

"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



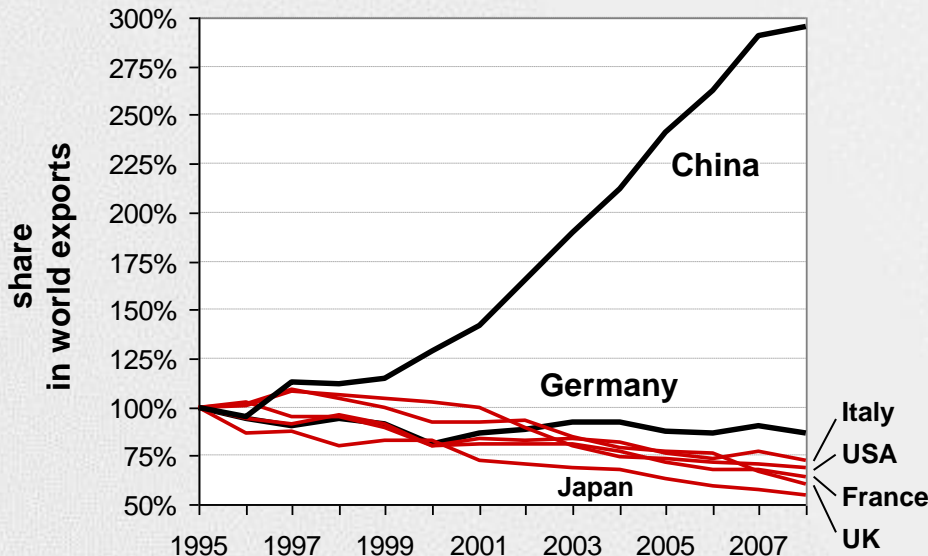
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Germany has a leading position in international trade

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



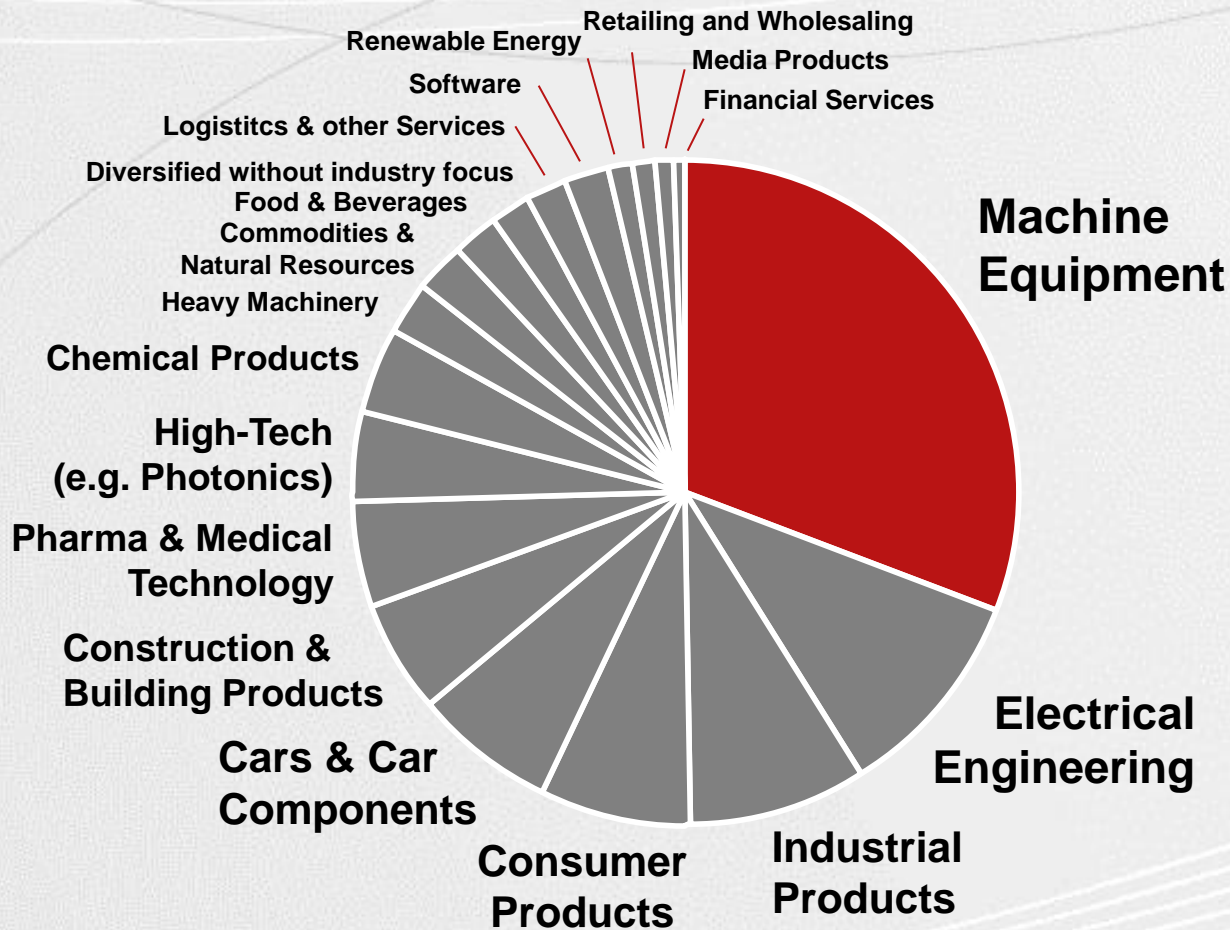
Country share in worldwide exports; 1995 = 1; Source: UN Comtrade DB

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

Rang	Country	Number of Top-Positions			Total number of Top3 Position	% of all Market-segments
		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

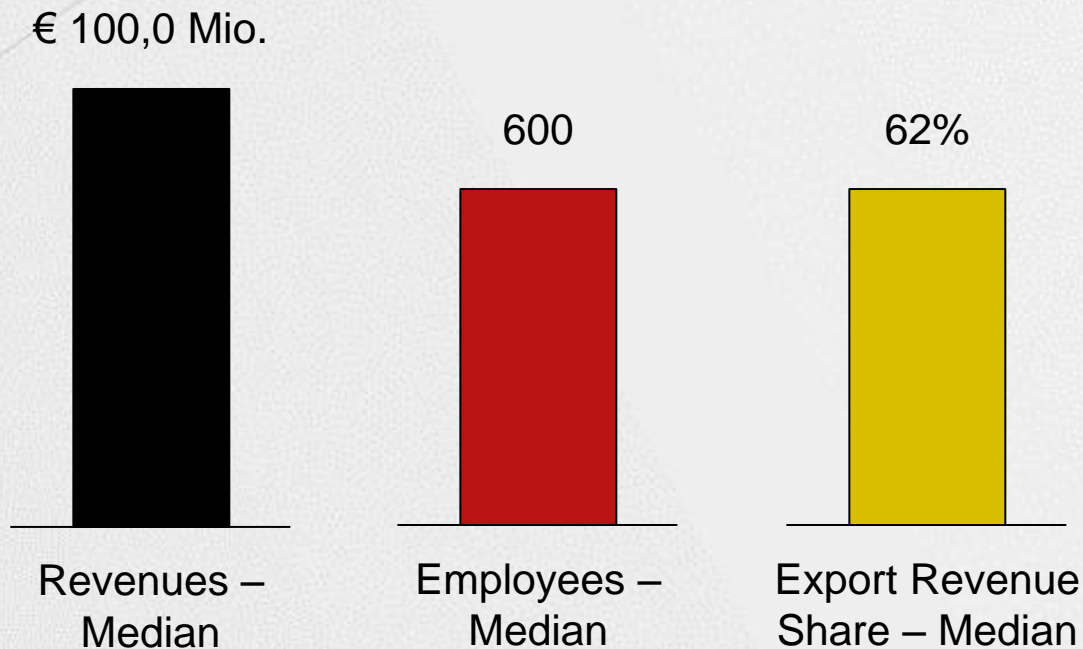
About 90 % of the 1500 German world market leaders are active in the B2B segment



- About 1500 German world market leading companies in total: top 3 position worldwide
- Therof 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

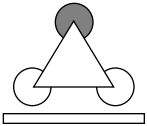


Governance:
“Enlightened family capitalism”

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:



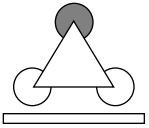
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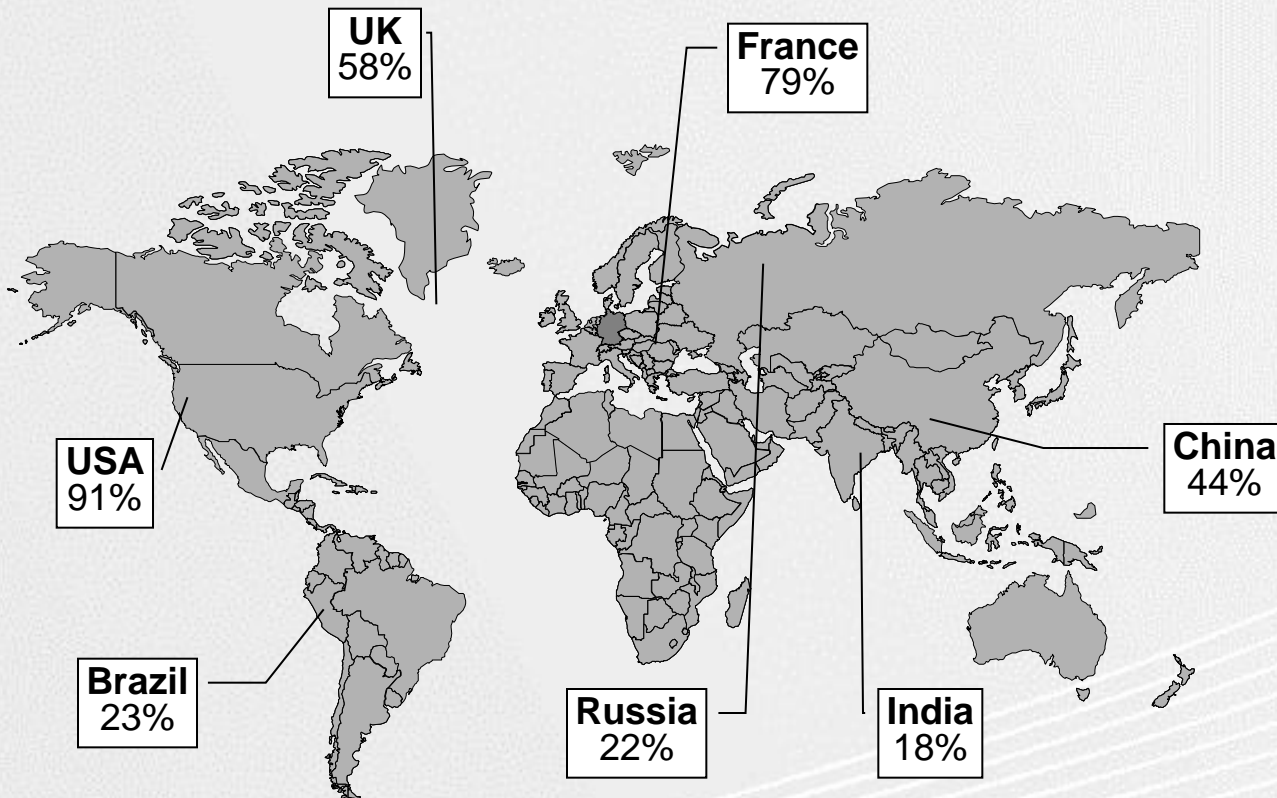
Audi

- 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

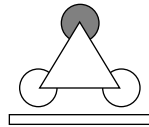


Percent of German world market leaders with wholly-owned subsidiaries

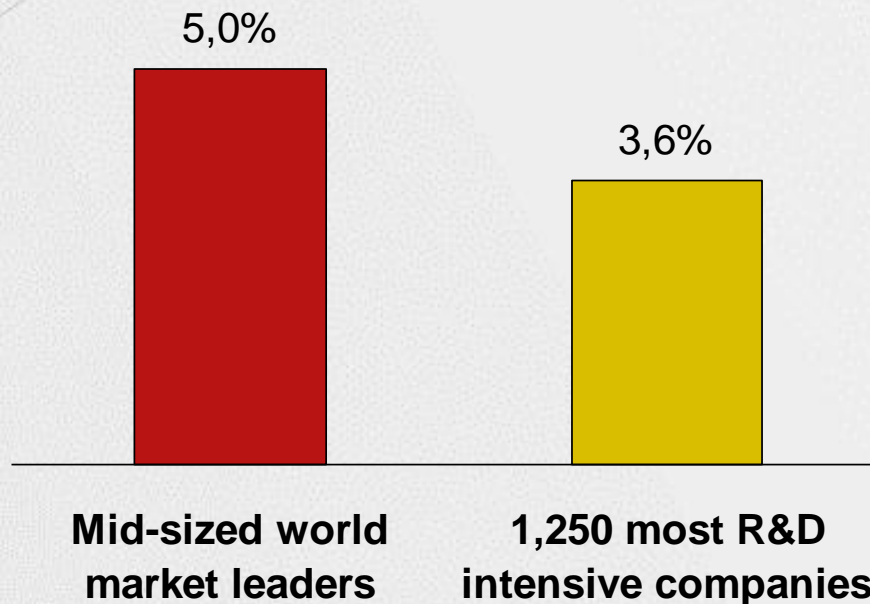


Source: Own estimates, Deutsche Bundesbank, FDI 2010, minimum balance sheet size of subsidiary: 3 Mio. €

Technology leadership



R&D expenditures in % of revenues

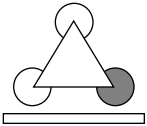


- Innovation strengths vastly underestimated (“High tech obsession”)
- Masters of incremental innovation
- Very strong German research network

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.

Operational effectiveness: German companies world class in key processes



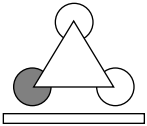
Average Management Score* (Scale from 1 to 5 = top score)



- 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
- PLUS professional practices: e.g. succession (external managers)

“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)

Issues to debate

- German companies as role models for high value manufacturing companies competing through innovation?
- Is the model applicable to really small companies and large companies as well?
- Is the winning performance of these companies sustainable over time?

Appendix

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)

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

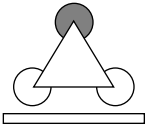
- Research Base

- unique database
- 100+ company interviews
- numerous case studies
- 20+ years consulting practice

- Relevant Publications

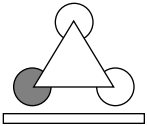


Technology Leadership: Example Rational AG – the chef's company

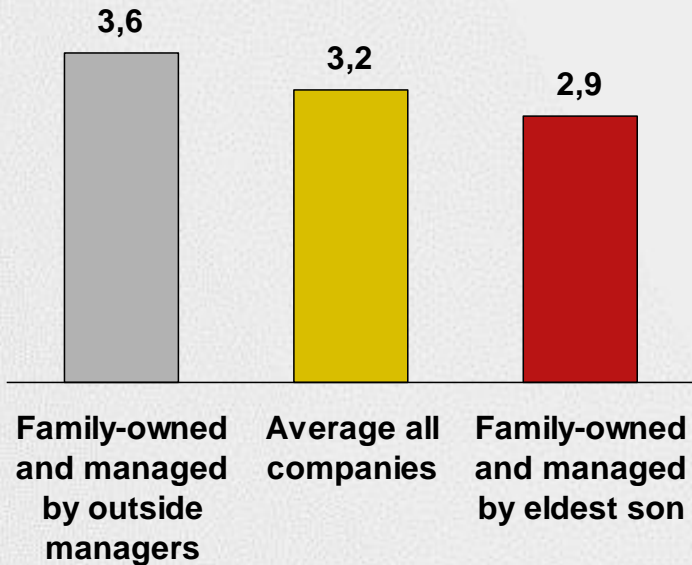


- Rational AG: world market and technology leader for the thermal preparation of food in professional kitchens

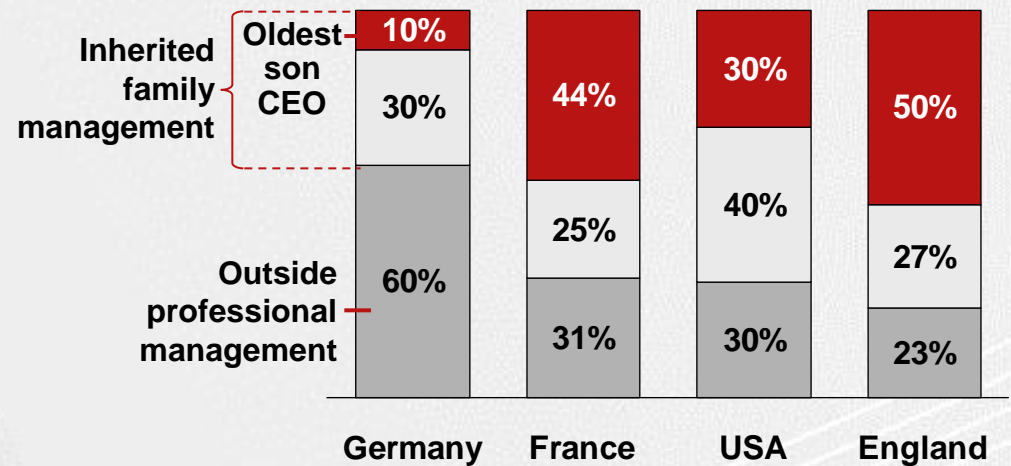
The best managed companies are family-owned with outside professional management



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"

