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Leadership and guidance are the new challenges

Thoughts on the relationship between reform and continuity in Germany's economy and political system

In these times of deregulation and globalization, and with today's higher standard of living, many people believe they no longer need a community's protection. They set greater store by personal freedom. For example, consider the changing role of the family. In the past, the family meant community, security, support. Now, career goals and gender equality have taken priority, shifting many traditional functions of the family over to the state. Meanwhile, we fail to notice that irresponsible political decisions have led Germany into serious financial straits. Political parties focus more on gaining and maintaining power than on properly managing the country's affairs. Voters have lost faith in their political leaders and have begun to doubt the democratic system. This threatens the very foundation of our nation.

With our country in this precarious condition, we would do well to take a look at political leadership in Anglo-Saxon countries. There, citizens feel that the state should do only the bare minimum and that they themselves must take on

greater social responsibility. This understanding of democracy has well withstood the test of time. It is more democratic, more economical, and more progressive.

In earlier centuries, people respected tradition; the old ways guided their behavior. A particular culture that developed to suit a particular region could endure for thousands of years without any significant changes. In the societies that evolved within those cultures, power came from strength, whether military, economic or religious. Contact between cultures was limited. Opportunities to meet people from different cultures and to compare ways of life, as we do today, were quite rare. A ruler's primary goal was to protect the status quo. Few looked for progress; indeed, rulers feared that changes to the social order could threaten their power.

This cultural equilibrium was challenged when democracy came to Greece. Free men debated openly in the forum, questioning the rulers' sovereignty. The democratic system set events in motion that led to a better society — to progress, freedom and humanitarianism. The process still continues its inexorable course. Technology now allows people throughout the world to compare their own standards of living with those of other countries. This has led to yearnings of many kinds, not least of which is the call for democracy. It would appear that, in this sense, humanity is on the road to a new world culture.

Global economic cooperation has opened gateways to extraordinary cultural advances. We have learned that cultures thrive when change is welcomed rather than feared. New and better horizons appear, but also formidable challenges. To keep pace with modernization, we must undertake reform in all areas — and particularly in the political systems that underpin our democracy. We must understand that the current democratic leadership style no longer works. In today's world, we are called upon to organize our state more efficiently and more humanely.

Finding direction through religion

Regional cultures help people integrate their experiences and chart the courses of their lives. Cultures define goals, prescribe behaviors and outline safe paths. But within any culture, living conditions do not remain the same for very long. Societal roles and rules change; people develop new identities, set new goals. The culture must adapt.

People cherish customs and tend to revere traditions; but sometimes the traditional systems are antiquated and wrong. Sometimes the self-serving interests of the rulers conflict with what the people need. If we want to survive in these changing times, we must be prepared to work together to establish viable political and social systems. The people in power are usually the most reluctant to give up their unwritten rights, but in the interests of humanity and progress, we must embark on this journey.

People develop their strengths much more efficiently on their own than under pressure imposed from above. But our traditional values and societal structure are no longer in step with the way our citizens see themselves. We lack ways to learn; we lack opportunities to participate. Our political leaders must begin to adapt existing goals and systems to the circumstances of our times. Our democratic system offers sufficient opportunities for this, and as citizens we are called upon to do our part. There is still hope that we will be able to develop our social order in time to keep pace with increasing international competition.

In the past, the people in power determined a community's social order. Their chief aim was to safeguard their own interests, secure their own power. They resisted change from within, for it threatened their positions. Only a major onslaught from outside could change the culture. And yet throughout history, almost all hierarchical social orders have succumbed to the pressure for better leadership. In the long

term, merely having power is not enough to justify keeping it. People expected those in authority to deliver strong leadership, progress, and improved living conditions. These forces in societal structures led, in the end, to the failure of hierarchy and, as in ancient Greece, to the development of a popular democratic order.

With our society in a deplorable state, we are witnessing increasing pressure on government to change its ways. The situation demands that our political leadership and our citizens revise their way of thinking more profoundly, and above all more quickly, than ever before. A nation needs common goals and convictions to keep the social order functioning and ensure its sustainability. In our country, people are now demanding more justice, freedom and humanity — and less government. Even if we were to eliminate these shortcomings immediately, we must realize that our value systems will have to change too. As we do this, we must bear in mind that the social continuity we seek is more likely to come about through the persuasive power and humanity of ethical rules and goals than by authoritative power.

We have seen that people seeking a spiritual foundation for ethical standards turn to their faith and to religious institutions for guidance — and so they should. We also know just how firmly religious beliefs and teachings are rooted in human culture. This explains our struggle to harmonize independent cultural and religious traditions as Europe moves toward greater integration. It will be several centuries before a pan-European culture emerges. Religious institutions should take heed of events as they unfold, for their mission of spiritual guidance also entails social responsibility.

At the same time, religious leaders must keep in mind that our changing ways of life have led people to question religious and ethical guidelines; even dogma comes under scrutiny today. And yet, no community can exist without ethical direction. The Catholic Church, through astute leadership

choices and an incomparable papal electoral system, has endured difficult times and held fast to its centuries-old mission. Now more than ever, it would behoove the Church to send forth the Christian message in ways that people can relate to and understand. If this succeeds, then people might once again embrace the tenets of faith as a vital link between their life experiences and their innate spirituality.

We need a leadership makeover

When free markets were emerging, resourceful people thought to develop products and services and provide them at a competitive price. Their profit built capital that they used to expand their businesses, and the public marveled at the owners' ensuing wealth. This capital was considered the crucial factor for success; therefore, business owners were called "capitalists" and the economic system derived from it "capitalism". Few understood that this capital was a result of the company's leadership skills. Capital is an indispensable and very significant tool, but in terms of success, leadership remains the decisive factor.

Unfortunately, if we look to this as an analogy for societal progress, Germany tends to rank very low in international comparisons. Our citizens rightly suspect that our politicians fall short. Under the pressure of public opinion, our leaders do initiate reforms—but only lackluster reforms. Voters look at other countries and realize that government can do better. More and more people think that our leadership is not competitive. More and more express doubts about democracy and its politicians.

We need to change the way our government works—but how? Consider a bold perspective: If we demanded that our government not only maintained order but also functioned efficiently, our politicians and civil servants would do things

quite differently. We know from economics that monopolies do not further society's aims. Why should we allow them to dominate in our democracy? We need to embed the principles of competition in our political systems—and we can achieve that by redefining our goals and changing some engrained habits. After a few years of adjustment, our systems would function smoothly. I am very familiar with transition problems of this kind from projects at the Bertelsmann Stiftung. Transitions are indeed arduous, but the work soon begins to pay off.

Once introduced into a system, competition initiates a cycle of learning. Within a few years, the effects begin to take hold—and expenses start to go down. But this efficiency does not in any way diminish the qualities of democracy as the most humane social order. Quite the contrary: It catalyzes solidarity, opens new opportunities for action, and multiplies the potential for progress. If we were to demand that politicians and civil servants demonstrated sound managerial performance and solid results before they advanced to higher positions, we would soon see their leadership skills rise to the challenge. With a few years of efficient government, we could even wipe out our troublesome national debt.

If we decide on a leadership makeover, we should look for—and indeed insist on—certain qualities: We want leaders who respect established values and set clear and concise goals. We seek exemplary humanitarian behavior and good social skills. We value creativity, good judgment, and a focus on performance. But as we set out to reform our democratic state, what we citizens want most of all is greater transparency in the public arena. We want the opportunity to assess the performance of our political parties and to influence them through our votes. If we could do that, our politicians would prove to be quick learners, and we citizens would identify with our government much more.

Bertelsmann itself epitomizes the way responsibilities and expectations have changed over time. What began as a small publishing company in 1835 has grown into a global corporation. Amazingly enough, for five generations the family tradition has underpinned its objectives, its operations and its success. That tradition had its roots in Western philosophy and culture. The family saw its work as a societal obligation, especially when it came to its relationship with customers and employees. The company's patriarchal structure implied concern for its human and social conditions. Certainly its mindfulness of Christian ethics has contributed to the fact that some social services took shape within the company earlier than in society at large. In this day and age, and under new leadership conditions, we at Bertelsmann have continued to develop the company culture and codified it in a Corporate Constitution drawn up with input from employees, executives and shareholders.

Centralism stands in the way of progress

Two centuries ago, the Industrial Revolution dramatically altered Germany's economic system. Smaller family businesses could still follow traditional leadership models, but the emerging stock corporations had to redefine goals and develop new leadership structures. Serious social inequities arose, and the state intervened to balance the interests of capital and labor. Politicians, accustomed to working in a culture of confrontation, tried to transfer their experience to hammering out compromises in the business arena. Collective bargaining helped defuse the situation, but major difficulties persisted. Unions and management hold fundamentally different goals—a fact that still frames their dialogue within the culture of confrontation. So far, the negotiation stakeholders have accepted this state of affairs as appropri-

ate, though the results in no way bear out that assessment. Such a culture of confrontation has little in common with the Bertelsmann corporate culture.

Various mediation procedures have been tried in other countries. Conflicts in the United States typify the understanding of capitalism there. Indeed, Nobel Laureate Milton Friedman categorically declared that since the one responsibility of business was to maximize profits in free and open competition, any measures to benefit employees not required by law constituted a betrayal of capital. Also notable were attempts in Holland and Scandinavia to include government representatives in the collective bargaining framework. However, this has not yet resolved the problems—and unfortunately, the lack of appropriate regulations has only complicated negotiations between unions and management. There can be no doubt that this sours the atmosphere in the workplace, which in turn impairs productivity and performance. In the face of global competition, we cannot afford to let this state of affairs persist much longer.

At Bertelsmann, we have minimized salary disagreements by granting incentive pay and profit participation. We address other issues that might detract from the corporate atmosphere in the appropriate committees right away. Employee surveys about managers' conduct and working conditions have proven a very useful tool. Everyone at Bertelsmann knows that the executive board and the supervisory board take note of executives' interpersonal skills. We are grateful to have found a path that minimizes social friction and has clearly improved the corporate atmosphere.

Our economy is no longer hierarchical in structure. It can no longer operate with objectives set from the top down and aimed at serving those who hold power. This demands a fundamental shift: For a company to survive today, it must consider the criteria of justice and humanitarianism in addition

to economic viability. The same holds true in government; in today's society, our leaders face tasks of such immensity and complexity that they must delegate responsibility — or they will fail. The old reliance on centralist leadership, the old deference to rules and regulations, have become the shackles of progress. Likewise, the economy must no longer bow before return on capital; it must also set its sights on societal progress. However, if we affirm these new goals, we must also free up the necessary resources. We must seek out creative entrepreneurs and talented leaders — and we must give them greater latitude and stronger incentives to act. Our society already fully accepts such working conditions if they lead to the desired results. The public will tolerate even major differences in income if they are clearly pegged to performance.

As the tide of democratization advances, the rules of capitalism must also change. We must again reach a place where citizens identify with their economic system and welcome the chance to take on responsibility. This new understanding of roles signifies a sea change in our democratic order and our ideology. The tide of competition is also rising fast; in response, we must intensify our effort to promote the creative forces that arise when people identify with their vocation. This leads to a far stronger work ethic and commitment to high performance than we could ever enforce through discipline or fear of penalties.

Here at Bertelsmann, we have seen such realignments time and again. From the company's founding in 1835, five generations have steered its course as it grew to the global corporation of today. As a publishing company, its mission had a strong cultural and religious orientation. The family has always held that its profession brought with it a responsibility to society.

When I went to work at Bertelsmann in the spring of 1946 after the war and my internment, our publishing facilities

lay in ruins. We tackled reconstruction with only a few employees. Taking the helm from my father, I was issued a new publishing license. During that time, a serious collective bargaining dispute arose between the employers' association and the printing and paper union. As a result, the employers decided to lock out their employees. My wartime experience had deeply influenced my concept of humanity. For me, partnership and consideration for others were vital within a community. I terminated Bertelsmann's membership in the employers' association and began developing a new order within the company based on humanity and justice. From this fresh start, Bertelsmann's corporate culture has evolved over more than six decades.

Many have the opportunity for advancement and greater responsibility

This corporate culture — exemplified, cherished and defended by shareholders, executives and employees alike — is set forth in our Corporate Constitution. We are all responsible for our corporation's overarching goal: to make a valuable contribution to society. In the spirit of family tradition and under the mandate of humanitarianism, we work together in partnership and mutual trust. We delegate responsibility and are committed to the professional development of our employees, who enjoy autonomy to the greatest extent possible. For reasons of fairness, we augment the standard employee compensation with profit participation. We seek to provide equitable working conditions and social benefits appropriate to the times. We try hard to avoid frictional losses within the company. Employee surveys help us recognize shortcomings and take steps to address them.

Our executives act as entrepreneurs, with considerable independence and full responsibility. We expect them to ad-

here to the spirit of partnership. We communicate important developments within the company in detail through dialogue and written information. We minimize the inevitable disadvantages of a large-scale enterprise through extensive delegation of responsibility and an active works council. Our employees and executives value this corporate culture, and our success confirms that we are on the right path.

Many have a stake in safeguarding continuity at Bertelsmann. The owners understandably seek to preserve their holdings and their earnings; however, continuity also matters a great deal to the corporation's employees and customers. Therefore, ensuring the growth and continuity of Bertelsmann as an independent entity is both a strategic goal and a matter of corporate responsibility. In this era of international competition, guaranteeing this continuity has become a difficult challenge: Profitability must be protected. The ability to compete effectively requires new products and distribution channels. Taxes significantly constrain any company's ability to build equity. Pressing social concerns challenge the traditional capitalist order.

Under such conditions, can we still insist on corporate continuity as a goal? At Bertelsmann, we have learned to include all those within the company who have a stake in its governance—shareholders, executives, and employees—in the debate. Our Corporate Constitution sets forth the framework for the coordination and consensus-building this requires.

As shareholders in the Bertelsmann Management Company, the Mohn family must ensure that the goals anchored in its corporate culture are carried forward in the spirit of social responsibility. Bertelsmann AG's governance requires proven leadership skills and entrepreneurial success. If the family cannot provide a suitable candidate, executives who have come up through the ranks at our company and understand its traditions are preferred over external applicants for succession.

