

FAMILY BUSINESS IN GERMANY

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Thank you, Mr Chair. Besides my job as an entrepreneur together with my brother in a construction and real estate development company, which is an old family business, I am chairing the association of family-owned businesses in Germany. Hearing the discussion yesterday afternoon and this morning I think it would be of interest to talk about what family business means in Germany and what we are going to see in the near future and how to solve the problems out of the crisis.

I head, together with my brother, a 137 year old real estate development and construction company, where we had to overcome a series of economic crises. When I entered the company in 1989 there was no German unity yet and the construction industry was in a terrible crisis but we did seize the opportunity in order to bring about total restructuring. Now we have been transformed into a company that renders services and we have always managed to come to grips with economic ups and downs. Through the 90s and in the beginning of this century we introduced a tremendous amount of flexibility, partly by shifting jobs abroad, but also through enhanced innovation and this is one of the reasons why we have managed to overcome the present economic crisis so well. The construction industry itself is a very cyclical branch. We entered the year of the crisis 2009 still with high order levels. 2010 will be more challenging, because of a significant fall in the demand for commercial and office buildings. On the other hand we do see now a rising demand in apartment buildings because of inflation fears and low interest rates. Many people and also institutional investors intend to invest in apartments. So I am partly optimistic for 2010 and a lot for 2011.

However, I think what is of much greater interest for you is to listen to what family businesses in Germany is about. The association that I lead is called 'Die Familienunternehmer – ASU e.V.'. It has roughly 5,000 members – all are entrepreneurs who employ in total 2 million people and

have a yearly turnover of almost 300 billion euros – and was founded in 1949 as an outcome of the experiences in the Weimar Republic and the Third Reich. The experience was that economics in pre-war Germany was very intertwined with the political class and that politics was pursued in view of large enterprises and capital markets. Following this tradition on the other side the big industry associations BDI and BDA were founded in the young Federal Republic. These both associations followed a contraposition to the owner enterprises in looking out for building cartels and anti competition legislation.

Contrary to that I think competition, responsibility, ownership and freedom are the key and founding principles of our 'Soziale Marktwirtschaft'. Therefore it needed a new antitrust law like the US had before. Minister Ludwig Erhard supported by our association fought very hard for this legislation from 1949 on, but the powerful BDI and the other branch associations always fought against this antitrust legislation.

Why was it that way? Well, it is easy to run a company without or, at least, with little competition and to gain power in the hands of a few lucky families like we see it in Greece nowadays. My grandfather Konrad Adenauer had to make a decision either to follow the BDI with its old ideas or to follow his Minister Ludwig Erhard. Finally Erhard won and in 1957 the antitrust law was set in place.

This was a big success because this legislation enabled the German Mittelstand to grow beside the still necessary big industry groups and be a driving force to stabilize the German economy up until today. As a heritage my association is still lobbying very much against subsidies. We do not want to have any benefits for specific branches of industry, we want to have an efficient labour market, which is too highly regulated in our mind, we want to have a more open labour market, but we also want to have social parity.

We think that worker participation is something very beneficial and I would like to take up what Mr Montezemolo said, we would like our workers to have fewer welfare costs and taxes to pay out of their salary. If you look at the social expenditure it constitutes up to 55% of their salary. But nowadays the state does have to have tax revenues to come to grips with its indebtedness but only if we have more employment in Germany, and if we have a reasonable ratio between taxation and the burden of social costs and economic efficiency. How do we achieve this as an association? We wish to be the advisers to the government but we also want to be critical advisers and we are in contact with all ministries and ministers and with the Prime Minister and the President and also with the local governments and we are very much involved

in political discussions. Last year we showed that family enterprises are really taken seriously in the country. Our voices are certainly heard.

Now, how did we overcome the crisis? We have branches that were less sensitive such as retailing, for example, but we have other branches that had a decline of 20-40%, such as the automotive industry. If there were surveys regarding the entire crisis, what is the economic situation? You might be quite surprised. I just had a survey from the second quarter which I did not bring with me but I remember that, at the moment, as of today, 80% of the family companies in Germany, if we look at their situations, are defined as satisfactory or good and 18% are sufficient and 6% are in a sort of deficient or worse situation. So the economy is quite sound and what are the prospects for the coming months regarding orders? Since the worst peak of the crisis only 20% of the companies were massively affected, which means that the German economy has learned how to live with this kind of recession and to live with a no-growth rate for one, two or even three quarters. I think it should be possible for a nation to levy taxes even when there is zero growth rate. Now, as to investment, our companies this year plan a 30% expansion on investment and 46% still have open positions, let us say, and 17% are maintaining their job levels, and 5% planning to further reduce their jobs and last year that was 14%, so you see there is a clear recovery there. The credit costs of our enterprises have only risen from 14 to 20%. For half of the enterprises the credit costs stayed the same and in 15% they even dropped, so there do not seem to be any threats on the credit.

So your questions might be, what are the present challenges? But just briefly I would like to say that there was a smaller growth in the unemployment rate than expected, and this is thanks to two effects. Firstly, the clearly greater flexibility in regulating part-time work, in that there were easier agreements with work councils and the companies, the demands were not so exigent and the government is taking on some of the social costs of these part-time workers, and this has cost the state something, clearly, but all in all I think employment has been secured and I think it has been made use of in a very accountable way, and there seems to be a recovery although there is still a challenge there. Secondly, the reason why we have fewer jobless than before is that there is a moment of respite for companies in that we have learned how to come to grips with lower turnovers and we wish to retain skilled workers at all costs, we have also had a decline in our turnover of 20% but we did not wish to dismiss any of these trained skilled workers, we wish to hold on to them and we are ready to not try to maximize the most of this particular period. Another aspect that was discussed

with the Prime Minister when we had the economic summit was a sort of common sense where we shared the same views together with the larger companies and this greatly helped to overcome this difficulty.

Now, I would like to come to the major challenge that we had to face and that maybe the whole world had to face, which is tied in with the attitude of humanity vis-à-vis the economy. The CMS carried out a representative survey which puts the following question: managers and morals. How can managers (of big stock listed companies) deal with morality in daily business? The answer was, that just 34% think managers deal in an accountable way. Another answer was that for 82% of the German public maximization of profit is the number one target of managers. Sixty-three percent of the people who were questioned say that managers do not take employment responsibility very seriously. If this is the atmosphere in a country it is very difficult to create any long-term policy for growth. This is a problem that all western governments are facing.

WHAT ARE THE RESULTS OF THIS SURVEY REGARDING FAMILY COMPANIES?

The picture that is portrayed of the family companies and medium-sized enterprises is very good. With TSM we asked, where would you like to be employed? Eighty-seven of those questioned said they would like to be employed in a family-owned company. There seems to be a romantic perception that you will be part of family life but obviously people do feel that where they can link responsibility and decision-making directly to an individual they see the authenticity of leadership. Even if negative decisions in dismissals are to be made, these are accepted. People know that family companies who are oriented towards innovation and competitiveness have 50% of the total employment and 80% of the trainees. No hire and fire: instead responsibility is actually experienced there.

LESSONS FROM THE CRISIS

The 'family company principle' consists of the fact that we do show responsibility for the company and for good products for our clients but we are also responsible for our employees. This is anchored in a long-term guarantee for the products we produce and with the assets that are invested. My company, for instance, offers a five-year guarantee, and if in that five-year

period things are not OK we extend the period for that specific feature to another five years. And if you stand for your products in that way, you know exactly what kind of business you enter into and we can draw lessons from these crises too: every company and every bank and all the other financial institutions should guarantee their products for a longer period. With this good old principle there would not have been any subprime crisis.

The second lesson for us was that those companies that were sufficiently equipped with their own equity did well during the crisis. Family companies usually are not using every opportunity for high leverage and growth, do not have much debt and proceed in a very cautious way. They appreciate their independence from capital markets and other financial institutions. Sustainability of action is a key principle.

Thank you.