

Management Styles: The American Way is not the only one

莱萨科：美国模式并非唯一路径

Interview of Cao Kezhen (questions) with Prof. Dr. Ulrike Reisach (answers) for Global Business, Publishing Company of the China National School of Administration and Wanda Times Culture Communications Ltd., Beijing, August 2011

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Key messages in English

- 1. What are the differences between the American and the German management style? Can you briefly describe the characteristics of the two?**
- 2. How did you reach the conclusion that American management style stands for a businessman culture and German style stands for a craftsmen culture?**

One of the core differences is the entrepreneur. In Germany they have traditionally been engineers, inventors of something which they wanted to bring firstly to perfection and secondly to the market. Their objective is to improve something, i.e. a machine, to make it faster, more efficient and less environmentally harmful. Those persons are passionate for their product, they strive for technical excellence and perfection and they won't stop before they have reached it. The product excels through the best quality possible and the market will appreciate it, this is their underlying conviction. Companies are founded as small and medium sized businesses, often family owned, around a product or technology. Founders invest in the best machines available, the latest technologies, best professionals who share their passion. They invest in the vocational and life-long training of their employees. Employees spend their lifetime in those companies and send their children to work there as well. Expertise and knowledge increase and are forwarded from generation to generation. Many of the German big and successful companies have started like this: Bosch, Daimler, MAN, Siemens. They all have more than a century long tradition. There is a strong identification with those companies. It goes along with the feeling of responsibility for the companies' long-term success. Companies have been seen as a big family where everyone is responsible for each other. This has been fading since the 80ies or 90ies with the outsourcing of parts of the production and the strong M&A wave. But Germans still think of companies as big employers which manufacture great goods and they are proud to work there.

In the USA the general picture of a businessman is that of a manager. He wants to make money with whatever business seems to be profitable. They are prepared to take risks and design their products and services according to the customer's desires. Customers gets exactly what they want – not more, not less. If other businesses look more attractive than the old ones they are flexible enough to switch to that new opportunity. Therefore, US companies are in a steady process of change in their portfolio, organization and management. That's why properly defined processes are so important for them: Every newcomer has to understand fast, how he/she has to do the

job. Entrepreneurs are flexible, employees as well. The job is a source of money, the fluctuation rate is high. The average time an employee works for the same company is between 3 and 7 years. Americans are mobile, they move through the whole USA to find a better paid and more promising job. Companies are experts in marketing. They know how to make their products and companies look good. They invest in their brand names; and customers and stock markets are (or have been) fascinated. Most US citizens see companies as great brand names for consumer products and a profitable investment.

3a. In an interview with Business Spotlight, you mentioned one of the key differences between American and German management style was the historical experiences and the expectations of society differed. Can you explain this?

Europe looks back on two or three thousand years of cultural heritage and great achievements which it wants to preserve. Among those are the long period of peace and growth after World War II which was among others based on the European political cooperation and the common European market. Nevertheless, after two lost wars and the experience of devastated cities, refugees everywhere, hyper inflation the complete depreciations of the money, Germans learnt to be careful. They know that what they see now are extraordinary good and prosperous times which they do not want to endanger. They still have one of the highest savings ratios worldwide. Germans are risk-averse in political and economic issues. They think twice before doing something which could affect their future, before investing money, before moving to a different company.

This is the social root of the companies' striving for sustainability: Companies don't want put their future at risk. They want to leave the company in good shape for their own and their employees' children and grand children. They usually prefer lower, but steady growth rates instead of speculation which is disrespected as gambling, as not being serious business. Therefore the competition-like American preference for high profits, higher than that of any other competitor in the respective industry, together with quarterly reporting fostered by international capital markets came as a complete culture change – sometimes even shock to German companies. After centuries of respect for all stakeholders' interests they should now only focus on capital markets and shareholder value. After centuries of long-term investing in R&D, in the best people and in the best technical equipment, they should now only invest in things with a short pay back period. After cooperation with suppliers, customers and long-term partners they should see rivals in every other company. Competition in striving for technical excellence – yes. But a rivalry which gets ruinous with a “the winner takes it all” mentality - this was not what German business leaders and German citizens intended. It would endanger the famous industrial clusters and the corporative spirit of the “Germany Inc.”, as it was called in the 80es.

This was why I wrote my book in 2007: I could see that those traditional German companies' virtues started to get obsolete by a global business culture which favoured short-term thinking and short term results.

3b. In your book, you mentioned results caused by different accounting standards. Can you explain more on that issue?

In German accounting rules we traditionally had the principle of precaution. You may not pretend that a potential rise in a good's value is true before you sold the good for that new price and really made a profit. Therefore you put the lowest value possible of that good in your accounts and on the balance sheets. If, for example, you bought a property in the city of Munich for 1000 DM (= 500,- €) in the year 1950, it still has the value of 500,- € in the year 2011 – even though everyone knows that it is now worth maybe 1 bn €. Those have always been hidden reserves, pillars for bad times. And quite a few medium sized German companies benefitted from such pillars and were able to recover fast after the 2008 crisis. But with the globalization of accounting standards, with more and more companies applying the international accounting standards and are being rated by rating agencies, this tradition is fading.

American (and now International) accounting standards favour a different approach. They have the “true and fair view” principle. Here, you must put the up to date market value of all goods in your accounts and balance sheets. This makes companies look wealthier at the first glance – but not if you look closer. If all companies put those high potential market values in their accounts, this creates bubbles: During a rise in property prices all companies look like they had more valuable assets. And if the property market bubble burst all are as poor as before. The market capitalization of American companies and banks was very high before 2008, much higher than that of German companies. But after the bubble burst it got clear that all those were fictive, not real values. Therefore the downturn in share prices was higher in the USA than in small and medium sized German companies which did still apply the traditional careful valuation scheme.

4. What are the advantages and disadvantages of both the American and the German management style?

Both management styles have their advantages. The American style allows fast action: companies can often decide quickly and seize business opportunities. They are often flexible, know how to improvise, take a trial and error approach which is risky but may also generate fast and huge profits. They think very entrepreneurial, found start up companies and if they fail, they try a second time. Failure is seen as a learning experience, a fresh restart after a bankruptcy is pretty common.

Germans have a more holistic approach: they try to get the whole picture of circumstances, of possible opportunities and risks. They usually engage in an accurate corporate foresight and long-term strategy and plan everything ahead, sometimes very much in detail. This allows well planned and coordinated actions and processes which is good for complicated tasks and potentially risky issues. They can thus avoid surprises and unforeseen damages or losses. It makes them also pretty much reliable – for business partners (suppliers, clients, customers) as well as for employees, for the region and sector where they are active and for the society as a whole. You can trust in those companies, they are predictable and built on long-term partnership with all their stakeholders.

Let me give you a further example: If a company has to lay off several thousands of people, they usually have a 2-3 year plan to make this process as smooth as possible – through early retirement, monetary incentives for voluntary leavers and additional training programs for employees to find new jobs in other sectors. They even engage consultancy companies and head hunters to make sure their former employees find adequate positions. This makes ups and downs in the economic cycle less dangerous; people know and expect that companies and the state take good care of them. We have thus a relatively high degree of societal harmony and peace.

5. Why do you think American style cannot work in Germany? Why do you think USA and Germany formed these two very different styles?

Well, they can be pretty successful if they benefit from the strengths of both sides. They can, for example, use their flexibility to adjust to the local circumstances and expectations. Several American companies are good examples in this field: the car manufacturers Opel (GM), and Ford, as well as IBM have a long and successful tradition in Germany. Very many Germans did not know that Opel belonged to an American mother company because the cars were so German – they only realized when GM went bankrupt and wanted to lay off thousands of employees in Germany. This was when the German government intervened. Or take Mc Donalds: They now offer healthier food in Germany and buy from local suppliers.

Others have not been so clever. Wal-Mart, the American shopping giant, tried to transplant its American shopping malls 1:1 to the German market – ignoring competitors, customer desires, shopping habits and standards in leadership and human resources management. Its failure has become a textbook example for what to avoid when you enter foreign markets. Every society has developed different business cultures which you have to respect in order to be internationally successful. Awareness and sensitivity enable us to adapt where necessary and to benefit and learn from the various strengths.

6. It has been 4 years since the first publication of your research on the globalization of US management styles. Nowadays, do you see the synergies you wished in German companies? What about other European countries?

Not as much as I wished. German companies also adapted to the American style which has become a model for the whole world. They also have taken more risks than they should have – just look at the banking sector. It was too promising to see all international companies make big profits, therefore many followed their example.

This is a general trend in the globalized world: In stiff competition you need to react fast, you have hardly time to develop things thoroughly and plan far ahead. Long-term R&D often doesn't pay off: innovations spread fast and get copied. They hardly leave you a long-term competitive edge. Partnerships with other companies become temporarily, everything gets pretty much short-term oriented. Few customers remain who really appreciate high quality, taylor-made appliances and solutions that endure a lifetime.

But quite a few German companies still value those old virtues. Most of them are family owned companies or have a family foundation or holding structure, they usually are reluctant to get listed on the New York Stock Exchange and are not interested in getting taken over by investment funds. Among them are lots of so-called “hidden champions”, small and medium sized companies which manufacture in Germany and very successfully on the international scene.

7. As we see the sluggish economy of America after the crisis, do you think the American management style is still effective in today's USA?

In 2008, Americans were confident that they will soon recover and be stronger than before. (It is a question of mentality: Americans are optimistic, Germany often doubt whether things will turn out well.) Now, after 3 years of crisis management, their hopes for a quick recovery are fading. But the basis for this crisis has been laid much earlier: through high consumption, a low savings ration (sometimes below 0) and a high public deficit spending after 9/11. The promise of wealth has been kept up by a very high liquidity which enabled consumers to spend what they could not afford and made American investment banks go on shopping tours around the world.

Nevertheless, the USA have several virtues which will help them to overcome the crisis: individuals like companies know that they have to work harder in order to help themselves. They are flexible enough to adjust to new circumstances. You can, for example, already see a higher savings ratio. Maybe the shock that growth is not a perpetuum mobile taught them a lesson. At least their entrepreneurial spirit and innovative capacity in software industries is unbroken.

8. What do you think Chinese companies can learn from German experience?

Regarding management styles I do not recommend one nation's business model for another culture. What works well in one country due to its political and law system cannot be the perfect solution for another, completely different society. Therefore every country and company has to find its own best way according to the people's needs and current circumstances.

There are some traditional virtues which are increasingly appreciated in Germany: stakeholder value, respect not only for shareholders but also for long-term customers, suppliers, business-partners, the region, society and nature environment where they work and live. This implies long-term thinking, societal harmony and respect for nature and the environment. Companies and society are mutually dependent on each other. Companies benefit from a reliable public infrastructure including energy supply and distribution (i.e. intelligent grids), efficient and environmentally friendly manufacturing, transportation and logistic systems (including waste management and recycling systems), a stable and modern communication system as well as a good education and health care system. And the society benefits from companies which act in a sustainable way, from managers who are good examples for their employees and create a responsible and motivated work atmosphere. A good company culture shows the character and philosophy of its leaders. Good working conditions have a positive influence on the people and on societal harmony.

Here I can tell you a little story about a German-Chinese mutual learning experience. Two weeks ago we had a Chinese guest student from Shanghai in my family after my son had been staying with his family in Shanghai in May. He was surprised when he landed at Munich airport. He said the thought he came to Germany, an industrial nation – but when he arrived, there were no skyscrapers, no big industrial sites, no dust and dirt, only nice landscape with forests, fields and small villages. When the whole group of exchange students came to visit our mayor, they asked: When will you start selling the ground and erect big buildings on all those free fields? The mayor answered: We don't want to build huge buildings there. We fight for every single tree to remain where it is. People come here from town to enjoy the beauty of the nature, to have small houses with big gardens. That's what he said. After work we took the exchange student to the rivers and lakes to swim. They love the drinking water quality. When he experienced the beauty of nature I guess he knew what we meant by sustainable, qualitative instead of merely quantitative growth.

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