

# Germany Opens ITS Boardrooms

by Pilar Gumucio and Jason Starr

**T**he German boardroom is changing, reflecting how globalization is affecting how companies operate their businesses. This is vital as the largest economy in Europe – and the third worldwide – prepares to take advantage of the upturn that is taking place. As German companies begin to bounce back and achieve double-digit growth, obtaining top talent is once again becoming a top priority.

In an interview with *search-consult*, Ulrich F. Ackermann, Managing Partner of TRANSEARCH International Deutschland GmbH, describes: “Companies that understand this key difference are the ones that will enjoy long-term success.”

When you look at the DAX 30 – the main index of the Frankfurt Stock Exchange – you can see that some 70% of the revenues of these top 30 German corporations are currently derived from outside of Germany. As a result, it is vital that German companies reflect the transformations that globalization is producing on their business dealings. Mr. Ackermann describes how clients are increasingly demanding more international searches be carried out.

Mr. Ackermann, who also sits on the board of directors of TRANSEARCH International Partners plc, reports that up to 40% of all of their search assignments contain an international element, as more and more clients are frequently demanding searches to be conducted on a global scale. In fact, the tasks and roles of key figures – such as the CEO and Human Resource Director – are clearly being redefined.

This means that search firms have to really operate internationally. Therefore, search firms really need to be able to establish international practice groups. Mr. Ackermann believes that tight networks such as TRANSEARCH have a

benefit over the integrated firms because the partners meet more often, tend to know each other better and establish a more trustworthy working relationship. As a result, clients can receive a better quality service throughout the world.

Within this context, the composition, structures and even the way boardrooms have traditionally conducted business are beginning to mirror the levels of globalization and diversification that are currently taking place.

TRANSEARCH’s Managing Partner reports clients are requesting a board of directors that have expertise in global corporate governance and financial transactions. Moreover, he explains that there is a growing need for a wider mix of experience, backgrounds and skills that the old boys’ network just simply cannot fulfill.

According to Mr. Ackermann, “during the last 15-18 months equity firms from the US or from other European countries have increasingly been investing more in German

mid-sized companies that earn approximately 2-4 million Euros a year. This trend is continuing to get stronger.”

## EXPANDING THE BUSINESS

At the same time, he explains how during the last few years “the German industry has come under enormous pressure to strengthen their outsourcing processes” as a means of increasing their international competitiveness. Today, more and more German companies have been shifting their production into Eastern Europe, Far East/China and Mexico.

This move has allowed them to take advantage of new opportunities. For instance, German companies that have a subsidiary in Mexico can now “be able to serve NAFTA under different terms and conditions,” and Mr. Ackermann reports how these companies are requesting searches for “Managing Directors, Production Site Managers and those types of roles over there.”

This is particularly true for two major industries, which according to him, used to be the backbone of the German economical welfare over the last couple of years: Machinery and Automotive. “These two industries are flocking out and doing more production outside of Germany.”

At the same time, in order to be able to really develop their products for a global market, they need to hire more global talent in Germany, not only at the level of product development but at all the top executive and non-executive positions. “During the last 3 years, 10% of the DAX 30 companies now have a CEO that is non-German,” states Mr. Ackermann.

## A MORE INTERNATIONAL BOARD

TRANSEARCH conducted a board poll, interviewing firms listed at the DAX 30, the MDAX 50 and several unlisted mid-sized firms.



Ulrich F. Ackermann

The results were quite interesting. Traditionally these boards were led by top executives of the "Deutschland AG", which consisted of German male executives that operated the banking and finance sectors. It is very similar to the old boys' network where most of the directorships were selected on the basis of personal relationships. There were many board members that sat on several of the same companies, often through cross-ownerships or cross-participations.

In Germany, the boards of directors - explains Mr. Ackermann - are composed of two levels: the supervisory board (which consists of non-executive directors) and the managing board (which is the executive board of directors).

He describes that within the DAX 30 today 16 companies have managing boards with at least one international board member. "The trend is a bit slower at the supervisory board. Today only 8% of non-executive directors are non-German."

This figure alone may appear to be insignificant, but if you take into consideration that more than 50% of the boards have international managers, 10% of CEOs are non-German and 8% of non-executive directors have different nationalities, you can see that this trend is gaining ground.

"These changes not only include the attitude of the boards, but the language - which is one of the problems we are facing in Germany," reports Ulrich Ackermann, who also serves as a Global Board member of the Association of Executive Search Consultants (AESC).

"It is kind of difficult for people from France, Italy and Spain to sit on German boards when, obviously their German may not be so perfect as to participate constructively during board meetings. As a result, close to 50% of the top German corporations from the DAX 30 are beginning to adopt English as the corporate language, especially for board meetings. It is working well for them as this figure is expected to increase during the next few years."

Mr. Ackermann describes how German companies are broadening their board of directors' profiles and are trying to obtain more of a balance between men and women as well as other cultures. "For example, it is important to not only have people from France, Spain, or Italy" but to widen the scope to be able "to include people from other countries, such as

Israel, Cyprus and Argentina. In fact, today German companies have up to 15-16 different nationalities represented on their boards."

For instance, he explains that "one of our major clients, adidas Salomon AG, which heads the list of firms of the DAX 30, has a managing board with 5 directors of 4 different nationalities: Germans, Swiss, Australian and American. Their headquarters boasts 46 different nationalities despite the fact that they no longer have production plants in Germany. These executives are all just in development, marketing and sales, administration and finance. If you want to sell to 120 different countries, you need people that understand the pace, the culture and the perception of these countries."

He notes that this trend is trickling down and can be observed even stronger at the MDAX companies, which are the top 50 companies below the companies listed on the DAX 30.

#### FACING NEW CHALLENGES

All these changes are bringing new challenges to both clients and search firms.

Mr. Ackermann reports that the amount of board searches for NEDs (non-executive directors) that clients are requesting is increasing, but not as strong as many experts had predicted. The reason is because most of the boards of directors are still being selected by personal relationships. The good news is that the scope is widening and companies are trying to be more selective.

"Many executives are today also more reluctant to accept a NED position due to the increased responsibilities. The compensation is not in proportion to the time and responsibilities required to fulfill this role accordingly. Therefore, it is more difficult to attract NEDs for the supervisory board," he explains.

The Managing Director of TRANSEARCH's German operations also indicates that search firms are facing a direct competition from auditors because audit firms are also providing advice on the composition, structures and the ways to strategically add value to a company's board of directors.

He also explains that German boards have a unique distinctiveness: all the major firms must have supervisory boards that are appointed 50% by the shareholders and 50%

by the work council and union members - which is caused by the Montanunion-law and co-determination.

This particularity can cause some conflicts since many of the firms, although German-based, are geared from and for the outside. This can cause difficulties in balancing local and global needs at the time of establishing the boards of directors as well as overseeing these companies' strategies.

"Let's look at Daimler Chrysler, where more than 50% of the company is based outside of Germany. Yet 100% of the NEDs placed by the works council/unions have been German. How can they seriously represent the global workforce or even the shareholders interests, especially if it comes to difficult decisions about shifting production globally, from one plant to the next, from one country to another? This discrepancy shows the need for companies to mirror their customer base, company strategy and logistic base. It depicts the need for a catalyst for changing boards," Mr. Ackermann reports.

#### TO BE AND THINK INTERNATIONALLY

Globalization is impacting German companies in all of its facets. From the selection of executives to the composition of boards, the firms must now look beyond their borders.

Boards of directors are redefining their selection, composition, structures and even the language used. This is occurring because companies are becoming aware that in order to succeed in today's markets, your perception has to truly become international.

The transformation will take a great deal of time, but the first steps are showing great promise. This is a task that must be coordinated at all levels, within business as well as with the government and union leaders.

The process - as Mr. Ackermann points out - is giving great opportunities for search firms. They must help their clients really understand this development as well find the right individuals so that the client, the executives and the board of directors can obtain long-term success.

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