

"The power of uncommon common sense management principles - The secret recipe of German Mittelstand companies - Lessons for large and small companies"

Prof. Dr. Bernd Venohr



2nd Global Drucker Forum Vienna 2010
November 18 and 19, 2010

© 2010 Prof. Dr. Bernd Venohr

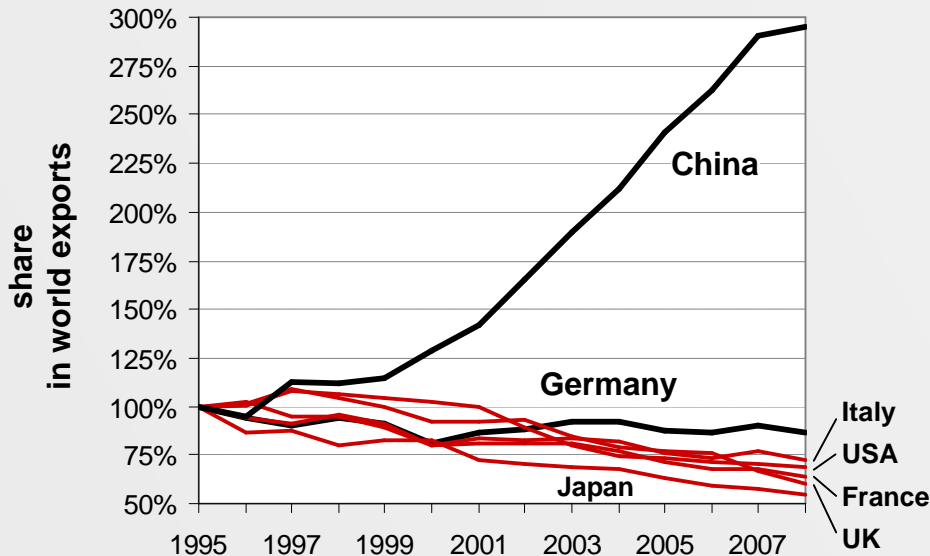
No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without written permission.

Common sense

“... those beliefs or propositions that seem, to many people, to be prudent and of sound judgment, without dependence upon esoteric knowledge (greek/latin origin: sensus communis: common feelings of humanity)

Germany has a leading position in international trade

Germany and China are the only large countries gaining shares in world trade



Country share in worldwide exports; 1995 = 1; Source: UN Comtrade DB

German companies occupy a top 3 position in 2/3 of industry sectors

Rank	Country	Number of Top-Positions			Total number of Top3 Position	% of all industry sectors
		Nr.1	Nr.2	Nr.3		
1	Germany	67	40	35	142	61,21%
2	China	72	19	16	107	46,12%
3	USA	34	37	26	97	41,81%

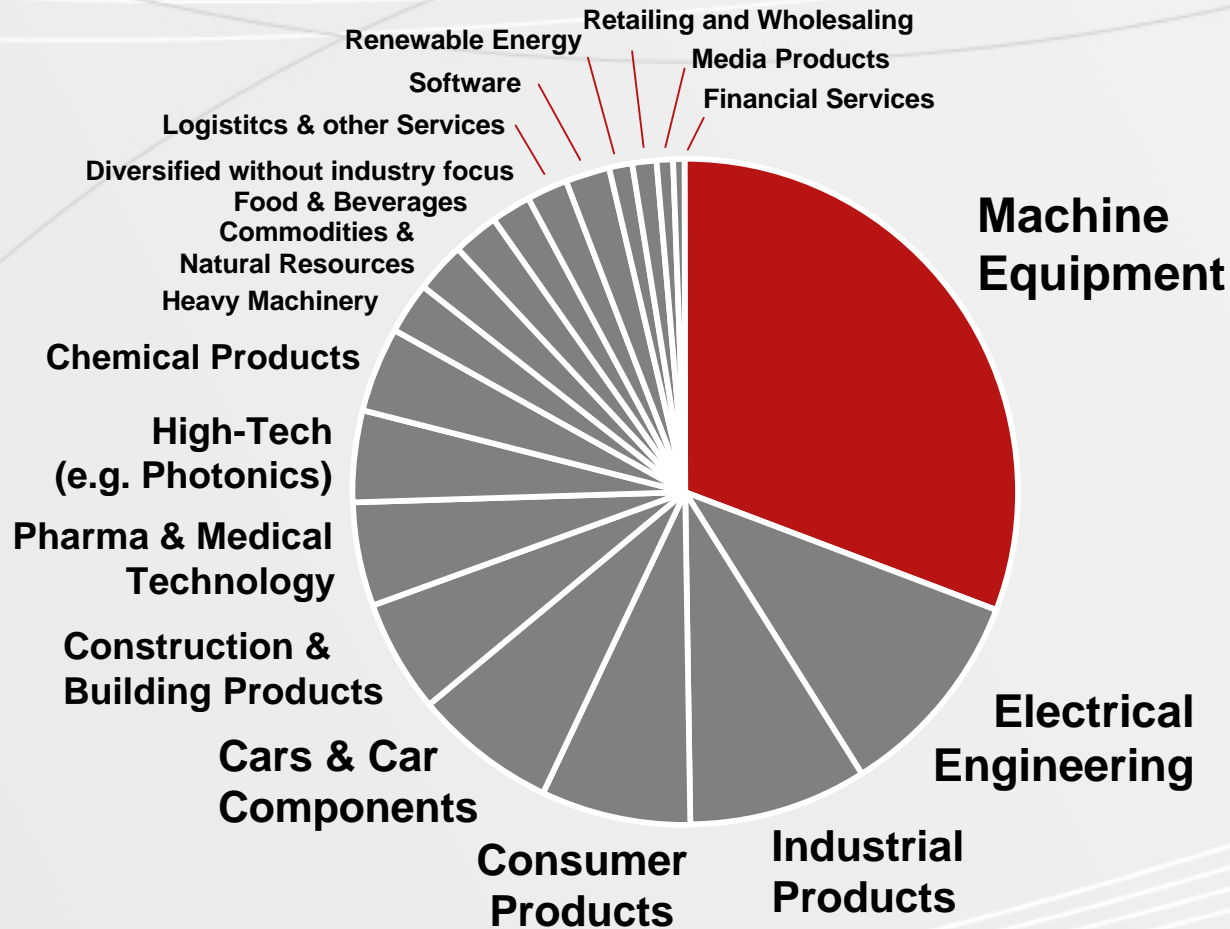
Source: Own estimates; ICCP, UN Comtrade DBI, 2007

Favourable macro trends + unique management model

- Favourable macro trends:
"China may be the world's factory but German companies are building it."
- Unique management model supported by German business environment, in which companies are embedded
- Research Base
 - unique database
 - 100+ company interviews
 - numerous case studies
 - 20+ years consulting practice
- Relevant Publications



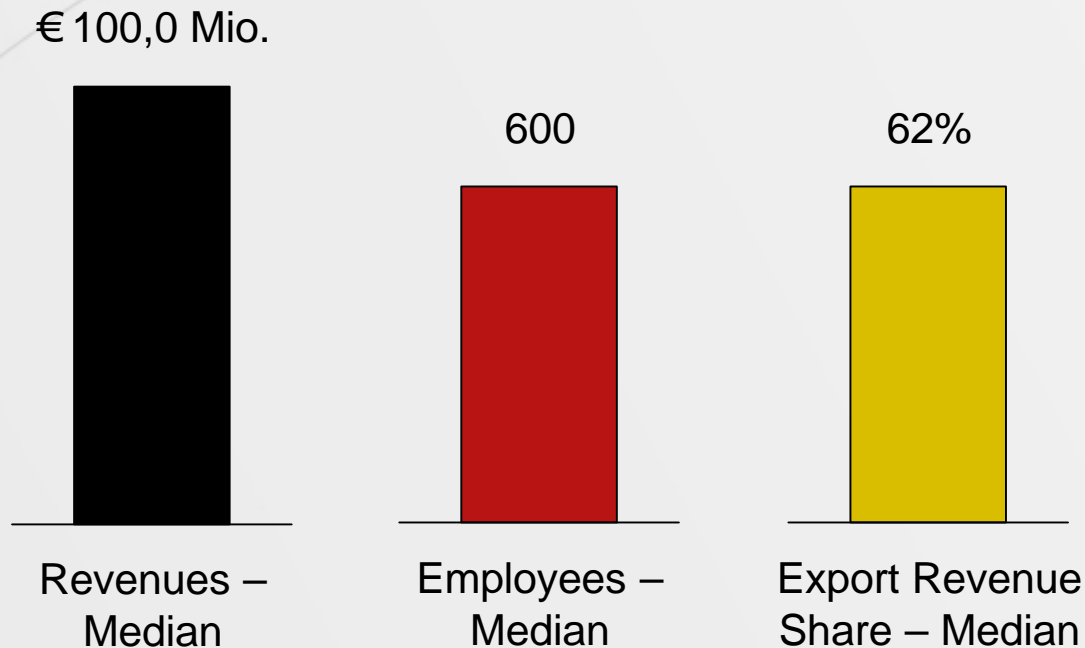
About 90 % of the 1500 German world market leaders are active in the B2B segment



- About 1500 German world market leading companies in total: top 3 position worldwide
- There of 1350 small and large “mid-sized” companies / “Mittelstand” (annual revenues less than 1 bn €)

Source: Database German World Market Leaders 2.2.2 (01.10.2010) – World Market Leader (narrower sense)

Profile of a typical German mid-sized world market leader



- 70%+ family ownership
- 70% based in small cities/rural communities
- Average company age: 70 years

Source: Database German World Market Leaders 2.2.2 (01.10.2010) – World Market Leader (narrower sense)

Management “Made in Germany”

Strategy:
Dominating global niche markets

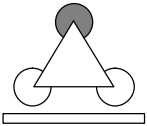


Governance:
“Enlightened family capitalism”

Operational effectiveness:
World class in key processes

**German microeconomic business
environment**

Dominating global market segments: Example automotive



Narrowly defined market niches: Veigel



Premium Segment of mass markets:

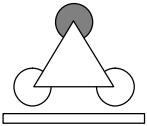


DAIMLER

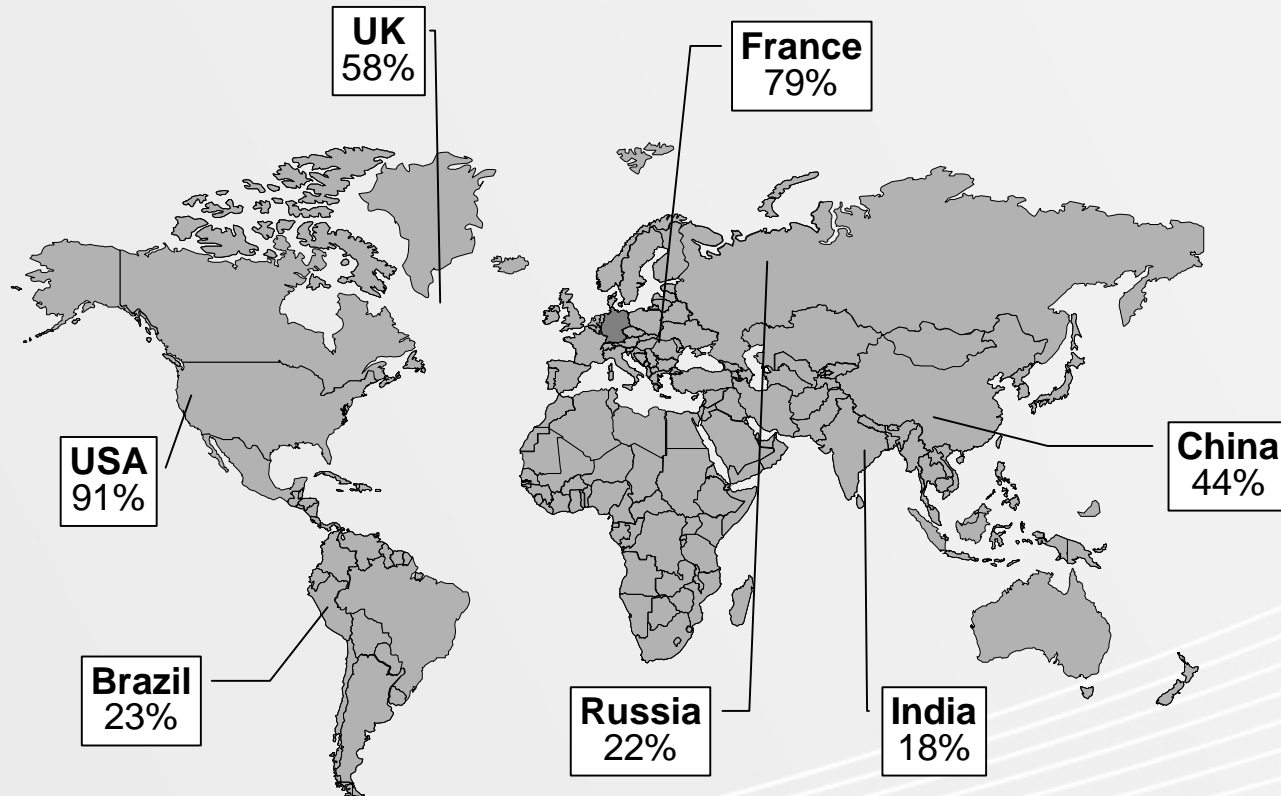


- Market Leadership = specialization + global market footprint
- Stay away from large, price-driven volume markets (“Don’t play where the elephants dance”)
- Compete through superior value, not costs

“Close to the customer” : global sales, service and manufacturing network

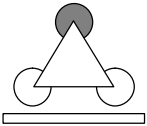


Percent of German world market leaders with wholly-owned subsidiaries

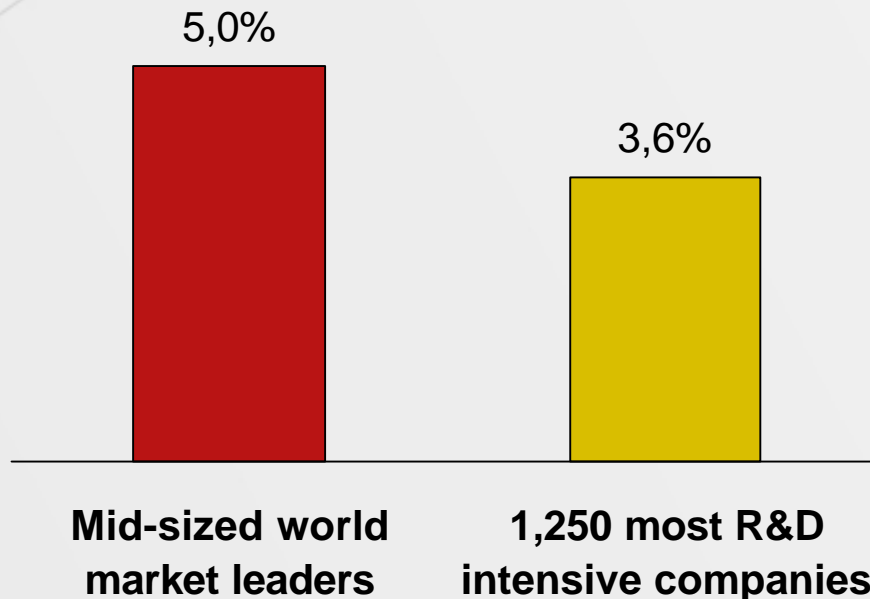


Source: Own estimates, Deutsche Bundesbank, FDI 2010, minimum balance sheet size of subsidiary: 3 Mio. €

Technology leadership



R&D expenditures in % of revenues

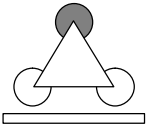


- Innovation strengths vastly underestimated (“High tech obsession”)
- Masters of incremental innovation
- Very strong German research network

Source: J. Meffert/P. Radtke/H. Klein/J. Freiling/T. Hutzschenreuter, *Unternehmertum Deutschland*, Düsseldorf, McKinsey & Company 2005; sample of 600 medium-sized companies

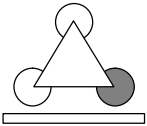
Source: DTI, *The R&D Scoreboard 2006, Commentary and Analysis*, Volume 1 and 2, London, 2007, p. 60.

Technology Leadership: Example Rational AG – the chef's company

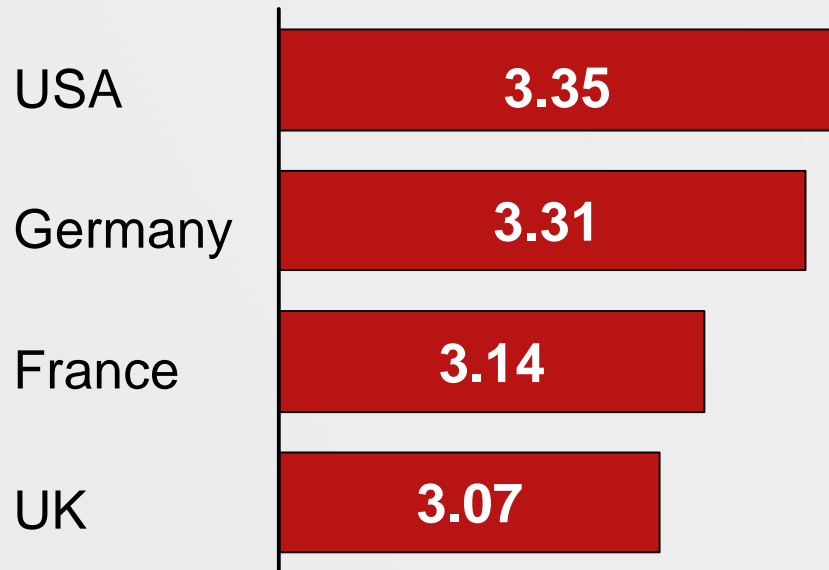


- Rational AG: world market and technology leader for the thermal preparation of food in professional kitchens

Operational effectiveness: German companies world class in key processes



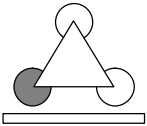
Average Management Score* (Scale from 1 to 5 = top score)



- Highly sophisticated production networks
 - careful choice outsourcing/offshoring
 - close connection R+D/manufacturing
 - most flexible work arrangements worldwide (local “labor pacts”)
- Kaizen masters/learning organization

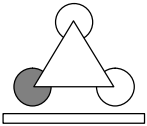
Source: Bloom, and J. Van Reenen, Measuring and Explaining Management Practices Across Firms and Countries, 2005

Unique corporate culture driven by family ownership

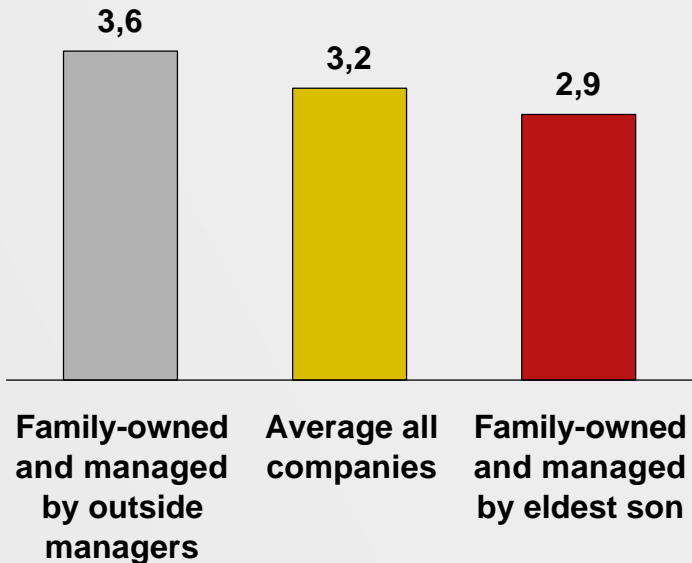


- Long-term survival and intergenerational transfer as key objective (stewardship idea)
- Profit as inevitable by-product of serving customers better than anyone else
- Focus on long-term sustainability with key stakeholders: customers; employees; suppliers; community at large
- Companies as communities: high degree of mutual trust and loyalty, leading to an implicit “life-long” contract (long tenures)
- Leadership through example
 - “love for the business”
 - domain knowledge
- Flat hierarchies and informal channels of communication
 - bottom-up management style
 - high degree of cross compartmental cooperation

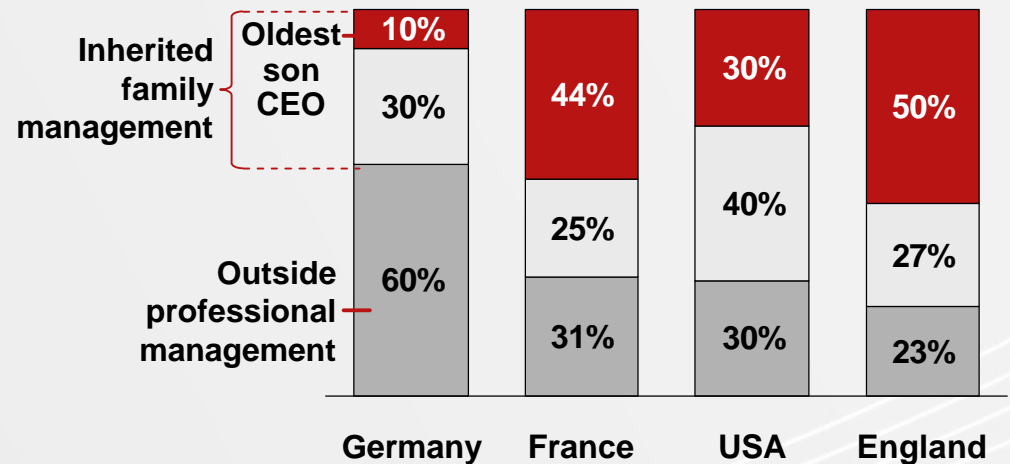
The best managed companies are family-owned with outside professional management



Management-Scores*
(Scale from 1 to 5 = best score)

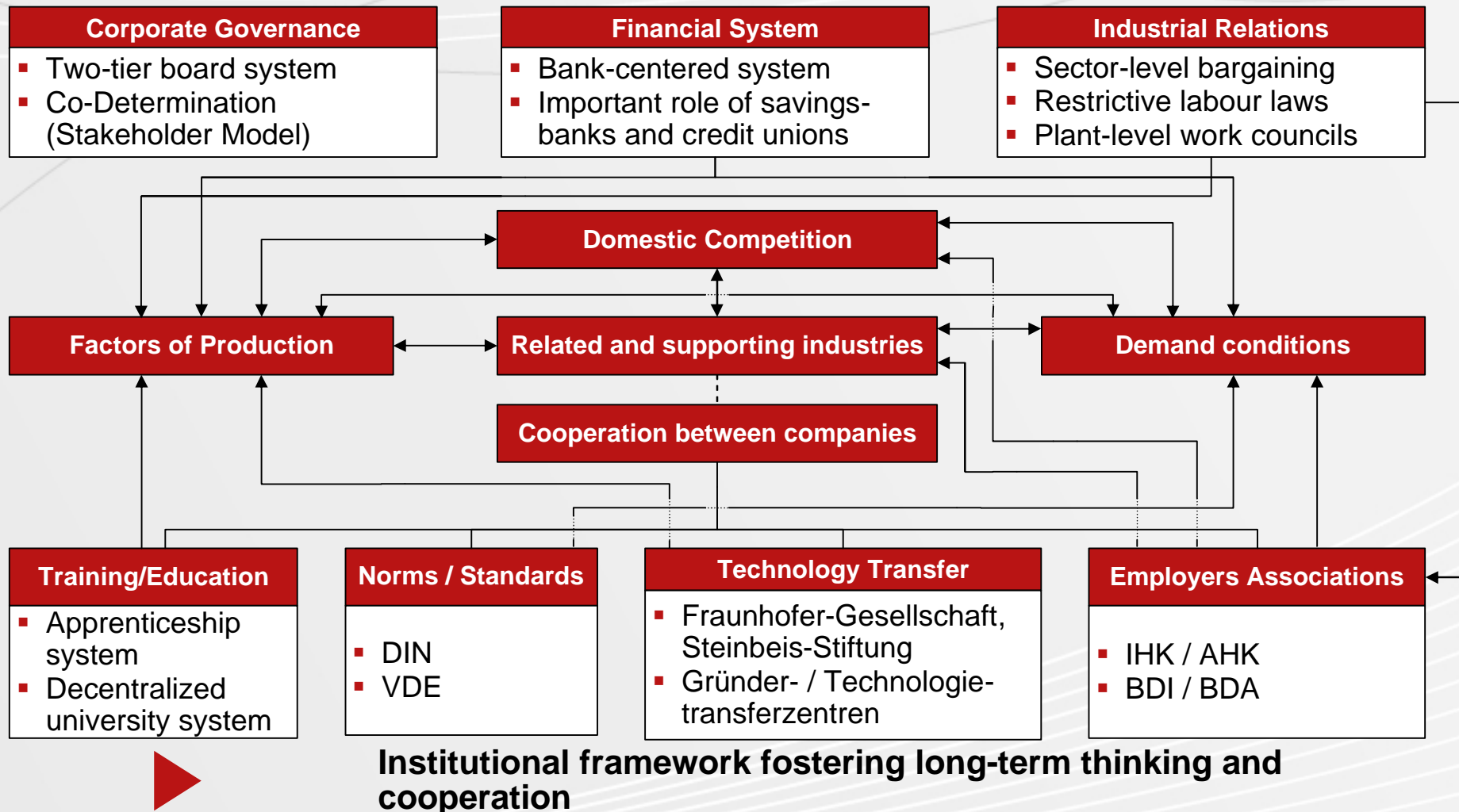
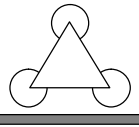


Management structures in inherited family owned firms



Source: Bloom, and J. Van Reenen, Measuring and Explaining Management Practices Across Firms and Countries

Germany: "the world's best location for high value added manufacturing"



“Uncommon” common sense management principles

- Concentrate your resources to achieve leadership in (niche) markets
- Give value to customers through innovative products and services
- Relentless drive for continuous improvement of all products and processes: “Get better every day”
- Manage for the long run: focus on sustainable relationships with all key stakeholders of the business
- Leaders who care: “love for the business”; domain knowledge
- Treat employees as human beings and energize them through common mission
- Institutionalize organisational processes and structures in line with growth



“This is only common sense” ... “Yes, but common sense is oh so rare.” (Peter Drucker)