

Special Report II

## Jobs, profits and patriots

By Stephan Scholtissek

When globalizing companies send production abroad, do workers at home always lose out? Not in Germany, where the best performers among the country's biggest companies are turning the cost savings generated by outsourcing into domestic growth and job creation.

When big global companies seek to maximize profits by moving production to low-cost countries, do domestic workers always lose out?

In the United States and Western Europe, this can be a hot-button issue. According to popular thinking, often abetted by commentators in the media, if cheaper foreign labor means a product will cost less to produce abroad, that's where companies will make it—which inevitably throws people out of work at home. In other words, globalization leads to fewer domestic jobs in the developed economies of the West.

In fact, however, Accenture research in Germany, Europe's largest economy, demonstrates that outsourcing-driven profitability and job creation are not incompatible. Indeed, the picture revealed is quite the opposite.<sup>1</sup>

According to recent Accenture research into Germany's 500 largest corporations, the best-performing 20 percent raised their domestic payrolls by 6.1 percent from 2000 to 2004—despite having substantially boosted their overseas payrolls as well through global expansion and outsourcing. This cohort comprises the country's top performers (see "About the research," page 3). Moreover,

our research shows that only the top 20 percent have created jobs at home while also growing abroad; for the rest, overseas job creation has indeed come at the expense of the German workforce.

Accenture research further shows that big companies in general and top-performing businesses in particular are the powerhouses of the German economy. In 2004, the largest 500 firms accounted for some 30 percent of total revenues and achieved double the sales growth of German companies as a whole. They also accounted for an estimated 70 percent of total German R&D spending and an estimated 60 percent of IT spending during the same period. This strongly suggests that these 500 big companies are responsible for most of Germany's investments and—assuming that all IT spending is

based on a business case—more than half of the nation's improvements in process efficiency.

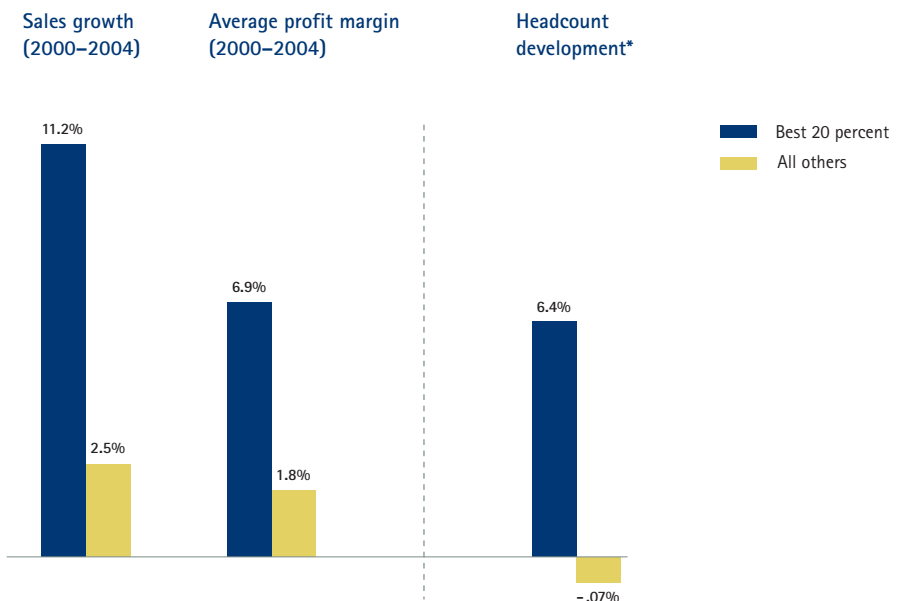
### A balanced partnership

These are controversial findings in a country whose close to 3 million medium-sized enterprises—the famous *Mittelstand*—have long been seen as the main engine of job creation and the driving force behind Germany's traditional strength as an exporter.

Bigger companies, by contrast, are often seen as pursuers of profit at the expense of a greater social good, including job creation. This prejudice is deeply rooted in Germany's artisanal past. Reinforced by the class conflicts of the 19th and 20th centuries, this jaundiced view of big companies has been aggravated in recent years by workforce insecurities generated by globaliza-

## Top performers and job creation

For the 212 companies from the Top 500 for which we were able to gather data, the best 20 percent created overall headcount growth both at home and abroad. In fact, they were able to increase headcount by 240,000. The rest lost headcount—a total of 220,000 jobs.



\*Not adjusted for M&A effects  
Source: Accenture analysis

tion—insecurities echoed by politicians of all parties, who have tended to legislate in favor of the *Mittelstand*.

It would be wrong, however, to conclude that the findings undervalue the status of the *Mittelstand*. In fact, the Accenture study confirms the key role of these companies as domestic employers. What's more, as suppliers to the most profitable of the big conglomerates, they, too, are benefiting from globalization.

In fact, the strength of the German economy depends on a balanced partnership between large and mid-size companies. Our study identified the big companies as important drivers of economic growth. But its most significant conclusion is this:

Profitability at the corporate level is sustained by job creation overseas, which is therefore an indispensable precondition for long-term job creation in Germany itself.

The aim of Accenture's study was to determine which segments of the German economy are growing most vigorously and whether, contrary to popular belief, growth at the largest corporations—which are building on a global delivery network—also creates jobs in Germany.

German academic researchers and politicians often neglect large companies because of their relatively limited historical role in domestic job creation. Our research results did not dispute this view. The largest 500 companies as a whole pay the

## About the research

The principal purpose of Accenture's research was to determine the relationship between growth, overall business performance and domestic job growth at Germany's 500 biggest companies.

We began by examining data from the years 2001 to 2004 from the "Germany's Top 500" rankings compiled by the newspaper *Die Welt*. We supplemented the data with sales and payroll details for the same companies at home and abroad, as well as with data from 2000. The upshot: a peer group of 650 companies in all—550 industrial companies, 50 banks and 50 insurers. Next, we excluded subsidiaries and companies for which we had incomplete information. In the end, we were able to come up with complete data sets of sales, payroll and profits for about 200 companies.

Our methodology sought to address two common problems in analyzing German industry and company data—the completeness of the data and the different types of "corporate affiliation." To deal with the corporate affiliation issue, we tried to exclude those subsidiaries that could result in double counting.

In an attempt to ensure that our growth rankings reflected the fact that growth is easier to achieve from a low base, we also used the so-called Birch Index, which combines both relative and absolute growth in an attempt to eliminate bias.

We sought, in addition, to identify the best 20 percent of the peer group using a modified version of Accenture's High Performance Business methodology to reflect the fact that our research was cross-industry, not industry-specific, as is usually the case. We measured three- and five-year profit margins and three- and five-year revenue growth, as well as "consistency"—how long a company managed to outperform the mean for its industry peer group.

wages and salaries of just 13 percent of the German workforce. Moreover, while these businesses boosted job creation abroad by 12.3 percent between 2000 and 2004, they also downsized their German workforces by 1.5 percent in the same period.

The performance of the companies that comprise the German Dax 30 blue-chip index, was even worse. They collectively reduced their German payrolls by some 3 percent and managed only 1.9 percent job growth overseas.

But a very different picture emerges when the top 20 percent of the biggest firms are analyzed. These top performers have expanded their

overseas payrolls even more—by 17.7 percent—than the rest of the sample while creating new jobs in Germany at the same time. The secret of their success: the ability to turn the cost and supply chain savings generated by outsourcing into domestic growth and job-creation opportunities.

Top performers in the auto industry provide outstanding examples of this winning formula. Porsche, for example, which transfers a major part of the production of its Boxster roadster to suppliers, still managed to increase its German workforce by 6 percent annually between 2000 and 2004 (see sidebar, below). BMW, too, has continued to create jobs in Ger-

## Porsche: Still "Made in Germany"

Few German companies enjoy the kind of kudos lavished on Porsche. Its prestigious—and pricey—cars set pulses racing from Seattle to Singapore. A Porsche is a passport to the A list, the next-best thing to being a celebrity—and the company counts plenty of those among its customers, especially for the near-legendary 911 luxury sports car.

These customers, of course, are also buying the "Made in Germany" brand and the reputation for top-quality engineering and superior product quality associated with it. So some Porsche customers might be surprised to learn that since 1997, Porsche has been outsourcing a significant chunk of its production. Finland's Valmet Automotive, for instance, makes most of Porsche's Boxsters. And the body of the Cayenne SUV is manufactured at the Volkswagen plant in Bratislava, Slovakia. (Porsche has close connections with VW, both historically—company founder Ferdinand Porsche's design and engineering firm helped create the first VW Beetle—and today—the company is upping its stake in VW to more than 30 percent.)

Outsourcing, moreover, has been a huge success, not only significantly lowering Porsche's fixed costs but also enabling a leaner production process—to the ultimate benefit of the company's German workforce. Porsche boosted its German workforce by 6 percent annually between 2000 and 2004. Its German employees are also among the most contented in the country, thanks to the company's performance-related benefits and flexible working arrangements.

Porsche, indeed, ranks among the most profitable 20 percent of all big German companies, with an average domestic sales growth of more than 8 percent from 2000 to 2004, and margins up 5 percent in the same period.

Concerned that your German car won't be, well, *German*? The engineers employed at Porsche's Weissach research center remain the wellspring of its R&D strategy. And employees at Porsche's home plant in Stuttgart still make both Boxster and Cayenne engines, as well as the 911.

many, although it develops less than half its components domestically. So has auto supplier The Bosch Group, which has set up design and engineering centers in both India and China. All told, from 1995 to 2005, German automakers and suppliers as a group created more than 100,000 jobs in Germany (see chart, page 2).

The top 20 percent of big companies in our study represent a wide range of industries, so it's a similar story, from electronics to retail. What all these companies have in common is a two-pronged growth strategy: global expansion while strengthening *Standort Deutschland*—Germany as a place to do business.

For these top-performing companies, German workers and facilities remain the source of innovation. Indeed, little of their R&D investment ever actually leaves the country. Yet by growing abroad, they build up the resources for capital investment at home, either organically or by acquisition. What's more, because they take care of their human capital at home, they foster a loyal domestic workforce, retaining the long-term capability for profitable future growth through innovation.

It is the profitability of these companies that underpins their success—and much of that profitability stems from using a global delivery network undertaken not just to cut costs but

## Puma: A global winner

Ten years ago, despite the power of its world-famous brand, Puma was on the ropes, mired in debt and struggling to resuscitate its stock price. It took new management in the form of the youthful Jochen Zeitz, who became chairman and CEO in 1993, to put the spring back into Puma's step.

Today, the sporting goods conglomerate from the small northern Bavarian town of Herzogenaurach tops Accenture's list of Germany's best-performing big companies—perhaps the most outstanding example of how profitable global growth can actually enhance domestic job creation (see story).

In the past five years, no midsized to large German company has managed to beat Puma's 35 percent annual average growth rate. Few, moreover, have exceeded its 12 percent average margin growth. And the overall consistency of the company's performance has been exceptional.

So, too, has been its job-creation record. In 2006, Puma boosted its global workforce by more than 50 percent, including a 16 percent rise in Germany alone.

To be sure, Puma does much of its hiring abroad, especially in Asia, where the company has established joint ventures in Japan, Hong Kong and Taiwan, as well as subsidiaries in India. Most of the sports shoes, clothes, bags and growing range of other accessories that carry Puma's eponymous big-cat label are now made overseas.

Nevertheless, as drivers of Puma's overall global growth, these foreign plants are also helping boost employment back in Germany. As Zeitz's ambitious international expansion strategy gathers momentum, their influence can only increase.

As this issue went to press, French luxury goods retailer PPR had increased its stake in Puma to 33.2 percent, giving the company majority voting rights on Puma's board.)

also to improve overall efficiency and to develop innovation capabilities. The carmakers, for example, often buy innovations like self-parking systems from their suppliers, or they co-develop them, as BMW has done with auto supply company ZF Lenksysteme, a 50-50 joint venture between suppliers ZF Friedrichshafen and The Bosch Group.

Far from damaging domestic job prospects and the domestic economy, such strategies can actually enhance them—a lesson from Germany that companies and policymakers in other countries would do well to remember.

### About the author

Stephan Scholtissek is the managing director for Accenture's work in Austria, Switzerland and Germany. Based in Munich, he works with clients on building new business segments and performing large-scale transformations. ..Dr. Scholtissek specializes in business strategy, IT integration and outsourcing, and his background includes consulting to energy companies and working in research and development.

stephan.scholtissek@accenture.com

*Outlook* is published by Accenture.  
© 2007 Accenture.  
All rights reserved.

The views and opinions in this article should not be viewed as professional advice with respect to your business.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.

The use herein of trademarks that may be owned by others is not an assertion of ownership of such trademarks by Accenture nor intended to imply an association between Accenture and the lawful owners of such trademarks.

For more information about Accenture, please visit [www.accenture.com](http://www.accenture.com)