

Marec Béla Steffens^{*}:

The Side Effects of Summer Universities

Opening Speech for the XVth International Summer University at ISES 20th of June 2010, Kőszeg

Ladies and Gentlemen,

my presentation is called: „The Side Effects of Summer Universities”. To start with, I will tell you a side effect from *not* having a Summer University.

A few days ago at the World Cup in South Africa, we saw Germany playing Serbia. The referee, a Spaniard called Alberto Undiano, handed out yellow cards for absolutely everything, and a red card for absolutely nothing.

Later in the press I read that this referee is a sociologist by education. So he should have gone to a summer university instead. Indeed, why would he go to South Africa now? It is not even summer there!

Thus, dear professors, I am glad to see so many of you here at this summer university where you belong. I am glad that you are going to teach here, instead of doing harm to the German team on the football pitch.

Dear students. I like it very much that you are here at this summer university. I like it because it is not part of your standard curriculum. This is one of the most important things you can do while at university, and it will become much more difficult later in life. Broaden your thinking, look left and right, take views from different angles.

Whenever I am recruiting people, I always look for those who know not only the main road but have done some interesting extras. I cannot guarantee that all recruiters are doing it the same way. But just imagine us at the large companies, how many absolutely identical CV's we are getting!

When I was a student of economics many years ago, we had a professor who told us: if you write in your CV that you can speak English, it is not more thrilling than to write you can play cards.

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So I decided to learn another language in addition to English. I am from Hamburg, thus for geographic reasons Swedish was a natural choice. I started in Germany, then I went to Sweden, to Uppsala – to summer university.

Later during my studies, I applied for an internship with AIESEC, that international organisation of students of economics and business administration. The students running the AIESEC office in Hamburg told me: you are a student of economics. *Volkswirtschaft*. That is not too good. We prefer those of business administration: *Betriebswirtschaft*. It is much easier to find internships for them.

On the other hand, they continued, you have learned an unusual language. Swedish. O.K. Accepted. So my first summer university had taken me that far.

When my application was processed, the big AIESEC central computer decided that, instead of Sweden, I should go to – Hungary. So I was an intern in Budapest in the summer of A.D. 1985. And on a weekend trip I was indeed in Kőszeg, 25 years ago almost to the day.

I started to learn Hungarian. Hamburg University was one of only three universities in Western Germany where one could take classes in Hungarian. And in the following year I went to my second summer university, in Debrecen.

I liked the country and the people. And the reforms they were doing were extremely interesting for me as a student of economics. My internship had been at PKI, the Research Institute of the Hungarian Posts and Telecommunications. In that sector at that time, Hungary turned away from traditional state-orientation and authority much faster than for example the Bundespost in Germany. For example, the Hungarians, at a time when people normally had to wait for ten or more years to get a telephone line installed, in certain areas they issued Postal bonds whose holders would get a lower interest – but a telephone line within two years.¹ And all this in a country which was called socialist and belonged to the Soviet empire!

In 1990-91 I came to Hungary with a one-year scholarship to do research. And I started writing my doctoral dissertation.² Times had changed. In the mid-eighties, nobody in the West had really cared about telecommunications in Central and Eastern Europe, except myself because of my internship, and probably a few guys at the CIA. Now this area had become an interesting market for Western companies. Thus in 1991 I joined Siemens.

¹ Steffens, Marec Béla: Organizational Structure and Investment Financing at the Hungarian Post. The Telephone Case, in: András Rába/Karl-Ernst Schenk (eds.): Investment System and Foreign Trade Implications in Hungary, Stuttgart/New York: G. Fischer 1987, pp. 99-129.

² Steffens, Marec Béla: Das Unterschiedsprinzip von John Rawls - seine Akzeptanz und seine praktische Anwendbarkeit am Beispiel Ungarns (John Rawls's Difference Principle. Its Acceptance in and Its Practical Applicability to Hungary), Frankfurt on the Main: P Lang, 1993; summarised: Steffens, Marec Béla: The Influence of Economic Reform on the Personal Income Distribution - The Hungarian Example, in: Economic Systems 17 (1993), pp. 155-164.

I started in Munich, a hardship posting for someone from Hamburg. Of course I wanted to be relocated, preferably abroad. And it worked the same way as before. I told my boss and the personnel department: "I can speak Hungarian, my wife is from Poland, so please send me to this area." And instead they sent me to – China.

I am telling you, Shanghai is a lousy place to practice Hungarian. On the other hand, it is an absolutely great place to learn business.³ I spent there three and a half years, selling mobile networks. It literally started from scratch and then went sky-rocketing.

Thereafter, in summer 1998, indeed I made it to Siemens Hungary, and two years later to Siemens Poland. In 2007 I was invited to return to Hungary into my present position. Without my Hungarian experience and knowledge of the language, they would not have selected me for this job.

Remember that internship in Hungary 25 years ago. They would not have accepted me into the worldwide selection process without my Swedish. So I can truly tell you: without my two summer universities, I would not be found standing here in front of you today.

The summer university in Debrecen in 1986 had another side effect: you see my wedding ring here.

Unlike getting a job, this second side effect is rather on the expense side. In terms of money, that is. In total I have gained a lot. My wife is Polish. (Of course in a Hungarian language summer school you do not find Hungarian girls.) I found that us Germans and the Poles can complement each other to a great extent. Many of them know that, most of us do not.

It costs a lot of nerves, but – what an outcome! German structure and organisation combined with Polish creativity and adaptability: that comes close to the best of both worlds.⁴

That is why we need diversity in companies.⁵ Diversity is not to be a window-dressing exercise. I hope we will not get that far that we must tell people, sorry, I can't promote you right now because you happen to be another blonde, whereas we have to promote a brunette and a black-haired person first. And, by the way, if we find enough African-American females with Chinese ancestry, we'll promote all of them first, and you'll have to wait for another decade. No, this is not how diversity should look like.

³ Steffens, Marec Béla: Negotiating in China, in: China Economic Review 9 (1999) No. 1, pp. 20 f., and No. 2, pp. 18 f., in German in: Harvard Business Manager (ed.): China. Das Land verstehen – Verhandlungen führen – Konkurrenten abwehren (China. Understanding the Country – Negotiating – Repelling Competitors), Frankfurt on the Main 2005.

⁴ Steffens, Marec Béla: Prejudice, Expectations and Success: Intercultural Influence on Management Activity in Central and Eastern Europe. Reported from Experience, in: Rainhart Lang (ed.): The End of Transformation? Proceedings of the 6th Chemnitz East Forum, Mering: R. Hampp 2005, pp. 455-466.

⁵ I do recommend Hampden-Turner, Charles/Trompenaars, Fons (2000): Building Cross-Cultural Competence. How to Create Wealth from Conflicting Values. Chichester etc: J Wiley.

There is a certain danger that things go in this direction. In Germany, we are usually overdoing. We implement an idea (nowadays usually coming from the U.S.) with vigour and German consistency – at a time when the Americans already realise that the idea was probably not so universally great and has some disadvantages as well.⁶

So why do I still believe in diversity? Because of my own experience. Once I attended a Siemens Management Learning seminar run by professors from Babson College near Boston, MA. (It was not called a summer university, but it was happening at a university, and it was in summer.) Part of it was a simulation game in which each team was running a company operating with three products in three markets. The seminar was attended by three dozen Siemens managers from all over the world. Of all the teams at the seminar, mine was the most divergent. This was challenging enough, but we even gave an additional spin to it. We decided to split the roles within the team not according to the particular functions that we held back home, but rather contrariwise. We wanted to broaden our experience, and we thought that with an orthodox solution we would not win for sure.

The game went through several rounds, with increasing complexity and time pressure. The atmosphere within my team was quite explosive because we were so different characters. It was like shooting a movie with Klaus Kinski and Werner Herzog. Often I thought, ‘Why don’t they understand. Oh, if I could just make those decisions alone, instead of ruining my nerves in all this battling and fighting.’ But in spite of all the heat, we managed to combine our strengths in such a way that we won the game and even set a new record. Alone or with homogeneous team mates, none of us would have achieved anything near this. When we analysed our strategy after the game, we recognised how each of our different characters contributed elements to the team strategy and to the joint success.

That was a great lesson. It taught us not only to accept diversity, but to actively go for it.⁷

My next point is sustainability, the main topic of this summer university. Basically, why should we care? One of the most famous quotations of all in economics is the saying by John Maynard Keynes, “In the long run, we are all dead.”

It is also one of the most often misunderstood quotations in economics. Keynes did never have a devil-may-care attitude in the sense of *après moi, la déluge*. He intended to stress that people live here and now. It is not enough to give them promises for a distant future that many of them will not even see. We need to take care of people presently.⁸

⁶ Same when US-GAAP (the U.S. Generally Accepted Accounting Principles) were introduced.

⁷ Elaborated in a wider context: Steffens, Marec Béla: Working in Culturally Diverse Teams: No Risk, No Fun!, in: Case Center for Social and Economic Research/University of Łódź (eds.), Proceedings of Open Minds Conference, Łódź, 13-14 Sept. 2003, pp. 149-151.

⁸ As Keynes expressed it in another, less famous quotation: “Economists set themselves too easy, to useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.” On the context, see (in German): <http://www.keynes-gesellschaft.de/Hauptkategorien/LebenWerk/AusspruecheParabeln.html>

But not in a way that sacrifices the future. Siemens has a history of more than 160 years. And its founder Werner von Siemens said: “I will not sell the future of the company for short-term gain!”⁹

This sentence is written in large letters in the entrance hall to the Siemens Global Leadership Center in Feldafing near Munich. Everybody who goes there for training, and also the managing board when they go there for their retreats, sees it.

Admittedly, it is a big temptation to go for short-term gains at the cost of the future at a time when quarterly closings have such an overwhelming importance in business life. I must say I preferred the traditional German accounting standards of the HGB (*Handelsgesetzbuch*) over the US-GAAP.¹⁰

The two systems have a different philosophy. The main aim of the German system is to protect the creditor. In setting up their balance sheet, companies following the HGB are told to systematically understate their chances and to overstate their risks. One can say this is a very German approach indeed, but the idea is to give creditors the certainty that the company’s assets in the balance sheet, in case they have to be disposed of, are worth rather more in reality than in the books, not the other way round.

The German booking systems gives companies much liberty in valuation as long as they are on the cautious side. Many companies have used this to be extremely cautious in good years, and less so in lousy years, so that profits over the years tended to be levelled.

The American system has the basic idea of giving a snapshot picture of the company’s standing right now. Fluctuations are wanted as part of the system. Caution is not wanted to such an extent. Under US-GAAP you can create fewer reserves¹¹ than under German HGB – sometimes only when it is too late. Sometimes it works like a fire insurance which you can conclude only when the house is already on fire – at a premium which considers the fire that is burning.

This is not at all a topic for accountants only. The booking standard influences managerial decisions. I learned that during my term in Poland, 2000-2004.

I was in the telecommunications business then. The entire sector had just entered into a worldwide crisis. We had significantly fewer orders. If the crisis would continue, we would have to dismiss a third of our workforce. We did not want to do it right now because we had ongoing orders which had to be executed, and because we still hoped for a quick recovery.

⁹ Also quoted by the current CEO, Peter Löscher, at the Shareholders’ Assembly on 26 Jan. 2010; www.siemens.com/press/pool/de/events/corporate/2010-q1/2010-hv-speech-loescher.pdf, p. 14.

¹⁰ Meanwhile Siemens has gone over to IFRS, the International Financial Reporting Standard.

¹¹ By creating a reserve, you book an amount at the cost of the current period (thus reducing its profit) before the actual expenses happen. When these expenses come in a later period, you dissolve the reserve, and the profit and loss account of that period is unaffected. When it turns out that the expenses which you expected will never occur, you dissolve the reserve unused and have an extraordinary profit in that period.

But dismissals cost significant amounts of money. For these cost, we wanted to create a reserve in our balance sheet. By doing so, the termination cost would burden the current year which was rotten anyway, not the next year for which (either after a quick recovery, of with a workforce adjusted to the volume) we could plan a positive result.

Under HGB this would have worked. And, in case it turned out that fewer dismissals than anticipated would be necessary, we would dissolve the reserves accordingly and rejoice in the unplanned revenue.

US-GAAP however, at least in the interpretation prevalent at that time, had much stricter requirements for reserves. We were told we can create them only if the dismissals were already signed and sealed, if not by both sides then at least by the company just waiting for the employees' countersignatures. So if the final decision would be made only in the following year, we could not show the cost in this year, which the German HGB would have allowed us to do. (Remember my example with the fire insurance above.)

The risk to have the dismissal cost hitting not this year's but next year's result was too big for us, the responsible managers. We would have put our own jobs at risk. So should we fire employees before we actually wanted, all because of that accounting standard driving us in this direction? Eventually we found a solution by getting our auditor's support for an interpretation of US-GAAP which was still tolerable but definitely not mainstream.¹²

It did not help us for long. The telecommunications crisis lasted much longer than expected and we eventually had to reduce the workforce – but at least it was us, the management, who decided on the timing, and not the accounting rules.

US-GAAP gives fewer opportunities than HGB for levelling profits between good and bad years. (Admittedly, it was relatively easy to overdo this in the German system.) Quarterly closings are momentary snapshots. If earnings fluctuate more, share prices will be more volatile. More people will buy and sell. Good for the stockbrokers.

Indeed the whole concept of shareholder value is good for stockbrokers, and even more so for funds managers. They can shift there investments from one company to another within seconds. The companies themselves do not have this opportunity. Leaving a field of business and entering into another takes time, no matter whether organically or through carve-outs and mergers.

¹² Steffens, Marec Béla: Den Eisberg gerammt, aber nicht gesunken: Ein Fall von Krisenanpassung in der polnischen Telekommunikationsindustrie (We Hit the Iceberg But Did Not Sink: An Example of Adaptation to Crisis in the Polish Telecommunications Industry", in: Osteuropa-Wirtschaft 49 (2004), pp. 329-339, here p. 333. The business is today part of Nokia Siemens Networks.

I hold that shareholder value is not the best concept for a company to apply. In order to be profitable in a long run, i.e. sustainable, there are more people to please: customers, employees, etc. – not just shareholders!¹³

When talking about the volatility of earnings – it is also prompted by the short periods of time that managers are staying in their positions nowadays. In many companies they change every two or three years. Then it is relatively easy to have a lousy year to start with: you can still blame it on the predecessor. The following year will be absolutely super and, when the following year shows that this was an artificial short-term gain, you were already promoted, and your successor can blame you.

This is not a way to sustainably run a company. Again, why should we care? Well, it gives me strength to think: this company Siemens has survived two world wars, both lost. It has re-emerged from the Great Depression and other calamities. It will survive this crisis as well.

Proven sustainability is a strong sales argument. I was a commercial sales manager during much of my time with Siemens. I enjoyed being able to tell potential customers: look, we have been in the business for more than 150 years. We are not here to rip you off and then disappear. We want to face our customers tomorrow again, and for many more years to come. And in case there is a problem, we won't leave you alone.

It is the practiced sustainability that counts, not the fact that we are publishing an annual sustainability report. We need to contribute to our customer's sustainability.

By the way, I was in China again in May this year. And I had a new experience: I noted how the Chinese started applying sustainability to their urban development. When I lived in Shanghai in the late 1990s, it was only skyscrapers that counted, and they had to be higher and higher still.

Now they arrange greenery in Shanghai. They open parks and promenades, they plant trees in enormous numbers. They realise that environmental issues are real, not just a Western idea invented to block the Chinese growth path. It was fascinating for me to see this: sustainability in action.

To sum up the side effects of my two summer universities:

I have got a good job in a country that I knew by name only at the time of my first summer university.

I have been married for 21 years thanks to my second summer university and, apart from other benefits, my creativity has gone in a direction that I would not have dreamed of in earlier years.¹⁴

¹³ Note the turnaround of Jack Welch, for decades the iconic "King of Shareholder Value," who stated in 2009: "Shareholder value is the dumbest idea in the world." See <http://blogs.ft.com/management/2009/03/23/the-great-debate-is-shareholder-value-a-dumb-idea/> and http://www.businessweek.com/bwdaily/dnflash/content/mar2009/db20090316_630496.htm

My life has taken a different turn thanks to my two summer universities. It was not planned like this. It was not a straight path, but – why should it be?

If I have learned one thing in life, it is this: you cannot plan. You can create preconditions and seize opportunities. Ideally you create such preconditions that may be suitable for different opportunities.

You are aware now that summer universities can have very serious side effects. And they can be long lasting indeed.

I wish you experience many of these side effects!

¹⁴ As witnessed by my private homepage, www.maerchenkater.de