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Globalisation and Downsizing in Germany

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In the 80's, globalisation was much vaunted as offering the Western world a dazzling new array of business opportunities. In the 90's, however, the negative impact on the labour market has become all too evident. A look at Germany's labour statistics shows a frightening picture of massive job destruction in the wake of globalisation. As firms contend with heightened international competition and incomparably low wages in the former Eastern bloc and Asia, they have turned almost ubiquitously to cost-cutting through shedding labour inside Germany itself. Jobs either disappear altogether or are relocated. Through computerisation, strategic alliances, lean production and so on, the process of rationalisation and wage reduction proceeds at an alarming pace.
In addition to the problems caused by globalisation, there are also serious issues with respect to German management, which are unquestionably major contributory factors to the country's current difficulties, especially mass unemployment. The second part of the paper considers a variety of issues in this context including the rampant and socially destructive preoccupation with cost cutting and rationalisation, negative managerial behaviour and lack of innovation.
If Germany is to prevent serious economic decline, the problems need to be tackled on several fronts simultaneously. Attitudinal changes on the part of both management and workers, a modified taxation regime, better public relations about Germany as an industrial location and various other strategies offer some hope to a country that is clearly undergoing a globalisation crisis. There are certainly some viable alternatives to downsizing and a look at the strategies used by other industrial countries gives further insight into positive solutions.

INTRODUCTION

In the eighties, globalisation was praised from many quarters as offering firms and countries a wealth of opportunities that had previously been unexploited or inaccessible. The impact of this «rush to globalization has been an explosive growth in international business» (Ball and McCulloch, 1996, p. 10). Burgeoning globalisation, which permeated small, medium and large-scale business (even educational institutions) appeared as a saviour from economic stagnation. Nothing was more fashionable than the concept of looking beyond national borders and grasping the international markets that seemed to be moving ever more within reach.
More recently, however, a sinister edge to the process of globalisation has emerged on the horizon, alarmingly conspicuous and prevalent (Martin and Schumann, 1996). It is becoming increasingly clear that globalisation does indeed create opportunities for business, but at a

cost. This cost is a process of international rationalisation which is currently ravaging the labour market, especially in certain parts of Europe, with grave consequences. The primary objective of this article is to consider the impact of *globalisation* on downsizing in Germany. However, *German managerial failure* also plays a considerable role in the process. In the second part of the article, attention will be paid to this factor. The relevant processes relating to Globalisation in Germany and the role of management are outlined, analysed and some conclusions drawn and comprehensive recommendations made. The article is as wide-ranging as length permits.

Methodologically, this paper is based on a wide variety of literature from various German and English-language sources. Given that the approach is not empirical, the article is structured around a number of key topics relating to globalisation and management in Germany. Particular attention has been paid to ensuring that the article follows a logical progression from the nature of globalisation to its impact on the German labour market and then onto the issue of the role of management in the relevant processes. A detailed analysis of potential solutions is presented, ranging from those used in various developed countries as well as some specifically suited to Germany.

THE NATURE AND IMPACT OF GLOBALISATION

THE GLOBALISATION PROCESS

The more efficiently production and capital can cross borders, the more powerful the transnational firms (TNC's) which do the country-hopping become. Their ability to move from one location to another of lower cost gives them enormous bargaining power in relation to workers. These TNC's that account for roughly two thirds of world trade (UNCTAD, 1995), stand at the forefront of globalisation and promote it relentlessly and consistently. Well-organised firms like the machinery and plant Giant Asea Brown Boveri (ABB) can relocate production from one country to another within a matter of days. In many instances, German firms do not even create that many jobs overseas, mainly purchasing existing outlets in order to secure the local market and then proceeding to reduce the work force. Globalisation represents a serious threat to "the once unassailable" position of components suppliers to German industry *(Handelsblatt,* 1996b), with foreign firms competing ever more effectively on both quality and price. Wherever products or services are traded in total freedom across borders, employees seem to get swept away in a relentless downward spiral of devaluation, rationalisation and redundancy, in short, downsizing.

The extraordinarily tough competition in labour, goods and services markets leads firms into a desperate bid to lower costs. Firms in Germany (and elsewhere) have been using every cost cutting tool at their disposal including major restructuring (Hoch, 1997). However, laments Hoch, no one has found a way to prevent the job destruction accompanying such savings. The then Federal Minister of labour, Norbert Bluem, has in fact drawn the attention of German firms to what he sees as their “social responsibility”. He criticised the tendency for firms to regard redundancies as a victory for cost cutting, rather than to see such measures in the broader perspective of their impact on society and the labour market *(Germnews,* 1996a).

THE GERMAN CRISIS

In the Germany of 1997, more than six million members of the work force had no *permanent* job, more than ever before in the history of the Federal Republic. Unemployment is now at the highest level since 1945 at nearly 5 million. Between 1991 and 1996, 500,000 jobs have disappeared from the machinery industry 180,000 in chemicals, 300,000 in automobiles *(Der Spiegel,* 1997b). Between 1995 and 1996, more than 350,000 Germans lost their jobs *(Sueddeutscher Zeitung,* 1997a). In January 1997, half a million jobs disappeared from the market; absolutely unprecedented performance for one month (Maier-Mannhart 1997).

Blue collar jobs are disappearing at a truly frightening rate as evidenced by the Vulkan shipyard, Dasa aircraft works and Volkswagen or Krupp Steel *(Sueddeutscher Zeitung,* 1977b) and many others. Between 1993 and 1994, personnel in the steel industry has declined by 14% *(Handelsblatt,* 1997b). German magazines and newspapers are replete with photographs of and articles about German firms such as Puma manufacturing in the Czech Republic or Nivea in China *(Der Spiegel,* 1997a), or an article in *Handelsblatt* (1996a) with the subtitle «Electronics: in two years more personnel overseas than at home». From 1998, Grundig will cease television production in Germany *(Germnews,* 1996b). The Deutsche Bank plans to eliminate 500 jobs in 1998, the coffee maker Edusche will make 800 of its 4500 employees redundant and Hoechst will cut 600 jobs (statistics cited by Boehmer, 1998). The savings banks are also in the process of significant layoffs *(Handelsblatt,* 1997). While the situation in the West-German construction industry has more or less stabilised after horrific redundancies in 1997, redundancies to the tune of 30,000 were expected in the East in 1998 *(Deutsche Presse Agentur Ueberseediest,* 1998).

The automobile industry provides an archetypal case of global integration. The job losses of the 80’s, which occurred under the euphemistic name of “lean production”, seem to have marked only the beginning. Truly German cars now exist only in the luxury bracket. Although the new Polo is assembled in Wolfsburg, almost half the parts come from overseas, ranging from the Czech Republic, to Italy, Spain, Mexico and the USA *(Frankfurter Allgemeine Zeitung,* 1996; *International Herald Tribune,* 1996b). And job losses in the automobile industry continue unabated into 1998 (Viehoever 1998).

Since 1990, air transport in the EU has been deregulated which has placed enormous strain on all airlines. Particularly the smaller ones like

Austrian Airlines, Sabena and Swissair are now barely able to survive. According to the Association of European Airlines, by 1996, one rationalisation after another has destroyed 43,000 jobs. Lufthansa alone intends to cut costs by 1.5 billion Marks within five years. Apart from redundancies, it is intended to freeze wages, extend working hours and curtail leave entitlements. It would seem that at the end of the process, only four or five "megacarriers" will remain in Europe *(International Herald Tribune,* 1996c).

Particularly shocking is that the job destruction continues unabated and shows no convincing or unambivalant signs of terminating or correcting. A look at the German press virtually any day of the week confirms the harsh reality of mass unemployment. At the time of writing (March, 1998), there is some guarded talk of the job market stabilising and a turning point emerging *(Handelsblatt,* 1998; *Sueddeutsche Zeitung,* 1998a). However, there is no clear indication of any real end to the crisis or reversal of the trends and problems described in this paper. Some commentators in fact view the positive sentiments as nothing more than an election-year fantasy *(Sueddeutsche Zeitung,* 1998b).

Berger (see Oppermann, 1996) believes that another 1.5 million jobs will disappear in Germany in the coming decade and that industry will go the way of agriculture. Between 1985 and 1995, Great Britain attracted 202 billion dollars in foreign investment, whereas over that same period, Germany managed only 28 billion, 15 per cent of the British total *(Sueddeutsche Zeitung,* 1997a). Germans are investing increasingly more overseas, with a special emphasis on Asia. In many ways, the long-running debate over *Standort Deutschland,* the current and future viability of Germany as an industrial and manufacturing nation captures the very essence of the globalisation dilemma.

Even the Christmas message of the Federal President, Roman Herzog emphasised the significance of globalisation and the domestic unemployment crisis *(Germnews,* 1996c). A leading news magazine, *Die Stern* (Wuellenweber, 1998) asks «when the damn will break?», that is, just how much downsizing and unemployment the country and its citizens can tolerate.

TRUE LABOUR COSTS

From the perspective of Germany, most new jobs will be created overseas where costs, especially those of labour, are significantly cheaper. The essence of the problem is the incompatibility of globalisation between the affluent West and the East, with its frugal, low-expectation work force. Where Germans earn DM45 per hour, some British workers will do the job for less than half, and Czech's for *one tenth.* German workers are accused of working too little, earning too much, having excessively long holidays and being sick too often. Taxation exacerbates the process considerably. With forty percent being the basic corporate rate in Germany, Ireland with its ten percent and countries like Malaysia and parts of American with far less, offer extremely tempting alternatives. The current Asian "meltdown" may provide some relief, but this is unlikely to be substantial over the longer term.

There is, however, another side to the debate which is frequently underestimated or even ignored. Comparing hourly labour costs in absolute terms is the basic and most obvious means of comparison and yet is not necessarily meaningful. Obviously what counts is unit production cost, which effectively integrates productivity. Interestingly, in Germany between 1974 and 1994, hourly wages rates rose by 97% whereas the average rise for all other OECD countries is 270% (Flassbeck and Stremme, 1995). Thus, German labour remains extremely efficient and for this reason, Germany still has the lead in several markets.

The economists of the Ifo-Institut in Munich came to similar conclusions and pointed out that nowhere has real income risen more slowly than in Germany (Ifo-Institute, 1996). Unfortunately for German labour, the chronic surplus of exports over imports has raised the value of the German Mark consistently. German wage discipline and restraint as reflected in wage-bargaining rounds has thus been eroded by the exchange rate. This fact has been misused to label German labour as excessively expensive, whereas the reality in terms of the exchange rate is a far more complex issue relating to the broader economic canvas. In general, there is considerable naiveté, misunderstanding and ignorance about the true cost of German labour. Yet, the widespread perception of extremely expensive labour has resulted in all manner of savings and cost-cutting programmes, many of which do more harm than good, especially when they eliminate jobs that could have been spared.

STRATEGIC ALLIANCES

Transnational corporations are constantly reinforcing their globalisation through a variety of strategic alliances. Once again, the automobile industry is the prime example. Volkswagen has taken over not only Audi but the Spanish Seat and the Eastern European Skoda. British Rover is now part of BMW. Ford and Volkswagen run jointly a luxury limousine factory south of Lisbon and market under two different names. Ford uses the name *Galaxy* and VW *Sharan.* In this way, the automobile industry has fashioned a complex, multinational network which yields extraordinary flexibility and mobility. In the German automobile industry alone, 300,000 jobs have been lost between 1991 and 1995, while annual production has in fact been roughly constant. Ford, for example, plans to continue this cost cutting and aims to increase efficiency at the rate of seven per cent each year. Similarly, the VW motto effectively runs along the lines of "more cars and less labour". While between 7,000 and 8,000 jobs each year will disappear, the VW board has promised to increase the rate of return on shares by five times over a period of four years (Bluethmann, 1995).

COMPUTERISATION

International computer networking has eradicated much duplicated work. While this cuts costs, it does just the same for jobs. A perfect example is the Ford Motor Company (European) which has its head office in Cologne. German designers work, sometimes simultaneously and sometimes in shifts on the same projects as their American colleagues in Dearborn, Michigan. Since 1995, no regional subsidiaries produce their own, independent models *(Economist,* 1995). These "global cars" save the company billions, but much of the savings comprise the salaries of former employees. Similarly, globalised banking means that a comprehensive network of subsidiaries is no longer needed.

Through networked computerisation, the Deutsche Bank and the Bavarian Vereinsbank are just two examples of many that are and will continue curtailing their expensive, labour-intensive network of affiliated offices of various kinds. According to Ulrich Cartellieri of the Deutsche Bank *(Die Zeit,* 1995), banking is set to become the steel industry of the nineties with as many as half the current jobs liable to disappear.

The German software industry itself looks set to be the next to go. Each year, over twenty thousand university students graduate in computer studies. Yet it is evident that a large proportion will find only temporary work, if that. For quite some time, a process has been underway in the USA which is now spreading to Europe. Firms like Hewlett-Packard and Motorola have employed specialists from India at wages that are a fraction of the American rate *(Financial Times,* 1996). The Indian experts have an excellent education, often at British universities. Sometimes, entire charter flights of such personnel are flown in; at other times, the work is conducted on-line between the two countries.

In Germany, all three computer giants, IBM, Digital Equipment and Siemens Nixdorf have eliminated more than ten thousand jobs since 1991 at least partly because of the development of subsidiaries in Bangalore. Lufthansa has also subcontracted a large proportion of its accounting to an Indian firm. Likewise, Indians have developed the logistics programme for the container terminal in Bremerhaven. Swissair had gone a similar route at a cost of 120 jobs in Zurich and a saving of eight million Francs annually. A spokesman for Swissair pointed out that three Indians can be employed for the cost of one Swiss national. Furthermore, India is by no means the only source of such cheap skilled labour. Since the fall of the Wall, an additional million qualified computer personnel from Russia and Eastern Europe is available to the West, in person or on-line.

Many other jobs may disappear into cyberspace, including those relating to archives, libraries, travel and advertising. For instance, in the world of journalism, ever fewer people are producing more stories and far more rapidly. Magazines like *Der Stern* and *Der Spiegel* which used to provide considerable employment in the trade, now offer prospective journalists little more than one-off contracts and paltry line-rates for articles. Thus, many jobs will not quite disappear; they will deteriorate into downgrading and downsizing. Stable, full-time jobs will mutate into part time, contract and temporary jobs which will minimise cost and the responsibility of firms, and similarly minimise the economic and social welfare of the workers.

SHAREHOLDER VALUE

The global trade in shares has loosened international boundaries even more than the networking of production. A third of Daimler-Benz shares are foreign owned and the figure is as high as 43% for the Deutsche Bank. Bayer, Hoechst, Mannesmann and many others have majority foreign holdings. For the most part, these shareholders are not small and powerless or banks with a close affiliation and identification with German industry. Rather, they are investment, insurance and pension funds in the USA and Britain. These organisations are interested only in return on investment and place corresponding demands on German firms. This puts managers in an invidious position, under pressure to perform within this context as confirmed by the financial manager of Bayer (Helmut Loehr, cited in Marten, 1996). Consequently, managerial attitudes with respect to rationalisation and dismissal are hardening and managers who are adept at this are well rewarded.

A good case in point is Daimler-Benz where under the leadership of Juergen Schremp, losses of almost six billion were incurred in 1995. As a consequence, he closed down the Fokker and AEG concerns and announced that within three years, 56,000 workers would be made redundant. This raised the value of shares by 20%. Suddenly, *Wall Street Journal* and *Business Week,* who had formerly castigated Schremp as a failure, celebrated him as a revolutionary success and ground-breaking organisational developer. This situation is clearly not unique to Daimler-Benz.

In 1995, the German giants Hoechst, Bayer and BASF reported the highest profits in their respective histories; yet this occurs simultaneously with massive retrenchments. The successors to IG Farben conduct eighty per cent of their turnover overseas and only a third of the company’s personnel still works in Germany. As in the case of the automobile industry, the managing director of Hoechst himself posed the question «What is really German about Hoechst any more?» (Dormann, 1996). He pointed out that the USA is the major market, Kuwaiti shareholders have a greater holding than Germans and the research operation is truly international. Thus, it would seem that social responsibility to a national work force is no longer affordable. Article 14 of the German constitution stating that ownership should serve the common interest is now an unaffordable luxury.

In summary, the frantic scramble for shares of the global market leads almost inevitably to a devaluation of labour and for the vast majority of the population is a destructive, vicious circle. From Germany’s perspective, some cheaper competitor is always out there somewhere or will be tomorrow. The relentless drive to be “fit for the global market” leads to the unfortunate processes described in this article. Yet, globalisation should not be seen as inevitable, a kind of unstoppable and necessary progression like the industrial revolution of the previous century.

GERMAN MANAGERIAL FAILURE: THE OTHER SIDE OF THE GLOBALISATION DILEMMA

There is no doubt whatever that Germany has suffered and continues to suffer a great deal as a result of globalisation. But this is not the whole story. There is another factor which has been accorded relatively little attention, particularly *in the non-German media,* and that is the state of German management. Shortcomings in this context are substantially to blame for Germany’s downsizing and unemployment crisis, and in some ways, globalisation has been used as an excuse. Indeed, precisely this point is made by Herz (1997), namely, that politicians and managers hide behind globalisation to conceal their own failure to perform effectively. Groth (1997) accuses management of perfecting the art of blaming others. When things go wrong, the blame is laid at the door of the trade unions for unrealistic wage demands, the government for its excessive social payments, consumers for expecting too much for their money. Everyone, they say, wants too great a slice of the pie.

MANAGERIAL WEAKNESS: ALLEGATIONS AND EVIDENCE

The once glittering image of the German managerial elite is seriously tarnished. Despite the fact that German managers are highly educated, often with degrees from the best schools, are ambitious, hard working, and bright, they are failing in droves to “deliver the goods” (Kath, 1994). Indeed, shareholders’ complaints about management are mounting *(Economist,* 1996). From its economic miracle days, Germany has clearly revealed itself as an industrial nation whose managers have failed to adapt to changing times and who have lost the affinity to the global market which they dominated for so long (Mahler, 1997). Research conducted by the Massachusetts Institute of Technology *(Frankfurter Algemeine Zeitung,* 1996) stressed various weaknesses in the organisation and leadership of labour. McKinsey *(Deutsche Presse Agentur Ueberseediest,* 1996) attributed two thirds of Germany’s cost disadvantage to managerial incompetence and errors.

Bissinger (1996) argues that the massive jobs losses in Germany from such firms as AEG, Balsam or Suedmilch cannot legitimately be blamed on Standort Deutschland or its expensive labour. While these factors remain a real and substantial problem, managerial risk aversion, inflexibility, lack of imagination and introversion etc. are also major contributory forces. Germany has reacted to the pressure of globalisation by restructuring and cost reduction, an inappropriate and societally disastrous approach.

In other words, there can be no doubt that Germany has been hit hard by globalisation and the opening up of cheap labour markets in Eastern Europe and in Asia. However, it would seem that management should take a fair share of the blame. The media have focused primarily on the high cost of German labour and Germany as an industrial location. Yet, there are many managerial problems which are potentially equally devastating.

A MENTALITY OF RATIONALISATION AND DOWNSIZING

In an interview, Dieter Vogel, chairman of the Thyssen Union made his sentiments quite clear in stating, with respect to the unemployment in Germany, that the wrong people were suffering: «Top management has failed» *(Sueddeutsche Zeitung,* 1996). Thyssen is one the firms that has “rationalised” particularly radically in the last few years. Similarly, Wolfgang Grupp (1996), owner-director of the Trigema concern argued in a newspaper interview that weak and imprudent management cannot be allowed to eradicate jobs and/or transfer them overseas on an ongoing basis. A recent study *(Sueddeutsche Zeitung,* 1997e) indicates that the destruction of jobs in Germany is «not a natural fate, but results in many cases from a lack of effective adaptation and insufficient managerial intelligence.»

Habbel *(Sueddeutsche Zeitung,* 1997b) concurs that if entrepreneurs used the innovative potential of their firms effectively, it would be possible to create 200,000 skilled jobs, and a further 250,000 could be developed if firms were less risk averse and banks made more venture capital available for new developments. Kath (1994) stresses that German managers are dominated by *Kostendenken,* a blind obsession with cutting costs, no matter what the price in human and societal terms. This is a form of a tunnel vision in which the mindless cutting of personnel is regarded as the only way of securing and enhancing productivity. Such behaviour in turn leads to a regressive form of economic efficiency in place of a more productive pursuit of innovation and creativity that would lead to genuine and ongoing industrial development.

BEHAVIOURAL PATTERNS, SYNDROMES AND SYMPTOMS

According to Wilhelm Schaaf *(Focus Magazin,* 1995), decisions are made by accountants who agonise over financial statements and comparisons rather than looking at the real trends and competitive forces in the market. (Schaaf is a judge who has presided over more than one hundred and fifty cases of bankruptcy and insolvency, including that of AEG). Similarly, Kath (1994) considers in some detail the “number fetishism" which diverts attention away from the more significant and pressing realities of the market. Effective strategic management, he continues, is impossible with such a narrow and mechanistic orientation: «the cost Angst stultifies strategic thinking» (Kath, 1994, p. 198). Furthermore, the interdisciplinary approach which is so vital in the late nineties also falls by the wayside.

It is clear that managers who have no more than a five-year contract, think and plan differently than entrepreneurs who have run their own concern for a decade and have at least one more ahead of them. Only then, is optimal, long-range planning possible and quick profits unnecessary; they can be sacrificed in order to secure the longer-term survival of the company. On the other hand, a manager with a five-year time span to prove him/herself tends to take risks and gamble in order to secure quick, impressive gains, because that will inevitably be the performance measure, not endurance and consistency–hence the downsizing.

LACK OF INNOVATION

The world is unquestionably entering the "knowledge society" *(Welt am Sontag,* 1996) and it is moving rapidly with critical implications for the kind of product (and service) that will maintain and increase economic prosperity. What was right yesterday can be wrong today and disastrous tomorrow. Germany's long industrial tradition created an illusion of guaranteed prosperity and it is only now that the error of such perceptions is become painfully evident. After so many years of complacency, much of German industry has lost its affinity to the modern industrial process. There is no easy solution inside Germany, and as indicated, too many firms seek the path of least resistance by downsizing and/or relocation in cheaper countries.

Standort Deutschland is far too expensive for mass production at the lower end of the market. And there are insufficient patents and other elements of the competitive equation to succeed in high-tech markets. The phrase "Made in Germany" no longer has the connotation of being unassailably at the leading edge of design and technology.

In a sense, the crisis of Standort Deutschland is one of creativity. According to Berger (1997), German society lacks innovation, because the management and thus the firms are not imbued with this quality. Such sentiments are echoed by the leading management consultants and business journalists *(Deutsche Presse Agentur Ueberseediest,* 1996; Riehl-Heyse, 1997). Schueller (1997) also laments that the range of activities and behaviour of highly-paid top management is constrained through «a blatant lack of imagination». In the opinion of Habbel *(Sueddeutsche Zeitung,* 1997b), no real economic recovery is possible while to Germans, a piece of real estate is more valuable than the most brilliant business concept.

Only 16 per cent of German products are at truly state-of-the-arts technology levels. In Japan, the figure is 27 percent, and in America, 43 *(Frankfurter Allgemeine Zeitung,* 1995). Japan has registered five times as many patents as Germany over the last five years. Furthermore, the Japanese purchase patents from all over the world. German firms have come under fire recently for their reluctance to take up innovative ideas from entrepreneurs and researchers (Riehl-Heyse, 1997). Not surprisingly, management seeks a desperate short-term “quick fix” which generally takes the form of job destruction.

SOLUTIONS

There can be no return to the sixties and early seventies when countries operated in relative independence and could control national income distribution with relative ease. International linkages and technology are far too advanced for this to be feasible on a broad and consistent basis. Nonetheless, as Moskowitz (1998) points out, globalisation is lending a new respectability to those who doubt the value of extremely free trade. Thus, repugnant as the idea may be to many global citizens, a cautious and very partial return to protection may provide some relief from downsizing, at least in the short run.

The core of a counter-strategy lies in a thorough revaluation of labour by government, management and employees. Such action would also need to extend beyond Germany; international co-operation is needed. All nations (and especially those in Europe) need to consider their economic and social policies and strategies within the framework of a full-employment objective if real and lasting progress is to be achieved *(Deutsche Welle Radio,* 1997b).

Yet, there is much that individual countries can do and a comparison is useful in this context. Three countries which are being praised particularly for effective management at both national and microeconomic levels are the USA, Holland and Singapore. From the USA, the need for flexible labour markets, entrepreneurial zeal and abundant sources of capital are proving effective in combating downsizing. In the Netherlands, innovative approaches to job formulation and scheduling (part time and flexi-time) as well as innovative attitudes amongst the workers themselves have proven to be important ways of eliminating job destruction. In Singapore, the ability to “plug into” global markets and turn globalisation into a positive factor is remarkable and surely worthy of emulation. In these cases, effective governmental support through monetary policy, for example, is also noteworthy (Roach, 1997; Scitovsky, 1998). In general terms, those countries which succeed in exploiting, rather than suffering from globalisation are those which find an optimal balance between appropriate, transparent action at various levels, ranging from micro to macro to institutional and attitudinal. There can be no doubt that Germany has yet to find this balance, so that it can emerge from the downsizing phase into a more constructive one.

In terms of Germany specifically, a particularly delicate issue is whether workers really are too expensive or whether the wealthy are taxed too lightly and doing too little for the welfare state. Firms certainly have been and still are far too quick to eliminate jobs rather than finding methods of remaining efficient that do not entail job destruction. Yet, according to Maier-Mannhart (1997), unions have indeed, for too long, ignored the fact that jobs will only appear when cost increases are below that of productivity. The Chancellor *(Germnews,* 1997) has recently made a plea for workers to forego real-wage rises for the next few years in order to reduce unemployment. Difficult to implement, but a plan with obvious economic merits. However, critics point out that lowering real wages will reduce domestic demand, thus nullifying part of the job-creating impact of lower wages.

A restructuring of the taxation system is currently under debate, although the attempts to achieve this failed miserably in 1997 *(Der Spiegel,* 1997c). The objective is to secure Standort Deutschland, which would certainly help to reduce job losses as has been the case in Great Britain. According to the general secretary of the CDU, Hinze, the tax reform is a fundamental step in stimulating growth and employment. The reform may still materialise in the not-too-distant future.

A further point of some significance is whether moving to low-wage countries is as beneficial as managers and strategists seem to believe. A recent McKinsey Quarterly report *(Cash,* 1997) indicates that fewer of the more successful European firms and more of the less successful ones move out of their home countries and source locally. Similarly, Uniewski (1997) gives several examples of component manufacturers that proved unable to supply goods of an acceptable quality to the German-based plant within the necessary time frame. Furthermore, not only are labour costs in these countries rising, but they tend to have a poor infrastructure *(Deutsche Welle Radio,* 1997a). According to Uniewski, even the Far East has lost some of its appeal, with such firms as the headphone manufacturer, Sennheiser, withdrawing from China. Arguably, the winners and losers in global competition are determined less by size (or labour cost) but by speed and flexibility (Lejeune, 1996).

Furthermore, it is often argued in Germany that the country as an industrial location is not as bad as its reputation. The poor publicity accruing to Germany and its cost structure in particular are as much a part of the problem as the real manufacturing logistics. The point was made emphatically by Gunnar Uldall, the speaker for the Union Faction in Bonn that Germany and is constantly improving its viability as a recipient of investment *(Sueddeutscher Zeitung,* 1997a).

Part-time work is also a solution, and one that has certainly worked well in improving America's unemployment statistics, even if the impact on the quality of life and standard of living has been less appealing. In Germany, this American model is in fact much derided (Bundschuh, 1997), despite having proven effective in Holland as well *(Der Spiegel,* 1997b). Furthermore, German agencies specialising in part-time work have provided work of some kind for 1.3 million workers between 1992 and 1995 and of these, 390,000 jobs have evolved into fixed, longer-term positions. Once again, such measures as introducing part-time jobs or cutting down overtime may contribute to the whole, but are not in themselves pervasive solutions.

There can be no doubt that there are alternatives to downsizing which are infinitely preferable with respect to the labour market and in the longer term, for firms and the economy as well. Much of this has to do with managerial improvements which leave the work force essentially intact. If internationally active firms would avoid some of the most common blunders, they would be far less susceptible to globalisation and less likely to cling desperately to the obvious but negative solution of downsizing. Sound market research, a prudent choice of business partners and sufficient information technology are three core issues *(Chief Executive,* 1998).

As made abundantly clear by Deresky (1997), competent cross-cultural and international management skills and practise are becoming increasingly more important. If firms are to cope effectively with intensified competition, competence in such areas as international negotiation, motivation and leadership provide indispensable means of retaining and expanding market share through good management and without drastic cost cutting and the shedding of labour. Japanese companies, for instance, have a good record of meticulous preparation for international negotiation, whereas Germans do not. Similarly, a more active use of informal networks in Chinese fashion and a movement away from rigid and antiquated organisational structures could prove useful (Kraar, 1994). Tapping into more formal networks beyond the European Union would also seem prudent for the Germans. Inside the Union, it is all too easy to neglect opportunities that lie with integrative agreements further afield.

Attitudinal changes are also vital. McKinsey's chief in Germany Herbert Henzler argues that more entrepreneurship and independent, innovative businesspeople are needed. Germany has lost this impulse, a failing he believes to be Germany's Achilles heel. Similarly, research and development in Germany has fallen behind *(Deutsche Presse Agentur Ueberseediest,* 1996). Universities and the state must foster the innovative drive which contributed so substantially to Germany's past success.

Also, as in Denmark, for instance, especially younger people will have to accept that they may only find work, even indefinitely in areas other than that in which they trained or would like to do. Someone who trained as a florist has to work perhaps as a hairdresser, or a commerce graduate may have to become a baker *(Der Spiegel,* 1997b). The Danish Social minister pointed out that they do not accept so readily that young people be consigned to the scrap heap of the chronically unemployed. Yet the polar opposite is currently occurring in Germany, with more physically demanding jobs like baking, frail-care, abattoir and so on being performed by foreigners, because Germans are unwilling to undertake such work (Wuellenweber, 1998). Also linked to this kind of adaptation is the recommendation of the Federal Institute of Labour Bernhard Jagoda that younger people focus on job areas with a future *(Sueddeutscher Zeitung,* 1997b). That is, as conventional manufacturing jobs disappear, other opportunities in the service and hi-tech sectors, for instance, develop and it is essential that these options be exploited. Nonetheless, Bavaria's economic minister warns against a «creeping de-industrialisation» of Germany, which he believes would be disastrous to the country's longer-term future.

With respect to the other side of the coin, the managerial problems, there are clearly shortcomings terms of innovation, inflexibility, risk-aversion and bureaucracy. Germany evidently needs to redefine and consider its home-grown management methods *(Economist,* 1996). *Der Spiegel* (1997) draws attention to the need for a flexible approach to problem solving; no answer will be found in traditional patterns of problem solving or work organisation. And some firms are indeed recognising their errors. For instance, Lufthansa is planning to increase employment in 1998 in order to correct excessive rationalising in the past *(Die Wirtschaftswoche,* 1997).

A host of managerial techniques and methodologies are potentially available to German management, such as reengineering, organisational renewal and various forms of management development. Managerial problems could be tacked through examining the nature of business leadership at various levels and using the vast range of available techniques in order to develop greater organisational efficiency. In addition, techniques can be adopted and adapted from other countries. One school of thought believes that Germany's only hope is to become more like America. Others suggest that Japan should be the source of inspiration. The *Kaikaku,* a form of revolutionary change through a radical customer orientation is one possibility and there is the technique of "continuous improvement". Japanese management is also aided by the *Mirai,* a pervasive philosophy which allegedly enables not only an analysis of peak performance, but also the means of attaining it.

It is evident that complacency, retreat, resignation and worse in the face of what is indisputably a viciously competitive, globalised market provide no solution. There are certainly many issues internal to the German managerial system which can and need to be tacked urgently. Although not a panacea for the ills of the labour market or external threats, there is a considerable amount that management could do to improve the state of Standort Deutschland, without downsizing.

While such solutions are not easy to accept or implement, they are likely to represent the only means of breaking out of the downward spiral of job destruction. The lessons are there to be learned from other economies in the developed world which are faring considerably better than Germany and in the face of quite similar difficulties. The optimal approach would seem to be an eclectic one through which as many as possible of the above potential solutions are applied. Over time, it would become evident which are the more successful and efforts in these directions correspondingly intensified.

If such a strategy is applied assiduously and consistently, with constant monitoring and modification, the chances of longer-term success seem reasonably high. Nonetheless, the problems are in some respects endemic and fraught with vested interests, so that progress is unlikely be easy. Yet, there is consensus in Germany that embarking on this road one way or another is critical to the country's future economic and social survival. In conclusion, Germany has become a victim of changing global conditions and an inability back home to react to them appropriately. Yet, an analysis of the specific problems faced by Germany itself and in relation to other countries which have come to terms more successfully with similar problems, reveals many viable approaches and methods which can turn the situation around.

Endnote. This article has been compiled through an extensive archival process of both conventional and unconventional sources. Full referencing was not in all instances possible, and as much information has been provided as was feasible.

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