

# Hermann Simon

## Role Models of Leadership beyond the Crisis



*„The hidden champions  
of the 21st century are  
going their own ways.  
They do most things  
differently and are true  
models of leadership  
beyond the crisis.“*

**IEDC**

Bled School of  
Management

*A School with a View*

## ***Introduction***

*We are pleased to present you with our Book of the Year for 2009. It is our 22nd such publication, and this year contains lectures by the respected Professor Hermann Simon and other high-level speakers, delivered on the occasion of the Annual Presidents' Forum of 16 October 2009 at the IEDC in Bled.*

*The year now approaching its end was marked mostly by the current global crisis, which represents one of the biggest challenges for managers and leaders in decades. Therefore we decided to devote our top annual meeting to this topic and to invite Prof. Hermann Simon, one of the leading management thinkers of our time, to share his insights on what organizations should do to become competitive in these hard times and to explore the factors of sustainable success beyond the crisis.*

*The economic crisis is also a leadership crisis. For several years now, we at the IEDC have been stressing the need to balance the social, ethical and personal aspects of leadership responsibility while fulfilling overall business objectives. We have been receiving many positive reactions from our participants. This year, however our efforts also earned us an important international distinction: IEDC was named among the top one hundred business schools worldwide in the Aspen Institute's ranking: the only ranking that measures how well schools are preparing their students for the environmental, social and ethical complexities of modern-day business.*

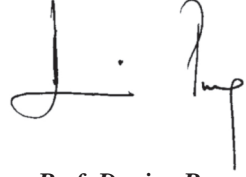
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*A holistic approach to management development is also in line with the thoughts of Peter F. Drucker, the "father of modern management" and a friend of our institution, whose centenary was marked on 19 November this year. Prof. Hermann Simon, a long-standing friend of Peter Drucker, learned a great deal from him; in his opinion, Drucker's approach to management was value-oriented and based on fundamental values and virtues – exactly what was missing in the past and caused the current crisis.*

*In the following pages you may find numerous useful pieces of advice on how to respond fast and accurately to the drop in demand; on how to develop pricing strategies in times of crisis; and on proper and improper approaches to cost-cutting. Even more are featured in Prof. Simon's recent book *Beat the Crisis – 33 Quick Solutions for Your Company*.*

*I regard these times of crisis also as times to retain and develop the best talents in organizations, as they will be needed when the economy revives. Thus, even though we live in difficult times, management education and talent development should remain strategic priorities.*

*We hope that you will enjoy reading this interesting and useful contribution, and look forward to meeting you at the IEDC in the near future.*

A handwritten signature in black ink, appearing to read 'D. Purg'. The signature is fluid and cursive, with a prominent initial 'D' and a long, sweeping underline.

***Prof. Danica Purg***  
*President*

## *Welcome Address by Prof. Danica Purg, President, IEDC-Bled School of Management*

*Welcome to our annual Presidents' Forum, devoted to the topic of "Role Models of Leadership beyond the Crisis". Today I am very pleased to greet 130 guests, representing 15 countries. We look forward to a very interesting and challenging day.*

*We all know that the world is still dealing with a major crisis. Unfortunately, much more has been said about its causes than about its possible solutions. Ideas and proposals for solutions focus primarily on new rules, laws, procedures, and changes in organizations and systems. But how will all this help if, in fact, what we see here is a leadership crisis? It is generally accepted that professional leadership is a very scarce resource. We feel this all over the world, even in countries with hundreds of millions of inhabitants and large pools of talented people.*

*About 20 years ago I had the opportunity to participate in an analysis that was conducted by the United Nation Development Program. In that study we found that it would be necessary to develop 250,000 new managers and leaders in Central and Eastern Europe, and about 2,500 professors of management. It is clear that in spite of all our efforts we have not even come close to these numbers. We have done even less in terms of instilling the necessary leadership qualities, such as professional and moral values, into managers and leaders.*

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*Management education in the past focused primarily on functional knowledge. Nowadays, this is no longer sufficient. Much more attention needs to be paid to leadership development and to the development of responsible leaders. To achieve this, a holistic approach to leadership development is necessary and innovative methods that will help to enhance creativity and sensitivity to new ways of leading and managing. We must do our best to educate leaders who are connected with the broader society and take into account bigger social issues, such as sustainable development, ecology, responsible leadership, human rights, labor rights, and poverty reduction.*

*I shall use this occasion to tell you that on 21 October our school will be proclaimed one of the 100 most innovative schools in the world by the Aspen Institute, USA, for having demonstrated significant leadership in integrating social, environmental and ethical issues into its MBA program.*

*We believe that one factor in particular is very important. In the mindsets of many business and political leaders, especially in this part of*

*the world, we still see too much orientation towards the past rather than towards the future. Current leaders have a responsibility to develop future leaders. Of course, management schools must also do that. That is how we might be able to turn the crisis into an opportunity: by challenging the younger generation to take responsibility for a better future.*

*Today we are very pleased to have the opportunity to learn more about how to beat the crisis from one of the most influential thinkers in Europe: Professor Hermann Simon. In the round table discussion Professor Simon will be joined by Ms Tatjana Fink, President of Trimco, d.d.; Professor Vladimir Mau, President of the Academy of the National Economy of the Russian Federation and President of the Anti-Crisis Commission at Prime Minister Putin's office; and by Mr Sergio Razeto, President and chief executive officer of Wärtsilä, S.p.A., Italy.*

*But first of all it is my honor and special pleasure to invite the President of the Republic of Slovenia, Dr. Danilo Türk, to open this year's Presidents' Forum.*

## *Opening Address by the President of the Republic of Slovenia Dr. Danilo Türk*

*I feel pleased to be at this Presidents' Forum for the second time. There are two presidents' forums in the fall. One takes place in late September in New York. But there is a more important one that takes place in October in Bled. The presidents who attend this one are guests of Danica Purg. This event is more important because, unlike the one at the United Nations, this one provides an opportunity for an exchange of ideas for creative thinking as well as solutions.*

*The United Nations is a much more complex system and solutions are not easy to find. It is always interesting to hear what the presidents of different countries say and how they view the international problems and crisis situations on the agenda of the United Nations. But it would be too much to expect that these discussions would be a critically important contribution toward the finding and implementation of solutions.*

*The world has learned that there are many discussions that are necessary and useful. Nevertheless, many of them are such that one cannot expect a creative approach to solutions, let alone real solutions. I understand that the Presidents' Forum that takes place in Bled in October is different. Creative thinking is not only encouraged, but has become the standard here. The speakers are excellent representatives of the highest-quality thinking in Europe and globally. As a result, one can expect good ideas and solutions or at least serious steps toward solutions. We have to think about this now because the world is in a crisis. This is more than a recession in the usual economic sense of the word. We need only think about one factor - the borrowing that has taken place in the year since the collapse of Lehman Brothers and the subsequent events. That borrowing is something that only happens in wartime. The amount has been so huge that debt is now obviously a major problem. Growth is another difficult issue. Market dynamism cannot be taken for granted.*

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*Therefore the solutions are not likely to be easy anywhere in the world. Of course, there are differences between countries and regions. But in general the situation is difficult and it is likely to remain that way. We have to ask the right questions and start thinking in the right way. After reading much of the literature on this topic recently, and after being involved in a number of discussions, I can say that the worst mistake that can be made between now and the next Presidents' Forum in 2010 - in which I hope to participate again - would be to waste the opportunity for reform.*

*At this time we have to think about reform very seriously. I know this is not easy, because when public money has been provided to private banks to solve their short-term problems, many would take the current recovery as a sign that the worst is over and no further reform is really necessary.*

*I think it is quite natural and a part of human nature to avoid hard choices if possible. Reform always involves hard choices. We can see this at the global level, for example in the discussions of the recent G-20 meetings in Pittsburgh. We cannot be entirely satisfied with the depth of the analyses and decisions. We cannot really say that the path toward reform is fully accepted and that success is guaranteed. Many people in the financial sector are simply not prepared to implement much financial reform.*

[06] *Let me take the example of the reform of the International Monetary Fund. There is some readiness to increase the resources that will make borrowing easier, but it is much less clear whether a structural reform of the International Monetary Fund or a new definition of that organization are possible. Opinions are still divided. It is also unclear whether the Fund will initiate an ambitious process to become a sort of combination of international bank which can be used as a last-resort lender, and global insurance system, or whether it will be marginally improved through increased resources and new, less burdensome lending policies toward countries that need loans to overcome their balance-of-payment difficulties. This will be a good test of how far global leadership can go.*

*The world has suffered for decades from a lack of global leadership. In all crises in the past two decades, we have seen deficiencies in leadership in wars and other political crises. Now we are seeing the same problem in an economic crisis. We have to step up the pressure that is needed to achieve reform. Things do not look very good at the global level. And they do not look promising either, as far as reform is concerned.*

*I am the president of Slovenia, a country that does not have too much international influence. I cannot promise you that I will exert the kind of pressure that will change the International Monetary Fund. I have to be careful on such matters. But there are similar questions about readiness for reform at the national level. That is where I have been active and where more is expected from me. I do not wish to go into a detailed discussion of our national policies but I would like to mention one domain where serious reform is needed: the social dialogue.*

*In Slovenia we have a process or a system of social dialogue that is intended to bring together the government, the business community and*

*labor. These parties are supposed to discuss labor-related issues, such as salaries and wages. If we look at the way that this dialogue was conducted in 2008, we cannot be satisfied. We did not see any real innovation in that context. We did not see any leadership either. We saw increased pressure to raise minimum salaries. That is understandable, both psychologically and politically. But we need more than that. We need a much more sophisticated and continuous dialogue in which we can address some of the basic structural problems, such as pension reform. It is clear that we have to change the system and raise the retirement age to 65.*

*However, right now we have very little dialogue that would enable us to come to a genuine agreement on the general pension system as well the various exemptions and exceptions that are necessary in every arrangement of this kind. We have not reached the point where we can say that our social dialogue has matured to a reasonable level, where we can expect a genuine agreement to be found.*

*I am singling out this question because I think that it is of great importance in a society like ours. We are an aging society with an aging population. We have to think about our development over the next two decades and beyond. Issues like pension reform can no longer be delayed. Therefore, leadership tests today include not only short-term issues such as finding new markets, restructuring businesses, and other issues of that nature. They also include major challenges for our society as a whole. That is where we need leaders. We do not need just one single leader. These are not problems that can be solved by one leader or a small group of political leaders. These are issues that require the participation of a large number of leaders in business, labor and politics. We do not have many people who can lead as yet, and the leadership issue remains critical.*

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*Danica Purg said in her introduction that during a crisis people tend to think about solutions in terms of new rules and regulations. That is natural. Often there can be no solutions without new rules. But after a new system is established, it frequently turns out that the system itself is a problem. Systems have to be managed in a manner that produces solutions to problems. We have to think about problem-solving even when we are talking only about new rules and institutions. What I said earlier about the International Monetary Fund was not prompted by the fact that I, as a law professor, like to seek solutions in terms of new rules for institutions. I said it as somebody who knows that a new institution has to be put in*



*place in a manner that allows proper policies to be shaped early. Legal norms have to serve the problem-solving objective.*

*These are some of the thoughts that come to my mind. Leadership is critical. It has to do with reforms and institutional change. It also has to do with commitment and ability to address problems in a timely manner. There are many who think that this is not the time to move on issues such as pension reform and that we can afford to delay it because we should concentrate on more urgent matters. But this crisis is a situation when we have to think more ambitiously, more comprehensively and with a longer-term perspective.*

*I am sure that this Presidents' Forum will provide an opportunity to engage in creative and useful thinking. There will be discussions which will address the issues that I have mentioned. This will help you in your decision-making, both as business people and citizens. I also hope that the Slovenes among you will see that this is a critical moment to mobilize our citizens in order to establish the right kind of social dialogue – which, at present, is not sufficiently sophisticated or comprehensive.*

[08] *This introduction has been devoted to outlining the challenges that we face. This is appropriate for a forum that is taking place during a crisis. I would like to stop here and wish you a very successful event. I look forward to your results. Thank you very much.*

## Prof. Hermann Simon: Beat the Crisis

Before I start my talk, I would like to say a few words about my perception of Slovenia. This country is a remarkable phenomenon. Looking at your development over the past 20 years and comparing it to that of some other countries in Central and Eastern Europe, it is clear that an economic miracle has taken place here. In this kind of development, 20 years is a very short period. Let me just illustrate this using one number. Today we have 50 million cars in Germany. Do you know how many we had in 1965? Five million. Slovenia's development has been far more rapid. You are now close to the average per-capita income of the European Union, and that is very impressive.

Mr President, you said that your influence on the world's affairs is not great. I looked in Wikipedia yesterday and read that Slovenia's population is 0.003 of the world's total population but its international influence is about 10 percent of the world's total. I do not know how that can be quantified, but one thing is sure: your influence is very great and you are very much respected. Congratulations on this achievement.

At present we are all in a difficult situation and have to cope with the crisis. My talk will focus on business. I am an economist by education but later I defected to business administration, which is less respected by economists. I will start with some macroeconomic points. I share the President's skepticism with regard to the existing ability for real reform. At the end, after I have talked about business aspects of the crisis, I will return to some macro-economic issues.

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I was in China last week and learned an interesting proverb: "When the storm comes, some build walls and others build windmills". Of course, the challenge for us is to build windmills, not just to resist the crisis but to make the best out of it. Ideally, we should come out of it stronger than we were before. This is difficult for countries, and it is difficult for businesses. The crisis is a period of catharsis or purification, and many will fall by the wayside.

I think that it is very important to understand the crisis. What are its causes and how has it impacted various areas?

### THE ROOT OF THE CRISIS

First of all, what is its root? Most people say that it started with the sub-prime crisis in the United States. The exact date was August 7, 2007, when in one night the inter-bank lending rate rose by 70 basis points, while the usual daily change is four to five basis points. The problem became obvious and, interestingly, until the collapse of Lehman Brothers everybody was talking of a financial crisis. It was believed that it could be contained in the financial sector and in that

way would not spill over into the real economy. This turned out to be an illusion, because the economy is a system of communicating pipes and you cannot separate one sector from the other.

In my view the real root of the crisis is very different. It lies in the monetary policy practiced by the United States since the abandonment of the Gold Standard by President Nixon in 1971. Since then, Americans have fought each crisis - and there have been quite a few of them in the past 40 years - with easy money and low interest rates. In other words, they have expanded the money supply. As a result, the dollar has lost about 80 percent of its value. No matter what real value you take, the dollar is about 80 percent down.

This oversupply of money has created repeated bubbles; investment and opportunity have been sought in the Internet sector and the real estate sector. Right now we are doing more of the same, although in the current situation increasing the money supply is the only choice. What nobody has done, however - neither the United States nor the European countries - is to pay back public debt in good times. We apply one side of Keynes but not the other. In Germany we had very good years from 2005 to 2008, but we never reduced the public debt.

[10] An interesting feature of this crisis is that it is the first one that is really global. Per capita exports on a global scale were six US dollars in 1900, 500 dollars in 1980, and 1000 dollars in 2000. In the following seven years the figure reached 2000 dollars. This is a valid indicator of how interconnected the global economy is now. This explains why the crisis spread so rapidly across the globe right after the collapse of Lehman Brothers.

I talked to a top manager from the chemical industry last week. He said, "Until the third week of September last year, we were booming. In the first week of October we were in deep trouble." The role of government in this kind of situation is very important. It has to inject money into the economy by means of stimulus packages and regulation.

## **THE NEED FOR HISTORICAL PERSPECTIVE**

Here is an example of a problem associated with our perception of the crisis. It comes from the machinery sector, but there are many similar examples in other sectors. From 1998 to 2005 there was "normal" growth, albeit with some fluctuations. In 2006, the market exploded. In 2009, a steep fall occurred. Part of the problem of our interpretation of reality is that we come from an extremely unusual situation. The previous growth was not the norm; it was a historical exception. The collapse is bad but it is not horrible compared to the long-term average. However, all our comparisons are annual; that is,

we always compare with the year before. In this way we disregard the fact that we are actually looking at the view from Mount Everest - and from there you can only fall.

Let us look at German exports. Since 2000, they have almost tripled. That is simply unrealistic and unsustainable. Even if we fall 15 or 20 percent in 2009, we would still be higher than in 2006, a year when we were not exactly starving.

I say this to companies when they look at their revenues. Many of them grew 20 to 30 percent in the past few years. Even if they contract 20 or 30 percent today, they would still be at the same level as in 2005 or 2006. We should be able to cope with that. There may be a short-term problem but structurally it should not be that problematic.

The *first lesson* is that one problem in judging the crisis is our entrenched habit of making annual comparisons. Recently we have even started using monthly comparisons: September was 2.5 percent better than August but August was 2.1 percent worse than July. We go to extraordinary lengths in order to find numbers that will look a little positive to us. However, we would be well advised to adopt a more historical perspective. This is my first insight on understanding the crisis.

## **DIFFERENCES ACROSS INDUSTRIES**

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Second, it is wrong to talk of a general crisis. You have to move from the general perspective to the level of industry. There we see huge differences. A study in the United States looked at all crises since 1980 and how different sectors deviated from the average. The differences were tremendous. For example, while the hospitality industry was in deep trouble during crises, education actually profited from recessions. In Germany students stayed longer at university, getting additional education. This means that it is very important to understand what is going on in your industry. I have talked to people in different businesses about the crisis and I have heard very different stories. Some say it is a disaster, some still report growth. For example, fast-moving goods and pharmaceuticals are hardly affected.

The same is true when we go one level further down and look at what is going on within a particular sector. Last year process engineering technologies grew 35 percent, whereas textile machinery declined 32 percent. Sub-sectors of the same industry sector are not affected in the same way.

A very important question is how customer behavior changes during a crisis. This is a sales crisis, not a cost crisis. It is not that purchasing power has all of a sudden evaporated. Unemployment has not shot up so far either. But why have people stopped buying?

Because they are afraid of the future. They fear that they will lose their jobs. They perceive risks and they hang on to their money. Even in the United States, savings rates have gone up. The prediction for next year is that they will stay high.

Consequently, one of the main challenges for business is how to overcome unusual risk perception. We note an unfavorable shift in price elasticity. What does that mean? In good times, if you cut prices by 10 percent you usually get more volume. If you cut your prices by 10 percent now, nothing happens: people still do not buy. Your cut is not enough to overcome their resistance to buying. AutoNation is the biggest car dealer in the United States. Last year one dealer had 1500 leasing contracts for General Motors cars in one month. Now that number has fallen to eight contracts in the same month.

At this time, image counts less than hard advantages. People want short-term returns because they do not know how much inflation there will be five years from now. Financing becomes a bottleneck. This applies to both customers and businesses.

[12] On the side of business, one of the main problems is credit insurance, which is coverage for the risk that your customer may not pay. For example, I talked to one company in Germany. They say that they have been getting many orders from Russia and the Baltics but they do not have coverage and the customers are required to pay upfront. If that is not possible, the German company is reluctant to deliver because there is no risk coverage. Safety and security are important these days, as people want to avoid uncertainty.

The *second lesson* is that the crisis has affected individual industries and their subsectors very differently. Understanding this process is crucial. Changing customer preferences and behavior are not only a threat but also an opportunity.

## REMARKS ON COST-CUTTING

In a dramatic crisis like this one, we have to employ all profit-drivers. Our current problems cannot be solved through cost-cutting alone. If your revenues fall by 30 percent within a short period, you cannot also reduce your costs by 30 percent. We will come back to this later.

During good times, we prefer to have relatively high fixed and relatively low variable costs. If your revenues go up from 100 to 120 and your costs increase to 105, you are in a wonderful situation. Many companies in Germany have invested heavily in automation, which raises fixed costs and depresses variable costs. This is a financial leverage effect that can create a disaster in a recession. If your revenues decrease from a level of 100 to 80, and your costs fall by only 5 percent, you have a very serious problem. This is what has

happened to many companies during this crisis. In this case you have to change your cost structure, which is very difficult in the short run.

The other point is ... how to deal with lay-offs. The American solution to declining demand is to fire people. If, for example, sales go down by 20 percent, American firms cut the total company payroll by 20 percent. However, this is not a particularly intelligent solution. First of all, it is socially unacceptable in Europe. The other problem is that you lose qualified people. Will they come back after the recovery? This is an open question.

It is preferable to find a more flexible solution. By tweaking many different cost-drivers, the landing can be made much softer for everybody. In Germany, for example, many companies have reduced working times. Some work only two days a week. Also, every seventh company has reduced its hourly wage. The unions have cooperated on that front and that has made things easier.

However, not everything works everywhere in Europe. The German model is not necessarily applicable in France. Some French analysts say it is impossible because of the tension between workers and management. In Japan you can shorten work hours but you still have to pay the whole salary. Unfortunately, this does not help companies much.

I have to add that shortening hours etc. are not long-term solutions. One question is how deep we will fall in this crisis. Another important one is how long the crisis will last. I recently talked to the chief executive officer of a large automotive supplier. He told me that they were having a very bad year and could only survive for another 9 to 12 months. If the crisis lasts for 24 months, he doesn't know how the company will cope. [13]

*Lesson number three* is that instead of laying people off, flexible working solutions should be preferred. This retains qualified employees and allows a quick restart when the recovery comes.

The President mentioned the demographic problem. For the first time, in Germany this year we cannot fill all positions for apprentices. If you lay off a lot of people, when the recovery comes the labor market may get very tight.

## **SOLUTION ON THE MARKET SIDE**

My main emphasis for solutions is on the market side. We need quick solutions. This means solutions that can be quickly implemented and have a quick effect on sales and revenues.

There are a lot of opinions around about how companies should react to the crisis. However, most of the recommendations are the same as in good times: innovation, diversification, developing new foreign markets. I do not think that these are solutions for a crisis. I

am not saying that you should not do any of these. But innovation costs money, and during a crisis there is a cash and liquidity problem. The money that you invest will only bring benefits in a couple of years. This is not a contribution to a short-term solution.

I distinguish four areas where quick solutions can be sought:

- Responses to changing customer needs
- Sales and sales force
- Offer and price management
- Services

## **RESPONSES TO CHANGING CUSTOMER NEEDS**

I have shown how various companies have attended to this solution in order to deal with the challenges of the crisis. Hyundai, for example, came up with a "peace of mind" offer. If you buy a new car with a leasing contract and you lose your job, they will cover the leasing rate for three months. This solution reduced the fear barrier, and Hyundai's sales almost doubled. They were the only company that did well during the crisis in the United States automobile market. In 2008 they were not among the ten top sellers; now, in 2009, they are number seven.

[14] Another strategy is to share part of the risk with your customers. Enercon is the third-largest wind power company in the world. They offer their customers a service contract whose price depends on the actual yield of the wind park. As a result, 85 percent of their customers sign contracts for 12 years. Why does this happen? Customers do not mind paying a high price if the yield is high. If the yield is low, they would pay a low price. In this way, the company shares the risk with its customers.

Even during a crisis, you may have to increase your prices. For instance, steel producers are raising their prices despite weak demand. The biggest and most frequent mistake during the crisis is to reduce prices prematurely and too steeply. Why do managers do it? When demand has fallen, they think that you can boost it at least partly by cutting prices. That is an illusion. First of all, we have seen that in crises customers react less to price cuts than in good times. Second, you are likely to trigger a price war with your competitors.

If cutting prices is not a good thing to do in a crisis, what else is? Cut your supply. Champagne producers in France are a good example. They have experienced a dramatic decline in demand. Others in their place would have resorted to sales promotions and cut prices. But the French producers are smart. They just left 30 percent of the harvest in the fields, reducing the supply of champagne. As a result, prices have remained stable. That is much

better in terms of profit. Besides, in this way you do not destroy the luxury image of your product. If a bottle of champagne suddenly becomes 30 percent cheaper, it will be very difficult to restore the old price level because the product will have lost some of its luster.

We are observing similar capacity cuts by airlines. American Airlines have reduced the number of flights that they operate. Delta has scaled back its foreign capacity by 15 percent, and its domestic capacity by 6 percent. My advice is to do the same if your industry permits it. Cut capacity rather than prices.

Producers of stainless steel have increased their prices despite weak demand. For example, Universal Stainless has boosted prices six percent since May 2009. According to the Wall Street Journal, raising prices in this economy is a smart move for steelmakers. The whole mindset of the industry has changed.

Of course, it is unrealistic to assume that you can get away without any concessions on price. In that case my advice is to give discounts in kind. Vitra, a famous furniture design company, does just that. Suppose a customer wants to buy office equipment. The salesperson will tell that customer that Vitra cannot give price discounts, but may provide some chairs free of charge.

This has several advantages. Instead of giving away revenue, you give away products. This means that you keep your people busy. Second, you do not destroy the nominal price level. You do not say, "I admit that these chairs do not cost 500 euros each, but 250." The third point is that you give away less than the customer gets. If you give somebody 10 chairs, you create the impression that you have given away 5,000 euros. However, the production cost of those chairs is actually much lower.

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In addition, Vitra has sent its internal staff to the sales front. Even the boss sells (so-called "boss-to-boss" selling). The chief executive officer works on the phone, calling directors of other companies and trying to sell to them. That may only make a symbolic contribution to turnover, but it shows that the CEO is serious about the business. The rest of the personnel are also asked to help out with the sales effort by making phone calls to customers. They may not sell as much as the professional sales force, but they contribute a little - which is better than sitting idly in an office and being in a bad mood.

Vitra has come up with a 10-point program of quick solutions for the crisis:

1. Target stable industries and companies
2. Talk to more decision-makers at trade shows and conferences
3. Organize more customer events
4. Conduct a phone-and-coaching team selling campaign



5. Use internal staff for telephone sales
6. Systematically activate non-active customers
7. Gain new customers with innovative trial leasing offers
8. Conduct a promotion campaign for selected classics
9. Create an ideas board for young target groups
10. Launch boss-to-boss selling

However, the automotive industry has not done anything like that. I have not noticed any effort on the part of any car company to sell me a car. Is it below the dignity of the managers in the automotive industry to engage in sales? They have thousands of qualified people who know a lot about cars, but are idle because of the collapse of the industry.

Liqui Moly is a producer of lubricants. Their revenue in 2008 was 232 million euros. Despite the crisis they have set themselves higher targets than last year and have hired 12 additional sales representatives. They have invested in sales rather than scaling back, which would have been exactly the wrong thing to do in a crisis. The company increased its advertising activities and stepped up its presence at trade fairs. It has also profited from the withdrawal of large competitors from the lubricant oil niche.

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The next example is Syngenta, a Swiss company. They are the second-largest producer of pesticides. They have come up with an ingenious solution. Because farmers do not have cash, Syngenta offers them their products for a percentage of the harvest, which Syngenta sells on the commodity futures exchange. This barter trade may be archaic, but it helps in the crises.

If giving discounts is unavoidable, give them only if the customers buy more. A very effective technique is called "bundling". You give a discount if a customer buys a combination of your products, not just a single product.

BMW has a problem with owners of older models because they do not come to their garages for repair work. So far, BMW has focused on the owners of recent models, and old-model owners have used the services of independent garages. This is now going to change. BMW have put together lucrative service packages and even offer refurbished spare parts that are a lot cheaper than the original ones. In this way they won 400 new customers in this target group in Düsseldorf in just one month. As you see, it takes creativity. But it is obvious that there are opportunities if you come up with the right ideas and implement them quickly.

Another interesting idea is the introduction of separate charges. Ryanair, the low-cost airline, was a global pioneer in the introduction

of a separate charge for checked luggage. They started this three years ago. If you checked a suitcase, you had to pay 3.50 euros. Now they charge 20 euros and are considering increasing the charge to 30 euros. They have a very smart communication strategy. They say that this is not an additional service that costs more money, but a technique that allows them to make the ticket cheaper.

The company that runs the highways in Germany recently introduced a charge for toilet usage. You have to insert 50 cents into a machine. Since then, the toilets have become really clean. The trick is that after you put in your coin you get a voucher that you can use at the kiosk or the restaurant. Seventy percent of all customers do this, and then spend more than the value of the voucher.

These are smart ideas that can help you generate revenue in spite of the crisis. You can find many more examples in my book. I just wanted to give you a taste of what is possible to do in a difficult time.

Here is *lesson number four*. Changing customer needs, selling, prices and services offer many opportunities to beat the crisis. Unusual offers and cross-functional thinking are required. Caution toward risk-taking is necessary.

## BEYOND THE CRISIS

Now, what should we expect beyond the crisis? I do not know, and nor does anyone else. The Chinese are optimistic because they are recovering. They report almost 8 percent growth. Whether this is sustainable is a different question. Until recently I thought that we would recover within a period of a year or two. However, many people now predict that it will take until 2013 or even beyond to get back to the level of 2007 or 2008. Recently, stock markets have rallied incredibly. At the same time we are seeing many other signals. New orders are still down. The car sales that are taking place now are being boosted by incentive programs that will end soon, which means that these sales have actually been borrowed from 2010. What will happen if the numerous cars that were bought this year are missing from sales next year? How can that gap be closed? Unemployment will go up in the winter. I do not think it unrealistic to predict a second dip, for which we need a plan B.

[17]

## SOCIAL-POLITICAL CONSEQUENCES

In terms of social and political consequences, there will definitely be more tensions. I am actually surprised that the far left has not fared better in recent elections.

I cannot see how very strong inflation can be avoided. This is not a prediction but a certainty. Right now we have deflation because of the supply pressure and people's refusal to buy. However, in a couple

of years this will be replaced by inflation. I do not see how the money can be pulled out of the market to avoid that.

Public debt is extremely high in some countries. In the United States, the numbers are mind-boggling. This will lead to higher taxation. We will also see more government regulation. An even bigger concern is the danger of protectionism. At the London summit of 2009, the G20 nations promised not to create new barriers to trade. Nevertheless, world trade has fallen by 10 percent because of new quotas and regulations. Two weeks ago I talked to a large meat processor. Their second biggest market is Russia. That country has just introduced a tariff of 35 percent on processed meat. At the same time they have lowered the tariff for livestock. As a result, pigs and cows are being exported to Russia and processing companies in Germany have no work.

The danger of protectionism is that it is strongly populist and appeals to interest groups. It was one of the factors behind the Great Depression in the United States in 1930. The Americans introduced 60 percent tariffs on 20,000 products. Within weeks all countries responded in the same way and international trade fell by more than 50 percent within six months.

#### **CONSEQUENCES ON THE CORPORATE LEVEL**

[18]

At the corporate level the crisis will bring purification. Companies that were not profitable even in good times will disappear. We have to expect a wave of insolvencies. We will also see deleveraging. It will be more difficult to get credit and equity will play a bigger role. My advice is that if your equity is low, you should increase it as soon as possible. That will become more difficult in a year or two than it is today.

Streamlining of product lines and rebalancing of supply and demand are some of the very difficult tasks that must be executed in the future. Let me illustrate this using the automotive industry. Currently, global annual production capacity is 90 million cars. This year only 47 million cars will be sold. Even in 2007, the record year, only 59 million were purchased. This shows how much that industry has deviated from the demand-supply-balance.

I remember a talk by the chief executive officer of Daimler 11 years ago, in 1998. He said that the production capacity at that time was 40 million cars. This capacity was expected to double in 20 years. He predicted a capacity of 80 million cars in 2018. However, in 2008 the world's production capacity had reached 90 million. The investment in that industry has been unrealistically high.

No national government will allow its country's automotive industry to disappear. The United States government has saved

General Motors and the German government does not want to close down Opel. Instead, it is trying to push out Belgian, British and other foreign manufacturers, which is another form of protectionism.

There are going to be acquisition opportunities, but I want to warn you that low prices are usually an indicator of high risk. Not every acquisition will bring profit.

The emergence of ultra-low-price products is a very important development that also has a significance for Central and Eastern Europe. The crisis is not the cause of this phenomenon but it will accelerate it. The best example is the Tata Nano, a car whose end-customer price is 2,500 US dollars. You can compare that with the price of the cheapest Chinese car, which is 4,000 dollars. This segment of the automotive industry is expanding rapidly and Europe must have a presence in it. In fact, we already do. There are nine German suppliers of the Tata Nano. It is very important to pay attention to this growing segment or else we will miss out on the global market.

My last *lesson, number five*, is that nobody knows how the crisis will develop further. Massive government debt and inflation are certain. Although human needs will not change fundamentally, we will witness a major rebalancing of society and business. Hopefully we will see new values and a new type of leadership that involves modesty and avoidance of the excesses of the past. [19]

In summary, this crisis is a sales crisis and not a cost crisis. It has to be fought not only on the cost front, but primarily on the sales front. Adopt a realistic and differentiated approach to the crisis. As we saw, it affects individual companies and sectors in very different ways. Cut costs intelligently by using multiple cost drivers. Quick implementation and quick effects count for a lot. Offer solutions for changing customer needs. Avoid price cuts and go instead for volume cuts. Extend the value chain through enhanced services. And do have a plan B in case the situation worsens.

**PANEL WITH BUSINESS LEADERS AND DISCUSSION****Tatjana Fink, President, Trimo d.d., Slovenia**

Many analysts, including Dr Simon, have shown that the negative trends that resulted from the current crisis were already felt in 2006. My company, Trimo, operates in the investment business. As we are on the frontline of economic change, we also felt that something was happening in 2006. The next year, I began to speak explicitly about the changes that were bound to occur sooner or later.

Leaders need to be sensitive to any sign of an impending change. But do we really possess this quality? I think that we tend to wait until the last moment and react when it is a little late.

Some analysts are saying that the crisis has bottomed out and things can only improve from now on. I disagree. I do not think that the exact end of the crisis can be pinpointed. It is going to last, in different forms, for years. For example, even after the end of the financial crisis there will be massive unemployment. A major structural shift is also taking place as we speak and is bound to create social problems. There are increasingly fewer low-skilled jobs for people without the required competences. Slovenia is strongly exposed to this risk because the general population lacks the skills that will be needed in the future. We need far better education to correct the situation.

[20]

The next issue will be a budget crisis. There is going to be inflation. The pension system and the healthcare system will be under severe pressure. For many years we have neglected these pressing issues. They are looming large now and we will need a lot of reforms to address them in Slovenia and in many other countries.

The financial crisis is just one manifestation of what is going on in our society. Its roots are to be sought at a deeper level. We are in the midst of a crisis of values. That is the source of all other crises. We need to change values in companies and society at large. If we manage to achieve that, many other things will change for the better.

**Sergio Razeto, President, Wärtsilä S.p.A., Italy**

I am going to share with you the experience that we have had as a company in the past five years. Wärtsilä Corporation is a global leader in complete lifecycle power solutions for the marine and energy markets. By emphasizing technological innovation and total efficiency, Wärtsilä maximizes the environmental and economic performance of the vessels and power plants of its customers.

In 2008, Wärtsilä's net sales totalled EUR 4.6 billion and it had 19,000 employees. The company has operations in 160 locations in 70 countries around the world. Wärtsilä is listed on the NASDAQ OMX Helsinki, Finland. Our products are engines, generating sets, propellers, gears, seals & bearings and electrical power and

automation as integrated deliveries that have a strong focus on customer segments. I belong to the Research & Development and Manufacturing division. I am responsible for the development of products and production plants for the 4-stroke engines market.

Wärtsilä showed very strong growth in the last few years (2004 – 2008). We moved from 2.5 billion Euros in net sales to 5 billion. Our workforce increased from 11,000 to 19,000 people. We also concluded many acquisitions and expanded our business in different countries. Conspicuous investments were made to satisfy extremely strong demand in the ship-building and energy sectors. I had never seen such extensive growth.

Suddenly, in September 2008, the market in the ship-building sector fell by 90 percent. Recently (in the past two months of 2009) it has improved, but only slightly, and the disaster continues.

Something similar occurred in the power plant market. This is a much healthier market, but there is a lack of financing. We are talking about very big installations that require huge investment, plus insurance of the investment. Because this money is not available, the market has collapsed.

What can we do to tackle this situation? We are reducing our costs, as well as our capacity. I agree that this is a purification crisis, because it will force a lot of weak companies out of their businesses. The others will have to take a look at themselves and create more efficient and effective organizations. When the market is growing fast, we do not pay much attention to costs. Now is a good time to slim the organization down and look at the market in a new way.

[21]

There is another issue that other mechanical manufacturers face. I often travel to China: I was there two weeks ago and will be there again within a couple of weeks. My goal is to find out what is going to happen in this huge market. In my view, the future will not be the same for some industries. We need a good analysis of what the future will bring. In countries like China, but also Korea and Brazil, there is a lot of interest in creating capacity. This means that we have to understand how to defend ourselves. Research and development and innovation generate costs today, but we need them for tomorrow – otherwise we cannot survive. Our products must be competitive and innovative. If we do not provide added value that others lack, we will lose the game.

Growing markets like China prefer to build production sites on their own territory. We have to have a presence there, especially if we are building large components.

I would like to share with you some ideas which, in my view, are going to be important tomorrow. I mentioned research and development. This is a policy that we are pursuing today. We are

cutting all other costs except this one. We are reducing capacity, production and automation. We are trying to squeeze every last penny out of all these domains.

Manpower flexibility is another important issue. We need a very flexible labour market. This can be achieved with the right kind of legislation. Without it, we will have a big economic problem.

Companies that create pollution must pay more attention to the environment. Engines emit a lot of exhaust. Stricter legislation is being introduced all over the world. This is an issue for many companies. We have to concentrate our research and development on this issue, because alternative energy sources are not enough to cover existing energy needs.

We also need credit support in order to overcome the crisis. If it is not provided, many companies will disappear.

Protectionism is another real danger. You see it when you work in a global market. If it increases, it will only cause damage.

In countries like Italy, we need tax reform. The tax burden is too high and needs to be reduced drastically.

[22] Another important task that we need to face is improving “excellence” in schools. Technical institutes and universities need to be stronger and more selective in order to attract the best talent.

This is my personal take on the current situation, in a nutshell.

### **Prof. Vladimir Mau, President, Academy of National Economy under the Government of Russian Federation**

I am going to talk about the economic crisis and what it means in terms of doing business in Russia.

We often compare this crisis with the big recessions of the past, especially that of the 1930s. There was also a bad crisis in the 1970s. It was very different from that of the 1930s. There was stagflation instead of deflation, and a decade of lost opportunities. In my view, the current crisis should not be compared to those of the past. That is not because of its scale or because of deflation, inflation or stagflation issues. In fact the pattern is quite mixed: while Russia is experiencing double-digit inflation, some other countries have deflation.

I would mention three features that make this crisis unique. First of all, it presents a huge intellectual challenge. As Danica Purg said, the problem should be solved by looking ahead, not back. But the problem is that governments normally try to fight recession based on past experiences. Politicians are like generals. They prepare for recessions by studying previous recessions, just like generals prepare for wars on the basis of previous wars. Normally this method works,

but not when the crisis is too big. We know how Hoover fought the recession in the United States in the 1970s. One of the measures was the suspension of the Gold Standard.

The first step in dealing with the current crisis is to understand its essence. That is what makes it intellectually challenging. In Russia and elsewhere, we are still analyzing it in terms of the problems of the previous 50 years. Yet, the solution will require a new approach, one that is not based on 20th-century experiences.

Another important element of the current crisis is that it is more structural than cyclical. It is very important to use it for structural reform and modernization. However, we need caution. People often mention windmills as a solution to our energy problems. But there are windmills that produce something and windmills that create value only in the dreams of Don Quixote. We must be careful not to build windmills of the second type.

All big crises create a new system of regulation. For example, after the crisis of the 1970s there was massive deregulation. We still discuss these issues in terms of more state versus less state intervention. This reminds me of the logic of Russian left-wingers of the 1990s. They believed that because the Russian government was terribly inefficient and corrupt the only solution was to increase the role of the government. But if the government had failed to regulate well in previous years, why should it do a better job in the following years? We have the same government, consisting of the same people with the same economic mentality. [23]

I agree that inflation and all the other problems that were mentioned by the previous speakers are really going to occur. It is very important to understand how to deal with them. We are still fighting the crisis by pouring diluted kerosene onto the fire in the economy, without knowing if the fire will go out or flare up. We simply do not know how much water the kerosene contains.

At present, the United States is doing what it told Russia not to do in the 1990s. At that time they were right, by the way. As soon as the Russian government stopped its inflation policy and adopted a balanced monetary policy, economic growth resumed.

It is fashionable to talk about the United States as a source of the crisis, but I will focus on the situation in Russia. Our crisis is different. I do not belong to the group of analysts who believe that Russia is different. Russia is a normal country. However, the crisis has assumed a different form there because the country has double-digit inflation. This completely changes the logic of the anti-crisis policy. The monopolistic structure of the Russian economy places severe restrictions on the use of budget stimuli. Pumping money into the economy will not increase supply. It will raise prices. Another typical



Russian feature is that we need much more modernization than the rest of the world.

The reasons behind the severity of the Russian crisis are not economic but political. Russia is the only country where economic growth was accompanied by a decay of political institutions. Of course, it was clear from the very beginning that the strong growth would not be sustainable. You simply cannot boost GDP per capita by curbing economic freedom and increasing bureaucracy. For us this means that the solution to the crisis lies largely outside the economy. It is essential to improve the political institutions of the country. Unfortunately, this is much more difficult than implementing a sound monetary policy. It also takes much longer, and it is less clear how to do it.

The fact that Russia has abundant natural resources only complicates the situation. Profit rates were extremely high before the recession, but this was followed by a very steep fall as oil and gas prices declined as a result of lower demand on international markets. The structure of Russian GDP and exports is dominated by raw materials and metallurgy. This is not something that can change overnight.

[24] Another problem is the conflict between productivity and capitalization. If you look at the average growth of Russian financial markets, you will see that the index contracted in 2008. It is clear that it had been bubble growth previous to that. This is important because it reflects more than financial speculation. It reflects the conflict between productivity and capitalization and between employees and owners.

There is a debate about bonuses in the media and it is crudely simplified. It is not a problem of fat cats getting too much cream. It is an issue of incentives and a problem of managers reporting to shareholders. It is probably better understood by those who lived under the Soviet economy where innovation and structural change were impossible. Managers had to report to party officials every quarter. It was not possible to get rid of unnecessary capacity because companies had to reach the planned targets.

The same is true of capitalization. That is what shareholders expect. That is what generates profit for them, not labor productivity. Both in Russia and Western Europe, companies have kept their inefficient assets instead of getting rid of them. Russian companies even purchased obsolete foreign firms simply because they wanted to increase their capitalization. This improved figures and assessments of managerial efficiency. This is one of the most important sources of this crisis.

In the case of Russia, moral hazard is a particularly severe issue. There has been a sharp increase in quasi-sovereign foreign debt. The

official debt of the state is very low, but private debt is quite high. Both those who issued this debt and those who bought it knew that the companies were associated with the government. That is what makes the debt quasi-sovereign. The profits of these companies will be private, but the losses will be public. This is the source of the moral hazard in Russia, which is similar to what has already happened in South Korea. We can speak of the chaebolization of the Russian economy because that is what the transfer of responsibility to the government amounts to. Actually, the same problem exists in the European Union and the United States, albeit on a lower scale.

The way that the Russian government has tried to deal with the crisis is similar to what has been done in the West: improvement of the banking sector and a prudent monetary policy. However, interest rates have been raised rather than slashed.

At this stage of the crisis, there are some clear long-term risks that do not allow us to say that the crisis will be overcome in the foreseeable future. First of all, it is not realistic to assess the development of the recession by means of month-on-month comparisons of industrial output and economic growth. This crisis did not start with a recession and will not finish with a recession. Even if the recession is over, it is not the end of the crisis.

What are the long-term issues that need to be addressed in this situation? First of all, the crisis showed that moral hazard is rewarded rather than punished. Those who thought they were too big to fail, hoping that the government would bail them out, have won. The slogan "small is beautiful" does not work in a crisis. It is big that is beautiful. Those who are big survive and those who are small go bankrupt. The large car manufacturers in Russia believe that bankruptcy is like the Jewish god: it exists but you should not mention it. When you do not call a problem by its name you get long-term difficulties.

[25]

There is also the problem of macro-economic decay. The current situation is such that it is possible to pursue policies that were impossible until recently. We have a growing number of economists and politicians who believe that inflation is not dangerous. You can pour money into the economy without a negative effect. Only the German government is cautious about this. But do not forget that Germany had two bouts of hyperinflation in the past century. No other country, not even Zimbabwe, is like Germany in that respect. This makes Germany a unique case in history, and Germans have some historical memory of this.

All crises result in a new model of regulation. There is a belief that more regulation will create greater stability. Vladimir Putin is the only politician whom I have heard to say that a liberal economic policy is the only possible policy that Russia can pursue in the future.

I have not heard this from any other politician in the world. Interestingly, Putin has stepped up the role of the state in Russia but he insists that he does not see this as a fundamental principle and a long-term strategy for the country.

Speaking of the issues that Russia must tackle, modernization and reform are more important than an anti-crisis policy. However, it will be difficult to come up with a solution that will work well and will not generate new problems. Oil prices at the moment are at the worst possible level for us. They are not low enough to launch an economic reform, and they are not high enough so that we can forget about reform. Modernization would be facilitated by much lower prices. As an economist I would like to have lower oil prices, but as rector of a government academy I want to see higher prices because they provide more money in the short run.

[26] Speaking about priorities in the anti-crisis policy, I would stress the modernization of human capital. President Türk mentioned the problem of pension reform in Slovenia. In Russia it is even more acute. People tend to believe that the problem of the social safety net comes from the dismantling of the Soviet system. That is not the case. The problem stems from a shift from an industrial to a post-industrial society. The latter is a society in which a greater number of people are capable of producing and a lower number of people are orientated toward consumption. This system can work in China where two thirds of the population are in agriculture and are not part of the welfare state. It is not a good system for an urban society where increasing percentages of people need pensions and healthcare. This explains why it is so hard to set up a good pension system or healthcare in a country like Russia.

The welfare system was created by Bismarck. But at that time, the average age in Germany was 45 and the age when people were eligible for a pension was 70. It was easy to redistribute money through the budget. When the average age is the same as the retirement age, the system cannot work. You must either raise the retirement age or radically change the logic of the system.

One of the fundamental discussions in Russia now is how to restructure the welfare state. The question is not how to pay more, because the more you pay the worse it works. It is not a question of money, but of institutions, and there is no good recipe for a solution to this problem. The problem of high inflation that we had in the 1990s was much easier to solve. It is been solved in many countries. How to fix the problem of the welfare state is a much more difficult conundrum.

Privatization is another important issue in Russia. During the political instability of the 1990s, privatization provided political stability. It solved the problem of how to reach a point of no return.

However, when you have triple-digit inflation you cannot solve the problem of how this property should be distributed. That is why the privatization of small and medium-sized enterprises in Russia is so important right now.

## **DISCUSSION**

### **Oswald Völter**

*I have a question for Ms Fink. You said that the real reason for the current economic crisis is a crisis of values. What can you do so that all managers and employees in your company adhere to the basic values that you want them to have? Do you have an action plan for that?*

### **Tatjana Fink**

*This issue of values is felt so acutely that we have already taken some action. Naturally we started with the top management, but later we communicated with all employees. We have clearly communicated the values that are very important to us. One is innovativeness. Another one is partnership. This is important inside the company and outside, in relationships with suppliers and customers. The next value is trust. We are talking about trust for the outer world and inside the company. We also need to have passion and reliability. It is crucial in this changing and volatile time.*

[27]

*We want everybody in the company to be a partner. We are changing our structure, building a so-called molecular organization. It creates partnerships, in the sense that everybody has an opportunity to be involved.*

*At present there is a lot of discussion about talent. We have recently hired many doctors of science. Now is the time to put their talent to good use. I have my own definition of innovation in business. It should generate cash. If there is no cash, it is not innovation; it is just an idea or a philosophical thesis. We invest a lot in developing talent but if this does not generate return it is like stashing goods in a warehouse without using them. Therefore, we are doing a lot to motivate people to become real partners. I think that many of us have this problem: the gap between talent and the results that it brings.*

*For me the biggest question is how to combine the interests of individuals, of the company and of society at large so that everybody reaps benefits. If any of you have a formula for that, I would appreciate it very much.*

*We talk a lot about values at our company and we coach people so that they live with those values. If we achieve success in this respect, I am sure that we will make a lot of profit, not just in terms of money but also in terms of relationships between employees inside the company and our partners and customers outside.*

### **Arnold Walravens**

*I have a question and a comment. I would like to share some experiences that could lead to some structural solutions for risk reduction. If you remember, Tatjana started her presentation with a question about this issue. Risk management is very important and we had better be prepared for the next crisis as well as is possible.*

*As we reduce risk, it is possible to kill entrepreneurship. I see how my bank, Rabobank, is trying to remain solvent by tightening its credit policies. As a result, small entrepreneurs cannot get loans. If you want to avoid catching the flu, you should stay at home. However, you should realize that if you do not buy any food for two weeks that can be even more dangerous than the flu. This means that we have to accept a certain level of risk.*

*I would also like to add a couple of words about Rabobank. How did the Netherlands' largest bank avoid the problems of other banks? The answer is in the bank's culture. We care about sharing, but not like shareholders. (You may have heard the joke that shareholders are people who do not like to share.) I mean real sharing, solidarity and responsibility for each other. That is our culture.*

[28] *We are organized in such a way that we meet our customers every few months. We have an organized customer base. When you do that, you realize that you are dealing with other people's money. They give you ideas and they correct you if you want to go too fast or too far.*

*The third factor is that Rabobank is focused on agriculture. If you want to do too many things, you do not reduce your risk. If you step into many markets, your risks multiply.*

*Another thing is that because of our philosophy, we have never given people the wrong incentives. The highest bonus that we give is 25 percent of basic salary. This is based on clear performance results. That is how we diminish the risk of giving the wrong incentives.*

*Because Rabo is not quoted on the stock exchange, some people in the Netherlands think that all banks should be taken off the stock exchange. In that way, financial speculation would be avoided.*

### **Tatjana Fink**

*This was a very provocative statement. Concerning entrepreneurship, we are looking for more entrepreneurs than we ever had in our company. But I would also like to comment on Rabobank. Perhaps that is the answer that we are looking for. Also, you are probably right that one cannot be involved in everything and everywhere, because then risk is not minimized but maximized.*

*Trust between bankers and customers is also very important. If bankers do not trust their customers, there will be trouble.*

**Vladimir Mau**

*When I am asked what can be done to avoid a crisis, I say that you should go for moderate economic growth. If you do not want to have a car crash, it is better to avoid driving. If we close down all banks, that will be the end of all crises.*

**Hermann Simon**

*I would like to make a comment on the idea of taking banks out of the stock exchange. That is not a solution. First of all, banks need to capitalize at this moment more than ever. They need huge amounts of equity, which they can get only on the stock market.*

*The second thing is that the most famous private bank in Germany, Salomon Oppenheim, which is also the largest private bank in Europe, has failed and has been acquired by Deutsche Bank, a company that is listed on the stock exchange. The causes of failure are not in the type of share ownership. They are in people's mistakes.*

*Another reason is the wrong incentives. For example, stock options are asymmetric and not consistent with the goals of the shareholders. There is a very simple solution to this: force top managers to buy shares of the company and hold them. Siemens has just introduced this system. Each board member must hold shares in the amount of twice his basic salary. The normal salary of a Siemens board member is 800,000 euros. This means that they have to invest 1.6 million each. If the value of the stock falls, they have to compensate for the fall and the chief executive officer has to invest 3.5 million euros of his own money in company shares. This makes the objectives of management and those of the shareholders almost fully consistent.*

[29]

*The managers must hold these shares for three years. But I would say that they should hold them for three years after their tenure.*

**Jim Ellert**

*I just want to make a comment on the entrepreneurship issue. I agree totally that there is a concern about a lack of funds flowing toward entrepreneurs. On the other hand, I am encouraged by the fact that historically, recessions have been associated with major waves of innovation. Perhaps we simply cannot see the positive entrepreneurial behavior that is out there. As an example, we can look at Compaq, Dell, Apple, or Google. All these companies were formed during recent recessions, not during good times.*

*I totally agree on the issue of options. They are the only way to increase value with the amount of risk taken. I like the suggestion of locking people into ownership of shares after they have left the business. It takes time to understand the true consequences of the actions that people have taken.*

**Franjo Bobinac**

*We heard a very interesting presentation by Professor Simon today. I would like to make a comment about protectionism, which was mentioned several times. Yes, the crisis is global and it started in the United States, in the financial world. On the other hand, we are all Europeans here. I fully agree with Professor Simon that protectionism poses a grave danger to the development of the world's economy. However, I would like to hear how beautiful old Europe will react to competitors from other parts of the world. Right now the competition is not just between countries but also between regions. Think of the Far Eastern countries which have low ecological standards. They employ children and they make people work 60 hours a week. They come to Europe and compete with us and destroy our businesses.*

*It is good to talk about innovation, but a lot of European business is still traditional. We need to compete with companies from elsewhere whose rules of the game are completely different. What are we to do about that? Sometimes I have the impression that we are trying to be more Catholic than the Pope.*

**Jim Ellert**

[30]

*This is a crucial question but we do not have answers to it other than the possibility of developing new industries that are new and based on intellectual capital rather than labor. I see this as the only route for Europe.*

**Vladimir Mau**

*I believe that the level of liberalization of the European economies is in the hands of European politicians. Of course, everything is discussable, including ecological standards. However, I do not think that Europe should fear the fact that some non-European nations have fast economic growth based on low ecological and labor standards. Economic history teaches us that there is such a thing as path dependence. You can look at Russia and China for a comparison. For about 300 years Russia has always been two generations behind Western Europe. China, on the other hand, was initially at the same level as Britain, then it fell back dramatically, and now it is accelerating tremendously.*

**Tatjana Fink**

*The only thing that I can say is that we do not have a concrete answer to the question that Franjo Bobinac asked. But it is a question that must surely be answered with the help of business people like ourselves.*

**Milan Janković**

*Is the exit from this crisis to be sought in regional connections or some other type of connection?*

**Tatjana Fink**

*I think that the regional connections are already there. What we need is more knowledge and competence. We also need greater flexibility on the part of all partners, not just on one side. But I believe that we are moving in the right direction. We just need some acceleration. We also need some new leadership.*

**Milan Janković**

*I have another question. An enormous amount of money is being pumped into the US economy and some other Western economies. Because of the interconnectedness of the world's economies, some of that money will spread all over the world. What effect will this create?*

**Vladimir Mau**

*What makes life interesting is unpredictability. Without it everything would be dull. Of course, this pumping of money into the economy is like playing with fire. America is a unique case because it has the privilege of possessing a currency that other countries use as a reserve currency. One American politician of the 1970s said, "The dollar is our currency but your problem." Of course, this is dangerous.*

*I do not believe in economic miracles. They exist only in the textbooks of economic historians. We have to be careful. A good exit strategy is important. Ben Bernanke is well-versed in economic history and he is afraid of a repetition of the 1936-1937 scenario, where the anti-crisis measures only exacerbated the situation. It is very easy to recreate that disaster. Of course, it is all a matter of a definition. It depends on how you define disaster. According to an old Russian joke, an analyst once said that there will be no Third World War because everybody now is so keen on having peace. However, the effort to have peace will be so intense that everything will be destroyed.*

[31]

**Faris Gavrankapetanović**

*I would like to know if the car manufacturing industry has already bottomed out or not. I have read conflicting reports about it. If the bottom has been reached, how strong will the recovery be?*

**Vladimir Mau**

*There is a debate going on in Russia right now on the question of whether Russia should maintain its own car industry or merge it with the large international manufacturers. Russia's greatest problem is innovation, mostly in the organization of the industry, less so in technology. It is a very obsolete structure. Moreover, Russia has never produced a good Russian car. All models have been borrowed from the West, and have been either stolen or imported. We produce original airplanes, but there is no such thing as a car developed in Russia. One exception is Niva, a four-wheel-drive vehicle that preceded the jeep.*



*I do not think that Russia will ever be a regional car producer. Rather, its car industry will be part of an international chain. However, Russia's role will not be reduced to assembling parts. There is strong interest on the part of Russian manufacturers in various car components. It is a problem of competition stimulation. In Russia the problem of competition is often viewed in the same way as the anti-trust problem. But in a modern economy it is very important to separate anti-trust policies from the promotion of competition. The latter is much more important than the former. That is why I believe that competition is essential for the improvement of the Russian car industry.*

### **Hermann Simon**

*I compare the situation in the automotive industry to the situation in the mining industry in Germany 50 years ago. Since then the number of people employed in mining has fallen dramatically, and it will be zero in 2018. We are going to see the gradual death of General Motors and Chrysler. Within five to 10 years, Opel and Magna will also be bankrupt. Magna will go down first because they have violated a basic law: "Never compete with your customer." Volkswagen and BMW said they would discontinue their orders to Magna because they are now competing at the end-product level. My only explanation is that Magna made this arrangement because it needed money from the German government.*

[32]

*I think that the issue of the nationality of the automotive industry will lose its significance. I agree with professor Mau. We will have full-scale manufacturing in Russia. We will have Russian plants that do not only assemble but also make engines. However, we will hardly have a Russian global automotive company. I do not know how many German companies will survive: perhaps one German and one American. That is all. There will also be one or a couple of Chinese producers as well as some unexpected new players.*

*On Saturday I was driving in a provincial Chinese city of 6 million inhabitants. I was behind a BYD. Has anybody heard of this car? For many years this company has been the largest manufacturers of batteries for mobile phones. They have 75 percent of that market worldwide. Now they are making cars. Their ambition is to make electric cars, because they are so good in the battery business.*

*The shift from gas-driven to electrical cars will be one of the greatest revolutions that we will see in the next 20 years. I would not be surprised if the Americans won this race. If they approach this seriously, there is nobody in the world that can compete with them. They have huge research labs, stuffed with highly competent people.*

*However, we are likely to see different players in the car industry in 20 years, using different technologies that we do not know of today. But we will probably not see GMs and Opels in 20 years, or some other cars that are now on the market.*

## Prof. Hermann Simon: Hidden Champions of the 21st Century

In this talk, I am going to present an optimistic view. At the same time, I will address the question of Europe's competitiveness.

I will start with a question. Who is the global number one in exports? Is it China? Is it the United States or Japan? No! In 2008, it was Germany. China was number two, coming close behind. The United States was number three. Japan was in fourth position, but with a much smaller volume of exports than the United States. It is also interesting to look at the other big European countries: France, Italy and the United Kingdom. Their populations are not much smaller than Germany's. Yet in exports, Germany has been far ahead of these countries in recent years.

This is the origin of the hidden champions concept. Theodore Levitt, a famous professor at Harvard Business School, coined the term "globalization". He once asked me why Germany is always number one or number two in exports. We came to the conclusion that the phenomenon has nothing to do with the large corporations (Siemens, Daimler, BASF, etc.). The explanation is to be found in Germany's strong medium-sized companies.

I started to collect the names of these companies. "Hidden champions" are firms that are among the top three in the world or number one on their continent, with annual revenue of below 3 billion euros and not well-known to the general public.

[33]

### EXAMPLES OF HIDDEN CHAMPIONS

Let me give you an idea of these strange companies that account for 70 percent of German exports. Delo is not a Slovene newspaper. It is a company that produces glue used to hold smart cards together. Eighty percent of all smart cards in the world are held together by the special electronic glue made by Delo. More than 50 percent of mobile phones also use it.

Another example is Baader. They hold 80 percent of the world's market for fish dissection systems. Their products are an extremely sophisticated combination of sensors, high-technology mechanisms and cutting systems.

Lantal is the world leader in the interior design of airplanes. They work with Lufthansa, Singapore Airlines and many other airlines.

Do any of you have a fish tank at home? Your fish are likely to eat food from Tetra, a company that holds 60 percent of the world's market in food for ornamental fish.

Belfor is the world leader in water and fire damage restoration. If you have a big fire in your factory, this is the company that can repair the damage.

In Germany we have 1200 such hidden champions, but I also found them all over the world. Slovenia also has some hidden champions. For example, Akrapovic produces exhaust systems for high-performance motorbikes. It is number one in the world in that domain. Instrumentation Technologies manufactures equipment for particle acceleration. It is also a world leader. Seaway is number one in Europe in sailboat design. Hidria is number two in Europe in plugs for diesel engines.

Across countries the hidden champions have similar cultures and strategies. They are a totally ignored source of management wisdom. Nobody knows them and nobody pays attention to what they do. They are not mentioned in the business literature. However, they provide role models for management which can be used beyond the crisis. In these companies you do not see much of the exuberance, megalomania, and excesses of the large and famous multinationals.

[34] Smaller countries have come to realize that their place in the global competition is in middle-sized internationally strong companies. Germany's 1200 hidden champions have created one million new jobs in the past decade. They have been growing at the rate of 10 percent a year. Their total revenues today are 2.5 times larger than 10 years ago. More than 100 of them have reached annual revenues that exceed a billion euros. Their global market share has increased and they are responsible for a massive wave of innovation. These companies have dealt with crises before. Typically, they come out of them stronger.

In the following I would like to explain why they are so successful and how they differ from large firms. I will dwell on the lessons that we can learn from them.

### **HIGH AMBITIONS**

The first finding is that these companies set themselves highly ambitious goals. They want to be market leaders and achieve strong growth. Let me give you an example.

Chemetall is a leader in the production of rare metals, such as cesium and lithium. Their goal is to achieve worldwide technology and marketing leadership.

3B Scientific is a small company, with 50 million euros in annual revenues. They are a leader in anatomical teaching aids, such as artificial skeletons, which are used to train physicians and nurses. They want to become and remain number one in the world.

Karl Mayer, a producer of textile machines, has stated that they do not want their market share to drop below 70 percent.

The worldwide market share of these companies has increased from 30.2 percent to 33 percent in the past 10 years. But there is an even

more interesting figure: relative market share. This is your own market share, divided by the market share of your strongest competitor. Thus, only the market leader has a relative market share of more than one. Ten years ago, the relative market share of the “hidden champions” stood at 1.56. This means that the hidden champions were 56 % larger than their stronger competitors. Today, that index stands at 2.34. They are more than twice as strong. The cause of this is innovation.

Some very big companies have emerged from among the hidden champions. Examples are Fresenius, Medical Care, SAP, and Wuerth. This answers the question of how big companies come into the world. The answer is simple: they are middle-sized companies that kept growing. Companies like Cronimet, Claas, and Enercon more than quintupled their annual revenues between 1995 and 2008. Similar dramatic growth has been achieved by Rational, Bartec and Brainlab. What we see here is very different from the growth pattern of the large yet slow German corporations.

The *first lesson* is that success always starts with ambitious goals. The hidden champions of the 21st century go for growth and market leadership. This is the fuel that drives them forward.

## FOCUS AND DEPTH

[35]

But what about their strategy? The keywords here are focus and depth. An example is Uhlmann, the world leader in packaging for the pharmaceutical industry. They state: “We have always had one customer and will only have one customer in the future: the pharmaceutical industry. We only do one thing, but we do it right.”

Flexi is another small company. It produces dog leashes that can be bought in 90 countries. They have a 70 percent global market share. They do only one thing, but they do it better than anybody else. Indeed, the Chinese have tried to imitate them but have failed. It is simply not true that anybody can produce a good product.

Let us also look at the case of Winterhalter, a company that makes commercial dishwashing systems. It is a large market with a lot of submarkets, such as hospitals, cafeterias, and so forth. Ten years ago this company analyzed the market and decided that they would only focus on the restaurant segment. They produce their own water conditioners and detergents. They focus on depth rather than breadth. Today Winterhalter is an unbeatable number one in their segment. Huge companies like McDonalds and Burger King use their dishwasher systems. The Winterhalter sales representatives usually have a restaurant background, so they speak a language that people in hotels and restaurants understand. Only focus makes you world-class.

This focus is combined with a deep value chain. One of the management fashions in the past decade has been outsourcing. “Let other people do it, because that is cheaper.” However, the hidden champions take exactly the opposite attitude when it comes to outsourcing. Core competences are never outsourced. They create unique technologies and processes that result in the superiority of the end product. Superiority can only be created internally. What you buy on the market does not give you a competitive advantage, because anybody else can buy it. This may be one of the secrets of the hidden champions' success. On the other hand, they do not hesitate to outsource non-core competences.

Another typical feature of the hidden champions is that they have very secretive research and development and avoid strategic alliances. Wanzl is a world leader in shopping carts and airport baggage carts. They are used all over the world, even in Japan. This is what they say about themselves: “We produce all parts ourselves, based on quality standards that we define.”

Here are some quotes from some other companies:

**Kaldewei:** “*At Kaldewei, we make everything ourselves.*”

**Heidelberg:** “*We can best fulfill the extremely high requirements for quality and precision in-house.*”

[36] **Miele:** “*As many parts as possible are self-produced, all of which takes place in a small region with down-to-earth people.*”

**Weidmüller:** “*We make our own tools. We can only deliver top quality if zero tolerance begins with these tools.*”

This brings us to *lesson number two*. Only focus and concentration lead to world-class status. The hidden champions see the market definition as part of their strategy. They are highly focused and deep rather than broad.

## GLOBALIZATION

Of course, this focus makes a market small. The market for restaurant dishwashing systems is much smaller than the total market for commercial dishwashers. Then, how can that market be expanded? By means of globalization. The hidden champions combine product specialization and know-how with global selling and marketing. They are narrow in what they do but wide in terms of where they do it. This can result in almost unlimited growth potential. Globalization has only just begun. The world market for exports has boomed since the beginning of the previous century. At present, the European market is almost four times larger than the German market, and the world market is 11 times larger.

Naturally, this means that you must enter these markets. Customers will not come to your home market to buy your products; you have

to go international. One example is Kaercher, a manufacturer of high-pressure water cleaners. Since 1962 they have been expanding all over the world, adding new subsidiaries every year. They have 61 of them now. It is a process that takes two or three generations. You cannot do it in a week or a month.

If you have a very special product, this is the way to go. You cannot trust somebody in a foreign country to run your operations for you or do your sales. You have to have a presence there and do the job yourself.

How do these companies assess the attractiveness of emerging markets? Clearly, China is seen as the most attractive market, followed by Russia and India. Eastern Europe comes next, followed by Asia (minus China and India). Brazil brings up the rear. Interestingly, that country is not seen as very attractive. There are two reasons for that. The hidden champions do not like the large social discrepancies and the high crime rates of Latin America. They also complain about the level of education there.

As for China, everybody wants to be there. The future of many markets will be determined by China. Therefore, I tell companies to set up operations in that country, with full-fledged research and development departments plus production. Otherwise they will be overtaken by Chinese companies.

[37]

Here is lesson number three. The hidden champions combine specialization in product and know-how with global selling and marketing. Globalization is the growth booster for them. They serve the target markets through their own subsidiaries.

## **INNOVATION**

To acquire leadership in a global market, you need innovation. Imitation is not enough. Of course, you have to spend money to innovate. Hidden champions spend twice as much as normal companies on research and development (even though their costs per patent are about five times lower). They produce five more patents per 1000 employees than large patent-intensive corporations. Large corporations throw budgets at problems, whereas hidden champions deploy selected people.

There is also a significant difference in the forces that drive innovation in large corporations and in hidden champions. In the first case, it is primarily the market, followed by technology. A combination of both comes third. But for the hidden champions, it is the combination of market and technology as integral forces that drives the innovation process.

In the innovation process of the hidden champions, the role of top management is very significant. Brains are more important than

budgets. There is good cooperation between functions: marketing, purchasing, research and development, and production. Products are developed in collaboration with customers. Hidden champions tend to improve incrementally and continuously rather than rely on breakthrough innovations. Speed is also of the essence. The hidden champions are much faster than large companies.

We have now arrived at *lesson four*. The hidden champions are in a phase of massive innovation. The effectiveness of their research and development activities beats that of large companies by a factor of five. Their innovation processes are fundamentally different. Their innovativeness is both market- and technology-driven.

### **CLOSENESS TO CUSTOMERS**

That was the technology side. The other side is equally important. It involves closeness to customers, marketing professionalism, and value for price. Compared to large companies, the hidden champions have five times as many employees who maintain regular customer contacts. They focus particularly on top customers. A good example is Grohmann Engineering. They maintain 30 top customers worldwide, the most important of which are Intel, Nokia, Motorola, and Siemens. Their philosophy is that after you have the 30 top companies, the rest will come anyway. The leading customers are used as drivers of higher performance because they are never fully satisfied and always want more.

The strategies of the hidden champions are based on value, not price. Their price premium is usually 10 to 15 percent above the average price on the market. This shows that the best companies are not those that compete on price but those that offer the highest value.

To illustrate this pricing strategy, I use the example of Porsche. They are not a hidden champion but they have a product that you know. In 2005 they launched the new Cayman S sedan. It is technologically based on the Roadster Boxter S convertible. The hard top is normally 10 percent cheaper than the convertible. But putting it this way is not value pricing. Value pricing is about understanding what the customer is willing to pay. We investigated this all over the world and came up with a proposal that the hard top should be 10 percent more expensive. Porsche chose the higher price and sales were even better than predicted.

Another good example is Miele, a producer of kitchen appliances. Their prices are about 20 percent above the average market price. This price position is backed by superior quality. They say that their products are made to last 20 years. And they do.

Enercon, the technology leader in wind power generation, also charges 20 percent more than its competition. Still, they have 51

percent of the German market and are number three in the world.

The competitive advantages of the hidden champions can be presented in two dimensions: importance to the customer, and performance. Product quality has always counted and will always count in the future as their most important competitive advantage.

Recently, two new competitive advantages have emerged: advice and system integration. This is very interesting because these are competitive advantages of a higher order. They are not part of the product. Therefore, you cannot imitate them. They are in people's heads and in the capabilities of the organization to manage complexity when it comes to systems integration. Barriers to entry today are probably higher than they were 10 years ago.

Closeness to the competition is a similarly important factor. It translates into a head-on fight with the strongest competitors on the market and increased fitness through tough competition. Hidden champions actively seek performance-oriented competition.

Our *lesson five* is the following. Closeness to customers is the greatest strength of the hidden champions, and counts for more than even technology. The hidden champions hold strong competitive positions. Advice and systems integration are new advantages which create higher barriers to entry. The hidden champions compete closely with their competitors.

[39]

## **OWNERSHIP AND FINANCIAL INDICATORS**

Most hidden champions are family-owned, although this percentage has gone down a little recently. What has increased more significantly is the non-family management of the family-owned companies. There is also a gradual shift toward capital markets.

The average return on capital employed by the hidden champions is 13.6 percent, compared to the average 5.5 percent of the average German company. This means that high profitability is a typical feature of the hidden champions. Their equity ratio is 41.9 percent. Self-financing dominates, although capital markets are becoming increasingly important.

The *sixth lesson* is that the financing of the hidden champions is very solid. Their ownership is long-term-oriented and capital markets do not play a big role. Rather, the hidden champions rely on self-financing. They are conservative in financial matters. This last item is important because many of the companies that were not conservative are simply no longer around.

## **EMPLOYEES**

Figuratively speaking, the hidden champions have more work than heads. That means that they are a little short of staff. If you have too



many people, they are unlikely to be productive. They have high-performance cultures and high-level qualifications. These qualifications have two aspects. One of them is the vocational training system in Germany. Young apprentices work for three days per week in the company and go to a vocational school for two days. This is the foundation of German competitiveness. As to higher education, the hidden champions have more than doubled the percentage of university graduates that they employ. About half of them are engineers, the other half being from other disciplines. Global competition is about qualifications, not about cost.

I recently assisted a Chinese province in finding investors for a high-technology industrial park. It happens to sprawl over 100 square kilometers. The first thing that they built there was a university for 60,000 students. They said that they did not want to attract investors who come for low wages. They want to offer high-level qualifications to sophisticated companies.

When you have highly qualified employees, you have to retain them. Hidden champions have very low turnover rates, far lower than the average company. Finding qualified personnel and retaining it is extremely important. Turnover rates matter more than sickness rates because a sick person will come back in a few days but a person who has quit takes away the know-how that he or she has acquired.

[40]

This brings us to *lesson number seven*. The hidden champions have more work than heads. They possess high-performance cultures. The qualifications of the employees are second to none. Turnover and sickness rates are extremely low.

## **LEADERSHIP**

The last element that we need to look at is leadership. The ultimate explanation for the success of the hidden champions is their leadership. Their leaders are characterized by very strong identification with their mission. They are totally devoted to their jobs. Their leadership style is ambivalent: it is authoritarian in the principles but flexible in the details. When it comes to quality there is no discussion, only top-down enforcement. However, the execution of details allows flexibility, more so than at large corporations where a manual exists for everything.

The chief executive officers take power at a young age, usually in their 30s. Women play a more important role than in large companies. Chief executive officers stay longer in their jobs. The average tenure is 20 years.

*Lesson number eight* is the following. The secret of the success of the hidden champions lies in their leaders. Their leadership is authoritarian concerning principles but flexible in the execution of

details. Continuity is very high. Young chief executive officers and women play a more important role than in large corporations.

### LESSONS FOR SLOVENIA

What does this all mean for Slovenia? The success of this country in the globalization process will depend heavily on mid-sized companies. It can be achieved, but it will take focus and vision, a clear strategy, time and stamina. Hidden champions cannot be created overnight. They are good role models, but not cookbook recipes. They are food for thought, not an algorithm that can be followed with precision. Slovenia, however, is in a good take-off position and has an ideal strategic location. Let me expound on that.

From Europe I can call our office in Tokyo in the morning and in the evening I can call our office in San Francisco. The travel time between Frankfurt and each of these two cities is 11 hours. If you live in New York you have an 11- or 12-hour time difference with respect to Asia. It takes you 20 hours to get there. The longest non-stop flight in the world is New York - Singapore. It lasts 18 hours. I have never been on that flight. Recently, I flew from San Francisco to Seoul and even that was terrible.

I know an American who recently relocated from America to Europe because that enabled him to do his global business without torturing himself, flying horrible long-distance flights and conducting teleconferences late in the evening or early in the morning. When you are in Europe you can avoid that. We should be aware of the huge advantage that we have here. [41]

In summary, the success of the hidden champions can be represented in three types of concentric circle. Leadership with ambitious goals is at the core. Depth, innovation and high-performing employees occupy the next circle. Then come focus, closeness to customers, global orientation, and competitive advantage in the outer circle.

We have now arrived at our *ultimate lesson*. The hidden champions of the 21st century are going their own ways, and they are doing that more decisively and successfully than ever. They do most things differently. What they do differs from the teachings of management gurus, from modern management fads, and from what large corporations do. They are true models of leadership beyond the crisis.



## Hermann Simon

Prof. Dr. Hermann Simon is Chairman and was until May 2009 CEO of Simon-Kucher & Partners Strategy & Marketing Consultants, with offices in Europe, USA and Japan. He is an expert in strategy, marketing and pricing. In the German language area Prof. Simon was voted the most influential management thinker after Peter Drucker.

Before committing himself to management consulting, Prof. Simon was a professor of marketing at the Universities of Mainz and Bielefeld. He was also a visiting professor at Harvard Business School, Stanford, London Business School, INSEAD, Keio in Tokyo and MIT.

Prof. Simon has published over 30 books in 22 languages. They include the worldwide bestseller *Hidden Champions* (1996), *Power Pricing* (1997), *Strategy for Competition* (2003), *Think!* (2004), and *Manage for Profit, Not for Market Share* (2006). His book *Hidden Champions of the 21st Century, Success Strategies of Unknown World Market Leaders* was published this year. It investigates the strategies of little-known world and European market leaders in German-speaking countries. His most recent book *Beat the Crisis – 33 Quick Solutions for Your Company* has been published in the USA, China, Korea, Italy, Brazil, Russia, Spain and Slovenia. [43]

A native of Germany, Prof. Simon studied economics and business administration at the universities of Bonn and Cologne. He received his diploma and his doctorate from the University of Bonn.

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- 2009** Hermann Simon, *Role Models of Leadership beyond the Crisis*
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- 2007** Jean-François Manzoni, *How to Avoid the Set-Up-To-Fail Syndrome*
- 2006** Ichak Adizes, *What is a Leader?* (a video lecture)
- 2005** Peter Drucker, *Manage Yourself and Then Your Company: Set an Example*
- 2004** Manfred Kets de Vries, *The Bright and Dark Sides of Leadership*
- 2003** Fons Trompenaars, *The Challenge of Leadership - Visions, Values, Cultures*
- 2002** Milan Kučan, Jean-Philippe Deschamps, William George, *Leadership for Innovation*
- 2001** Milan Kučan, Peter Kraljič, Peter J. Rohleder, *Competitiveness of Companies in Central and Eastern Europe*
- 2000** Paul Strebel, *Focusing on Breakthrough Options*
- 1999** John M. Stopford, *Harnessing Organizational Knowledge for Strategic Innovation*
- 1998** Pedro Nueno, *Maintaining Your Personal Value*
- 1997** Lecture by Peter F. Drucker on the occasion of the 10th IEDC Anniversary: “*Manage Yourself and Then Your Company: Set an Example*” [45]
- 1996** 10 years of IEDC
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### **IEDC – Bled School of Management**

Prešernova cesta 33, 4260 Bled, Slovenia

Tel.: +386 4 57 92 500

Fax: +386 4 57 92 501

info@iedc.si

www.iedc.si

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**IEDC-Bled School of Management**

Prešernova cesta 33

4260 Bled, Slovenia

Tel: +386 4 57 92 500

Fax: +386 4 57 92 501

[info@iedc.si](mailto:info@iedc.si)

[www.iedc.si](http://www.iedc.si)

