

# JRB&Co. US-Update

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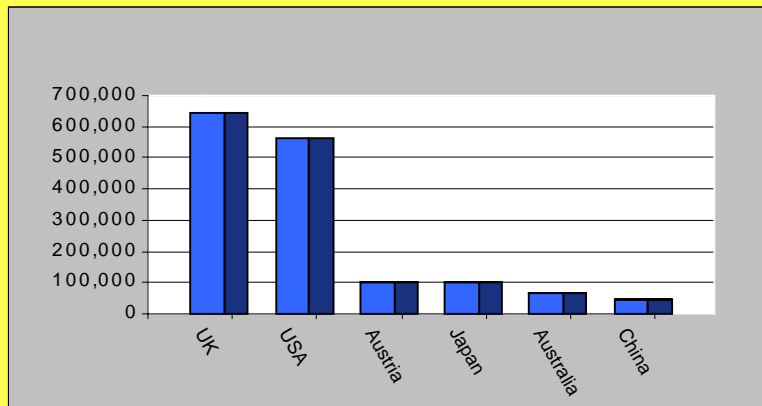
## French Fries and German-American Trade

Perhaps now that the 'Freedom Fries' at the U.S. Capitol cafeteria have returned to their customary name 'French Fries'<sup>1</sup>, industries on both sides of the Atlantic may finally be able to focus

And while direct U.S. investment in Germany increased to \$61 billion, direct investment by German companies in the U.S. grew at an average annual rate of \$14 billion during the last decade, to nearly \$160 billion.

markets and industries are becoming evident in the automobile industry. While nearly 560,000 German built cars are exported to the U.S. annually (from a total of 5.1 million cars produced in Germany annually, and only the U.K. importing a larger share with 650,000 cars), two of the largest German car manufacturers are American owned (Ford and Opel/GM), while other brands also have strong cross-ownership relations.

Car Imports from Germany (2002)



again on the work at hand of providing products and services - as well as employment and income - for families in their markets.

Touched but influenced only in a limited way by the ups and downs of the political developments of the past year, trade relations between Germany and the U.S. are strong and stable.

With imports from Germany totaling nearly \$60 billion (a growth of 106% during the past ten years), and U.S. exports to Germany growing by 80% over the same period (while global U.S. exports grew only by 39%), the interchange of goods and services between the two markets is substantial.

Equally impressive is the fact that high-end engineered products (cars, machinery, equipment, and electronic parts) represent the bulk of this trade relationship.

This is supported by a significant exchange of service 'products' between the two markets. Fuelled by the export of licenses and patents to the U.S. by German industry (+240% during the last ten years to \$1.5 billion annually), and the considerable service product levels offered by U.S. firms in Germany (e.g., consulting, financial), the exchange of total service products has nearly doubled.

How closely intertwined the two

All in all, German firms in the U.S. now directly employ some 730,000 Americans, with the BMW factories in Greer/SC already employing 4,700 people. Considering that it is estimated that for every fulltime manufacturing job, almost four additional jobs are created elsewhere, the positive influence by German companies on U.S. employment levels becomes obvious.

<sup>1</sup> In reality very much an American name which neither the French nor anyone else in Europe uses - and only very few are even aware of

### Upcoming visits of JRB&Co. in Europe:

January 19 - 30, 2004

March 1 - 12, 2004

April 12 - 23, 2004

May 3 - 14, 2004

June 14 - June 25, 2004

September 15 - 26, 2004

## **JRB&Co. PROFILE OF THE DAY: Member of the Board of Directors**

### **1. Statistical Data (U.S. Fortune 500 companies)**

- Average board has 13 members
- 70% are outside members
- Average of 9 board meetings per year
- Average of 5 board committees (audit, compensation, executives, finance, nominating)
- 85% of all chairmen are also active as CEOs

### **2. Duties of the Board**

- Decides on by-laws which define the issues and responsibilities of the board (if not by law or shareholder)
- Decides on acquisitions, divestitures, product line changes
- Decides on annual budget, including capital spending
- Decides on profit distribution
- Decides on equity and finances, including loans, guarantees, securities and bank relations
- Decides on personnel issues for officers (hiring, firing, promotions, compensation)
- Decides on major compensation issues, including benefits, bonus, retirement plan (e.g., 401(k))
- Selects corporate legal counsel, auditors

### **3. Professional Selection Criteria of Board Members**

- Long-term experience in related industries and/or related services (financing, banking, engineering, consulting)
- Minimum of ten years in top management positions
- International experience, preferably having lived abroad for some time
- Involved in outside activities, i.e., charities, communities or as member of the board

### **4. Personality Selection Criteria of Board Members**

- Mature “gentleman”, presentable on all levels
- Well-educated and mannered
- Credible personality with natural authority, with appropriate ego
- Independent mind with strong convictions but flexible regarding change
- Convincing in arguments in content and style
- Absolutely honest, reliable and loyal

*continued from page 4*

While indirect labor cost in much of Europe hovers around 40% of total costs, in the U.S. it only represents about 28%.

And while American workers are happy to have the greater purchasing power due to a relatively high take-home income, they are also required to use more of their income than Europeans to pay for education (the cost of university education of their children is a large burden for many families), to finance local community expenditures (via property taxes, fees, and donations for expenses like teacher salaries and the like), and to prepare for the unexpected (job loss, health and family crisis) as well as the expected (retirement).

The rule of avoiding comparison of relative data between different markets and cultural structures is also valid for regional wages. Ultimately, the competitive level in individual markets is what really counts, be it for sales prices, product margins, or salary levels.

## **In Short.....**

### **Hottest Job Growth Markets**

Based on data from the U.S. Bureau of Labor, of the top 20 job growth markets in the U.S. for the next ten years, six are located in Florida. From the top 4 job growth markets nationwide, only number one, Las Vegas (+48%), is not in Florida. The top Florida job growth markets and their nationwide standing: 2. Orlando (+32%), 3. West Palm Beach (+29%), 4. Ft. Lauderdale (+26%), 7. Jacksonville (+25%), 8. Tampa (+24%), 18. Miami (+17%). Other top 10 growth markets are: 5. Riverside/CA, 6. Phoenix/AZ, 9. Raleigh-Durham/NC, and 10. Sacramento/CA.

## Management Recruitment in the USA

(continued from the previous US-Update)

### 7. The Period Afterwards

#### **Training:**

The American is less “academic” than the German in that he learns primarily by doing. The initiation phase hence does not need to include a six-month stay at the parent company – something that the new hire is probably not even willing to go through anyway. Two weeks in Germany and then on to the “battlefield” – this fits better with the American approach. It is wise to first let the new employee prove himself, and then provide additional and targeted training in two-week sessions where necessary.

#### **Communication:**

The American needs speed in his communication, and not just when he begins a new job. A phone call is answered by a phone call, an email with an email, where possible within 24 hours. Waiting means frustration, quickness induces activity; a prompt “half answer” is better than a detailed but late one.

#### **Decision-Making:**

The American would like to report to only one person, and he expects this person to have decision-making authority. American “team spirit” is deceptive; the American needs a boss, and the U.S. company president needs one (and only one) in Germany. At the same time, the U.S. firm has only one President and no clearly designated deputy who would assume his duties in his absence.

#### **Leadership:**

The leadership over American executives is a special science: if they are too closely managed they become frustrated and will not stay long. If the

relationship is too relaxed then the U.S. subsidiary might drift away from the aims and direction of the parent company. The relationship should be both disciplined and flexible: strict with the “big picture”, but looser regarding details; friendly in tone, while objective about the facts. A consistent approach and clarity in setting goals – this in essence is what is called for.

#### **What Else?:**

Regular visits by American executives in Germany and vice versa, frequent exchanges between German and American employees, spontaneous telephone calls with “hey, how’s it going?”, enough time for a barbecue during the visit to the USA, now and then invitations including spouses, being constantly accessible even while traveling, on weekends, or during vacations, communicating openly, reacting quickly, regular check-ins – all this keeps business running smoothly.

*(The complete article was published in “PERSONAL”, edition December ‘00.)*

## Germany is a job creating machine!

**H**owever, the beneficiaries are more and more foreign markets.

It is estimated that during the past five years, German companies have created about 45,000 new jobs annually outside of Germany’s borders. And only 7% of these companies are also considering to hire

additional staff in Germany.

Nearly 20% of industrial companies have moved at least part of their manufacturing capacity to another nation during the past three years. And if indications are correct, one of four manufacturers also plans to do so during the next three years.

When asked during a recent study for the reason behind moving jobs from Germany, one of every two companies planning to move manufacturing capacity somewhere else named high direct (wages, payroll taxes) and indirect costs (corporate taxes and fees) as their prime concerns.

It seems that it did not help a great deal when Germany recently proclaimed itself to have lost the title of World Champion for high labor costs to Norway.

In another recent study a single question was posed to managers of thousands of companies in leading industrial nations around the world: How do you expect employment levels to develop in your market – up, down, or remain stable?

It turns out that, besides Belgium and Japan, Germany is the only market that expects to continue to lose more jobs than those which are created. As a matter of fact, the minus 10% named on average for the German job market is the worst for any participating nation.

## Curiosa:

Once upon a time.....

1982 Intel 80286	- 6 MHz
1985 Intel 386DX	- 16 MHz
1989 Intel 486DX	- 25 MHz
1993 Pentium	- 66 MHz
1997 Pentium II	- 233 MHz
1999 Pentium III	- 500 MHz
2000 Pentium 4	- 1.5 GHz
2003 Athlon 64	- 2 GHz

## Salary Levels - And the Winner is .....

Many European executives, used to high labor costs and the reputation that their labor markets are the most expensive ones in the world, are often surprised that the requested salary levels for U.S. employees are seemingly even higher than what they are used to seeing at home.

Besides creating unexpected problems for their local HR budgets in the U.S., it also creates the unpleasant situation of seemingly having to pay higher salaries at their subsidiaries than at headquarters; something that challenges the fundamental understanding of the 'natural pecking order' and stirs up some deep emotions with many managers at the 'Mutterhaus' (home office).

However, when accounting for indirect labor costs (payroll taxes, cost of additional free days for vacations and holidays, etc.), even with their higher take-home salary levels, the employees of the U.S. subsidiary are still often less expensive for the company than their European counterparts.

Using an average exchange rate for the year, data from the 'Institut der Deutschen Wirtschaft' in Cologne (August 2003) outlines that as far as 'direct wages' are concerned, in 2002 even Germany looked like a 'low wage' nation - at least in comparison to the U.S. labor market (direct wages: CH - •17.20; US - •16.18; D/west - •14.74; UK - •13.76; A - •11.19; D/east - •9.96).

No wonder that European workers feel that their American counterparts have a much higher disposable income, while at the same time the cost of many items in American stores also seem lower. At the same time, many European executives feel uneasy over the 20%-30% higher salary demands (for direct wages) of their American staff, asking themselves if this may actually be a premium demanded from a foreign employer.

Independent from first appearances, both of these impressions may indeed be wrong:

- The posted prices in European stores generally include all taxes and fees (value-added taxes in Europe are often 16% or higher), making them appear higher, while in the U.S. only the net price is listed and sales taxes

(usually about 6%) will be added at the check-out counter over the total purchase - as many newly arrived residents had to learn while shopping for the first time.

- If indirect labor costs (which supposedly still benefit employees directly or indirectly) are factored in, the seemingly expensive American employee starts looking much more like a bargain (2002 total labor cost: D/west - •26.36; CH - •26.24; US - •22.44; A - •21.64; UK - •19.89; D/east - 16.43).

While easily overlooked during salary negotiations, it is the indirect portion of labor cost (payroll taxes, additional free time, etc.) that makes all the difference (2002 indirect cost: D/west - •11.62; A - •10.45; CH - •9.03; D/east - •6.42; US - •6.26; UK - •6.14).

*continued on page 2*

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