquidity management in that they keep the monthly payment instalments to the service provider low in the start phase and then increase them later. The classic outsourcing approach is now forced open by various developments. Nowadays, the clients expect that together with the outsourcing, the related business processes are also adapted and optimised. This mainly holds true for the IT segment. Globalisation also helps here. The advantages of a world which is increasingly shrinking are made clear here. A fundamental and especially critical aspect is the management of companies. Entrepreneurs or managers play a pioneering role here. They have to think and act in an entrepreneurial manner. There are nowadays many managers who protect themselves from all sides, delegate the making of decisions but do not make any themselves. This is frequently the result of being afraid to make mistakes or of losing their job, which would be the end of their career. Thinking in the short-term is also the order of the day. The opinion used to prevail that a manager is a good manager when the majority of the decisions he made proved to be the right ones in retrospect. Mistakes could also be made. It would appear that this is no longer the case, presumably because not only the share prices have increased, but also the transparency is greater. It is therefore only natural that many managers hide behind the popularity ratings when it comes to business confidence. True to the motto – look, everything is bad, it is not our fault.

I am only too pleased to reiterate that it is a fact that we are in an economic crisis but that there are enough markets which are either not affected at all or which are only slightly affected and there are also enough companies who have a problem which they have caused themselves and which is not caused by external influences. Why are we as a head-hunter receiving just as many queries as before the economic crisis? Because there is still a demand for skilled and managerial staff. Because good companies also think in the medium-term and long-term? Or perhaps is also has to do with them using the crisis to replace “less successful“ managerial staff? Did we not also make the mistake that we have allowed a “young craze“ to break out in our companies?

Young people who complete their school and studies in a record time, obviously with excellent grades and are then able to get an idea of the professional world by spending two years with a famous managing consultant, would be the suitable candidates for managerial positions. But where are the soft skills? The experience of also being able to overcome crises? The experience of being able to correctly assess the clients and their wishes? They still have to gain this experience and it is often the case that companies have to regain the experience and relearn due to the replacement of an older, experienced manager with a young one.

This has often cost the company money, staff was not motivated and clients have gone elsewhere. Why was this the case? Because decision-makers often do not make their decisions based on their gut instincts, but have to or wish to go with the flow. A trend to reverse this has manifested itself in the meantime. Why else has the market for the so-called interim manager become so large? The old stagers who show the young ones how it works are in demand again. As a head-hunter, we have for many years attempted to dissuade our customers from participating in the "young craze". Many companies would nowadays be pleased and thankful if they had listened to us. Decisive mistakes have been made as far as the financial world is concerned. Instead of concentrating on the core competencies, this being the making of the required capital available to the industry, it was frequently the case that attempts were made to make money quick with high returns. Everybody knows that high returns also mean high risks. The banks have also with European legislation (I am thinking of Basel II here) made it more difficult for companies to acquire the funds they require. An additional aspect which is caused by the state which has developed negatively over the years is the educational policy. When I see the poor quality of many of the job applications which we receive everyday in our capacity as a head-hunter, then I am not surprised that management is weakening in total.

This is also a reason why globalisation is necessary. Globalisation is a process through which the markets and production in various countries are becoming increasingly independent from each other – thanks to the dynamics of trade with goods and services and the movement of capital and technology. Especially the liberalisation and deregulation of many international markets were important requirements for today's globalisation. The starting signal for the current globalisation was given by the fall of the iron curtain. Global trade was then provided with the opportunity of being able to develop in the current form. It is nowadays with transporting down-market products over long distances, examples being plastic products from Asia to Germany. The communication also developed at a breathtaking pace at the same time as the transportation development. It is now the case that the sending and receiving of large quantities of data via the Internet is a matter of course. The communication with people who are a long distance away is no longer a problem and it is also the case that no time is lost. The communication costs have also fallen to a very low level. The development in

the field of communication and the transportation of goods means that it is no longer a problem whatsoever when one shares work processes and coordinate these on various continents.

The price differences especially lead to large quantities of goods being transported to Western Europe and the USA due to it not being possible to manufacture them there at comparative prices. Due to globalisation, the job market is often no longer national or regional, but global. This means that there is an enormous increase in the jobs on offer. The cost of living is often only a fifth of the cost of living in Western Europe in many parts of the world. The difference between the wages and salaries is therefore accordingly large. This means that the factor work is therefore much less expensive in many parts of the world than in Western Europe.

This means that a German employee is not only in competition with other German employees in the job market, but also with the many employees throughout the world who are able to offer their manpower for much less money. This wage gap between Western Europe and many other parts of the world is the reason why many companies transfer simple production activities to low-wage countries. The only possibility of not being in competition with millions of low-wage employees is to be well qualified. That is exactly what we have to achieve here in Germany with a corresponding educational and vocational training policy. This is clear when one observes the German job market: whereas many companies have a demand for well-trained employees, many poorly qualified people are standing on the streets and are unemployed.

These poorly qualified people are unable to offer their work for the (global) market price as this would not suffice to support a German standard of living. It is to be assumed that higher qualified work will also be outsourced to low-wage countries in the future. One example for this is IT companies which employ programmers in India, for example. Great efforts are also being made in China to improve the qualification of the workers: every year, many more students complete a technical course of studies in China than in Germany. This is obviously also due to the much larger population. The offer on the job market has drastically increased on a global scale. The capital which is being offered has hardly grown however. Work and capital are the fundamental production factors. As far as capital is concerned, this means that a stagnant capital offer but a heavy increase in the work offer results in an increase in the price of capital. The price of capital is made up of the interest or returns on investments. Each investor can invest his money anywhere in the world. He will choose the possibility which provides the largest profit. This is a reason why many German companies invest abroad. The companies assume that the invested capital will generate a higher profit than in Germany. The consequences for the capital market are therefore a higher interest on the investment capital. This is also a reason for the profits of many international companies which have been subjected to a strong increase. On the other hand, the capital markets are subjected to a relatively small amount of regulation so that the door is open for ventures. The current crisis was caused by

speculators in the capital markets and plummeted entire regions into the crisis. There are companies which profit from globalisation and companies which suffer from globalisation. Nowadays, a company has to think and act more globally than was the case just a few years ago.

Foreign countries also have to be taken into consideration when making investments. The capital market demands high returns and many companies are therefore forced to transfer production abroad. The deciding to relocate abroad is not only based on cost reductions and returns on investment however. Internationalisation can also pursue the achievement of sales targets or a limitation of exchange rate risks. On the other hand, the growth in the global economy which results from globalisation also brings great environmental risks with it. It is especially the case in newly industrialised countries that the necessity of environmental protection has not yet been recognised and the industrial plants pollute the environment.

The environmental risk therefore results from the growth in the global economy which was enabled by globalisation. The change in the job market is often a serious problem in industrial countries. Many poorly trained employees are unemployed. This causes social problems and too high costs for the social security systems. The job markets have changed fundamentally and many professions have little future. Only professions which cannot be outsourced have a good chance, e.g. motor vehicle mechanic. Cars cannot be taken from Germany to Hungary to be repaired, for example. The companies however profit from a large capital stock which results in high returns and large global sales possibilities. It is especially difficult to explain this gap to the general public. The companies are making record profits whilst many people are unemployed. This especially opens up problem areas for the politics as the extent of consideration and the effect possibilities are normally restricted to a national level but the companies have been thinking global for a long time and display little patriotism when it comes to concern profits. Whether globalisation is fair is almost a philosophical question. The fact is that the gap between poor and rich is very large. In the past, the world's richest people were by far not as rich as today's richest people. Contrary to this, the number of poor people has remained almost unchanged. Hunger is still a serious problem in many parts of the world. It can therefore be determined: the world's riches have not been distributed fairly. There can therefore be no mention of everyone in the world having the same chances. A person who is born into a poor family has less chance of a good education which could provide him with an improved standard of living later. The world is also not fair as far as this is concerned. The question is therefore: does globalisation result in less justice in the world?

Answering this question is much more difficult as there are obviously regions and nations which profit greatly from globalisation. The economy was on the path to sustainable growth in India, China and Brazil for example. Many have succeeded in escaping from total poverty and becoming the world's richest people. These possibilities exist therefore: globalisation makes this people. The gap

between rich and poor is still growing however despite this. The globalisation critics point various aspects out which lead to protests. Especially the injustice of the distribution of wealth is repeatedly denounced. An additional point of criticism is the strong focussing on the economy, so that environmental protection, human rights and democracy often fall by the wayside.

The very liberal economic policy of many countries, especially the USA is also being subjected to criticism. The lack of authority of bodies such as the G8, on which important decisions are made for the entire world is also being criticised. Developing countries hardly participate in the making of these decisions. The supporters of globalisation see the chances offered by globalisation first and foremost. Many countries can participate in global trade and profit from this. The global economy is expanding continually. There is the possibility of communicating with the entire world. The liberal orientation of globalisation is supported as the opinion is often that this is the most effective form to coordinate the economy. Ideally, adaptations are controlled by the market so that the best distribution is ensured. It is also determined that globalisation is something which cannot be avoided.

Globalisation provides an opportunity for international trading. The entire economic performance and prosperity can be increased as a result of division of labour. Countries and regions now have the best chances of selling their products and promoting the economic development. This increases social prosperity. There are obviously tangible advantages: one can eat fresh fruit in Germany all through the year, purchase inexpensive goods from China and tea and coffee are also available. Without globalisation, one would not be able to buy these products or these would be much more expensive. You can travel almost anywhere in the world and communicate with each other on a global scale. At its current speed, globalisation is overtaxing the flexibility of many people. Many employees in the Western industrialised countries are facing unemployment or are already unemployed. Especially older employees are finding it difficult to adapt themselves to the new situation and retrain. This means that an entire generation of workers is falling into a deep crisis. Many people in the developing countries have a feeling that they are not able to participate in the prosperity. The poor countries are in receipt of a little but this is being unfairly distributed. There are extremely rich people on the one hand but on the other, many very poor people who live in slums. It is not actually globalisation which should be subjected to criticism. The criticism should in fact be aimed at mistakes which companies like to make repeatedly.

Our attitude within the German population also has to be questioned. The famous half-empty or half-full glass – what is it then?

The arrogance of some of the managers who are in the public eye is just as difficult to explain as politicians with a civil servant background who do nothing and who simply like to hear the sound of their own voice and force themselves into the limelight in front of every camera – for their own sake. Another aspect which should not be ignored is the expectations of the financial world when it

comes to corporate returns, this going hand in hand with the corresponding share analyses of the analysts. A German PLC can no longer afford to make positive announcements every calendar quarter. Then the rates falls and large sums go up in flames. Let us take a US company as an example. The company generates a turnover of approx. 16 billion per calendar quarter and thereby makes a net profit of around 4 billion in a calendar quarter. A great result.

The “crisis“ now forces the company to cut more than 5000 jobs as the turnover forecast for the next quarter have forecast a drop in turnover of around 6%. This means that the result is similarly lower and is “now only“ around 3.7 billion. We should not forget that this figure is for a quarter. This is actually still a good result. The 5000 jobs are cut However so that positive announcements could be made to the financial analysts. The savings in labour costs (averaging USD 5000 per person/month) are however not higher than 75 million per Quarter. The real question here is whether it is worth making 5000 families unhappy in order to save what are a few “peanuts“ in this case? Thanks to the analysts, the share price has still fallen by 6% – there was a “profit warning“ after all. This results in many investors losing a lot of money at the stock exchange, although the company is still in great health and the market for its products still exists. The questions as to whether that makes sense should each of the readers decide for themselves.