

## 'BEST OF EUROPEAN BUSINESS' 2010

**Speech at the awards ceremony**

**PROF. DR. BURKHARD SCHWENKER**

Berlin, February 25, 2010

### *Check against delivery*

Mr. Petschke, honored guests, friends, ladies and gentlemen:

When I opened our Best of European Business event last year, the crisis was looming on the horizon. We were already asking ourselves whether our timing was right for the event. And of course I wanted to – and had to – comment on the crisis, and I remember I quoted from an article in DIE ZEIT: "Forecasts are dominated by talk of bankrupt countries, mass unemployment and trade wars. No country will be spared; Iceland has gone under already; the EU is facing trials and tribulations; it is feared that China might collapse." Perhaps you remember.

I certainly remember it very well: I had resorted to a quote, because I was uncertain. Everyone feared the worst, and in some ways DIE ZEIT had got to the heart of the matter – we all know we can feel secure in the mainstream. Yet my innermost feeling was different: I felt that things wouldn't turn out so badly, and I especially believed that the recovery could start more quickly. And in retrospect I am very pleased that we went ahead and took the optimistic view, becoming progressively more confident, and expressed our opinion that a V-curve – you may be familiar with our economic-cycle scenarios – with significant growth was likely in 2010. I was aware that many people initially found our optimism surprisingly refreshing – hopefully not surprisingly naïve – and hardly anyone followed our lead. And now? The IMF has massively upped its forecast for 2010 to 3.9%; pretty well everyone agrees that China will grow at more than 10% this year; India will do similarly well; and the Association of German Chambers of Industry and Commerce (DIHK), for example, now expects a growth rate of 2.3% even for Germany. Put all this together and you get a wonderful V-curve, gratifying confirmation and a very different start for this evening – assuming we can believe these forecasts.

Because one thing really is clear: the fact that our scenarios are in line with the trend, so to speak, has to do not only with conviction, but also with luck. And the crisis has clearly shown us that we can no longer trust forecasts in general. But it has also shown that an individual opinion is important, that mainstreaming gets us nowhere, and that long-term, fundamental developments play a decisive role. And this, ladies and gentlemen, brings us straight to our theme for this evening.

A recent headline in the Financial Times Deutschland (FTD) spoke of the "Biggest Forecasting Errors in Recent Years." Perhaps you read the article. One of the predictions described as an error was that the past decade would be a European one. Mr. Klusmann, the FTD is, of course, always right! But in my opinion it is completely off the mark here

for the following reasons. First, perhaps it was not yet *the* (!) European decade, but on the whole Europe fared very well! Second, the article illustrates the fact that we are still not very self-confident when talking about Europe and its strengths and successes – which is why our BEB initiative is still on the right track: it makes sense to keep highlighting Europe's potential. And third, I would like to extend the forecast: the new decade will most certainly be truly a European decade!

But let's take one thing at a time. The statement that this was a forecasting error is wrong because Europe has achieved a lot over the last ten years. Indeed, the successful introduction of the euro alone is evidence enough. Think back to ten years ago: who would have thought that the euro would develop into one of the strongest and most stable currencies in the world? You may recall that the euro was worth just 97 US cents in early 2000. Now it stands at USD 1.35 – despite the crisis in Greece, which in my opinion is overstated and largely speculative anyway. The fact that an investment bank was paid to help Greece "fake" the numbers says it all. And who would have thought that the euro would emerge as the stabilizing element in the economic crisis? It's hard to imagine the havoc the crisis would have wreaked if we hadn't had the euro.

A second point: Europe has grown up over the past 10 years. The number of member states has risen from 15 to 27, the number of inhabitants from 370 million to almost half a billion. And I believe that, today, there is no question that EU enlargement made sense, because it has brought increased prosperity and new opportunities to more than 100 million people in the new member states and led to greater security for all of us; and because it created new – and potentially reliable – markets for our companies.

Thirdly, and this brings me to my theme: the best way to see how strong an economy really is, is by looking at its companies – what else? We have therefore analyzed the data on the 3,000 biggest companies in the world over the period from 1998 to 2008 – which is a long time series covering several crises and extending at least into the present one. This analysis reveals impressive results for Europe:

32% of these biggest companies are European; that's a good start! What is more important is that these 32% accounted for 37% of the total sales of all the 3000 companies. Even better, these 32% generated 42% of total profits, and profits have grown faster: by an average of 13.1% in Europe, compared to only about 7% in North America and Japan. And finally: Europe's companies made nearly 40% of their profits outside their home market (meaning Europe, by the way, not the market in their home country!). This is significantly more than America or Japan, where the figure was only about 30%. So Europe's companies are the real global players!

So in summary, we can say with pride that Europe's top companies are growing faster than their international competitors; that they are significantly more profitable and are raising their profitability faster; that they are more productive than the competition; and that they are significantly more international.

It is therefore not surprising that the balance of power is shifting more and more towards Europe. This becomes even clearer if we zoom in more closely – from the 3000 biggest to the 50 biggest companies in the world. 23 of these companies have their headquarters in Europe, while the number of American companies in this top group has fallen from half (10 years ago) to just 16 today. I know I say this every year, but it really does get better

every year!

And while I'm in the process of repeating myself, there is a second point that I always like to make, because for me it reflects the strategic strength of European economies in exemplary fashion. Europe has also done extremely well in the latest edition of the World Economic Forum's Global Competitiveness Report on the major economies – and this ranking, too, now covers much of the crisis period:

European countries occupy eight of the top ten places when it comes to "uniqueness of competitive advantage." Translated, this means that we are evidently the best internationally at distinguishing ourselves with our products and services, and European countries also take eight of the top ten spots in terms of the intelligence and quality of our production processes. In other words, our strength lies in top-quality industry combined with top-quality services. I shall come back to this later.

Certainly, the numbers and rankings provide impressive evidence that European companies are increasingly pulling ahead of their global competitors. To say it again: they are growing faster; above all, they are growing more profitably; they are more international; and they operate more sustainably. And for this reason alone, it is justified to ask whether they – i.e. we in Europe – are simply better at it, or whether there is a specific form of European corporate governance that better reflects the new challenges.

I find this question exciting, because for a long time such a question was simply not relevant...or we were reluctant to go on the offensive and ask it. Because to this very day, the "American way" of management has had a huge global influence on forms of corporate governance, especially in Europe. There are a number of reasons for this which have mutually reinforced each other:

As a science, economics has for decades been influenced and further developed by Americans. Of course, this also has to do with the fact that English has become the language of science. But the primary reason is that schools were founded by economists like Samuelson and Friedman, or management teachers like Drucker, marketing people like Kotler, and strategists like Porter.

Subsequently, it was American universities in particular that set the course worldwide. Rightly or wrongly, anyone with a minimum of self-confidence went to an American business school to get an MBA.

It's also clear that almost all the management approaches of the past 20 years have been American in origin, be it the experience curve, portfolio strategies, Porter's "five forces", shareholder value or (virtually) all corporate finance tools.

Furthermore, the Americans have been extremely good at setting their own standards in all matters from accounting to rating. The most important rating agencies, for example, are very much US-dominated, one reason being that the Securities and Exchange Commission officially recognizes only three agencies: Fitch, Moody's and Standard & Poor's – and all three are based in the US, of course.

There is one more reason for the dominance of American management philosophy: if we are honest, our generation is full of hidden admiration. If someone asks us to name a truly global company, we are very likely to mention an American company – not Volkswagen, not Siemens, and certainly none of the many medium-sized German companies that are world leaders in their fields. For this reason we can recognize without envy that American marketing has worked extremely well over the decades!

Realistically speaking, therefore, the dominance of the American management model is not surprising. But in the wake of the current crisis it has become more dubious than ever whether thinking in American categories is at all likely to guide companies to successful business operations. Let me put it more bluntly: the American management model is very much based on short-term thinking, a fixation on the capital markets, an excessively financial orientation, and a way of thinking that is based on a misunderstanding of shareholder value. The crisis was the last straw – this management model has largely failed. At least, Jack Welch, former CEO of GE and one of the best-known protagonists of the American shareholder-value philosophy, recently said – and I quote him verbatim because he puts it so well: "On the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy (...). The main pillars are your employees, your customers and your products." What can I say? We have always known this in Europe. But we have not managed (or dared) to actively market a European alternative.

In any case, we certainly believe that now is the time to do so. We in Europe seem to be in a position to deal with the new challenges better and, above all, more sustainably – thanks to our longer-term orientation, especially as regards employment; because our companies are more firmly embedded in society; because we have a broader understanding of business success; and above all because our humanistic understanding of education aims to produce the breadth needed to make the right judgments in complex situations. What counts is interdisciplinary, backward-looking, thinking (an educational ideal we must hold on to); case studies that simplify matters; and a creative way of dealing with diversity. People who grow up in Europe and receive management training experience many different languages, cultures and systems, all within a small area. They learn not only to how deal with this, but also that diversity is the most important source of creativity and therefore of competitive advantages.

Ladies and gentlemen, if what I say is true, then now more than ever we should have the confidence to talk about Europe, about European companies, and about European managers. And that is exactly what we want to do here today, this is exactly what the Best of European Business is all about! It's why this year we are again honoring two companies and two managers who have shown that our hopes for the superior European management model are based on reality: by means of growth in the crisis and exemplary leadership based on true European values. Like every year – as I'm happy to say because I look forward to it – in a moment the prizes will be awarded by the editors-in-chief of our media partners: Arno Balzer of manager magazin and Steffen Klusmann of the FTD. Gentlemen, thank you; I think it's wonderful that we are here again together this year.

But before we get to that, I would like to address another issue that is close to my heart. We need a powerful, efficient Europe for our companies to be successful in the long run. That's why what goes on in Brussels and what the new Lisbon Agenda looks like is so important. Because, unfortunately, one thing is also clear: our efforts thus far to generate enthusiasm for Europe have achieved only mild success. I have a naïve explanation for this: I believe we have concentrated too much on political issues instead of focusing on the rising prosperity generated by Europe. Political issues are of course also important, but we have not managed to mobilize and enthuse people. What we lack is a second single market project, a new and truly European initiative like the one Jacques Delors began back then.

On being awarded the Nobel Peace Prize, President Obama said that peace was more than the absence of a visible conflict. I thought that was very well put, and although I don't want to get too philosophical, this idea can point us in the right direction. Growth, too, is more than the absence of a crisis, and we have all learned that we can rely on growth only if we succeed in making it sustainable. And sustainability can be achieved only if we manage to connect the great issues of this world – such as climate change and aging populations – with growth. Both require industrial expertise, because everything that has to do with "green transformation" is based on the intelligent cross-section of engineered products, electrical engineering, and top-quality services. And the same applies to demographic change. We can regard it either as a threat – or an industrial opportunity. For one thing is clear: a shrinking workforce can be offset only by productivity growth. And that means we need innovative production methods – and age-appropriate production structures. This is also something to which industrial strength contributes.

Ladies and gentlemen, I am, of course, aware that this is still far from being a convincing new European project. But I have a strong feeling that a key to this might lie in rediscovering our industrial expertise, combined with the idea of sustainability. Because here in Europe, industry makes up 18% of the economy – even 24% in Germany – whereas the corresponding figure in North America is only 14%. Recently, even Obama adviser Paul Volcker very aptly said that Europe is significantly better positioned than North America: "We Americans must get back to the belief that we can produce something. I always say that we should take Europe as our role model." Well, if we can't make anything out of this over the next decade, we will have only ourselves to blame!

A few days ago I was delighted to come across a quote from Johann Wolfgang von Goethe which, in my view, sums all this up in a nutshell: "In unsteady times, he who is unsteady in mind makes matters even worse." That's not what I want to do this evening, on the contrary! We are proud Europeans, and I hope I have been able to explain why we have the potential for a European decade. I would therefore like to conclude with the threefold concept that has accompanied us over the last five years of BEB: the trio consisting of a dream, a vision and a strategic necessity:

The dream: Europe as the most competitive region in the world, achieved through innovation and education, more competition and leaner bureaucracy – and I sincerely hope that the new Lisbon Agenda keeps this ambition on board!

The vision: diversity spawns creativity, creativity achieves competitive advantages, and Europe can offer this diversity for creativity – thus meeting all the conditions for a superior European way of corporate governance.

And the strategic need: quite simply because our companies need large domestic markets to develop 'at home' the strength needed to lead globally. For one thing is clear: nobody can be globally successful with a home market of, say, 80 million Germans, 64 million French or 60 million Italians. But a genuine home market with 500 million Europeans is a very different matter. And therefore, the consistent integration of the domestic markets must be high on the new agenda, cutting across all national self-interests and fears.

As every year, I have one more point which I should really have made at the beginning: namely, to thank you. First of all, thank you, Mr. Petschke. Not only for having the Representation of the European Commission host us – spontaneously, by the way, because you were immediately taken with the BEB idea – but also because you and your team have given us such energetic support in putting the idea into practice. All of you who have been our guests for years – and there are many of you, it's wonderful – you will know that we

are always traveling with BEB. First we were in the British Embassy, then in the American Embassy to capture the Anglo-Saxon perspective; at the Russian Embassy we turned our European eyes to the east; and last year at the French Embassy we focused on Franco-German relations. Today, we have arrived back in the middle of Europe, so to speak – and this is important! Therefore, many thanks to Heinz Zourek, the Commission's Director-General for Enterprise and Industry. Mr. Zourek, thank you for being here tonight. We look forward to hearing you speak in a moment.

Ladies and gentlemen, I would also like to thank you all. Thank you so much for coming tonight; we feel honored that you accepted our invitation – despite the pilot's strike! And I can promise you one thing: to return to Goethe, we have not become unsteady, but have stuck with our concept. And that means not only that we have an inspiring evening with our winners before us, but also – and this I can promise you – a pleasant evening with good music, good food and some good conversation.

Let me also take this opportunity to apologize to those of you who have to watch the ceremony on the screens in the foyer. To be honest, I have two conflicting feelings on this subject. On the one hand, we were pleasantly but truly surprised at the number of people who accepted our invitation, and I'm sorry that you have to stand out there. On the other hand, this is the best omen possible for "Best of European Business"!

Thank you, and have a wonderful evening!