Preface

The Nürnberg Metropolitan Region is one of the most powerful economic regions in Europe. The gross domestic product of nearly 147 bn. € is higher than that of the Czech Republic or Singapore. Around 1.35 million people are employed in 170,000 companies. Several large and renowned multinational corporations, like Adidas, Puma, Schaeffler and Siemens, as well as many impressive family-owned firms and hidden champions have their headquarters here. With an average export rate of 49%, their international presence is very strong.

This volume contains 18 case studies of companies based in the Nürnberg Metropolitan Region and their international operations with a particular focus on their market entry strategies, marketing activities, human resource management and corporate social responsibility policies. The scope of this volume extends from the early internationalization strategies of the Tucher in the Middle Ages to the consequences of the COVID-19 pandemic and the Russian war against Ukraine on current business activities. The case studies cover an extensive range of industries, from high-tech and industrial sectors to service providers, non-profit organizations and university spin-offs. For the third edition, all case studies were revised and updated, and two new case studies were added.

This volume would not have been possible without the generous support of various people. First of all, we would like to express our gratitude to the following top executives who have shared their first-hand and valuable experience with us over the last years: Herbert Hainer and Roland Auschel (Adidas), Prof. Dr. Christian Rödl and Matthias Weber (Roedl & Partner), Hans Overdiek (Pfleiderer), Dr. Gerd Lenga (Knauf), Eike Scholl (NürnbergMesse), Dr. Jürgen Geißinger and Corinna Schittenhelm (Schaeffler), Dr. Andreas Brand and Dr. Klaus Probst (Leoni), Matthias Hartmann, Joshua Hubbert and Prof. Dr. Klaus Wübbenhorst (GfK), Joe Kaeser and Prof. Dr. Heinrich von Pierer (Siemens), Katharina Le Thierry d'Ennequin (Uvex), Dr. Ulrich Maly (former Lord Mayor of the City of Nürnberg) and Prof. Dr. Siegfried Balleis (former Lord Mayor of the City of Erlangen). We also would like to thank Dr. Franziska Altendorf, Theresa Bernhard, Dr. Marcus Conrad, Prof. Dr. Ritam Garg, Maxim Grib, Dr. Christina Heidemann, Dr. Laura Kirste, Dr. Daniel Maderer, Prof. Dr. Marc Oberhauser, Nikhila Raghavan, Prof. Dr. Helen Rogers, Prof. Dr. Tassilo Schuster and Luisa Wicht for their continuous support and enthusiasm. Aisha Munir assisted us by proofreading the manuscript. Finally, we would like to thank

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Nürnberg, March 2024
Prof. Dr. Dirk Holtbrügge & Prof. Dr. Helmut Haussmann

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Dirk Holtbrügge & Sue Claire Trage

The Internationalization of a Medieval Family Business. The Case of Tucher

"Almost all Tucher were devoted to the long-distance trade. Education and training were entirely geared to this profession."
(Grote, 1961)

1. Nürnberg in the Middle Ages and Renaissance – The Economic Capital of Europe

Since its first documentary mention in 1050, the city of Nürnberg rose rapidly to one of the wealthiest and most important European cities in the Middle Ages and Renaissance (Table 1). Nürnberg is often referred to as having been the unofficial capital of the Holy Roman Empire, particularly because Imperial Diet and courts met at the Nürnberg Castle. The increasing demand of the royal court and the growing population attracted trade and commerce to the city. In 1219, Frederick II granted the city town rights, Imperial immediacy, the privilege to mint coins, and an independent customs policy. With this Great Letter of Freedom and its privileged location at the junction of important trade routes, Nürnberg soon became, alongside Augsburg, one of the two most important trade centers on the trade route from Italy to Northern Europe (Braudel, 1982).

Table 1. Important Dates in the History of Nürnberg from the Middle Ages to the End of Independence

1050	Nürnberg first mentioned in an official document (Sigena Charter)
1219	Emperor Frederick II appoints Nürnberg a Free Imperial City
1349	First pogrom and destruction of the Jewish ghetto on the site of today's Market Square (Hauptmarkt)
1356	Emperor Charles IV issues the Golden Bull
1471-1528	Albrecht Dürer
1493	Hartmann Schedel's World Chronicle published
around 1500	With 30,000-40,000 inhabitants, Nürnberg is the second largest city in Germany after Cologne
1524	Tenets of the Reformation adopted in Nürnberg
1575	University of Altdorf founded
1649/1650	Congress for the implementation of the Peace of Westphalia (ending the Thirty Years War) held in Nürnberg
1806	Nürnberg loses its imperial privileges and becomes part of the Kingdom of Bavaria

Source: Compiled from Diefenbacher, Beyerstedt & Bauernfeind (2012)

Trade relations between Nürnberg and Venice were probably initiated in the second half of the 13th century. Later on, other cities in Italy, Southern France, Northern Spain and Bohemia followed. In the 13th and 14th century, merchants from Nürnberg had trade relations with almost the entire known world at the time. Foreign trade did not only serve to supply the domestic population with food, clothes and luxury goods (such as textiles, fish, grain, meat, salt, wine, spices, tropical fruits, furs and wax), but also local crafts with resources like metals, wood and dyes. In turn, goods made in the city, such as metal goods, textiles, and weapons were exported. Around 1500, family businesses in Nürnberg had monopolies in several areas, for example, in the trade with saffron, calamine, copper, iron ore and amber (Roth, 1800; Müller, 1908).

Charles IV's Golden Bull of 1356 named Nürnberg as the city where newly elected kings of Germany must hold their first Imperial Diet. The royal and imperial connection was strengthened when Sigismund of Luxembourg granted the Imperial regalia to be kept permanently in Nürnberg in 1423, where they remained until 1796. After the castle had been destroyed by fire in 1420, the ruins and the forest belonging to the castle were purchased by the city. Through these and other acquisitions the city accumulated considerable territory. Around 1500, Nürnberg had 30,000 to 40,000 inhabitants and was the second largest city in Germany after Cologne (Smith, 1983).

The cultural flowering of Nürnberg in the 15th and 16th centuries made it the center of the German Renaissance and home to many renowned artisans, such as painter and printmaker Albrecht Dürer, wood carver Veit Stoß, bronze master Peter Vischer, and sculptor Adam Kraft. In 1493, the physician, humanist, historian and cartographer Hartmann Schedel published his 'World Chronicle' with the first ever illustrations of many cities and countries of the world. The 'Erdapfel' created by the textile merchant and cartographer Martin Behaim from 1490-1492 is the oldest surviving terrestrial globe in the world (Ravenstein 1908). It is now displayed in the Germanic National Museum Nürnberg and was admitted to UNESCO's Memory of the World Register in 2023 (Germanic National Museum Nürnberg, 2023).

In 1525, Nürnberg accepted the Protestant Reformation, and in 1532, the religious Peace of Nürnberg, by which the Lutherans gained important concessions, was signed here. In 1575, the city council established an institute of higher education in the neighboring city of Altdorf. The University of Altdorf received university privileges in 1622 and acted as the Free Imperial City's university until its dissolution in 1809.

After the end of the Thirty Years' War (1618-1648), Nürnberg gradually lost its position as a leading trade center. The costs of the war and the cessation of trade caused great damage to the city and led to a bisection of the population. Both Bavaria and Prussia claimed parts of the territory. In 1806, Nürnberg finally became part of the Kingdom of Bavaria that took over the city's enormous public debt.

2. History of the Tucher Family

Since the middle of the 13th century, the administration of Nürnberg was entrusted to a council with rights and privileges equal to that of the sovereign and territorial lords. The city council was dominated by the patricians – families which had become rich through trade. One of these patrician families was the Tucher who played an important role in Nürnberg's politics, economy and culture for nearly 700 years (Meyer, 1928).

The history of the Tucher family dates back to the beginning of the 14th century (for the following, see Grote, 1961). While the early days of the Tucher are not known in large parts, the family name suggests an origin from the craft of cloth-weaving. The acquisition of citizenship by Bertholdus Tucher in 1309 is the first written evidence of their presence in Nürnberg. Konrad Tucher, who died in 1326, is considered the actual progenitor of the family (Table 2).

Although the Tucher did not actually belong to the oldest families of Nürnberg, their steep rise in the city council in the first half of the 14th century is remarkable. Between 1340 and 1806, the family was present in the administration of the city in multiple occupations. As common in the Nürnberg patriciate of the time, the members of the Tucher family allied with other leading families by marriage. For instance, the daughters of Berthold I. Tucher (about 1310–1379) married into the families of Groland, Vorchtel, Haller, and Tetzel. The Tucher did not only play a leading role in Nürnberg's politics and business, but were also active in other areas. One example is Sixtus Tucher (1459-1507) who acted as a provost at St. Lorenz and professor of canon law at the University of Ingolstadt (Landois, 2014).

Table 2. Famous Members of the Tucher Family

Bertholdus Tucher, 1309 first written evidence for the occurrence of Tucher in Nürnberg
Konrad Tucher (-1326), progenitor of the Tucher family
Endres Tucher (1423–1507), master-builder
Hans Tucher (1428–1491), author of a popular pilgrimage travelogue
Lorenz I. Tucher (1447–1503), provost at St. Lorenz, founder of the Dr.-Lorenz-Tucher-Foundation
Anton Tucher (1457–1524), merchant and councilor (one of three councilors who kept the keys to the Imperial Regalia), patron of the arts
Sixtus Tucher (1459–1507), provost at St. Lorenz, professor of canon law
Elsbeth Tucher (1473–1517), portrayed by Albrecht Dürer in 1499, reproduced on 20 DM note
Linhart Tucher (1487–1568), councilor and merchant, diplomate
Lazarus Tucher (1491–1563), imperial council and merchant in Antwerp
Hieronymus Tucher (1504–1540), merchant
Paulus XII. Tucher (1656–1709), field marshal
Jobst von Tucher (1762–1813), major, father of Marie von Tucher
Marie von Tucher (1791–1855), daughter of Jobst von Tucher, wife of Georg Wilhelm Friedrich Hegel
Siegmund von Tucher (1794–1871), merchant, founder of Tucher brewery
Christoph Carl Gottlieb Sigmund von Tucher (1798–1877), lawyer, brother of Marie von Tucher, guardian of Kaspar Hauser, collector of old sacred music
Heinrich von Tucher (1853–1925), diplomate and Bavarian Envoy in Rome (Quirinale)
Heinrich von Tucher (1875–1962), diplomate and attaché
Hans Christoph von Tucher (1904–1968), lawyer, Spokesman of the board Bayerische Vereinsbank, chairman of the board Germanisches Nationalmuseums, member of the supervisory board Siemens & Halske, Allianz Versicherung, Vereinsbank Hamburg and Norddeutsche Kreditbank; confidante of Federal President Theodor Heuss
Eleonore von Tucher (1916–2007), managing director

Source: Compiled from Grote (1961); Kirchhoff (2016)

Their economic success in the 15th and 16th century in the long-distance trade enabled the Tucher to acquire extensive property and real estate in Nürnberg (Kuhn, 2000a). One of the most remarkable examples is the Tucher Mansion in today's Hirschelgasse which was built by Lorenz II. Tucher between 1533 and 1544. It was considered to have the most important

Renaissance interior north of the Alps. In their heyday, the Tucher family also put great efforts into their representation and memorabilia. Lorenz I. Tucher established a foundation named after him in the year of his death in 1503 that aims to maintain the Tucher cultural inventory. The Great Tucher Book of 1606 is the most glorious of a great number of pedigree books of the Nürnberg patriciate that were published in the 16th and 17th century (Stadtarchiv Nürnberg, 2004).

In the 17th and the 18th century, the economic relevance of the Tucher diminished and their trading company perished. The economic decline was manifested, for example, in the over-indebtedness of Sebald XI. Tucher (1583-1649) which led to his exclusion from the city council in 1636. However, even after the end of the Imperial period, the Tucher were prominent in Nürnberg politics. In 1815, they were enrolled in the Bavarian baronetcy, and representatives of the family held many offices in the Bavarian administration in the 19th and 20th centuries.

3. The Tucher Business Imperium

The Tucher'sche Handelsgesellschaft (Tucher Trading Company) was first mentioned in 1440. Even though the Tucher established their own trading company relatively late as compared to other patricians, they soon ascended to become one of the wealthiest families in Nürnberg. Their geographic focus was on Middle Germany (Leipzig) and Posen, Hungary and Austria, Upper Italy (Venice) and the area of Lake Constance. They went to trade fairs in Antwerp, Geneva and Lyon, extended their trade relations to cities in Burgundy, Savoy, Rhone landscape and Aquitaine, and expanded till Spain (Figure 1).

Their assortment of goods originally encompassed canvas and other cloths, silk fabrics, velvet, spices, tropical fruits, metal goods, leather, furs and skins. Later, they also exported small metal hardware items, were active in spice, coal and steel trade, and had their own wire manufactories, shares of mines, refiners and remelters.

A major activity of the Tucher was the import of spices, drugs and fruit, such as pepper, saffron, ginger, raisins, almonds, pomegranates, cinnamon, dates, canella, cloves, galingale, and sugar from Venice. At the beginning of the Middle Ages, these spices grew almost exclusively on the Indian subcontinent and the Southeast Asian archipelago. The main transportation route ran across the Indian Ocean to Syria and Egypt. From there, caravans transported the goods across the Isthmus of Suez on the overland route to Alexandria where the ships of the Italian city republics anchored. Their

Figure 1. Trade Routes of the Tucher

Source: Diefenbacher & Kley (2008)

goal was either Venice or the Western European port cities. The goods were reloaded here and brought on arduous trails over the Alps. At the end of the Middle Ages, the Tucher controlled this transalpine trade together with the Fugger and Welser from Augsburg. The sale of the coveted and expensive spices brought them not only enormous wealth, but also the dubious fame as Pfeffersäcke (moneybags, literally 'pepper sacks') (Brodersen, Oster, Scharff & Schneider, 2008).

In the middle of the 17th century, the turmoil of the Thirty Years' War, the devaluation of the domestic currency and mercantilism made international trade unprofitable. Like many other patrician families, the Tucher therefore resolved their trading company in 1648 and diversified into other sectors (Diefenbacher, 2007).

One example is their activities in the brewery industry. In 1672, a brewery known as Städtisches Weizenbrauhaus (Municipal Wheat-beer Brewery) was founded where wheat beer was brewed for the first time in Nürnberg. When Nürnberg was annexed by the Kingdom of Bavaria in 1806, the brewery was renamed Königliches Weizenbrauhaus (Royal Wheat-beer Brewery). The Tucher family purchased the brewery in 1855, renamed it Freiherrlich von Tucher'sche Brauerei (Baron von Tucher Brewery) and incorporated the Moor's head from their family emblem into the brand logo (Figure 2).

Figure 2. Family emblem

4. Management of International Activities

The internationalization of activities required frequent business travels to foreign trading partners, trade fairs and branches. Members of the family stayed regularly in Venice where the Tucher rented chambers and storage rooms in the Fondaco dei Tedeschi from 1440 to 1575 (Grote, 1961). Another important location that was frequently visited was Lyon, the center of saffron trade, where the Tucher operated a large branch office.

Young male members of the Tucher family also spent considerable parts of their education abroad to prepare themselves for future international activities. At an early age they were sent to the overseas branches in order to learn foreign languages and local business practices. Langhans Tucher was the first family member who went for education to Geneva and Lyon in 1465 (Berninger, Stadler & Swoboda, 2012; Grote, 1961). Hans Tucher (1456–1526), educated in commerce and trade like his father, was sent to Venice in order to learn Italian and prepare himself to take over his father's position (Herz, 2002). Linhart Tucher (1487–1568) sent his son Herdegen (1533–1614) against his will to the subsidiary in Lyon and his nephew Anton V. (1510-1569) to Orléans (Diefenbacher, 2007).

The entire education of the male descendants was oriented towards their later profession as merchants. Already at a very early age, all sons had to learn Latin, which was the Pan-European lingua franca of the time. At the age of around 12 to 14 years they were sent to foreign branches, preferably in Italy or France, sometimes complemented by a longer stay in Spain. Here they often completed an apprenticeship with their business partners. They had to take care of horses, help in the household and serve smaller customers. Private tutors were responsible for language training. Some of the younger Tucher stayed abroad for more than a decade (Grote, 1961).

Although the education in other countries was regarded fundamental to learn new business practices and to really master foreign languages, foreign stays also involved numerous dangers. Some of the young family members died during their stays and had to be buried abroad. Moreover, foreign apprenticeships were increasingly regarded as non-aristocratic. In later times they were therefore more and more replaced by shorter cavalier tours to famous Italian cities (Kuhn, 2010b).

5. Remains of a Global Business Imperium

The Tucher played an important role in Nürnberg's history for more than 700 years. They belong to the 13 of around 40 patrician families of the Middle Ages who exist until today, and have their residence in their old home city or feel connected with it.

Several buildings in and around Nürnberg are associated with the name of the family. The most prominent one is the Tucher Mansion in Hirschelgasse. Since its reconstruction after World War II, it has been reopened as a museum, housing some furniture, carpets and original wall paneling from the time of its construction. The reconstructed Hirsvogel Hall in the adjacent garden is used for festivities and felicitations, for example, by the adjoining School of Business, Economics & Society of the Friedrich-Alexander-University Erlangen-Nürnberg.

The Dr.-Lorenz-Tucher Foundation established in 1503 is one of the oldest family foundations in Germany still active today. It aims to maintain the cultural inventory of the Tucher and supports other social goals. And finally, the name of the family is present in the Tucher Brewery. Purchased in 1855 by the Dr.-Lorenz-Tucher Foundation, it belonged to the family until it was finally sold to the Oetker Group in 2004. The brand name Tucher Bräu and the Moor's head, as part of the brand logo, however, remain until today (Tucher, 2024).

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Dirk Holtbrügge & Tassilo Schuster

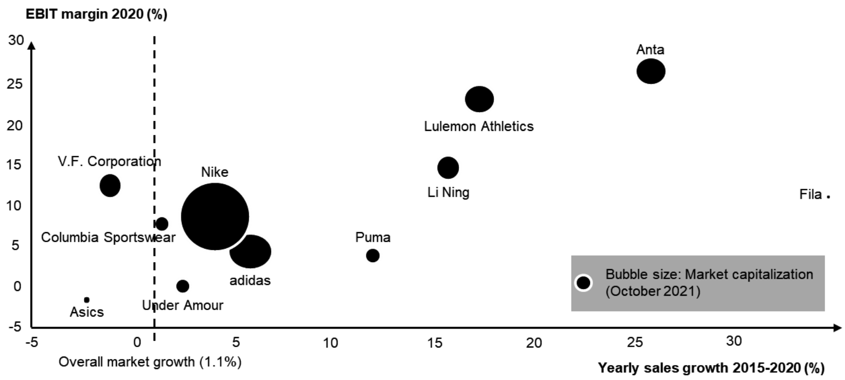
The Internationalization Strategy of adidas

"The needs in China might be different to those in Germany or in North America (…). We need to listen to what our consumers want from us. Yes, they are influenced by global athletes, global celebrities, and global products, but we also need to accept that there are local influences. We need to find that balance."
Bjørn Gulden, CEO of the adidas Group

1. The Sporting Goods Industry: Market Structure and Global Trends

The sporting goods industry is comprised of numerous companies engaged in the manufacturing and retailing of footwear, apparel, and hardware. Nike (USA) is the global market leader with revenues of 44.5 bn. $ in 2022, followed by adidas (Germany) with revenues of 23.5 bn. $. Other major companies are Puma (Germany, 6.2 bn. $), Under Armour (USA, 4.5 bn. $), New Balance (USA, 4.1 bn. $), Lulemon Athletica (Canada, 3.3 bn. $), Asics (Japan, 3.2 bn. $), Columbia Sportswear (USA, 2.6 bn. $), Fila (Italy, 2.6 bn. $) and Reebok (USA, 1.8 bn. $). The greatest sales growth rates are shown by the Chinese companies Anta and Li Ning (Figure 1).

Figure 1. EBIT Margin and Sales Growth of the Largest Sporting Goods Companies in the World



Source: McKinsey & Company, 2022, p. 19

The global sports industry is currently undergoing major structural change (McKinsey & Company, 2023). The COVID-19 pandemic triggered significant shifts in physical activity levels, with many people becoming more active, while a large proportion of the population engages less in physical activity. Moreover, the boundary between work and leisure time has blurred as a result of the pandemic. For example, casual clothes and sportswear are increasingly accepted in professional environments. At the same time, sporting goods companies are faced with new challenges due to the impact of inflation and slowed economic growth. This applies above all to the saturated markets in Europe and North America where children and teenagers prefer playing video games to sports. At the same time, sports and a healthy lifestyle are increasingly becoming a significant part of people's daily lives in emerging markets, such as China and India. Even though this high fragmentation triggers a fierce competition, substantial opportunities exist due to strong product demands in three market segments: apparel, footwear and hardware.

2. Company Background

2.1 The History of the adidas Group

The history of adidas dates back to 1924, when Adolf (Adi) and his brother Rudolf founded the Gebrüder Dassler Schuhfabrik (Dassler Brothers Shoe Factory) with a simple idea in mind: to give athletes the best possible equipment for high performance (for the following, see adidas 2023a; Karlsch et al., 2018). At the 1928 Summer Olympics in Amsterdam, they started to build up a reputation among elite athletes. By the 1936 Berlin Olympics, the Dassler Brothers had already convinced quadruple gold medal winner Jesse Owens (USA) to wear their shoes. By 1937, the product range covered 30 different shoes for 11 different sports.

After World War II, the brothers were hopelessly at odds with each other (Smit, Schuhmacher & Schwarzer, 2005). Rudolf decided to leave the company and to start Puma, a rival shoe company. Adi Dassler renamed the Dassler Brothers Shoe Factory to adidas, referring to his nickname, ADI, and his surname DASsler. The company grew steadily as its shoes gained worldwide recognition, especially because of its distinctive three-stripe logo. Despite fierce competition in the sporting goods industry during the 1950s and 1960s, both companies benefitted greatly from the rise of sports as an important economic sector.

To secure further growth opportunities, both companies started to internationalize. Puma established subsidiaries in Austria in 1964 and in France in 1967. The company expanded its international scope to Hong Kong and the United States by launching foreign subsidiaries in 1978 and 1979. Contrary to Puma, adidas began its internationalization process with exports to Canada, Scandinavia and Switzerland in 1950. By 1955, it was exporting to 40 different nations. The next internationalization step came in 1958 with the first adidas foreign subsidiary in Canada. This was followed by a French subsidiary in 1959 and one in South Africa in 1972. The company continued to grow in the 1970s and maintained a leading position in sports footwear.

Up until the 1970s, adidas influenced the athletic shoe market with its product originality and was the dominant brand with a market share of around 70% (Jones, Norris & Kim, 2015). In the late 1970s, rising competitors Nike and Reebok changed the dynamics of the market by offering fashion-oriented footwear in contrast to adidas' performance-oriented footwear. Production was assigned to suppliers in low-cost Asian countries such as Taiwan and South Korea. By 1980, Nike claimed a 50% market share in the US athletic shoe market. Throughout the 1980s, Nike expanded its product line to cover many other sports and regions across the world.

After the death of Adi Dassler in 1978, his son Horst Dassler took over the management. Horst Dassler died in 1987, ending the era of the Dassler family in the company's top management, which had lasted for almost 70 years. The company's legal form was then changed into a joint-stock company (Aktiengesellschaft) in 1989, although family members retained a controlling ownership. The new leadership made questionable strategic decisions during this period, resulting in a record loss in 1992 that almost bankrupted the company. The French businessman, politician and owner of the Olympique de Marseille football club, Bernard Tapie, bought the company the following year and subsequently sold it to Robert-Louis Dreyfus and Christian Torres. After resigning from the British advertising agency Saatchi & Saatchi, the French businessman Dreyfus became the CEO and radically changed the company's strategy as adidas was losing more than 100 mn. $ per year. Due to the various initiatives taken by him, revenues increased from 1.7 bn. $ in 1992 to 2.8 bn. $ in 1996.

An important part of the new strategy included the shift of the geographical distribution of value activities (Figure 2). For many years, adidas had manufactured shoes at several factories across Europe. Under Dreyfus's leadership, adidas started to focus on product design and brand marketing, while outsourcing manufacturing to a network of independent suppliers in Asia. During the Dreyfus era, adidas also acquired the Salomon-Group in 1997 along with its brands Arc'teryx, Bonfire, Cliché, Mavic, Salomon, and Taylor-Made, changing the group name to adidas-Salomon AG. adidas paid approximately 1.2 bn. € for the acquisition of the Salomon-Group and became the second largest sporting-goods producer in the world.

In 2001, Herbert Hainer became CEO and Chairman of the Executive Board. Under his leadership, various efforts were made to run Salomon as profitably as adidas and to attain favorable cost and scale effects from this acquisition. As Salomon performed weaker than anticipated, the Salomon business segment, including the related subsidiaries and brands Arc'teryx, Bonfire, Cliché, Mavic, and Salomon was sold to Finnish Amer Sports Corporation for 625 mn. $ in 2005. Only the former Salomon golf brand Taylor-Made remained in the adidas portfolio until 2017. With the sale of Salomon, the group's name was changed back to adidas AG.

In 2005, adidas announced the acquisition of the American fitness footwear and clothing company Reebok International Ltd., one of its main competitors in North America at that time. This acquisition was the biggest transaction within the sporting goods industry of all time with a value of around 3.1 bn. €. It was aimed to strengthen adidas' position in North America and Asia, so that the company could compete more successfully against Nike. In particular, adidas intended to leverage Reebok's U.S. distri-

Figure 2. Changes Made by Robert-Louis Dreyfus

Selling Factories and Outsourcing Production

In order to become more competitive, Louis-Dreyfus not only needed to improve services to distributors and retailers, but he also needed to reduce the cost of goods produced. He sold the remaining adidas-owned factories but maintained a small German footwear factory unit near the adidas headquarters in Scheinfeld. The factory produced customized shoes for sponsored athletes and limited series shoes for specific sports. The Scheinfeld production unit also tested prototypes before sending them for mass production in Asia. All the textile production and 96% of the footwear production were outsourced. In 1996, 55 million pairs of athletic shoes and 65 million units of clothing were outsourced. The outsourced footwear production was divided between Asia, Europe, and North Africa:

Taking Control of Distribution

Louis-Dreyfus wanted to control the image, positioning, and quality of adidas products. This was only possible if adidas controlled wholesaler distribution. Consequently, he decided to replace licensees with joint ventures or new subsidiaries. Whenever possible, adidas developed joint ventures with former licensees and distributors. adidas invested at least 50% with the overall objective of maintaining control. The contract was unlimited over time but had a call option. After an agreed time period, adidas had the possibility of buying the remaining shares at a fixed price. The period would vary from three to ten years, depending on the partner. At least one senior adidas manager was appointed to the managerial board of the joint venture. adidas contributed the company's trademark and guaranteed the same purchase conditions as for the company's own subsidiaries. The partner contributed local experience and knowledge of the market, customers, and in certain cases, a percentage of the assets. From 1993 and 1997, adidas developed numerous joint ventures in Europe, the Asia Pacific, and Australia/New Zealand. New subsidiaries were set up in Lebanon, Egypt, Israel, Dubai, Panama, Chile, and Venezuela. adidas took 100% control of the Australian and New Zealand subsidiaries. By the end of 1997, there were 36 adidas subsidiaries and 9 joint ventures worldwide. To co-ordinate the emerging Chinese market, adidas opened two exclusive adidas shops and an adidas Representative Office in China. In Japan, there was still a licensee contract with one of the major Japanese footwear and apparel manufacturers, Descente. This contract would expire in 1998, and a decision was taken to control the distribution at a regional level. Regionalized distribution management units were also established in Panama (to co-ordinate Latin America) in Hong Kong (Asia Pacific), in Oregon, USA (North America) and in Herzogenaurach, Germany (Europe).

Source: Boissonnas & Hilliard 2003, p.6

bution channels, its relations to retailers and sponsoring contracts with U.S. professional sports leagues, such as the NBA, NFL, NHL and MLB, and its knowledge of female and leisure-oriented athletes (Rygl, Dennerlein & Joyette, 2006). Herbert Hainer praised this step as the beginning of "a new chapter in the history of our Group" and promised that the new adidas Group would benefit from strong strategic advantages. These advantages would include "a more competitive worldwide platform, well-defined and complementary brand identities, a wider range of products, and a stronger presence across teams, athletes, events and leagues" (adidas 2006a, pp. 21).

However, the high expectations were never fulfilled. This was mainly due to cultural differences between the two companies. adidas was said to have a rather German mentality, focusing on control, 'Franconian Craftsmanship' and technological innovations, whereas Reebok was known for its U.S. mentality of emphasizing marketing and sales (Schmid et al., 2018). After the sales of Reebok fell by 19% to 1.41 bn. € in 2020, adidas announced that it would sell Reebok to Authentic Brands Group (ABG) for a total consideration of up to 2.1 bn. €, i.e. only approximately 67% of the original purchase price (adidas, 2021). The deal was completed in March 2022.

On October 1, 2016, Kasper Rørsted replaced Herbert Hainer as CEO. Unlike Hainer, who spend more than 15 years at the helm of the company, Rørsted was an outsider to the sports and fashion industry. Before entering adidas, the 53-year-old Dane had reigned the consumer goods group Henkel for eight years. Copenhagen Business School graduate Rørsted announced that his particular focus would be North America, where adidas had lost market share to Nike and new rival Under Amour.

After seeing a steady increase in stock value during the early years of Rørsted's tenure as CEO, adidas faced many challenges due to the Covid-19 pandemic. Particularly, revenue declines in China, adidas' largest market in 2021, led to his replacement by Bjørn Gulden in 2023. Before his appointment as adidas CEO, the Norwegian has been the CEO of Puma since 2013. Gulden also looks back at a tenure at adidas as, amongst others, Senior Vice President of Apparel and Accessories from 1992 to 1999. Before that, Gulden was a professional football player who has played, among others, for the 1. FC Nürnberg in the German 2. Bundesliga (adidas, 2022b).

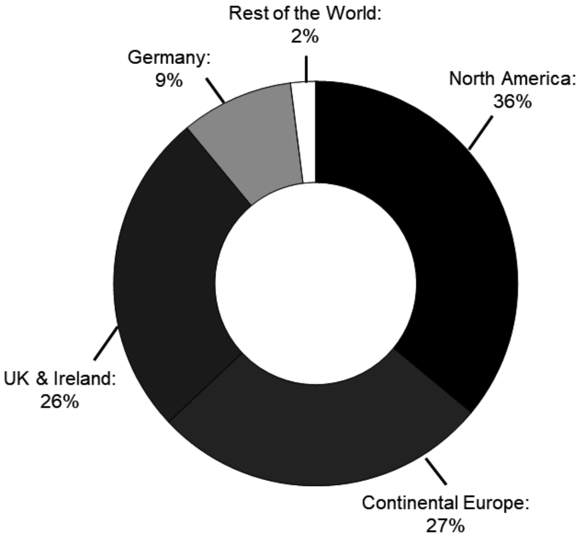
2.2 Company Profile and Performance

The adidas Group is a multinational corporation that offers a broad portfolio of products available in virtually every country in the world. The activities of the Group, with its 120 consolidated subsidiaries, are directed from the headquarters in Herzogenaurach, Germany, and additional key locations around the world, which correspond to specific business activities in these regions.

As a result of its diversification and internationalization strategy, adidas has developed a broad and diverse portfolio in the sport performance and sport inspired categories. The product portfolio includes more than 20,000 items, ranging from soccer and running shoes, t-shirts, hoodies, shorts and tracksuits to outdoor jackets and snowboards with thousands of product variations. In 2022, the footwear segment accounted for 54.8% of the global net sales of 22.511 bn. €, followed by the apparel segment (38.6%) and the accessories and gear segment (6.6%). To keep up with market demand and competition, the company changes its product range twice a year. adidas also designs products for local, vertical and niche markets.

Similar to its global presence of business activities, adidas also possesses a strong international investor base (Figure 3). Institutional investors represent the largest investor group, holding 80% of shares outstanding. 36% of institutional shareholdings are from North America, followed by

Figure 3. Shareholder Structure by Region (2022)



Source: adidas 2023b, p. 49

the UK and Ireland with 26%. Identified German investors hold 9% of institutional shareholdings. Institutional investors from other continental European countries account for 27%, and institutional shareholders from other regions of the world hold 2%.

In 2022, the adidas Group recorded a poor financial performance (Table 1). While net sales increased moderately by 6%, EBITDA and operating profit fell sharply by 39% and 66% respectively. A main reason for this was the strong decline in sales in China (-36%). As a result, the share price fell by around 50%. At the end of 2022, adidas employed 59,258 people, a decrease of 3% from the previous year. This was mainly due to layoffs in adidas' own retail stores and the decision to wind down business in Russia. In the words of the CEO Bjørn Gulden: "You look at the numbers and it's obvious that we're not performing the way we should (…). We know 2022 was a difficult year and 2023 won't be much easier. Our entire industry has suffered from high inventory levels and, as a result, there is a lot of discounting going on in the marketplace" (cited in adidas, 2023b, p. 11).

Table 1. adidas at a Glance

	2022	2021	Change
Operating Highlights (in mn. €)			
Net sales	22,511	21,234	6%
EBITDA	1,874	3,066	-39%
Operating profit	669	1,986	-66%
Key Ratios			
Gross margin	47.3%	50.7%	-3.4pp
Operating margin	3.0%	9.4%	-6.4pp
Return on Equity	12.3%	28.1%	-15.9pp
Balance Sheet and Cash Flow Data (in mn. €)			
Total assets	20,296	22,137	-8%
Inventories	5,973	4,009	49%
Working capital	5,594	3,890	44%
Other (at year-end)			
Share price	127.46	253.20	-50%
Number of employees	59,258	61,401	-3%

Source: adidas 2023b, p. 4

3. Geographic Configuration of Value Activities

3.1 Research and Development

adidas has always placed great emphasis on technological innovations in its products and processes. In line with the strategic and long-term visions and distinctive positioning, each brand runs its own research & development (R&D) activities. However, fundamental research as well as expertise and competencies in sustainable product creation are centralized in the global development centers in Herzogenaurach and Portland, Oregon.

In addition to its internal R&D efforts, adidas also cooperates with several well-established research partners. Collaborations are usually long-term and exclusive. Major adidas relationships exist with the University of Calgary (Canada), the University of Michigan and Oregon State University (USA), the University of Loughborough (UK), the Friedrich-Alexander-University Erlangen-Nürnberg, RWTH Aachen, the University of Bayreuth and the University of Freiburg (Germany).

Figure 4. The Dilemma of Sourcing Globally

Since its early beginnings in the late 18th century, the apparel and footwear industry has developed exponentially and now forms a major part of manufacturing production, employment and trade in many developing countries. This huge development meant and still means job creation, as apparel and, to a certain extent, footwear production still primarily requires manual work. Consequently, millions of job opportunities were opened, especially for women – approximately 80% of the workforce in the adidas Group supply chain for instance is female.

But why do some countries become interesting sourcing territories while other countries don't? The manufacturing of basic clothing could potentially get started in many developing countries. Key factors for decisions on where to source products usually include infrastructure, innovation, competitive price structures and political stability. International trade also has an impact. Cambodia, for example, became an interesting sourcing place thanks to trade agreements which made it easier for products manufactured there to be exported to Europe or the US. Similar things can be said for other countries such as Laos, Vietnam and Pakistan. These trade agreements more and more contain human rights clauses, meaning that for a country to be able to benefit from duty relief, some preconditions need to be in place, such as the respect of human rights, etc. Accordingly, Myanmar (Burma) has recently started to benefit from an advantageous trade arrangement with the European Union following the country's efforts to improve its political, social and labor environment.

Provided that the above-mentioned relevant conditions are in place, sourcing countries not only benefit from the creation of jobs and economic growth based on the apparel and footwear industry. Often, the evolution of this basic industry paves the way for a more diversified production and economy at a later stage. Taiwan is a clear example of this evolution: from an apparel-based economy, the country has now moved to more complex electronic and financial services. However, the apparel and footwear manufacturing sector also faces numerous challenges as it is often associated with human rights abuses, poor environmental performance as well as questionable purchasing practices – challenges that sometimes dwarf the millions of jobs created by the industry and its contribution to the country's economy.

Source: adidas 2016a

3.2 Sourcing and Manufacturing

To minimize production costs, adidas outsources almost 100% of its production to independent third-party suppliers (Figure 4). The majority (71%) of suppliers are located in Asia.

In 2022, adidas worked with 117 independent manufacturing partners that were producing in 259 manufacturing facilities (Figure 5). 72% of these independent manufacturing partners have worked with adidas for at least ten years, and 37% have a tenure of more than 20 years.

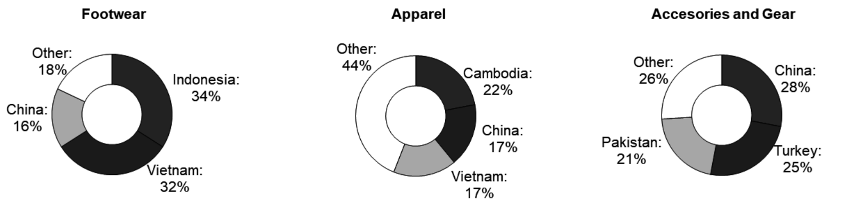
Indonesia was the largest sourcing country for footwear in 2022 with 34% of the total volume, followed by Vietnam with 32% and China with 16% (2021: 15%). Overall, 97% of the total footwear volume was produced in Asia.

Cambodia was the largest sourcing country for apparel in 2022, representing 22% of the produced volume, followed by China and Vietnam with 17% each. Overall, 91% of the total apparel volume was sourced from Asia, with the largest apparel factory accounting for approximately 9% of the entire apparel volume.

In 2022, 72% of accessories and gear, such as balls and bags, were produced in Asia, with the largest factory accounting for 20% of production.

China remained the largest sourcing country with 28% of the sourced volume, followed by Turkey with 25% and Pakistan with 21%.

Figure 5. Worldwide Production Volumes by Category and Country 2022

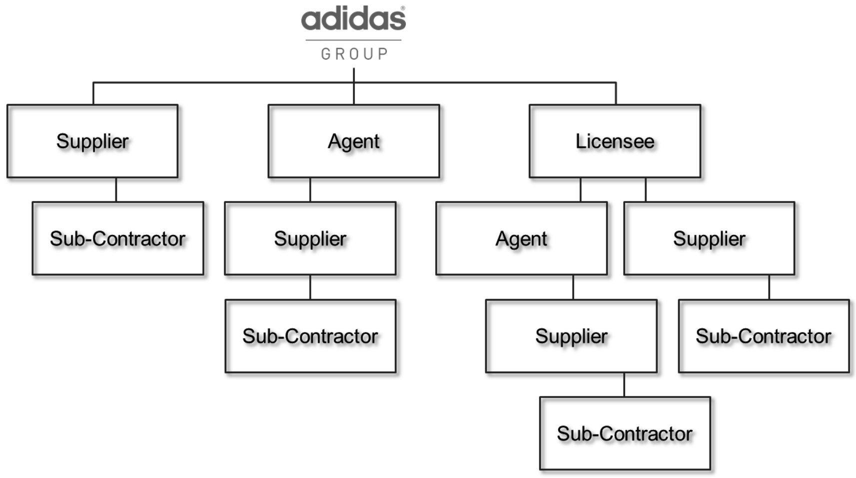


Source: adidas 2023b, p. 64

The global and multi-layered supply chain comprises three different sourcing models – direct sourcing, indirect sourcing and local market production (Figure 6):

- *Direct sourcing model*: adidas holds direct contractual relationships with its core suppliers that are centrally supervised by Global Operations. Global Operations is a Group function which manages major parts of the product development, commercialization, distribution and supervision of the manufacture of apparel, footwear and hardware.
- *Indirect sourcing model*: A minor part of the adidas product volume is sourced from agents or made under license. While agents place orders with their preferred suppliers, licensees can choose to place orders either directly with their suppliers or via agents as intermediaries. The indirect supply chain complements direct sourcing by meeting specific requirements that cannot be serviced through Global Operations.
- *Local market production*: In order to quickly seize short-term opportunities in local markets, to satisfy a niche market requirement or in some cases to react to certain trade regulations, adidas subsidiaries may also source from local suppliers in a specific country. This form of sourcing is not overseen by Global Operations, but these suppliers require authorization from the Social and Environmental Affairs team for production.

Figure 6. Structure of the Supply Chain



Source: adidas 2016b

Within these sourcing models, five different types of suppliers can be distinguished:

- *Main suppliers* have a direct contractual relationship with adidas for the supply of products for both export and domestic market consumption.
- *Subcontractors* are factories that have been subcontracted by main suppliers to perform manufacturing operations the main suppliers are not capable of doing in their own facility.
- *Material and other service providers* may not have a direct business relationship with adidas, but supply goods and services to the main suppliers.
- *Licensees* are independent companies, which manage the design, production and distribution of specific products, under license to adidas.
- *Agents* are independent companies that act as intermediaries to source product manufacturing, manage the manufacturing processes and sell finished products to the Group.

In order to ensure a high quality, adidas enforces strict control and inspection procedures on its suppliers. After accusations of tolerating low labor standards in its supplier network (Amaeshi et al., 2008; Lund-Thomsen et al., 2012), the company now promotes adherence to social and environmental standards throughout its supply chain and fully discloses its global supplier list. Furthermore, adidas has pledged itself to supervise its predominantly Asian suppliers on a regular basis to inhibit child labor and guarantee humane working conditions and adequate wages (Frenkel & Scott, 2002). By 2025, adidas aims to have a system in place to identify and manage high-risk human rights issues across the entirety of its value chain. Moreover, the company has announced to reduce absolute greenhouse gas emissions across their entire value chain by 30% by 2030, measured against 2017, and to achieve climate neutrality across the entire value chain by 2050 (adidas, 2023b, p. 80).

3.3 Distribution

Traditionally, adidas acts as a wholesaler and distributes its products to customers mainly through local retailers – independent merchants that sell a variety of brands. In 2022, wholesale accounted for 61% of total sales (adidas, 2023b, pp. 59). There are many benefits to this approach, such as having fewer assets tied up in retail outlets and not needing to employ a retail workforce. Warehouse stock can more easily be shifted to the most attractive markets, with wholesale margins tending to be excellent. Retail, by contrast, typically demands a higher investment and sunk costs, while generating lower margins, and offers less flexibility in terms of inventory management.

By necessity however, adidas began to develop a retail channel in some regions. In 2022, 19% of global sales were achieved in own retail stores. The retail fleet consists of 1,990 stores that are spread across different segments. 834 of these are concept stores – mostly located in key cities like Barcelona, London, Mexico City, Rome, Shanghai, Singapore and Warsaw – which focus on premium experiences and aim at translating the spirit of each location into regional store adaptations. Moreover, adidas operates 1,057 factory outlets which are mainly targeted at the value-seeking consumers, and 99 concession corners.

E-commerce accounts for 20% of global sales. It is adidas' fasted-growing distribution channel and grew by 10% in 2022. In addition to the adidas e-commerce platform, which is available in 65 countries, the company has developed various mobile applications and membership programs.

In some markets, adidas also engages in sales franchising. Unlike most multi-brand retailers, franchisees tend to be mono-brand stores and carry adidas products exclusively. Furthermore, franchisees have to comply with clear directives about merchandising and presentation, which in turn call for a distinct style of management. Generally, adidas remains mostly a wholesaler with some retail stores and fast-growing e-commerce, but has not professionalized franchises into a fully-fledged business model.

3.4 Marketing and Sales

In 2022, 38% of adidas Group revenues were gained in the EMEA region (Europe, Middle East and Africa) (Table 2). Revenues in this region increased by 9% on a currency-neutral basis, driven by growth in the football, running and outdoor segments. Revenues in North America, which is the single largest market for sporting goods in the world and represent 28.4% of adidas Group revenues, increased by 12%. The highest revenue growth was achieved in Latin America with 44%. On the contrary, sales in Greater China decreased by 36%.

Table 2. Net Sales by Region (in mn. €) (2021-2022)

	2022	2021	Change (currency-neutral)	Share of worldwide revenues
EMEA	8,550	7,760	9%	38.0%
North America	6,398	5,105	12%	28.4%
Greater China	3,179	4,597	-36%	14.1%
Asia-Pacific	2,241	2,180	4%	10.0%
Latin America	2,110	1,446	44%	9.4%
Other Businesses	150	145	3%	0.7%
Total	**22.511**	**21.234**	**1%**	**100%**

Source: adidas 2023b

The utilization of promotional partners, such as federations, teams, leagues, events and individuals, is an important part of validating and endorsing brand positioning and an area in which adidas dedicates significant resources. For example, the company has sponsorship agreements for the FIFA World Cup, the UEFA EURO, the UEFA Champions League, the NBA, the Boston Marathon and the International Association of Athletics Federations. Additionally, adidas sponsors high-profile sports teams, such as the national association football teams of Argentina, Belgium, Colombia, Germany, Italy, Jamaica, Japan, Mexico, and Spain, top football clubs such as Arsenal London, FC Bayern Munich, Juventus Turin, Manchester United and Real Madrid, as well as the New Zealand All Blacks in rugby. Sponsorship agreements with individuals include football stars Lionel Messi, Karim Benzema and Serge Gnabry; basketball stars Candace Parker, Damian Lillard and

Derrick Rose; American football players Patrick Mahomes, Aaron Rodgers, JuJu Smith-Schuster and Trevor Lawrence; tennis players Félix Auger-Aliassime, Garbiñe Muguruza, Alexander Zverev, Elena Rybakina, and Stefanos Tsitsipas; and alpine skier Mikaela Shiffrin (adidas, 2023b, pp. 57).

Furthermore, adidas has a number of strategic partnerships and collaborations with top designers and design studios such as Yohji Yamamoto (2001), Stella McCartney (2004), Porsche Design (2007) and Gucci (2022). The brand also has similar relationships with many celebrities from across the entertainment industry including Beyoncé, Kanye West and Pharrell Williams.

The use of cultural marketing partners, however, is not without risks. In October 2022, adidas terminated the partnership with Kanye West after accusations of antisemitism and other sorts of hate speech. The stop of Yeezy branded products is expected to have a short-term negative impact of up to 250 mn. € on the company's net income (adidas, 2022a). The partnership with Beyoncé did not meet financial expectations. Sales for Ivy Park fell more than 50% to 40 mn. $ in 2022, far below the projected 250 mn. $. The existing contract between Beyoncé and adidas, which paid the musician 20 mn. $ annually, expired at the end of 2022 (Hale, 2023).

4. Activities in Emerging Markets

4.1 Russia

Adidas' activities in Russia began in 1980 when the company became the official sponsor of the Soviet team in the Moscow Olympics. Since the Soviet Union did not allow foreign brands to market themselves, the tracksuits had no adidas logo, just the three stripes. At that time, Western brands were rare, expensive and only available in foreign exchange stores, so owning adidas clothing was seen as a sign of status and connection to the outside world (Fedorova, 2017).

In the early 1990s, adidas was one of the first international brands to take advantage of the newly opened Russian market. When the company opened its first store in Moscow in 1994, there were only a few local retail partners, so it had to develop its own retail stores. For a time, it pursued a mixed approach of roughly 50/50 wholesale and retail, but this proved unsatisfactory because adidas was neither an authentic retailer nor a good wholesale partner. Rather than pursuing multiple strategies, adidas decided to put its efforts into retailing.

Over the years, Russia/CIS became one of the most important markets for the adidas Group. Between 2007 and 2012, the market was growing 30-100% a year, with Russia often rolling out more than 200 stores per year. In 2016, adidas had over 1,200 corporate-owned stores and employed more than 15,000 people in the country – the Group's largest direct retail footprint globally. In the words of the former adidas Russia/CIS Managing Director Martin Shankland: "It was a place where I felt I could do the things that I was capable of, which, in a way, is always more difficult in a developed, established market where the rules are all worked out. adidas Russia/CIS appeared to be a place with lots of opportunity and not many rules" (cited in Cordón, Leleux & Lennox, 2017, p. 231).

While retaining its aura of exclusivity and coolness, adidas quickly became a symbol of success and style. This was also due to the sponsorship of some of the most prominent Russian athletes as well as collaborations with Russian designers, artists, and musicians to create unique products and experiences that resonate with the local market (Anonymous, 2023). A main collaborator was fashion designer and photographer Gosha Rubchinskiy (Kansara, 2017). His 2018 FIFA World Cup collection frequently referenced the turbulent, free-spirited 1990s, when foreign brands and garments possessed symbolic power and a black Adidas tracksuit was the uniform of gopniks – suburban dwellers squatting and drinking beer on the estates (Fedorova, 2017).

However, in October 2022, as a result of the Russian invasion of Ukraine, adidas took the decision to permanently wind down its business operations in Russia. The impairment of property, plant, and equipment and right-of-use-assets recognized in this context, as well as the recognition of related provisions has had a negative impact of 120 mn. € on net income from continuing operations (Adidas 2023b, p. 194).

4.2 India

adidas first entered the Indian market in 1989 through a license agreement. In 2011, the head of adidas India, Andreas Gellner, moved to Southeast Europe on a new assignment and Subhinder Singh Prem of Reebok was promoted to be the managing director of the merged entity. Prem had been associated with Reebok since its inception in 1995 through an 80:20 joint venture partnership with the Indian company Phoenix. Under his leadership, Reebok India emerged as one of the leading brands in the Indian shoe and sportswear market. Reebok also tried to diversify its business into the lifestyle and fitness segment.

Between 2003 and 2012, the number of Reebok stores increased from 100 to more than 800. This aggressive expansion, however, came at the cost of profitability and margins. For example, Prem introduced a minimum guarantee model for Reebok, where franchises had few or no risk at all. In order to increase the sales volume, they were encouraged to order goods beyond their selling capacity and were assured that the company would manage leftover stocks (Prabhakar & Chakravarty, 2012). Thus, the company had to recover losses incurred by the franchisees, even if the unsold stocks were returned to the company.

In 2012, adidas filed a defamation case against its Indian CEO Prem (Mohanty, 2012). adidas stated: "Based on the commercial irregularities we have uncovered at Reebok India, we have now filed a criminal complaint with the Indian law enforcement authorities in order to start the formal investigation" (cited in Ram, 2012). The maximum negative impact was estimated to be up to a pre-tax amount of 125 mn. € (Anonymous, 2012).

After the dismissal of Prem, adidas started to restructure its business model in India with the intention to minimize costs and to increase accountability for the franchisees. A new franchise model was introduced that guaranteed fixed margins of about 35% to franchisees (Anonymous, 2012). Franchising was no longer developed opportunistically, but became a third business model alongside wholesale and retail. adidas' biggest franchise partner in India is the Jaipuria Group, which plans to set up 100 adidas footwear and sportswear stores by the end of 2024 (Bhushan, 2023).

Like in other countries, the activities of adidas in India were also significantly affected by the COVID-19 pandemic. In the Financial Year 2021, revenues fell 23% to ₹945 crore (103.8 mn. €) from ₹1,228 crore (141.5 mn. €) in FY20. At the same time, the market leader Puma reported revenues of ₹2,044 crore (224.9 mn. €), an increase of 68% from 2020. Puma India had kept the digital channel at the core of its strategy even before the pandemic, a strategy that helped the company as movement curbs were introduced and retail stores were shut. "We were one of the first movers (in the sportswear and lifestyle segment) to the e-commerce channel and started selling our products much before our counterparts," said Abhishek Ganguly, Managing Director Puma India (cited in Anonymous, 2022). As a result, Puma drew about 43% of its business from online channels as opposed to less than 30% at adidas (Martins, 2017).

In the future, adidas' plans to focus mainly on cricket as it is India's most popular sport (Singh, 2015). In 2023, the company signed a five-year deal worth about ₹250 crore (27.5 mn. €) with the Board of Control for Cricket in India. This makes adidas the official kit sponsor of the Indian cricket team (Farooqui, 2023).

4.3 China

adidas entered the Chinese market in the early 1990s through Hong Kong-based import agents. By 1993, it also started to shift global product manufacturing to China. In 2015, 29% of its entire suppliers worldwide were located in China.

Even though adidas preferred a wholesale model with a few retail shops in most other markets, franchising became the dominant market entry mode in China. This was due to the lack of strong local retailers and the fact that foreign companies were not allowed to run their own stores. The only option was to find local partners who would contribute capital and hire employees, while running mono-brand stores and operating under adidas rules. In 2006, with the 2008 Beijing Olympics approaching, the Chinese government began to allow foreign companies into the retail market. By 2010, adidas sold most of its products in China through its 5,000 franchise mono-brand stores and through 800 Chinese multi-brand retailers. It also established 100 of its own retail stores across the country.

In 2015, adidas had around 8,000 stores in over 1,400 cities, compared to 6,700 in 2012. In addition to its major flagship stores in Shanghai and Beijing – the Beijing one being the largest 'brand center' worldwide – it opened smaller versions all over China. By the end of 2019, adidas had achieved 23 consecutive quarters of double-digit sales growth in Greater China. This was primarily achieved through high growth rates in its own retail stores and strong sales growth in e-commerce, making China the company's largest single market in the world.

However, from 2020 onward, performance and popularity steadily declined. In 2022, sales in Greater China plunged by 36% to 3.2 bn. € and were just half as high as the group had envisaged in 2019. This was driven by double-digit decreases in all major performance categories, except for football and golf (adidas, 2023b, p. 152).

Unlike most other countries, adidas is not only faced with other multinational corporations, such as Nike, Puma and Asics, but also with increasing competition from local companies, such as Anta and Li Ning. In 2022, the revenues of the two Chinese brands increased by 38.9% and 56.1% respectively. Anta surpassed adidas and became the second largest brand in China after Nike. Both firms operate a fully integrated business model. They design and manufacture products in their own factories and also handle marketing and sales. As local companies, they can respond more quickly to market changes. Moreover, Anta and Li Ning benefit from local cost advantages, which is particularly relevant in China's second-, third- and fourth-tier cities (Schutte, Bhattacharyya & Probert, 2013; So, 2022).

The main reasons for adidas' weak performance are inventory write-offs, significantly higher discounting and supply chain costs as well as supply chain disruptions due to the strict COVID-19 restrictions in China. These effects were recently exacerbated by a backlash against western brands over their refusal to buy Xinjiang cotton, which, according to human rights activists, involves forced labor. Following their support of the Better Cotton Initiative, adidas released a statement in March 2021, preventing all their suppliers from sourcing any cotton from the Xinjiang region in China. This has generated intense discussions among Chinese netizens, leading to a boycott campaign (Yi, 2023).

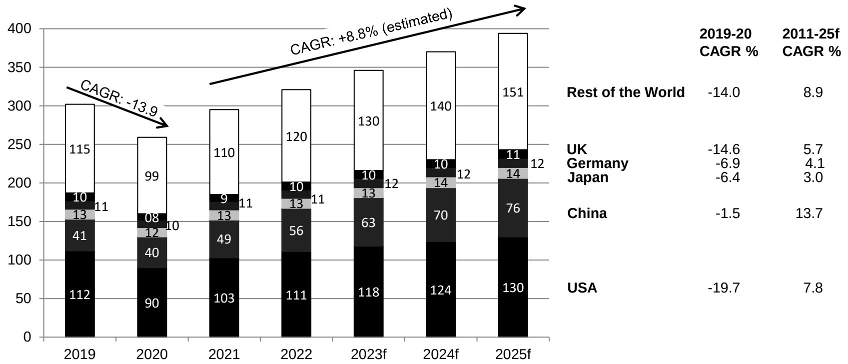
Former CEO Rørsted also acknowledged adidas' mistakes in China: "We don't understand consumers well enough, so we left room for Chinese competitors who are better off" (cited in Sayers, 2022). An example is the launch of the sneaker model NMD in 2016. For young Chinese, this acronym corresponds to the derogative expletive 'nǐ mā de' ('f**k your mother!') (Guyot, 2016). Recently, Chinese netizens expressed their dissatisfaction with the brand, claiming that adidas is overpriced and that the quality is worse compared to a decade ago.

Adrian Siu, a Hong Kong-trained manager who replaced Jason Thomas as the new Managing Director at adidas Greater China in 2022, introduced a three-pronged approach that focuses on locally designed products, more local production and shorter lead times. The goal is to increase the percentage of locally designed products from low single digits to at least 30% by the end of 2024. adidas also wants to localize a higher share of production to shorten lead times and respond more quickly to fast-changing fashion trends. Finally, adidas plans to focus more on sports kits rather than fashion lines as "the middle-class consumer has a higher and higher awareness of health and fitness", said Siu (cited in Storbeck & Olcott, 2023). This strategy goes in hand with marketing partnerships with prominent Chinese athletes, such as Wu Yibing, China's number-one tennis player, after being shunned by many influencers during the nationalist boycott.

5. Outlook

According to a study by McKinsey & Company (2022), the global sporting goods market is expected to grow to 395 bn. € by 2025 with a compound annual growth rate of 8.8% between 2021 and 2025 (Figure 7). With 13.7% annually, the highest growth rates are predicted for China, followed by 7.8% for the USA – the largest sporting market of the world.

Figure 7. Predicted Growth of the Global Sporting Goods Market



Source: McKinsey & Company 2022, p. 20

In order to take advantage of future growth opportunities in the global sporting goods industry, adidas intends to treat all markets equally, yet individually. According to CEO Bjørn Gulden: "I think it's wrong to set priorities and say that one market is more important than the other, we should be strong in every market and tailor our approach for each individual one. Saying that, as our home market, we should be market leader in Europe. We also know that if you're not successful in North America, you're not really a global brand. China has been a growth driver for us. Because of the pandemic and other challenges, however, we're not where we used to be, but I have a feeling that things will improve there. Latin America is on fire, which makes me optimistic. And then, there are markets like Korea and Japan which are very directional and very fashion oriented. Here we have a real opportunity to grow. So, to win in every market, we need to work more closely with our accounts to find out what works and what doesn't" (cited in adidas 2023b, p. 12).

adidas' new strategy requires several modifications of the existing business model with essential changes in the sourcing, distribution and sales channels. One way to reduce uncertainties in supply chains and increase the speed to get products to market in-season could be nearshoring. This allows companies to gain better control and de-risk their supply chains, increases agility and due diligence, and offers better protection against trade barriers. It is also a more sustainable operating model in the eyes of consumers. At the same time, however, nearshoring may lead to significantly higher production costs (McKinsey & Company, 2023).

In 2016, adidas responded to growing supply chain challenges with the establishment of its first robotic shoe manufacturing factory named 'speedfactory' in Ansbach. A second speedfactory opened near Atlanta in 2017. According to former-CEO Herbert Hainer, the aim was to "combine the design and development of sporting goods with an automated, decentralized and flexible manufacturing process. This flexibility opens doors for us to be much closer to the market and to where our consumer is" (cited in adidas, 2015). However, in April 2020, adidas ceased all production at its two speedfactories for organizational reasons. A key challenge was a limitation to the number of shoe models the factories were able to produce. With only around one million pairs per year, the proportion of shoes manufactured in the two speedfactories was very small compared to the total sales of around 400 million pairs. According to group spokesman Jan Runau, adidas therefore decided to return production to Asia, "where the know-how and the suppliers are located" (cited in Ross, 2020). It will be interesting to see if the current supply chain disruptions will potentially trigger new nearshoring initiatives at adidas and if the company can benefit from its experience with speedfactories in this context.

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& Dirk Holtbrügge

The Internationalization Strategy of NürnbergMesse. Advantages of a Late Follower

"Born in Nürnberg, grew up in Europe, at home in the world."
Peter Ottman and Dr. Roland Fleck, CEOs of NürnbergMesse Group

1. The Trade Fair Industry: Market Structure and Global Trends

The trade fair industry is highly globalized with a strong European focus. Market leaders in 2019 (the last full trade fair year before the COVID-19 pandemic) were the British companies Informa (with a revenue of 1.70 bn. €) and Reed Exhibitions (1.49 bn. €), followed by the German market leader Messe Frankfurt (736 mn. €). 5 of the top 10 companies worldwide are headquartered in Germany. NürnbergMesse with a revenue of 286 mn. € ranks 14th on a global scale and 7th in Germany. Overall, only 4 out of the 25 largest companies are located outside of Europe (Table 1).

The internationalization of the trade fair industry does not only affect the market structure, but also the share of domestic and foreign exhibitors (Kirchgeorg, Dornscheidt & Stoeck, 2017). In 2019, the amount of EU exhibitors at German trade fairs decreased by 2%, while the amount of foreign exhibitors increased by 2.1% in comparison to the previous year. Thus, the international expansion of trade fair companies is not only relevant in terms of market share in foreign countries. By being globally present, foreign companies attend German trade fairs in order to present their products to

Table 1. The 25 Largest Trade Fair Companies in the World (2017-2022)

Rank	Company	Headquarters	Revenue (in mn. $)		
			2019	2018	2017
1	Informa	UK	1,698	1,319	631
2	Reed Exhibitions	UK	1,486	1,352	1,264
3	Messe Frankfurt	Germany	736	718	669
4	GL events	France	573	477	482
5	Messe München	Germany	474	418	333
6	Koelnmesse	Germany	413	337	358
7	MCH Group	Switzerland	409	464	422
8	Clarion Events/Comet Bidco	UK	392	242	171
9	Messe Düsseldorf	Germany	379	294	367
10	Deutsche Messe	Germany	346	310	356
11	Comexposium	France	341	366	264
12	Emerald Expositions	USA	322	333	285
13	Messe Berlin	Germany	286	352	284
14	NürnbergMesse	Germany	286	315	206
15	Fiera Milano	Italy	280	247	271
16	HKTDC	Hong Kong	255	240	254
17	Hyve Group (ITE Group)	UK	248	197	173
18	Fira Barcelona	Spain	219	210	188
19	NEC Group, Birmingham	UK	196	185	183
20	BolognaFiere	Italy	196	171	126
21	IFEMA Madrid	Spain	187	139	118
22	IEG Italian Exhibition Group	Italy	179	160	131
23	Tokyo Big Sight	Japan	171	185	157
24	Easyfairs Group SA/NV	Belgium	167	157	160
25	Shanghai New International Expo Centre	China	152	135	128

Source: AUMA (2021)

an international audience (Tornier, 2017). For example, 31,000 exhibitors from Asia attended the 2019 trade fairs in Germany. At the same time, German trade fair companies strengthen their presence in foreign markets. The main focus lies on the emerging markets in South, East and Central Asia, which accounted for nearly 24% of German trade fairs abroad in 2018. However, the COVID-19 pandemic proved to be a significant obstacle to the trade fair industry, when only 49 out of the planned 198 fairs could be held in Germany in 2021 (AUMA, 2021).

2. NürnbergMesse: History and Company Background

NürnbergMesse was founded in 1974 succeeding Messehallen GmbH with 15 employees. It is organized as a limited liability company (GmbH) and jointly owned by the City of Nürnberg and the Free State of Bavaria. Very small stakes are held by the Chamber of Industry and Commerce Nürnberg for Middle Franconia and the Middle Franconia Chamber of Crafts. With an equity capitalization of 243.8 mn. €, NürnbergMesse employs 1,011 people worldwide (Table 2).

Table 2. NürnbergMesse at a Glance

NÜRNBERG MESSE	
Founded in 1974 as a successor of Messehallen GmbH as a private limited company.	
Shareholders: • City of Nürnberg (49.969%) • Free State of Bavaria (49.969%) • Chamber of Industry and Commerce Nürnberg for Middle Franconia (0.031%) • Middle Franconia Chamber of Crafts (0.031%)	**Supervisory Committee:** 17 members, Chairman: Marcus König, Lord Mayor of the City of Nürnberg **Chief Executive Officer:** Peter Ottmann **Equity Capitalization:** 243.8 mn. € (as of 31.05.2023) **Employees worldwide:** 1,011 Revenue: 257 mn. € (31.12.2022)
Subsidiaries (international)	**Subsidiaries (national)**
• Forum S.A., Greece (100%) • NürnbergMesse Austria GmbH (100% as a branch of NürnbergMesse Beteiligungs-GmbH) • NürnbergMesse Brasil Business Ltda. (100%) • NürnbergMesse China Co., Lts. (100% • NürnbergMesse India Pvt. Ltd. (100%) • NürnbergMesse Italia S.r.l. (100%) • NürnbergMesse North America, Inc. (100%) • Exponova Exhibitions and Conferences (India) Pvt. Ltd. (24.5%)	• NürnbergMesse Beteiligungs-GmbH (100%) • NürnbergMesse Service GmbH (100%) • Holtmann Beteiligungsverwaltungs GmbH (66.67%) • Holtmann GmbH + Co. KG (66.67%) • Lehrieder Verwaltungs-GmbH (100%) • Lehrieder Catering-Party-Service GmbH & Co. KG (100%) • AMA Service GmbH (49%) • MedtecLive GmbH (100%)

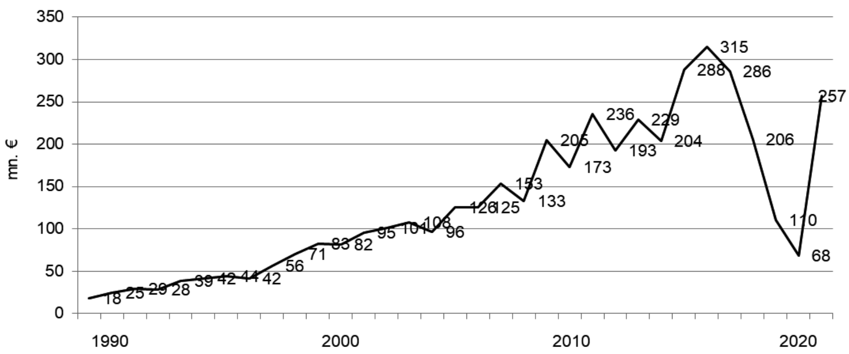
Source: NürnbergMesse (2023a)

Until the 1990s, NürnbergMesse only played a minor role in the international trade fair market. This changed when after the fall of the Iron Curtain, Nürnberg was shifted to the geographic heart of Europe again. Since then, no other German trade fair company has grown faster than NürnbergMesse. Figure 1 shows the revenue growth between 1990 and 2022. Moreover, it illustrates the volatility of the trade fair industry. As some major trade fairs take place biannually, revenues vary significantly between even and uneven years.

A milestone in the history of NürnbergMesse was the design of the new hall 3A by star architect Zaha Hadid in 2014. NürnbergMesse became the first exhibition corporation in the world to receive the German Sustainable Building Council's Platinum Award for energy efficiency.

In 2022, around 155 events took place in Nürnberg and around the world, counting 841,612 m² of exhibit space booked and 989,338 visitors. Due to pandemic-induced restrictions, only one trade fair was held at the Shanghai subsidiary in China. In 2022, sales reached 257.1 mn. €, which is a significant increase as compared to 68.3 mn. € in 2021. In the same period, EBITDA increased to 32.3 mn € compared to -4.4 mn. € in 2021 and total assets reached 382.4 mn. € (Table 3). In 2022, NürnbergMesse triggered annual purchasing power effects of 1.6 bn. € in Germany (NürnbergMesse, 2023b).

Figure 1: Revenues of NürnbergMesse between 1990 and 2022



Source: NürnbergMesse (2023b)

Table 3. Key Operating Numbers

	2019	2020	2021	2022
Exhibitors	35,439	12,385	5,493	23,457
– National	21,727	5,414	4,522	14,420
– International	13,712	6,971	971	9,037
Visitors (in mn.)	1,393,628	430,887	315,440	989,338
– Including industry professionals	1,033,297	321,188	178,708	785,247
– National	809,313	243,038	169,159	641,245
– International	223,984	78,150	9,549	114,002
Net exhibition space (m^2)	1,102,890	360,870	176,558	841,612
Employees	1,197	1,027	916	1,011
– Trainees and apprentices	63	61	59	71
Sales (in mn. €)	285.7	110.3	68.3	257.1
EBITDA (in mn. €)	34.8	-29.3	-4.4	32.3
Total assets (in mn. €)	451.8	380.8	371.1	382.4

Source: NürnbergMesse (2023b)

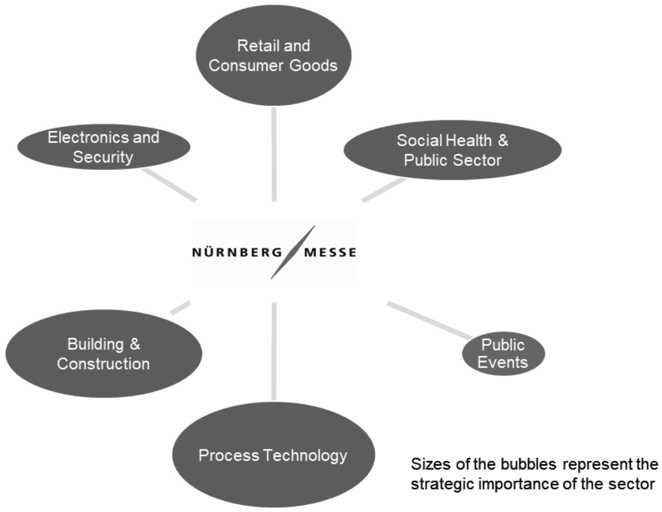
3. Event Portfolio

NürnbergMesse provides a portfolio of around 120 national and special-interest trade fairs and congresses as well as approximately 40 sponsored company pavilions which take place both in Nürnberg and international locations (Figure 2). The main focus lies on Retail & Consumer Goods and Process Technology where over 20 global scale events are offered. Other areas include Building & Construction and Electronics & Security. Social Health & Public Sector as well as Public Events are smaller sections.

After successfully implementing a concept for a particular trade fair in Nürnberg, the concept is frequently transferred and adapted to other markets. This strategy of line extension contains little risk for the company while guaranteeing a high degree of recognition among its customers that are often globally operating firms.

One example in the Retail & Consumer Goods section is BIOFACH, the world's leading trade fair network for organic products. Beyond Nürnberg, BIOFACH is organized in Brazil, China, India, Japan, Saudi Arabia, Southeast Asia and the USA. Another example is BrauBeviale which has offshoots in Guadalajara, Shanghai and Milan.

Figure 2. Event Portfolio



Source: Scholl (2015)

In the Process Technology section, international oriented exhibitions often focus on die casting (a metal casting process). For example, ALUCAST 2018 in Delhi was India's biggest exhibition for the aluminum die casting industry and attracted over 160 exhibitors from China, Japan, Switzerland, Taiwan and Italy (Alucast, 2022). China Diecasting is one successful trade fair which focuses on displaying the entire diecasting supply chain in China (China Diecasting Cong. & Expo, 2023). In the Building & Construction section, Fensterbau Frontale is one of the world leading trade fairs in the area of windows, doors and fronts, bearing a high potential for future internalization.

4. Internationalization Strategy

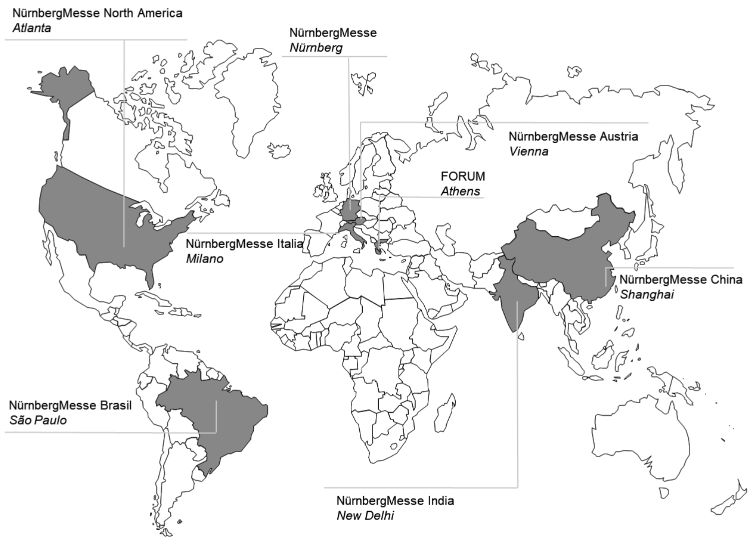
4.1 From Franconian Niche Player to Global Presence

In the first two decades after its founding in 1974, NürnbergMesse operated in small but attractive niche markets and mainly grew organically. Core competitive advantages were a good transport infrastructure with a local underground railway station, plenty of parking spaces and accessibility to national motorways and railways.

It was not until the mid-1990s – and well after other trade fair companies in Germany – that NürnbergMesse started to internationalize. Based on the concept of line extension, successful trade fairs were gradually exported to other countries. This late follower approach allowed for high standardization advantages and low internationalization risks. The growing international presence increased the number of foreign exhibitors and visitors at trade fairs in Nürnberg (Fleck & Ottmann, 2017). In 2022, international exhibitors accounted for 38.5% of all exhibitors and the share of international trade visitors was 11.5% (Table 3).

Since 2007, the internationalization of NürnbergMesse has also involved the establishment of foreign subsidiaries. Today, it holds wholly-owned subsidiaries in Brazil, China, Greece, India, Italy and North America as well as a branch office in Austria. Since 2019, FORUM is the largest international subsidiary and market leader of trade fairs in Greece with 60 employees (NürnbergMesse, 2023e). In addition, there are about 50 representatives operating in more than 100 countries worldwide (Figure 5).

Figure 5. International Subsidiaries



Source: NürnbergMesse (2023c)

4.2 Activities in Emerging Markets

Emerging markets have become an important focus of NürnbergMesse in the past ten years. The first foreign subsidiary was established in China in 2007. Based in Shanghai, it aspired to welcome more than 1,500 exhibitors and up to 8,000 trade visitors in 2022. Simultaneously, international trade fairs in Nürnberg, where Chinese exhibitors ranked second in 2016, benefit from the strong presence in the Chinese market (NürnbergMesse, 2017). Since 2015, NürnbergMesse China is managed by Darren Guo, a Chinese national who obtained a master's degree in Sinology, Business Studies and Americanistics from the University of Würzburg. Prior to this appointment, he was the International Sales & Business Development Manager Asia Pacific at the headquarters in Nürnberg (TSNN, 2015).

In 2009, NürnbergMesse acquired the Brazilian trade fair company Nielsen Business Media Brasil and renamed it into NürnbergMesse Brasil. At that time, the acquisition with more than 20 employees and a turnover of 7 mn. € was the largest one in NürnbergMesse's history (IHK Nürnberg, 2009). Since 2016, João Picolo is the Managing Director of NürnbergMesse Brasil. Born in 1979, he has over 14 years of experience in the exhibition business (NürnbergMesse, 2016a). NürnbergMesse also offers digital event formats for its clients through its wholly-owned subsidiary Hiria (NürnbergMesse, 2023d).

In 2013, NürnbergMesse expanded to India and lauched their first event: BIOFACH India. By establishing a wholly-owned subsidiary in New Delhi with offices across Mumbai and Bangalore, the company aims to participate in the economic development of one of the fastest growing markets in the world. Within 10 years, the number of trade fairs in India have increased from 40 to 140. Currently, NürnbergMesse cooperates as a service provider with the association of air-conditioning technology on the trade fair AcrexIndia which is about HVAC refrigeration and building automation system. This investment is strongly related to the trade fair Chillventa and aims to strengthen the core competencies of NürnbergMesse. In contrast to the strategy of strengthening core competencies, NürnbergMesse acquired Broadcast India in Mumbai – focusing on technology to power India's vast entertainment and infotainment industry – in order to tap into new resources of future trade fair potential (NürnbergMesse, 2016b). Managing Director of NürnbergMesse India is Sonia Prashar, a former project manager at the Indo-German Chamber of Commerce (IHK Nürnberg, 2013). Like in China, NürnbergMesse India aims to manage and operate Indian Pavilions overseas in addition to supporting Indian clients participating in trade shows overseas.

In Russia, NürnbergMesse was active with well-known exhibition concepts, such as Brau Beviale. Around 100 exhibitors had registered for Beviale Moscow 2022 and some 5,000 visitors were expected, around two-thirds of them from Russia. After the Russian invasion of Ukraine, however, NürnbergMesse indefinitely suspended its activities in the country (NürnbergMesse, 2022).

5. Outlook

The year 2022 started off with around 140 cancelled trade fairs in Germany due to the COVID-19 pandemic. However, since the fourth quarter, around 280 trade fairs took place which were attended by 7.6 mn. visitors (65% of the volume of pre-pandemic visitors) and 141,000 exhibitors (70% of the volume of pre-pandemic exhibitors) (AUMA, 2023). Compared to 2019, the percentage of exhibitors from Asia decreased from 30% to 19%, while those from Europe increased from 60% to 72%. 2023 is expected to be the first year that will host trade fairs for the complete calender year since the beginning of the pandemic (AUMA, 2023). At least 340 events are planned with an anticipated positive trend in the coming years.

Despite this positive trend, AUMA Managing Director Jörn Holtmeier is concerned with the increased competition from locations like Seoul, Dubai and Barcelona (AUMA, 2023). At the same time, state funding in Germany is decreasing. Compared to Asia, where the support is constantly increasing, Germany received an all-time low funding for the year 2023.

Despite being heavily affected by the pandemic, especially due to the restrictions on China, the overall outlook for NürnbergMesse is positive. Sales are projected to exceed 230 mn. € in 2023 and expected to reach pre-pandemic levels by 2025/2026 (NürnbergMesse, 2023b). One of the main growth drivers is the development of new events, such as Legal Revolution which will address the implementation of artificial intelligence in the legal profession. In addition to traditional face-to-face events, digital offerings are also intended to contribute to future growth (NürnbergMesse, 2023b).

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Dirk Holtbrügge

Export-based Internationalization Strategies. The Case of Uvex

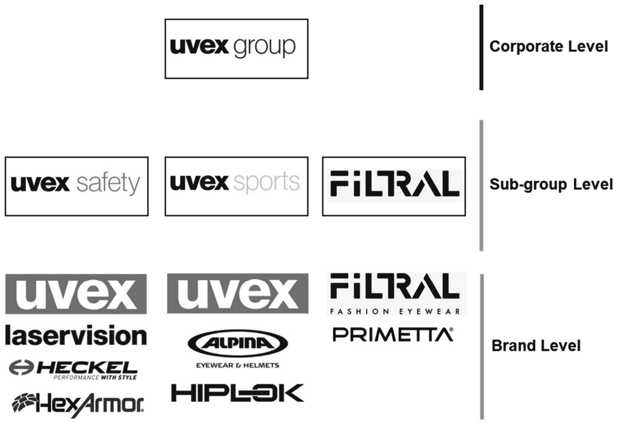
"For us, 'Made in Germany' is clearly a quality label."
Rainer Winter, Managing Partner of Uvex

1. Uvex at a Glance

Under the motto 'protecting people', Uvex develops, manufactures and distributes products and services for the safety and protection of people at work, in sports and for leisure pursuits. The Uvex Group consists of three independent companies under the Uvex Winter Holding GmbH & Co. KG: the Uvex Safety Group, the Uvex Sports Group, and Filtral (Figure 1). The Safety Group consists of the four brands Uvex, Laservision, Heckel and HexArmour. In the Sports Group, goggles, helmets and bike locks are marketed under the brand names Uvex, Alpina and Hiplok. Filtral and Primetta sunglasses represent the third sub-group (Uvex, 2023a).

The Uvex Winter Holding GmbH & Co. KG is a limited partnership with a limited liability company as a general partner. It is owned and run by Rainer Winter (the son of the founder Philipp M. Winter) along with his children Gabriele Grau and Michael Winter, and his grandchildren Leo Winter, Lisa Winter, Alexa Grau and Kira Grau. Rainer Winter is also the President of the company. The management of the Uvex group consists of Michael Winter (Managing Partner) and Georg Höfler (CFO/COO), an alumnus of the School of Business, Economics & Society at the Friedrich-Alexander-University Erlangen-Nürnberg. The three sub-groups are independently managed by non-family CEOs.

Figure 1. Uvex Group Structure



Source: Uvex 2023c

2. Milestones of Corporate History

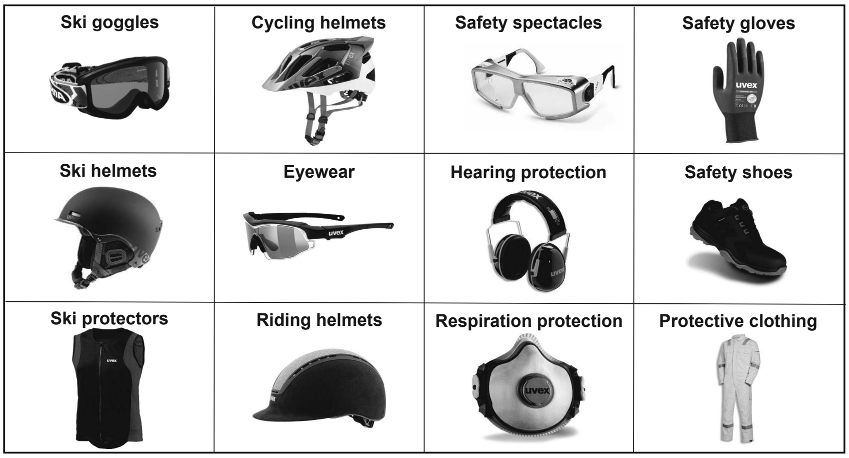
The origins of Uvex date back to 1926, when Philipp M. Winter founded the Optische-Industrie-Anstalt Philipp M. Winter in Fürth, in the district Poppenreuth at the eastern border to Nürnberg (for the following, see Uvex, 2023b). The first safety eyewear was designed for laborers to protect the eyes from metal fragments and sparks, when drilling, machining or welding. Demand for the products soon extended beyond laborers and craftsmen to sportsmen. For example, the company equipped different athletes with goggles for the first time at the 1936 Winter Olympics. In 1938, German mountaineers climbed Nanga Parbat in the Himalayas wearing glacier goggles made in Fürth.

In 1956, the company was renamed Winter-Gesellschaft für Optik und Augenschutz (Winter Company for Optics and Eye Protection). At the same time, the founder's son Rainer Winter was appointed managing director alongside his father. In 1964, he coined the Uvex brand name, based on an abbreviation of the quality seal for lenses – Ultra-Violet EXcluded.

In 1967, the company started selling sunglasses to retailers under the Filtral brand. Five years later, the product range was expanded to include footwear. In 1980, the subsidiary Alpina was founded which primarily targets younger, lifestyle-oriented customers. Helmets for winter sports and cycling were introduced in 1987. In the same year, the joint venture Laservision was formed, which produces safety equipment against laser radiation. In 2004, the former partner Rupp + Hubrach was bought out and Laservision became a wholly-owned subsidiary of the Uvex Safety Group. Another milestone was the acquisition of the safety footwear producer Heckel in 2001 which still operates as an independent brand. In 2009, Uvex diversified into the equestrian market and started to produce riding helmets. Riding gloves were introduced in 2014 after the acquisition of Schwenkel. In 2016, Uvex entered into a partnership with Primetta, the German producer of sunglasses. In 2021, the Uvex Sports Group acquired a majority shareholding in the British company Plus 8 Industries Limited, which trades under the Hiplok brand name.

Today, the range of safety products include safety eyewear, safety helmets, hearing protection, breathing protection, safety gloves, safety footwear and workwear (Figure 2). The Safety Group accounted for 75% of the Uvex Group revenue of 584.9 mn. € in the financial year 2021/22 (Table 1). Together with Filtral and Primetta, the Sports Group contributes 25%. The products for sports range from ski goggles and protectors to racing helmets for cycling, equestrian and winter sports.

Figure 2. The Uvex Product Spectrum



Source: Compiled from various company sources

Table 1. Key Financial Indicators 2015/16-2021/22

Consolidated companies	FY 21/22	FY 20/21	FY 19/20	FY 18/19	FY 17/18	FY 16/17	FY 15/16
Uvex Group Revenue (in mn. €)	584.9	523.8	480.1	475.2	453	426	399
Change in relation to previous year	11.7%	9.1%	1.0%	4.9%	6%	7%	3%
of which Safety Group (in mn. €)	*444.8*	*399.1*	*364.7*	*352.2*	*333.9*	*309.7*	*287.1*
Change in relation to previous year	11%	9%	4%	5.6%	8%	8%	4%
of which Sports and Leisure Group (in mn. €)	*48.3*	*141.7*	*127.8*	*131.3*	*125.8*	*122.1*	*117.4*
Change in relation to previous year	5%	11%	-3%	4.6%	3%	4%	-2%
Share of Safety Group	75%	76%	76%	74%	74%	73%	72%
Share of Sports and Leisure Group	25%	24%	24%	26%	26%	27%	28%
Share of international sales	54%	46%	47%	46%	47%	48%	47%

Source: Uvex 2022

3. Made in Germany – Sold in the World

"We are convinced advocates of the label 'Made in Germany' with all its implications. For us, 'Made in Germany' is clearly a quality label (…). The most innovative and highest-quality products come from Germany" (Winter, 2008). This philosophy is expressed by the centralization of manufacturing and R&D activities in Fürth where almost one-fourth of the entire workforce is located. Other major locations in Germany are Obernzell (Lower Bavaria), Lederdorn in the Bavarian Forest, and Lüneburg (Lower Saxony).

"A guarantee for our success is our long-standing manufacturing competence. Our own research and development is our highest priority", explains Winter (cited in Schön, 2004). One example is the Variomatic sports glasses which adjust their tint to the respective weather conditions. In order to protect the special coating technology, the production of protective coatings only takes place at the headquarters (Haaß, 2014). Similarly, visors for sports helmets exclusively made from Makrolon, a high-tech polycarbonate from

Bayer AG, are produced in Fürth (Linder, 2011). Potential cost disadvantages are balanced by a highly-standardized manufacturing process.

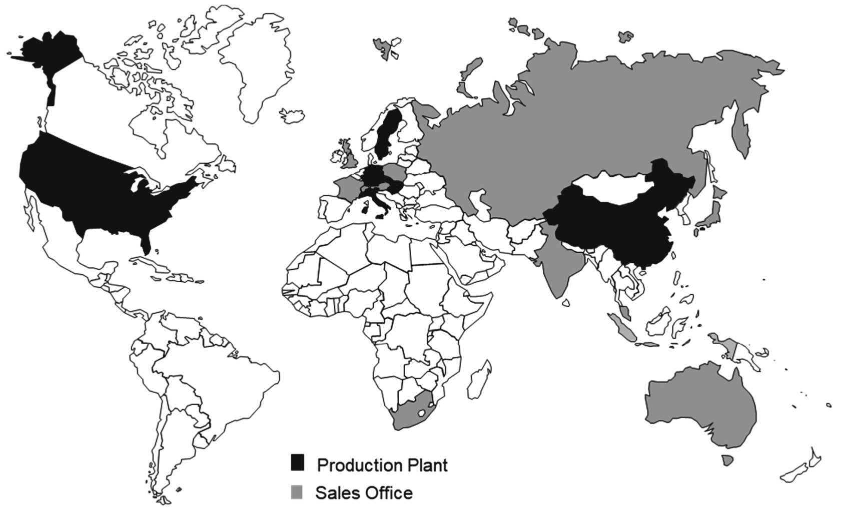
Despite its focus on Germany, Uvex has been faced with a strong pressure to internationalize. Since the fields in which the Uvex brand is present in the sports sector are global with World Championships and Olympic Games as major worldwide events, it became imperative to expand activities to other countries as well. This process began in the 1960s with the founding of Uvex Austria, followed by the establishment of distribution centers in Switzerland, Canada, and the USA in the 1970s. In 1985 began the cooperation with the Japanese Midori, and in 1987, Uvex expanded to Italy through the acquisition of Cagi footwear. In 1988, the UK sales company was founded and Uvex went to Australia, followed by Singapore in 1994. In the late 1990s and 2000s, sales offices in Russia, South Africa, New Zealand, Malaysia, Poland, China, and India were opened. Despite these extensive international activities, the share of international revenues is still only slightly above 50%.

Currently, Uvex has five production sites in Germany. Further plants are located in the Czech Republic, Slovakia, Italy, Sweden, China and the USA (Figure 3).

The first international production site was established in the Czech town of Nýrsko in 2000. With this step, labor-intensive activities were transferred across the Czech border while the entire high-tech sector remained in Germany. Uvex Safety Equipment in Kunshan, China (adjacent to Shanghai Municipality), was established in 2014. Over the next three years, the site was expanded to 50 employees. Its major purpose is to better serve the Chinese and Southeast Asian markets with safety spectacles. In order to protect the company's core technology, only frames for eyeglasses are manufactured here. The coated protective glasses are delivered from Germany (Dowideit, 2013). "Otherwise we would lose our core know-how", says Martin Winter (cited in Tauber, 2015). "We are a world leader in coating technology for protective and sunglasses. We could surely silver this knowledge quickly in China. But that is not our long-term goal".

Recently, the Uvex Sports Group has established its North American headquarters in Massachusetts. According to Sergio Kiehl, President of Uvex Sports, "by establishing a North American headquarters in the United States, Uvex is truly focusing its business approach on the largest market of the world. Having full control of our own brand is a key success factor for the future of the Uvex brand and our business" (cited in Lunan, 2016).

Figure 3. International Presence of the Uvex Group



Source: Compiled from various company sources

4. Differentiated Marketing Strategy

"The secret of our success lies in the fact that we think competently and market-oriented at the same time. With highly differentiated products, we are addressing different customer groups internationally and in different markets, not only adapting to demand, but also actively shaping them with innovations and new sales strategies" (Winter, cited in Schön, 2004).

The sports group operates in several small and highly diversified markets, such as Alpine and Nordic skiing, biathlon, sledging, cycling and equestrian. A key element of the marketing strategy is equipping elite athletes with its products (Table 2). In contrast to major sports, such as football and tennis where global mega-stars like Lionel Messi or Roger Federer attract fans from across the globe (Maderer, Holtbrügge & Woodland, 2016), there are hardly any stars with worldwide popularity in these niche markets. Each country has its own stars and different policies and challenges. For example, Australia is an interesting market for cycling, but with completely different standards that require country-wise development of new products. There are many different product groups which limit internationalization in a standardized way. In Europe alone, the types and shapes of feet differ from country to country. Also in the safety sector, technical norms and requirements are highly fragmented. One exception is protective goggles where the degree of worldwide standardization is high. Here, however, Uvex competes against bigger rivals, such as 3M and Honeywell etc. (Metzger & Hennes, 2009; Haaß, 2014).

Table 2. Prominent athletes equipped by Uvex

Alpine skiing	Nordic skiing	Sledging	Biathlon	Triathlon	Equestrian
Felix Neureuther (G) Hannes Reichelt (A) Eva-Maria Brem (A) Josef Ferstl (G) Max Franz (A) Viktoria Rebensburg (D) Dominik Paris (I) Conny Hütter (A) Victor Muffat-Jeandet (F) Guiliano Razzoli (I) Elisabeth Görgl (A) Thomas Fanara (F) Bernadette Schild (A) Anna Schaffelhuber (A)	Eric Frenzel (G) Bernhard Gruber (A) Jason Lamy Chappuis (F) Lukas Klapfer (A) Jörgen Graabak (N) Severin Freund (G) Kamil Stoch (P) Peter Prevc (SLO) Carina Vogt (G) Anders Fannemel (N) Michael Hayböck (A) Noriaki Kasai (J) Richard Freitag (G) Rune Velta (N)	Felix Loch (G) Natalie Geisenberger (G) Tobias Wendl (G) Tobias Arlt (G)	Célia Aymonier (F)	Andreas Böcherer (G) Laura Philipp (G) Bart Aernouts (B) Caroline Lehrieder (G) Franz Löschke (G) Svenja Thoes (G)	Jörne Sprehe (G) Isabell Werth (G) Ingrid Klimke (G) Tim Rieskamp-Gödeking (G) Jana Wargers (G) Hans Dieter Dreher (G) Victoria Max-Theurer (A) Helen Langehanenberg (G) Kristina Bröring-Sprehe (G)

Source: Compiled from various company sources

In the USA, the world's largest market for safety products, Uvex is faced with the problem of having sold the trademark rights to the French company Bacou in 1997. Thus, the protective goggles sold in the USA under the name of Uvex are not from Fürth, but from the US giant Honeywell, which owns the trademark rights after the takeover of Bacou (http://www.honeywellsafety.com/USA/Brands/Uvex.aspx). This makes it difficult for Uvex in Germany to obtain international contracts for occupational health and safety. "In hindsight, the sale of trademark rights was a mistake" (Winter, cited in Dowideit, 2016).

Since repurchasing the trademark rights would be too expensive, Uvex has recently acquired 45% of HexArmor, a specialist for protective gloves for oil and construction companies based in Michigan. Under the HexArmor brand, Uvex has been selling safety eyewear in the USA since January 2017. Later, hearing and respiratory protection products followed (Uvex, 2016c).

In order to have access to the largest market in the world, Uvex has also reorganized financing. So far, the company has made sure not to have any bank debt. Now the US deal is financed from a syndicated loan. To be visible in the US, "a higher double-digit million amount would have to be invested", says Winter. "Only an office with a few field workers would do nothing" (cited in Steinmann, 2016).

5. Outlook

In 2023, the Uvex Group is represented in 23 countries by 49 subsidiaries, but still chooses to manufacture most of its products in Germany. Two-thirds of the company's workforce of 3,230 is employed in Germany. "Our innovative products and services for the global market are produced in our own plants, many of them in Germany and Europe. The entire value chain is therefore in our own hands – from product idea and development, through manufacturing, to distribution. This not only enables the Uvex Group to be particularly quick and flexible, but also guarantees the high quality standards of its products thanks to its own manufacturing expertise" (Uvex, 2023a).

The medium-term goal is to reduce the strong dependence on the domestic market and to increase the share of international revenues to two-thirds. Michael Winter commented: "We are working on innovations and on conquering new international markets so that, among other things, we are not as dependent on the European winter. We have identified great growth potential in our equestrian and cycling product ranges. These represent our summer mainstays" (Uvex, 2016a).

In addition, Uvex intends to gain new sales partners. Blue Tomato, the largest German-language online shop for snowboarders and freeskiers, for example, offers 150 spectacles from the competitor Anon, but not one from Uvex (Graven, 2011). "We conquer new sports – and thus new fields – wherever you wear glasses or helmets and our logo is widely visible. Thus we have already begun, in some countries of the Commonwealth, such as Australia, to enter the cricket market. Brett Lee, the world's fastest bowler, is already under contract with us today. And the world of riders is still a huge field, which must be tackled (...). Because this global market is an all-year market and can reduce our dependence on the winter sports business and thus the snowfall" (Winter, 2008). Another option is to enter the market for rock-climbing where both helmets and glasses could be used. However, this market is relatively small and very competitive (Tauber, 2015).

Plans for a new plant in Russia were stopped in 2014. And business with the state-owned companies such as Rosneft and Gazprom has completely stopped due to the sanctions. This costs Uvex a third of the Russian sales of 15 mn. € (Tauber, 2015). However, even after the invasion of Ukraine in 2022, Uvex continues to sell protective equipment in Russia and to operate its sales offices in the country.

Despite further internationalization, the key functions of the Uvex Group will remain in Germany. According to Michael Winter, "the global market offers us considerable opportunities. Therefore, regions outside Europe will continue to be at the core of our international growth strategy." However, Germany will remain a very strong innovation center and the export basis. "The 'Made in Germany' production is the basis for further internationalization" (cited in Uvex, 2013).

In order to underline the central role of Germany as its administration, innovation and export hub, Uvex inaugurated a new company headquarters in Fürth in 2010. 4.4 mn. € were invested in the new building which once belonged to Grundig. 640 of the 2,000 Germany employees of all three sub-groups are now working at Würzburger Strasse 154. This allows greater synergies and a stronger team feeling (Anonymous, 2010). In 2002, the building was expanded with new office space for 300 employees. Earlier plans to erect several five-story buildings along Würzburger Straße, however, were rejected (Leberzammer, 2020).

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Dirk Holtbrügge

Customer-driven Internationalization Strategies in Emerging Markets. The Case of Schaeffler

"One of our greatest strengths is our global orientation.
At the same time, we rely on local expertise.
This makes us not only global, but also present worldwide."
Ulrich Hauck, Former CFO Schaeffler AG (cited in Schaeffler 2016, p. 24)

1. Corporate History

1.1 The Beginnings

The Schaeffler Group is a global automotive and industrial supplier. Under the label "Mobility for tomorrow", the company produces high-precision components and systems for engine, transmission, and chassis applications, as well as rolling and plain bearing solutions for a large number of industrial applications.

The history of Schaeffler dates back to 1946, when the two brothers Wilhelm and Georg Schaeffler founded Industrie GmbH in Herzogenaurach (for the following, see Schöllgen, 2021; Schaeffler, 2023b). The Schaeffler Group's headquarters has been located in this Middle Franconian town ever since. Industrie GmbH initially produced wooden items for day-to-day use, including ladders, children's scooters, belt buckles and buttons. Metal products, such as thread-cutting dies, universal joint bearings and needle roller bearings for use as spare parts were soon added. This early period also gave rise to the INA brand – an abbreviation for "Industrie-Nadellager" ("Industrial Needle Roller Bearings").

In 1949, Georg Schaeffler developed the INA needle roller cage, in which the rolling elements are guided parallel to the axis. Compared to the existing needle roller bearings of the time, this new type was significantly lighter, more compact, more reliable and allowed higher speeds. A patent application for the INA needle roller cage was filed in 1950 which soon became an indispensable component for the vehicle manufacturing, mechanical engineering and plant construction industries. By 1953, no new German car was on the road without them.

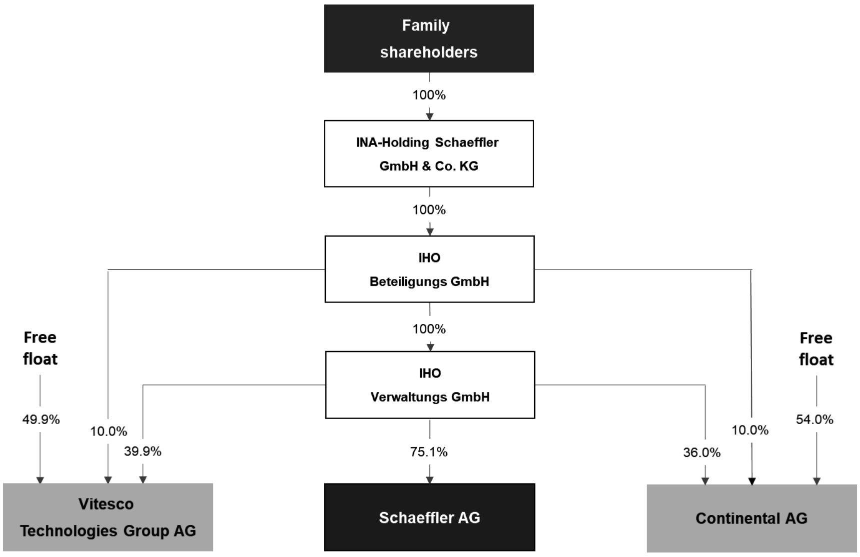
1.2 The Schaeffler Group Forms

In 1964, Schaeffler decided to buy the majority share in Lamellen- und Kupplungsbau August Häussermann and, in 1965, founded LuK Lamellen- und Kupplungsbau GmbH in Bühl. The company became the market's technological leader with a diaphragm spring clutch manufactured for Volkswagen. LuK became part of the Schaeffler Group in 1999 after years of partnership with another company, and today forms the core of the Transmission Systems business division. In 2001, Schaeffler took over FAG Kugelfischer AG & Co. KG in Schweinfurt and significantly expanded its range of rolling bearings. Five years later, FAG Kugelfischer Georg Schäfer KGaA and INA-Schaeffler KG were merged to form Schaeffler KG, a limited partnership that was not subject to public disclosure and co-determination at company level. Since then, the Schaeffler Group has been the world's second-largest rolling bearing manufacturer.

1.3 Recent Developments

Since the death of Georg Schaeffler in 1996, his widow Maria-Elisabeth Schaeffler-Thumann and son Georg F.W. Schaeffler have been the company's sole shareholders and have continued to lead the company together with the management. In 1998, the former ITT Automotive manager Jürgen Geissinger was appointed CEO and led the company for the following 15 years. Under his leadership, an aggressive acquisition strategy was pursued.

Figure 1. Simplified Ownership Structure of the Schaeffler Group (as at December 31, 2022)



Source: Schaeffler 2023a, p. 159.

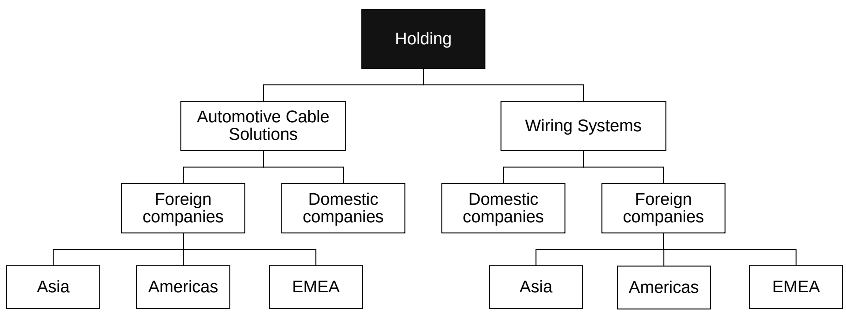
In 2008, Schaeffler KG made a voluntary public takeover bid to the shareholders of Continental AG, a company three times its size (for more details, see Brockhoff, 2009; Sathe & Chaganty, 2009). After a fierce takeover battle, the acquisition was concluded in 2009. Schaeffler paid 75.00 € per share, a premium of 39% over Continental's market value at the time of the bid. In the aftermath of the global financial crisis, the share price fell to a low of 11.40 € in March 2009. The unexpected drastic decline of Continental's market value brought the Schaeffler Group into threatening financial turmoil. Only after accepting to transform Schaeffler KG into a joint-stock company, with full obligation to public disclosure and full right of co-determination, was the acquisition approved by the banks, trade unions and authorities. Today, the Schaeffler Group holds 46% of the voting rights at Continental AG and is the company's largest shareholder.

In 2013, the former Dresdner Bank CFO Klaus Rosenfeld was appointed as the new CEO (Freitag & Maier, 2015). Under his leadership, Schaeffler AG carried out its initial public offering (IPO) in October 2015. The IPO aimed to reduce the high financial debt that had accumulated after the acquisition of Continental AG. The company sold 75 mn. non-voting shares worth a total of 938 mn. €, which was significantly below its initial plan of raising 2.5 bn. €. Currently, 24.9% of the shares are freely traded. Despite the IPO, Schaeffler remains one of the world's largest family-owned companies (Figure 1).

2. Organizational Structure

The Schaeffler Group's organizational structure is based on a three-dimensional matrix with three divisions, five functions and four regions (Figure 2). The business is primarily managed based on the Automotive Technologies, Automotive Aftermarket and Industrial divisions, which also represent the reportable segments. The Automotive Technologies division is further divided into four business sub-divisions: E-Mobility, Engine and Transmission Systems, Bearings and Chassis Systems. The Automotive Aftermarket and Industrial divisions are managed based on the regions Europe, Americas, Greater China, and Asia/Pacific.

Figure 2. Organizational structure



Source: Schaeffler 2023a, p. 2

In addition to the two product-related divisions, the matrix includes five functions: CEO Functions, R&D, Operations, Finance & IT, and Human Resources. Distribution is embedded directly in each of the three business divisions. The third dimension is based on the four regions of Europe, Americas, Greater China and Asia/Pacific, each managed by a Regional CEO.

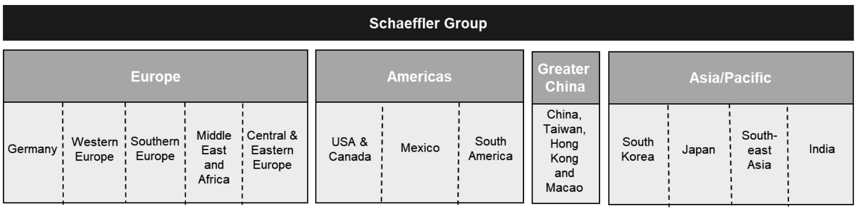
The Europe region combines the sub-regions Germany, Western Europe, Southern Europe, Middle East & Africa as well as Central & Eastern Europe

(Figure 3). This region contributed approximately 41.5% of consolidated revenue and employed 58,871 employees in 2022, representing 69.6% of the company's entire workforce (Table 1). The region has 44 plants and nine R&D centers. Its regional head office is located in Schweinfurt, Germany.

The NAFTA and South American countries make up the Americas region. This region contributed approximately 22.3% of revenue in 2022. A total of 11,657 staff are employed at 13 plants and five R&D centers, as well as at distribution locations in North and South America. The Americas region has its regional head office in Fort Mill, South Carolina, USA.

As China is a strategically important market, China, Taiwan, Hong Kong, and Macao are managed together as a separate region named Greater China. The region generated approximately 22.8% of the group's revenue in 2022. A total of 12,874 staff are employed in 10 plants and two R&D centers. The regional head office is located in Anting in metropolitan Shanghai.

Figure 3. Schaeffler Group regions and sub-regions



Source: Schaeffler 2016a, p. 23

The Asia/Pacific region is comprised of South Korea, Japan, Southeast Asia, and India. Approximately 13.4% of group revenue was generated by this region in 2022. 6,371 employees work in nine plants and four R&D centers. The regional head office is located in Singapore.

Table 1. Geographical structure of employment and revenues as at December 31, 2022

	Employees			Revenues		
	Total	(in %)	(in mn. €)	Change to previous year (in %)	(in % of total revenues)	Degree of localization (in %)
Europe	51,871	62.7	6,559	12.7	41.5	84
Americas	11,657	14.1	3,524	24.9	22.3	54
Greater China	12,874	14.6	3,609	9.6	22.8	63
Asia/Pacific	6,371	7.8	2,117	10.6	13.4	42
Total	**82,773**	**100.0**	**15,809**	**14.1**	**100.0**	

Source: Schaeffler 2023a, p. 21, 27

3. Internationalization Strategy

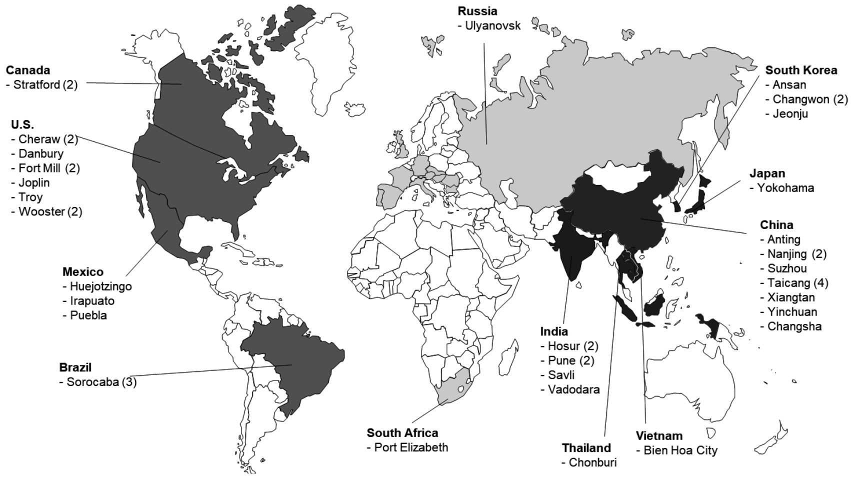
The company's internationalization began in 1951 in the Saarland town of Homburg, which at the time was still part of France's economic region. The first overseas plant in Llanelli, Great Britain, began production in 1957. A year later, Schaeffler followed its main customer Volkswagen to Brazil and established a manufacturing plant in the São Paulo region. The company entered the US market in the mid-1960s via a joint venture with Fafnir Bearing Co. In 1969, Textron, the new owner of Fafnir Bearing was bought out and the joint venture was transferred into a wholly-owned subsidiary. Following the fall of the Iron Curtain in 1989, new locations were also opened up in Eastern Europe and Asia. Today, Schaeffler operates 76 production sites and 20 R&D centers in over 50 countries (Table 2, Figures 4 and 5).

Table 2. Geographic distribution of production plants and R&D centers

	Europe	Americas	Greater China	Asia/Pacific	Total
Plants	44	13	10	9	76
– *Automotive Technologies*	*28*	10	*8*	*6*	*52*
– *Industrial*	*16*	3	2	*3*	*24*
R&D centers	9	5	2	4	20

Source: Schaeffler 2023a, p. 21

Figure 4. Schaeffler Group plants and R&D centers (world)

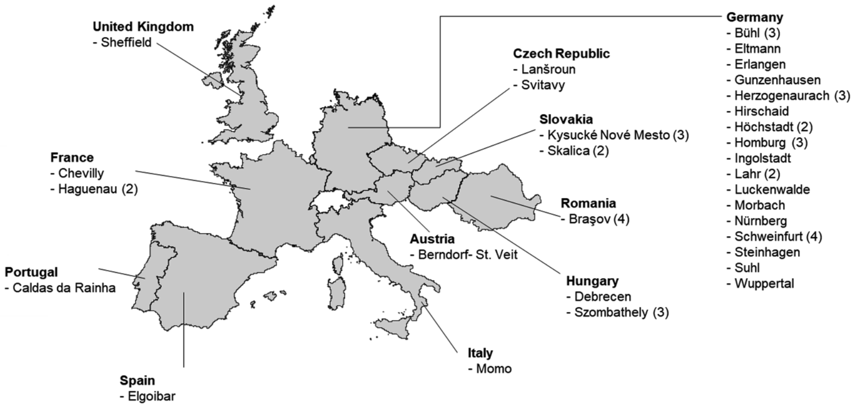


Source: Schaeffler 2023a, p. 42

The main motive for internationalization has been the geographic proximity to key customers. In the 1950s and 1960s, many German automotive firms established production plants in other Western European countries and in Latin America. Later, investments in Eastern Europe and Asia followed. In the course of their own globalization, the carmakers increasingly demanded the building of their suppliers' production capacities within reach of their own plants in order to minimize transportation costs, increase the degree of local value-added and ensure high worldwide quality standards. The globalization at manufacturer level thus directly affected the location decisions of many automotive suppliers, such as Schaeffler (Becker 2006, p. 196).

In the last two decades, this follow-the-leader strategy has been accompanied by efficiency-seeking motives (Schaeffler, 2008). Schaeffler's "in the region – for the region" approach includes the relocation of labor-intensive value activities to countries with lower wage-levels. The increasing degree of localization should also reduce purchasing and logistics costs and allow the company to react flexibly on exchange rate fluctuations. Market-seeking and efficiency-seeking motives of internationalization became particularly evident for Schaeffler's operations in the BRIC-countries and other emerging markets.

Figure 5. Schaeffler Group plants and R&D centers (Europe)



Source: Schaeffler 2023a, p. u4

4. Operation in the BRIC-Countries

4.1 Brazil

INA Schaeffler entered the Brazilian market in 1958 with the establishment of a production plant in Santo Amaro in southern São Paulo (Schaeffler Brasil, 2017). As one of its first international investments, the company followed its major customer Volkswagen, which had established a plant in nearby São Bernardo do Campo five years earlier. In 1956, Mercedes-Benz opened a production plant in the same location. Like most other German automotive suppliers that invested in Brazil in the 1950s and 1960s, such as Bosch, Mahle and ZF, Schaeffler preferred a greenfield investment (Sarfati & da Sillva, 2013). In 1973, Schaeffler moved to a newly established industrial park in Sorocaba around 90 km west of São Paulo.

LuK do Brasil was founded in São Paulo in 1975. In the same year, a manufacturing plant was inaugurated in Sorocaba, in the state of São Paulo. In the 1980s and 1990s, the plant was extended several times. Since 2003, the three brands LuK, INA und FAG are incorporated under Schaeffler Brasil Ltd. (Memmel, 2014).

In 2022, Schaeffler Brazil had revenues of 381.8 mn. $ and employed 1,865 people (Zoominfo, 2023). It manufactures rolling and plain bearings, linear guidance systems and precision engine components. The company is a major supplier of nearly all carmakers in the country. Schaeffler Brazil is a major subsidiary in South America and operates as the Schaeffler Group's hub for this region.

4.2 Russia

Schaeffler has been active in Russia since 1997. In 2006, Schaeffler Russia Pvt. Ltd. was founded with its headquarters in Moscow and offices in St. Petersburg, Novosibirsk, Togliatti, Yekaterinburg, Krasnodar and Kazan. In 2016, the company decided to expand its activities in Russia and moved into a new office in Haus der Deutschen Wirtschaft in Moscow.

Before the first manufacturing facility was inaugurated in Ulyanovsk in 2014, operations in the country had long been limited to the wholesale distribution of industrial machinery and equipment. The plant employs around 300 people and produces clutches, manual transmission components and tapered roller bearings for domestic and overseas automobile manufacturers and the railway industry (Schaeffler, 2016e).

The city of Ulyanovsk has around 700,000 inhabitants and is located 900 kilometers east of Moscow. This region on the Volga is a major industrial center, particularly for automotive manufacturing, mechanical engineering and the aviation sector. It is home to the off-road vehicle, bus, and truck manufacturer UAZ and the Aviastar-SP aircraft manufacturing company that builds the supersize cargo aircraft An-124 Ruslan and the Tupolev Tu-204.

With the establishment of the manufacturing plant in Ulyanovsk, Schaeffler responded to the increasing investment of foreign carmakers in Russia, such as Daimler, Ford and Volkswagen. While Russian automotive companies, such as Lada and Volga, are highly integrated, foreign firms rely on a dense network of specialized suppliers. The size of the country and high transportation costs require the geographic proximity of suppliers to their main customers. The localization is also favored by the depreciation of the Russian ruble and import restrictions in the context of the economic sanctions imposed by the EU and the USA in 2014. Automotive suppliers have therefore increasingly relocated labor-intensive activities to Russia (Bolotin, 2015).

After the Russian invasion of Ukraine in February 2022, Schaeffler decided to halt imports of steel from Russia, which accounted for less than a tenth of the company's total steel needs. The production of clutches in Schaeffler's only Russian plant in Ulyanovsk was continued for the time being. However, the plant in Ulyanovsk is the company's smallest production facility in the world (Magenheim, 2022). In line with Western sanction, Schaeffler suspended deliveries of auto parts to the Russian GAZ Group, one of its main customers in the country. Since the cargo truck GAZ Sadko is used by the Russian army in Ukraine and elsewhere, the European Commission had put the company on its sanctions list.

In December 2022, Schaeffler decided to sell its Russian subsidiaries to PromAvtoConsult for 10 mn. € (Schaeffler 2023a, p. 22). This company is owned by the Austrian entrepreneur Siegfried Wolf, a long-standing member of the Schaeffler Supervisory Board. Wolff is also a long-time business partner of sanctioned Russian oligarch Oleg Deripaska, a main shareholder of the GAZ Group. While Schaeffler confirmed that the transaction is consistent with applicable U.S. and EU sanctions laws, it was unaware of the details of the financing structure of the purchaser. The Ukrainian anti-corruption agency NAZK describes Wolf as a 'proxy' of Deripaska and has launched an investigation into both men (Buschmann, Naber & Wess, 2023).

4.3 India

The Schaeffler Group is active in India with all three brands, four plants, three R&D centers and 14 sales locations (for the following, see Schaeffler India, 2017). FAG India was incorporated in 1962, as Precision Bearings India Limited in collaboration with the US-American Norma Hoffmann Bearings Corporation. In 1964, a manufacturing plant was set up in Vadodara, Gujarat, that produces ball bearings, cylindrical roller bearings and spherical roller bearings. Until 1992, bearings have been marketed under the brand name Norma. In 1986, FAG Germany acquired the stake of Norma Hoffmann and FAG India became a part of the FAG Group. In 1989, the company name changed to FAG Precision Bearings Limited, and in 1999 finally became FAG Bearings India Limited. FAG was the first bearing company in India to introduce advanced hub bearings for passenger cars. Today, it is the passenger car industry's largest supplier in this product range. In 2012, a new manufacturing plant was inaugurated in Savli near Vadodara, around 130 km south of Ahmedabad.

INA Bearings India Private Limited was incorporated in 1998 in Pune, Maharashtra. In 2001, a plant in Pirangut around 20 West of Pune was inaugurated. Six years later, the plant was shifted to Talegaon Dabhade, around 35 km north-west of Pune. It produces steel cages, pulleys, cam rollers, bushes, plastic cages and precision engine components. In 2022, substantial investment in constructing a cutting-edge mechatronics center was made. The purpose of this center is to become a key location in the group's global (R&D) network. In addition to the factory and registered office in Pune, INA India has marketing offices in New Delhi, Bangalore and Kolkata, and sales partners at Mumbai, Chennai, Kolkata and New Delhi.

LuK India entered the Indian market through a joint venture with Rane Brake Linings Ltd. in 1996. In 2001, LuK acquired the remaining share of Rane LuK to become LuK India Pvt. Ltd. The company is located in Hosur, Tamil Nadu, 35 km south-east of Bangalore at the border with the state of Karnataka. In the future, Schaeffler plans to invest 3,000 mn. ₹ (33 mn. €) in Hosur. The facility will manufacture transmission components and systems for both the automotive and tractor industries. In addition, investments to expand capacities for the export business are made (Schaeffler India, 2023a).

The Chairperson of the Board at Schaeffler India is Sumithasri Eranti (Schaeffler India, 2023b). She has over 25 years of experience in business leadership, technology, consulting and financial services industry, and possesses multi-cultural experience of living and working in 11 countries including Germany, India, USA, UK and The Netherlands. In 2023, she took over as the Chairperson from Mr. Avinash Gandhi who retired after leading the company for over 20 years. The Managing Director & CEO is Harsha Kadam. He studied Mechanical Engineering at Bangalore University and later acquired further qualification in business management, specializing in marketing, finance & HR (Schaeffler India, 2023c).

In 2022, Schaeffler India had revenues of 68,674 mn. ₹ (755 mn. €) and employed 2,922 people. Between 2018 and 2022, revenue had grown at a compound annual growth rate (CAGR) of 25% and profits at 26% (Schaeffler India, 2023a). In the future, the company is particularly eying business from projects in the context of the Indian Government's 'Make in India' initiative which emphasizes sustainability, infrastructure development, digitalization, and promotion of self-reliance. While the focus is on the Indian market, the country is also increasingly integrated into the Group's global operations (Rosenfeld, 2015). The plant in Vadodara was awarded the Schaeffler Technology Center (STC) certificate in 2015 and is now a part of the corporate Global Technology Network (Schaeffler, 2016a). In 2022, substantial investment went into a cutting-edge mechatronics center in Pune which is expected to become a key location for the group's global R&D activities. Schaeffler also plans to make India the manufacturing hub of specific product lines by shifting production from the company's European plants (Schaeffler India, 2023a).

One challenge Schaeffler faces in order to achieve this goal is its less than favorable employer image. While Schaeffler is valued for job security, stress-free work and extensive training programs, employees also report average salaries and poor HR policies (Glassdoor, 2023). Moreover, the low brand recognition may impede further expansion strategies in the company's locations in Pune, Vadadora and Hosur, where an increasing number of domestic and foreign carmakers and automotive suppliers compete for qualified staff.

4.4 China

Schaeffler's operations in China began with the establishment of its first location in Taicang in 1995. Taicang is located around 50 km north-west of Shanghai and hosts more than 180 German medium-sized companies, such as C.D. Wälzholz, Hugo Kern und Liebers, Krones, Lindner, Trumpf, and Zollner in the German Industrial Park (Trentmann, 2013). After several extensions, Taicang is not only Schaeffler's largest production location in the Greater China region, but also the largest worldwide with more than 6,000 production staff in three plants. With around 260 specialists, it is also the second largest out of 16 locations concerned with the design and construction of special machines.

Schaeffler's plant in Nanjing opened in 2014. The location was planned as an extension and for combining individual product groups of the Taicang plant. In 2016, it was extended with a new manufacturing hall and central logistics warehouse. Around 1,000 employees manufacture camshaft phasing units, hydraulic tappets, chains, tensioners and other engine components on a total area of 46,000 m^2. After the extension, the plant became a cross-divisional manufacturing site for both the automotive and industrial segment (Schaeffler, 2016d).

In 2006, Schaeffler attempted to acquire Luoyang Bearing Corp., the largest state-owned bearing manufacturer in China. It is headquartered in Luoyang, Henan Province, and classified as one of 520 national key enterprises by the State Council. After the company accumulated heavy financial losses, Schaeffler and the Luoyang Municipal State Assets Committee signed a framework agreement for the complete acquisition of the company. Except for a military factory and two sub-factories, all assets, such as estate property, equipment, land assets and some debts, were acquired by Schaeffler at the price of 1.1 bn. RMB (140 mn. €). However, the Chinese Industry Association opposed the acquisition plan since it feared that this would affect China's competitiveness in this industry and compromise national security. Therefore, the Ministry of Commerce and the State Asset Supervision and Administration Commission refused their permit and Luoyang Bearing Corp. remained state-owned (Tetz, 2006; China Machinery Industry Federation, 2007).

In addition to its production sites, Schaeffler also has a fully equipped R&D center in the motor city Anting near Shanghai. With a floor space of 21,000 m^2, it offers state-of-the-art equipment, software and infrastructure for diagnosis and test activities. As a certified Schaeffler technology center, this R&D facility is part of the Schaeffler Global Technology Network. In terms of engineering skills and systems expertise, Schaeffler engineers in Anting are trained to develop both local and global solutions. The Schaeffler Technology Center in Anting is also a hub for electric mobility. Around 40 dedicated engineers are involved in research, development and testing of new products in this area (Anonymous, 2013).

Currently, Schaeffler Greater China has approximately 13,000 employees, two R&D centers, 13 plants and 20 sales offices nationwide. Since 2016, the company has been certified as a 'China Top Employer' for the eight consecutive year (Schaeffler Greater China, 2023). Schaeffler collaborates with various Chinese universities in the fields of R&D and college recruiting. The partnership with Tongji University in Shanghai began in 2006 with the establishment of a Schaeffler Endowed Chair for Automotive Engineering. The focus of research is on China-specific technologies and product adaptations. In 2016, Schaeffler signed a cooperation agreement with Chinese Southwest Jiaotong University to establish a joint research laboratory. The research institution is located in the National Key Laboratory for Traction Drives and dedicated to the R&D of axle-box bearings for rail vehicles (Schaeffler, 2016c).

A main challenge for Schaeffler in China is counterfeit products. In 2016, Chinese authorities raided more than 300,000 counterfeit parts and destroyed them in a public display of incineration. The company estimates that it incurs a loss of about 1% of total sales as a result of product and brand pirates. Counterfeits are often made of low-quality material with a high lead content, which can be hazardous to health. Moreover, they may cause damage to Schaeffler's image (Terpitz, 2016). In order to cope with fake products, a Global Brand Protection Team was put together in 2004 (Schaeffler Technologies GmbH & Co. KG, 2014).

5. Evaluation and Outlook

After a significant slump in performance during the COVID-19 pandemic, Schaeffler has again recorded revenue growth in the last two years (Table 3). EBIT and net income, however, decreased in 2022 by 20% and 26% respectively. Between 2018 and 2022, the number of employees shrank by 10.5 % to 82,773.

Table 3. Key Financial Indicators

	2018	2019	2020	2021	2022
Revenue (in mn. €)	14,241	14,427	12,589	13,852	15,809
EBIT (in mn. €)	1,354	790	-149	1,220	975
EBIT in % of revenue	9.5	5.8	-1.2	8.8	6.2
Net income (in mn. €)	881	428	-428	756	557
Total assets (in mn. €)	12,362	12,870	13,509	14,364	14,284
Net financial debt (in mn. €)	2,547	2,526	2,312	1,954	2,235
EBITDA	2,175	1,769	1,111	2,186	1,963
ROCE (in %)	16.4	9.0	-1.9	14.9	11.1
Employees (as of 31.12.)	92,478	87,748	83,297	82,981	82,773

Source: Schaeffler 2023a, p. 172

Schaeffler's financial performance is heavily dependent on its Automotive Technologies division which contributed around 60% to total revenues in 2022. Although growth of the Industrial division (19.7%) is significantly higher than of the Automotive Technologies division (12.6%), its share is only 27.0%. This dependency was less problematic when the automotive industry was growing at high pace. However, the economic slowdown of this core industry poses a major threat. Established German carmakers – the company's main customers – are under pressure from new market entrants like Tesla, BYD and Nio (Dau et al., 2022). In addition, the trend from combustion engine cars to electric vehicles is having a negative impact on sales prospects, as the latter consist of considerably fewer moving parts and hence require fewer products from automotive suppliers like Schaeffler (Berg & Holtbrügge, 2024). In order to strengthen its competencies as an electric vehicle supplier, Schaeffler acquired Vitesco Technologies, an automotive supplier for drivetrain and powertrain technologies headquartered in Regensburg, in October 2023. The aim is to create a leading motion technology company with four focused divisions and to tap the significant growth potential in the area of e-mobility (Schaeffler, 2023c).

Moreover, the global economic and geopolitical environment in which Schaeffler operates has become more turbulent, volatile and risky. Schaeffler's operations are very energy-intensive. Therefore, rising energy prices lead to significant cost increases and thus reduced competitiveness. Growing protectionism in trade policy and changes in the regulatory environment also affect the company's global R&D, sourcing, manufacturing and sales activities. In particular, deteriorating political relations with China could prompt Schaeffler to reconsider its activities and reduce its dependence on this large market. According to Schaeffler CEO Rosenfeld, however, the answer to the discussion about too much dependence on China is not withdrawal from the country, "but more growth in the USA. We will invest more there." The U.S. government's Inflation Reduction Act will "definitely be used" not only in the automotive but also in the industrial sector. "We will not relocate the existing production to the USA, but we will rather build the next plants in America. There is a risk that Europe will lose out in this redistribution" (cited in Zwick, 2023).

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Dirk Holtbrügge

Doing Business in Turbulent Environments. The Case of Knauf in Russia

"We are regarded as a Russian company with German ownership."
Nikolaus Knauf

1. German Companies in Russia

With the liberalization of the Russian economy in the late 1980s, the country gradually opened up to foreign direct investment (FDI). While initially only joint ventures with minority ownership were allowed, the inflow of FDI significantly increased after the permission for establishing wholly-owned foreign subsidiaries and acquisitions of local companies was granted (Holtbrügge, 1996).

Despite the unstable economic conditions and problematic political relations, German companies have always been very active in the country. Among the largest German investors is the construction materials producer Knauf headquartered in the Nürnberg Metropolitan Region. Decisive for Knauf's success in Russia are a country-wide presence, a systematic stakeholder management, and a unique human resource management approach that adapts Western approaches to the local conditions.

2. Company Background

The history of Knauf dates back to 1932 when the two brothers and mining engineers Alfons and Karl Knauf established their first gypsum factory in Perl, Moselle (for the following, see Rödiger, Schumacher & Demel, 2003; Knauf, 2023). This factory is still the nucleus of production technology for the worldwide operations of the Knauf Group. In 1949, the company was relocated from Perl to Iphofen in northern Bavaria where the Group headquarters has operated until today.

For many years, Knauf specialized in the manufacturing of gypsum products, but in the 1980s, after various acquisitions, the company diversified its product portfolio to include insulating materials (glass wool and stone wool), cement, metal construction, and home repair products. However, deposits of gypsum remain the company's principal resource. This makes Knauf one of the six largest manufacturers of gypsum in the world, along with Georgia Pacific, Siniat, National Gypsum, Saint-Gobain, and Yoshino Gypsum.

The internationalization of Knauf began in the 1970s when the first foreign plant was established in Weissenbach, Austria. In 1978, Knauf laid the cornerstone for its insulation materials division by taking over a production facility for glass wool insulation material in Shelbyville, USA. Later, Knauf entered markets in Northern Europe, Eastern Europe, Asia, and Northern Africa. Considerable attention was given to insulation materials, plastic products, and packaging materials, and in the Eastern European countries and the former Soviet Union, to gypsum-based dry construction blends.

Today, the Knauf Group is one of the world's leading manufacturers of insulation materials, drywall construction systems, plasters and accessories, thermal insulation composite systems, paints, liquid screed, floor systems as well as construction machines and tools. It is divided into the three divisions Knauf, Knauf Insulation, and Knauf Ceiling Solutions. It is present in more than 90 countries with around 80 raw materials processing plants and over 300 manufacturing plants on all continents. In 2022, the Knauf Group employed around 41,500 people in more than 90 countries and generated sales of 15.4 bn. € (Table 1).

Table 1. Knauf at a Glance

	2014	2022
Number of Employees	26,500	41,500
Sales	6.4 bn. €	15.4 bn. €
Sites	220 plants in 85 countries (thereof 12 CIS countries)	Around 80 raw materials processing plants and over 300 manufacturing plants in more than 90 countries
Founded	1932	
Ownership	Family-owned (business partnership under German company law)	
Products	Insulation materials, drywall construction systems, plasters and accessories, thermal insulation composite systems, paints, liquid screed, floor systems, construction machines and tools	

Source: Knauf, 2023

The Group is coordinated by Gebr. Knauf Verwaltungsgesellschaft KG. As a business partnership, KG has no obligation to public disclosure under German company law. It has general partners with unlimited liability and limited partners whose liability is restricted to fixed contributions. The company is managed by the three personally liable managing partners Alexander Knauf (the grandson of the company founder Alfons Knauf), Jörg Kampmeyer, and Dr. Uwe Knotzer. The Shareholders' Committee acts as the supervisory body, and it is chaired in alternate years by Nikolaus and Baldwin Knauf, two sons of the founder who had managed the company since the beginning of the 1980s. With an estimated net wealth of 10.5 bn. €, the Knauf family belongs to the 20 wealthiest families in Germany in 2022 (Neßhöver & Bornefeld, 2022). According to the former Managing Partner Manfred Grundke, this structure, which is characteristic of several family-owned companies in Germany, has several advantages: "Knauf has sufficient financial resources. It belongs to the family, and we do not need to take any special measures to please the stock exchange brokers, analysts, bankers, or other structures. We are taking measures that help the family and company to run the business in the long term. We have a long-term strategy, and we do not fixate ourselves on the quarterly reviews, published in newspapers" (cited in Proskurina, 2012).

3. Knauf in Russia and the CIS

Knauf first appeared in Russia in the late 1970s when the company opened a representative office in Moscow that provided technical services to industrial ministries and individual factories. It was also responsible for the import of gypsum production equipment. Moreover, a scientific and technical exchange with Soviet universities had been established.

In 1992, Knauf started a major expansion into Russia and other countries of the Commonwealth of Independent States (CIS) by acquiring local construction material companies and developing its own sources of raw materials. Knauf favored acquisitions over greenfield sites, which would entail erection of a stand-alone factory on vacant land requiring installation of supporting infrastructure, such as electricity supply, sewage systems and driveways. According to Dr. Gerd Lenga, General Manager of Knauf CIS from 2006 to 2012, this establishment mode is particularly suitable in Russia: "As a lawyer who has worked in Russia for more than 20 years, I prefer brownfield investments. No matter what are the conditions of infrastructure, but it should exist. If you have to pull some pipes or to install electricity lines, you will never be capable of calculating how much it will cost" (cited in Zhegulev, 2010).

Within ten years to 2003, Knauf acquired 14 shareholdings in Russia, two in Ukraine, two in Moldova and one in Kazakhstan. Around 7,500 people were employed in these companies. Until 2005, Knauf invested around 500 mn. € in Russia which made the company to rank second after Siemens among German companies in terms of FDI volume in the country (Panibratov, 2016). At the beginning of 2022, the investments had reached 1.65 bn. €. Knauf employes 3,900 people in 20 factories, six sales organizations, six training centers and 29 resource centers in the secondary vocational education system as part of the corporate academy (Kotov, 2022). In contrast to many other foreign companies, Knauf not only concentrates on Moscow and St. Petersburg, but is active in many Russian regions and thus makes an important contribution to the regional development of the Russian economy (Gontar & Sapozhnikova, 2020). At present, there are 10 production sites in Bajkal, Baskunchak, Chelyabinsk, Dzerzhinsk, Kolpino, Krasnogorsk, Kuban, Kungur, Novomoskovsk, and Petrobord (Figure 1).

The inherent features of Knauf's main product – complex systems of dry construction (gypsum boards, metal structures, and dry gypsum-based compounds) – limit the number of suitable locations. The plants must be in proximity of raw material sources (gypsum) and require sufficient space for production activities as well as the storage of raw materials and finished products. Further, the locations must provide reliable transport connections that are capable of handling large volumes of raw materials and final products, and have adequate electricity and gas supplies. A reliable supply of building paper is also required for the production of gypsum boards. Additionally, the effective leverage of the supply of gypsum boards should not exceed several hundred kilometers. The output is voluminous but light, and its long-haul transportation is costly (Gurkov & Filippov, 2013).

Since most of the acquired Russian companies still operated with equipment installed in Soviet times, they were gradually modernized and restructured. One example for the comprehensive production site development is Knauf Krasnogorsk – the first Russian factory which was acquired by Knauf in 1994 which became the head factory of the group. After the acquisition, more than 20 large investment projects with a total volume of 200 mn. € were completed. These include the removal of outdated production shops and installation of new production lines, construction of storage facilities, repeated modernization of the recently installed production lines to increase the level of automation and overall productivity, and complex reconstruction of the energy supply (Gurkov & Kossov, 2014).

Figure 1. Production sites of Knauf in Russia (2022)

While the modernization of acquired plants greatly enhanced internal efficiency, the company's production volume was significantly affected by the 2008 economic crisis. According to the former General Manager Gerd Lenga, Knauf's sales in the CIS dropped by approximately 30% in 2009 (cited in Medvedovskaya, 2010), and development plans, including overhaul and reconstruction, were disrupted. The focus shifted to the rationalization of logistics systems (a reduction in the length of raw material shipments and finished products because of production concentration in the most efficient locations and the rebalancing of the production program) in addition to improving production energy efficiency. These measures allowed Knauf to reach the pre-crisis sales level of around 1.0 bn. € in 2012 again (Kraulis, 2014).

Since 2012, Knauf CIS has undergone significant changes in its senior management. Hans-Peter Ingenillem, former Managing Partner and beneficiary of Knauf group, took over from Gerd Lenga who moved to the position of Deputy General Manager of Knauf CIS Strategic Development. A new position, Manager of Knauf CIS was introduced with the appointment of Janis Kraulis, who previously occupied the position of Head of Knauf group companies in the Baltic countries and the Balkan region. The marketing manager was also replaced. Manfred Grundke, managing partner and beneficiary of Knauf Group, remained a part-time Managing Partner of Knauf CIS until his retirement in 2021. These measures indicate a significant increase in centralization while reducing the size of managerial staff and terminating certain projects that are unsustainable in the long term. Despite stepping down as managing partner, Nikolaus Knauf remains active in Russia and the CIS. He is present at inaugurations of new Knauf facilities and engaged in talks with officials. Several governmental awards reflect his merits for successes in business in the country (Gurkov & Kossov, 2014). He was also Honorary Consul of Russia in Nürnberg for 23 years until his resignation in 2022 (von Zumbusch, 2022).

4. Human Resource Management

After the acquisitions of local companies, a human resource management (HRM) system was implemented that combines Western approaches with Russian requirements. In order to seamlessly integrate the Russian subsidiaries into the Knauf Group, German experts are regularly delegated to all newly acquired enterprises. A financial controller ensures that planning and reporting correspond with corporate-wide standards. A shift manager is responsible for implementing production efficiency and quality standards, while an engineer coordinates the plants' first modernization projects. However, within a short period of time, the number of foreign experts is reduced and local managers are put into place. Knauf's new plants in

Kolpino, Kungur and Bajkal were actually led by Russian managers from the very beginning.

A unique feature of the company's HRM is the ongoing employment of existing local staff. When Knauf acquired new plants, all senior managers retained their positions. The general managers in Chelyabinsk and Baskunchak are still in place today. At a ceremony devoted to the 30th anniversary of the establishment of the Leningrad cardboard and printing plant in September 2012 it was proudly noted that 117 employees who had participated in the launch of the plant operations 30 years ago continued to work at the enterprise (Gurkov & Kossov, 2014).

One reason for the low attrition rate is financial incentives. Salary levels offered by the company are generally slightly above the industry average, with emphasis on base pay rather than on bonuses. Knauf employees report comfortable and friendly relations among staff members, a high level of internal transparency and low psychological distance between management and staff. Moreover, clear rules of conduct and systematic professional and career development programs are appreciated. This includes, for example, a continuous improvement scheme which proposes cash awards of up to 25,000 € for significant and effective improvements (Gurkov & Kossov, 2014).

Another important element of Knauf's HRM is attracting graduates from technical and vocational schools that lack prior work experience – a rare practice in Russian business (Gurkov & Settles, 2013). The core staff at several newly launched plants comprises of young people who joined the company after graduating from colleges at the age of 18 or 19. Their development is supported by mentoring programs and company-owned training centers.

The first company-owned training center was opened at the Russian headquarters in Krasnogorsk in 1995. Meanwhile, Knauf has established its own corporate academy with eight training centers throughout the country (Figure 2). The academy offers training for staff, sales managers, construction workers, engineers, students, technical, and vocational students. Teachers and lecturers at regional vocational schools and universities are trained in special courses (Knauf, 2016).

Furthermore, Knauf has developed more than 20 resource centers in Russia. These are selected public vocational schools, colleges and technical schools equipped by Knauf with new training rooms, materials, educational videos and reference books. In addition, Knauf sponsors consultation centers at seven Russian higher education institutions (Safin & Korchagin, 2015). These institutes use the Knauf training programs and graduates receive a supplementary Knauf Certificate in addition to their state certificates.

Figure 2. Knauf Training Centers

Source: http://www.knauf.ru/academy/training-courses/russia/#

Since 1995, more than 40,000 construction specialists have used the training, resource and construction centers (Gorzka & Piotrowski, 2016).

In addition to Knauf's own training programs, the company has prepared a number of manuals that are included in the federal set of textbooks for teaching in primary and secondary professional education. Since 2016, Knauf regularly sponsors national and regional professional skills competitions for students in secondary vocational educational institutions. Based on Knauf's recommendations, the federal standard "Master of Dry Construction" was developed and included in the list of specialties of professional education.

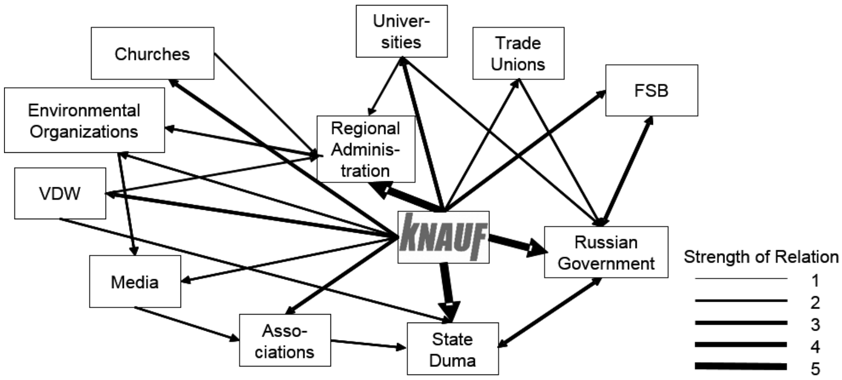
5. Public Affairs Management

A key success factor of Knauf in Russia has been its close relationships with local authorities. These were particularly relevant in the 1990s when the political, legal and economic environment in the country was very turbulent (Holtbrügge & Berg, 2001). "It is true, that in the beginning some bureaucratic hurdles had to be taken into account, and in some cases Knauf was also forced to enforce its claims and rights by legal action", remembers Nikolaus Knauf. "That this was successful demonstrates on the one hand that perseverance pays off and on the other hand that in the supposed lawless country of Russia even a foreign investor is able to enforce its rights" (Knauf 2004, p. 54). Another Knauf manager adds: "Principally, we always tried and continue trying (…) to solve every problem observing the law (…). We have already conducted several lawsuits in Russia. That is always a very complicated and also a very expensive affair" (cited in Holtbrügge & Puck, 2009, p. 378).

Knauf uses different ways to manage relations with relevant stakeholders (Figure 3). For instance, applications at the Duma are filed via the Association of German Companies and the Association of European Businesses. Close relations also exist with the Russian Chamber of Commerce and Industry and other industry associations. Besides these indirect relations, Knauf also has direct access to the Duma via personal contacts to some members of parliament. For example, the company regularly organizes round tables in order to improve the trademark protection legislation. At these opportunities, further direct contacts to the presidential administration, the government as well as to large Russian companies are established.

The governors and representatives of the regional and local administration also play an important role for the company owning factories across the country. Knauf's relation to the governors is described by a company official as follows: "In many regions they want to exert more influence on our factories, but we have very good connections to the respective governors and a good cooperation, and in the meantime the governors of the different regions where our factories are located know how far we go and where are our limits. Today the governors' interest is rather limited on the amount of taxes we pay. They always want more taxes, therefore they are glad when we tell them, yes, we want to invest here so and so much (…). We need the governors for the solution of certain regional problems (…). Therefore we are interested in a good relationship." Knauf's relations to the governors are personal and cultivated regularly: "We know them all and they know us. We meet the governors of all regions at least once a year (…). In some cases we

Figure 3. Stakeholder Network of Knauf in Russia



Source: Holtbrügge & Puck (2009, p 379)

also have invited them to come to Germany" (cited in Holtbrügge & Puck, 2009, pp. 378).

Due to the size of the country, Knauf perceives large regional differences in institutional conditions and relationships with regional and local government representatives. While some regions are characterized by underdeveloped supporting infrastructure and high levels of corruption, there are also "enclaves of good institutional environment" (Gurkov et al., 2021, p. 147). As former Managing Director of Knauf CIS Gerd Lenga recalled (cited in Zhegulev, 2010): "I once read in a newspaper that a major Russian businessman managed to get money from an investment fund. I thought, let's try it too. Our initiative was supported by the administration of the Tula region, where we have a giant plant. We developed the project together and received the money. All permits were issued to us within two weeks. We created an industrial cluster there, where all investors pledged to invest a certain amount, and the state – to provide infrastructure: a railway, a railway bridge, roads. And it all works. We also have other experiences. We managed to build a second plant in the Moscow region only the third time. The administration of one of the cities also gave us many promises. And at the very first negotiations, in the presence of regional and city officials, some people were introduced to us. I asked: 'Who is this?' I was told that this is a private firm that will help us solve problems. I asked what kind, while we seem to have no problems there. Of course, we refused to invest in this city: if we are immediately offered a company that will eliminate some problems, then it turns out that it will create them itself. The same story was repeated in another city. In the end, we built a plant in Stupino. The administration did nothing of the sort."

Another important socio-political interest group is the Federal Security Service (FSB), guaranteeing the economic security of the company as well as the personal security of the staff. The good cooperation with the FSB is characterized by "a very close relationship in all regions (…). Otherwise we could not work so safely. It is true that the FSB guarantees a certain degree of security." There is also a cooperation with the FSB in the field of product counterfeiting. The dry mixtures produced by Knauf are copied very often by other companies, but the Russian courts do not have much experience in the field of trademark and intellectual property rights protection and the existing laws are often considered to be insufficient. "We receive much information when a counterfeit product appears on the market and what we can do about it" (cited in Holtbrügge & Puck, 2009, p. 379).

Like most other German companies in Russia Knauf has close contacts to the German embassy: "There are many informative meetings organized by and with the embassy. The embassy helped us solve several problems in the 1990s, but no longer in the last (..) years. Nowadays the German embassy has quite different tasks, especially in the range of politics. If you have a problem, e.g. regarding the immigration law or a visa, the embassy is a great help, of course. If a governor needs a flight to Germany in the short-term, he will call and tell us that he needs a visa. Those things happen, and then you have to help the governor" (cited in Holtbrügge & Puck, 2009, pp. 379).

Knauf also maintains close relations with Russian trade unions. In all their subsidiaries the company encourages worker collectives and trade union representatives. "This normally works very well. We have never had problems with the trade unions, because we offer much more social benefits to our employees than many other local firms (…). We spend 2 mn. € alone for collective agreements, (…) continued pay for sick employees, further education as well as interest-free credits for employees who live in bad housing conditions" (cited in Holtbrügge & Puck, 2009, p. 380).

Knauf is also involved in the social and cultural environment of its subsidiaries. Every factory and every general manager has a special fund at their disposal to support every year certain projects in his region. With this social commitment Knauf intends to demonstrate its corporate social responsibility and to communicate it to the public (Hamm, 2003). As a Knauf manager stated: "Of course, that has also a little end in itself. We do not do this because we are such good souls, no. Everything that has to do with money has a certain purpose. Our aim is to preserve and to improve the corporate identity we have (…). You can earn very much money with the corporate identity and philosophy" (cited in Holtbrügge & Puck (2009, p. 380).

This means that Knauf's numerous social projects not only contribute to a good corporate identity in Russia, but also help establish contacts to important interest groups. For example, the renovation or construction of churches brings the company in touch with religious communities that have considerable influence in the Russian economy. Similarly, contacts with Russian universities and technical colleges offering engineering courses do not only aim at introducing Knauf to engineering specialists (Hamm 2003). These relations are also helpful for Knauf's lobbying activities, since renowned Russian universities often have access to government circles. Among others, Knauf is a member of the Board of Trustees of the Moscow State University of Civil Engineering, thus having been able to establish personal contacts with the mayor of Moscow.

Knauf's gypsum quarries needed for the extraction of raw materials cause an impairment of nature provoking the reaction of environmental organizations that started a discussion in the press whether one of Knauf's gypsum extraction projects would endanger one of the world's largest salt lakes in Baskunchak. A member of an environmental organization stated in this context: "The number of Greens is constantly increasing in Russia, too, they write about some projects in the newspaper so that these are discussed in public. But in the end they cannot stop the course of events (…). Knauf is well-known not only for extracting gypsum, but also for recultivating nature" (cited in Holtbrügge & Puck, 2009, p. 381).

The positive image of Knauf in Russia is also supported by extensive public relations and openness to the media. "We are getting much more positive than negative press (…). The decisive people in the ministry and also in the regions (…) know very well that it is actually to Knauf's merit that there exists a functioning gypsum industry in Russia (…). We realize that the media support us a lot" (cited in Holtbrügge & Puck, 2009, p. 381).

Generally, the establishment of a dense network with several stakeholders and the systematic stakeholder management has helped Knauf to reduce its investment risks in Russia considerably. "It worked out well that we invested in such insecure times as 1993. Today we are the leading building material producer in Russia and have a good reputation and a good lobby, what was not the case at the beginning of the nineties when we started. Of course, we still have problems today, but not of such a kind as in the 1990s. It was very dramatic at that time. Many times we wanted to give up doing business in Russia, but we stayed the course. And today we are glad about it" (cited in Holtbrügge & Puck, 2009, pp. 381).

6. Reaction to the Russian Invasion of Ukraine

In 2018, Knauf celebrated the 25th anniversary of its investment activities in Russia with a ceremony in Moscow's Bolshoi Theater (Ritzer, 2022). Russia contributes approximately 10% to Knauf's global sales. Due to its long presence and high degree of localization, Knauf is highly regarded as a "Russian company with German ownership" (Nikolaus Knauf) and received several awards for its products and management practices.

Since the Russian occupation of Crimea in 2014, however, the company has been affected by the EU's economic sanctions and the devaluation of the Russian ruble. "Because the ruble is falling in value, we have to pay higher prices for materials from euro countries for manufacturing in Russia. So we are about to regionalize the sourcing of materials – to buy more primary products in Russia. For example, we have been shipping our plaster from Western Europe. Now we are looking for Russian producers for that. We had also planned to replace the energy source at our St. Petersburg plant with a turbine from Siemens. But that has become 40% more expensive because the Euro has risen so much against the Ruble. So we will not purchase a German turbine, but rather one from Russia (…). We do not intend to reduce our engagement (…). We are adjusting our cost situation – like other market participants. (For example), we had been reducing the number of employees (from 7,000 to about 4,000) in past years. This process is being speeded up by the crisis. We are growing as before, calculated in rubles. But converted to euros, sales have dropped. Losses are in the hundreds of millions" (Grundke, 2015).

Despite these challenges, Knauf's operations in Russia remained very profitable with a return on sales twice as high as the Group average (Rohrbeck & Thumann, 2015). The close ties to the Kremlin, which Nikolaus Knauf built not least in several meetings with President Vladimir Putin, may have been helpful (Ritzer, 2022). "Regardless of whether the government is good or not – Knauf is here to stay", said Nikolaus Knauf's nephew Alexander Knauf (cited in von Zumbusch, 2022).

Even after the Russian invasion of Ukraine in 2022, Knauf decided to halt its investment in the country and suspend trade between Russia and the European Union, but continues its activities in the country. According to Alexander Knauf, one of the main reasons for remaining in Russia is concern over employee safety: "It's not about money for us, it's about 4,000 employees (…). I know some of them for 30 years. Loyalty to these people means to me that I won't send them off into an uncertain future" (cited in Schwarzer, 2022).

With this controversial decision, Knauf is now faced with the question of how business and morals can be reconciled. For example, B4Ukraine (2023), a global coalition of civil society organizations, stated that Knauf has reportedly increased its revenue in Russia from 1.15 bn. $ in 2021 to 1.24 bn. $ in 2022 "in a time when many multinational corporations are curtailing their operations in the country so as not to contribute to the aggressor's economy." Additionally, a report by the German weekly Spiegel called Knauf one of "Putin's zealous helpers", noting that the company's subsidiary in Krasnogorsk was actively supporting the warfare by organizing the conscription of employees for military service for the Russian side on its own initiative (Bidder, Diehl & Höfner, 2022). Knauf decisively rejected the accusation, stating that "the Russian Knauf enterprise in Krasnogorsk received a letter at the end of September which contained the summoning of ten employees to a rotational military exercise for reservists which takes place every three years. Thus, this was not about the general partial mobilization in Russia. The names of the employees were provided to the company by the relevant authority. (…). Knauf is required by local law to pass on the information to employees (…). All of these commitments are based on local law, and local employees face serious penalties if they do not comply" (Knauf, 2022).

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Dirk Holtbrügge

Internationalization and Corporate Restructuring. The Case of Pfleiderer

"We are now concentrating on (...) geographic growth in Poland, Eastern and South-Eastern Europe (...) to drive our premium strategy forward."
Former CEO Michael Wolf

1. Background

The wood-processing company Pfleiderer has gone through turbulent times. Grown from a small family-owned firm in Neumarkt in the Oberpfalz, to one of the leading companies in the industry, it was strongly affected by the global economic crisis in 2008 and nearly went bankrupt. After a complete and a successful corporate restructuring that included the divestment of all foreign subsidiaries in North America and Russia, it is now headquartered in Poland and back on a growth trajectory.

2. Milestones of Corporate History

The history of the company dates back to 1894 when Gustav Adolf Pfleiderer founded the G. A. Pfleiderer Corp. in Heilbronn on the Neckar (for the following, see Pfleiderer, 2023a). After his death in 1896 at the age of 51, his 18-year-old son Adolf Pfleiderer took over the management. Together with his younger brother Paul-Otto, he headed Pfleiderer for more than fifty years. In 1949, the brothers handed over the management to Herbert Pfleiderer, the son of Paul-Otto Pfleiderer.

The focus of Pfleiderer was originally on timber-rafting. When the business with timber imports became increasingly difficult during World War I, Pfleiderer decided to diversify into the industrial production of processed wood. The company bought sawmills in Heilbronn, Wernberg and Neumarkt in the Oberpfalz region. At first, it produced impregnated railway sleepers. Later, wooden poles for the post offices and electricity suppliers were added to the portfolio.

After the company was largely destroyed during World War II, Pfleiderer decided to move the headquarters to Neumarkt. Here, the company contributed to the reconstruction of the town by supplying building timber. After years of raw materials being in short supply, demand for wooden products fell for the first time in the 1950s. After German Railways, Pfleiderer's most important customer, increasingly replaced wooden sleepers with concrete ones, more and more customers started to prefer concrete poles as well. Pfleiderer therefore decided to produce concrete railway sleepers in 1956. In 1962, the production of particleboard began.

By 1970, Pfleiderer had approximately 1,000 employees, and had expanded further. In addition to wooden and concrete products, insulation materials and plastic products were added to the portfolio. The expansion was triggered by the takeover of Moralt in Bad Tölz in 1979. Further acquisitions were Duropal in Arnsberg in 1986, Wirus in Gütersloh in 1988, and an equity holding in Thermopal in Leutkirch in 1983.

During the 1990s, revenues doubled from 1.5 bn. DM (750 mn. €) to more than 3 bn. DM (1.5 bn. €). By this time, approximately 11,200 persons were employed at 40 locations. In 1997, the Pfleiderer family decided to make an initial public offering and gradually sold its shares over the next 15 years. Pfleiderer was transferred into a joint-stock company (Aktiengesellschaft) with the financial investor One Equity Partner as the main shareholder.

The expansion strategy in the 1990s did not only lead to a significant increase of revenues and employees, but also incurred financial debts of around 500 mn. €. To reduce the burden, the doors and windows as well as the insulation technology were finally sold under considerable losses in 2002.

After the company had refocused on its core sectors, the new CEO Hans Overdiek, formerly head of the wooden composite division, initiated new expansion activities in the areas of wood materials and laminate flooring. Pfleiderer took over the Kunz Group in 2005, and the Swedish company Pergo in 2007. Both companies had large operations in North America. In addition, a large number of new factories in Eastern Europe and Russia were established. This rapid expansion could only be financed partly by own resources and capital increases, so that the required credit volume once again rose dangerously high. When the turnover declined in the course of the global economic crisis and the US housing market collapsed in 2008, Pfleiderer accumulated almost 1 bn. € in debt and was no longer able to pay back the credits. Finally, the Group had to file for bankruptcy in March 2012 after the failure of a redevelopment concept.

In the following years, a comprehensive financial restructuring and reorganization process was initiated. This included the sale of Pfleiderer subsidiaries in North America and Russia. Another important element of the restructuring was the reverse takeover of all shares in Pfleiderer GmbH in 2015 by its Polish subsidiary Pfleiderer Grajewo S.A. After this transaction was concluded, Pfleiderer Grajewo S.A. became the controlling parent company of the Pfleiderer Group. In 2016, the Pfleiderer Group S.A. returned to the stock exchange in Warsaw.

3. Internationalization and De-internationalization

The international expansion of Pfleiderer started in 1981 when the company acquired shares in Engineered Fibreglass Products in Estill, South Carolina (Table 1). The main purpose of this acquisition was to enter the large market of wood materials in the USA.

A major internationalization step was the acquisition of the Kunz Group, a manufacturer of engineered wood products, for an all-cash deal of 147.9 mn. € in 2005. Moreover, Pfleiderer assumed bank liabilities of Kunz of around 268.5 mn. € (Pfleiderer, 2006). At the time of acquisition, the Kunz Group employed around 1,900 people in Germany as well as in eight production sites across Canada and the USA under the brand name Uniboard. The takeover made Pfleiderer a leading supplier of engineered woods for the furniture industry, specialized retail outlets, and the interior fixtures and fittings sector in North America.

In order to integrate the growing number of formerly independent subsidiaries in Europe and North America, a Global Pfleiderer Production System was implemented that set worldwide standards and benchmarks for best practice sharing. This was supplemented by regular meetings of top executives, functional specialists and plant managers across the globe (Kühn, 2009). Moreover, English was implemented as the corporate language, and language and intercultural trainings were offered to all employees involved in international activitites (Giesen, 2007).

In 2006, Pfleiderer AG acquired the Polish manufacturer of urea formaldehyde resins Silekól in Kędzierzyn-Koźle, Opole Voivodeship. The aim of this acquisition was to ensure a long-term stable source of high-quality resins for Pfleiderer's chipboard production as well as securing independence from market price fluctuations for this important production component (Pfleiderer, 2006).

In the same year, production started in the newly built particleboard factory in Veliky Novgorod, Russia. Pfeiderer's investment into the most modern plant in the country at that time was driven not only by the aspiration to participate in the fast-growing Russian construction market, but also to gain access to the vast Russian forests.

Table 1. Major Internationalization and De-internationalization Activities (1981-2012)

1981	Acquisition of Engineered Fibreglass Products in Estill, South Carolina, USA
2005	Acquisition of Kunz Group with production sites in Germany, Canada and the USA
2006	Acquisition of glue producer Silekól in Kędzierzyn-Koźle, Poland
2006	Establishment of Pfleiderer OOO in Veliky Novgorod, Russia
2007	Completion of thin-MDF plant in Grajewo, Poland
2007	Acquisition of Swedish laminated flooring producer Pergo in Raleigh, North Carolina, USA
2008	Acquisition of ATC Panel, Moncure, North Carolina, USA
2008	Shut-down of MDF plant in La Baie, Canada, and relocation of activities to Moncure plant
2012	MDF and particleboard plant in Monucre, North Carolina, USA, sold to Chilean company Panelas Aranco
2012	Particleboard, MDF, Thermally Fixed Melamine and Laminate Flooring plant Uniboard Canada sold to Canadian firm Kaycan
2012	Pfleiderer OOO in Veliky Novgorod, Russia, sold to IKEA's subsidiary Swedspan

Source: Compiled from various company sources

In 2007, a medium-density fibreboard (MDF) plant in Grajewo, Poland, was completed. This investment was part of Pfleiderer's strategy to reduce purchase and labor costs. In this context, around 860 jobs in Germany were relocated to Eastern Europe (Anonymous, 2006).

In the same year, Pfleiderer acquired the Swedish firm Pergo, a manufacturer of laminated flooring. The main interest was in Pergo's plant in Raleigh, North Carolina, USA. This acquisition made Pfleiderer North America's leading fully integrated manufacturer of laminated flooring with a market share of around 20%. Moreover, it opened this market segment in Europe.

In 2008, Pfleiderer acquired a particleboard plant of its competitor ATC Panel in Moncure, North Carolina, USA. Pfleiderer invested around 80 mn. $ at the site and the State of North Carolina supported the acquisition with an investment grant of 12 mn. $. At the same time, the medium-density fibreboard (MDF) production was relocated from La Baie in Canada to Moncure. With the closure of the unprofitable plant in Canada, that had belonged to the company since the acquisition of the Kunz Group in 2005, Pfleiderer aimed to benefit from substantial synergy effects at the new site in Moncure, such as lower transport costs and improved reliability of supply. Another advantage of the plant relocation was the reduction in costs due to the favorable infrastructure for the wood industry in the area. Timber could be purchased significantly less expensively at the new location than at La Baie in Canada, and there was a glue supplier closer to the new plant. "Pfleiderer AG is already the market leader for laminate flooring in the North America region. With this strategic step, we will now also achieve cost leadership and will thus emerge strengthened from the market crisis," explained Hans Overdiek, CEO of Pfleiderer AG at that time (cited in Anonymous, 2008).

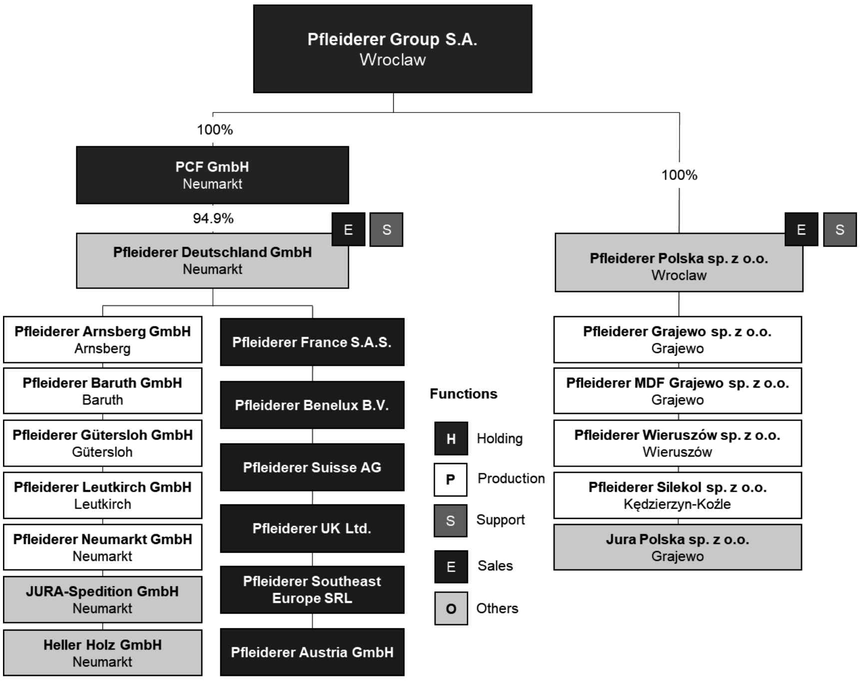
Only one year later, however, this prediction proved to be wrong. The sub-prime crisis in the USA led to a collapse of the housing market in North America – the geographic focus of Pfleiderer's international expansion in the previous decade. Moreover, revenues also decreased sharply in other key markets in the course of the global financial crisis. As a consequence, Pfleiderer accumulated almost 1 bn. € in debt and was no longer able to pay back the credits. After a redevelopment concept failed, the Group had to file for bankruptcy in March 2012.

After Atlantik S.A. Luxembourg acquired the company, and became the sole shareholder, a comprehensive financial restructuring and reorganization process was initiated (Aleth & Seibt, 2016). A major part of this process was the sale of the loss-making business in the USA and Canada and the activities in Russia.

In 2012, the MDF and particleboard facilities located in Moncure were sold to a subsidiary of the Chilean manufacturer Paneles Arauco for a consideration (including working capital) of 47.5 mn. €. According to Hans-Joachim Ziems, former Chief Restructuring Officer of Pfleiderer AG, "the sale of Moncure is a major achievement. We are fully on track with the overall sales process in North America and are very confident to generate the envisaged proceeds" (cited in Anonymous, 2012).

In the same year, Pfleiderer sold its Canadian subsidiary Uniboard to Kaycan, a North American leader in vinyl, aluminum and engineered wood siding, trim and aluminum building products. At that time, Uniboard Canada employed around 800 people (Uniboard, 2012).

Figure 1. Structure of the Pfleiderer Group as of April 2019



Source: Pfleiderer 2019, p. 13

Finally, Pfleiderer sold its Russian subsidiary in Veliky Novgorod to Swedspan. Only six years after its establishment, this company was in turn acquired by a subsidiary of IKEA for 157.5 mn. € (Pfleiderer Grajewo, 2014).

4. Reverse Takeover

At the beginning of 2013, Michael Wolff was appointed as the new CEO and Richard Mayer as the CFO. Under the new leadership, the administration and sales costs were significantly reduced. Three factories were closed and the number of companies was reduced from over 50 to 8. As a result of the restructuring, around 2,500 jobs were downsized and the turnover fell from 1.8 to less than 1.0 bn. €.

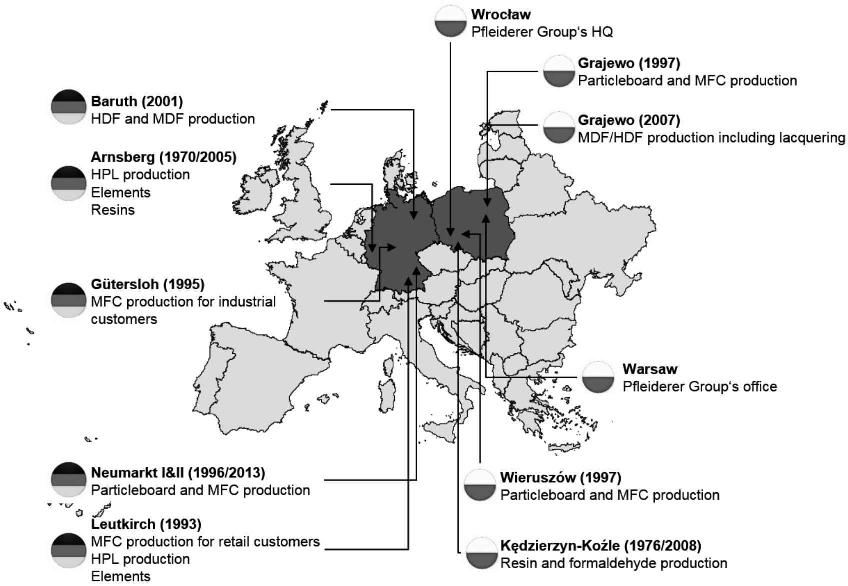
As part of the financial restructuring, the Pfleiderer Grajewo S.A. took over the former parent company Pfleiderer GmbH in the form of a reverse takeover in 2015. Atlantik reduced its share in the company and Strategic Value Partners was attracted as an additional financial investor. Today, both shareholders hold controlling stocks of around 25% each. The company was renamed as Pfleiderer Group Spółka Akcyjn (S.A.) and listed at the Warsaw Stock Exchange. "After this challenging but highly successful restructuring, we are now looking forward to a successful future", said Michael Wolff. "We are now concentrating on further optimizing business processes, strengthening our business model, geographic growth in Poland, Eastern and South-Eastern Europe and a wave of innovations and new technologies to drive our premium strategy forward" (cited in Wolff & Keppel, 2017).

After the completion of the restructuring process, Pfleiderer's production and sales activities were divided into two segments – Western Europe and Eastern Europe (Figure 1). The Western Europe division is headed by Pfleiderer Deutschland Ltd., based in Neumarkt. It consists of the five locations Neumarkt, Arnsberg, Baruth, Gütersloh and Leutkirch, as well as numerous sales units in Europe with a total of 2,000 employees (Figure 2). In addition to the chipboard brand Pfleiderer, the company also offers specialized product ranges under the brand names Duropal, Wodego and Thermopal.

The Eastern Europe division comprises of three factories in Poland, with around 1,250 employees. They are headed by the Pfleiderer Polska Ltd. In Wieruszów and Grajewo, MDF and HDF panels as well as chipboard and surface finishes are produced. In addition to this, there is a 50% interest in the Silekól plant in Kędzierzyn-Koźle, which produces the glue needed for the production of the press plates.

After the reverse takeover, Pfleider has been successfully restructured. For 2016, the company reported revenues of 929.6 mn. € (Pfleiderer, 2017). While this is a decrease of 5.5% against 984.5 mn. € (including old Pfleiderer Group) in 2015, the company was able to pay a dividend of 0.23 € per share for the first time since 2008. According to Michael Wolff, former President and CEO of the Pfleiderer Group: "The Group's financial standing is very good, and concentration on premium strategy in added value segment implemented by us positively influences generated results and margins" (cited in Pfleiderer 2017). The positive development of the Pfleiderer Group is also acknowledged by shareholders and financial institutions. In 2016, the rating agency Standard & Poor's upgraded the long-term credit rating for the Pfleiderer Group from "B" to "B+" with a positive outlook, thereby acknowledging the good operating performance (Pfleiderer, 2017).

Figure 2. Production Sites of the Pfleiderer Group (as of April 2019)



Source: Pfleiderer, 2019, p. 10

In 2019, the existing two segments Western Europe and Eastern Europe were split into three segments – Engineered Wood, Silekol and Eastern Europe. The Engineered Wood and Eastern Europe divisions offer an extensive range of basic, value-added, high value-added and ancillary engineered wood- and plant-based products in a variety of finishes, functionalities and designs, whereas the Silekol division offers a broad range of industrial and specialty resins and other chemicals (Pfleiderer Group S.A., 2020). In 2020 (the latest year for which an annual report is publicly available), revenues decreased by 6.5% to 953.6 mn. €. EBIT increased nearly 200% to 45.2 mn. € and EBIT ratio increased from 1.5 to 4.7 (Table 2). At the end of 2020, the Group had a total of 3,424 employees, of whom 1,355 were from outside of Western Europe.

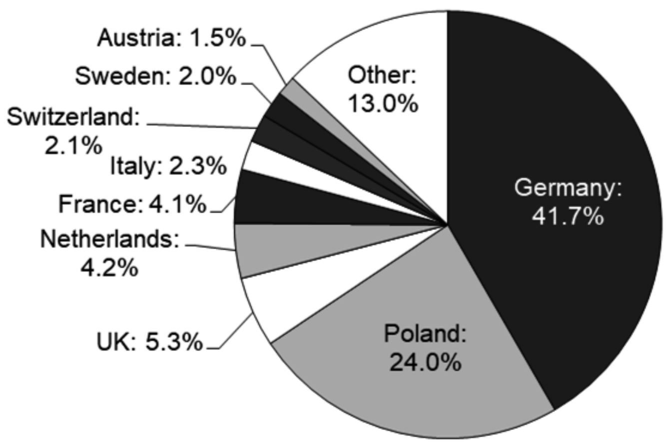
Table 2. Performance (2018-2020)

	Engineered Wood		Eastern Europe		Silekol		Group		
	2018	2019	2018	2019	2018	2019	2018	2019	2020
Revenues (in mn. €)	736.3	711.1	262.2	245.1	64.0	62.7	1.062,4	1,018.9	953.6
EBIT (in mn. €)	41.1	16.7	2.6	-12.6	10.8	10.6	54.8	15.2	45.2
EBIT in % of revenue	5.6	2.3	1.0	-5.1	16.9	16.9	5.2	1.5	4.7
Net debt (in mn. €)	412.7	428.1	-14.0	-14.0	-0.1	2.6	398.6	416.7	368.4
Headcount	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,542	3,424

Sources: Pfleiderer Group S.A., 2020; Pfleiderer Group B.V. & CO. KG, 2021

In terms of revenue, 41.7% is generated in Germany and another 24.0% in Poland. Further markets with substantial revenues are the UK (5.3%), Netherlands (4.2%), France (4.1%), Italy (2.3%), Switzerland (2.1%), Sweden (2.0%) and Austria (1.5%). Sales in markets outside Europe together account for less than 1% of global sales (Figure 3).

Figure 3. Geographic Distribution of Revenue in 2020



Source: complied from Pfleiderer Group B.V. & CO. KG, 2021, p. 48

5. Acquisition and Delisting

In October 2019, Strategic Value Partners, a US investment company (together with the Luxembourg investor Atlantik, who remains a minority shareholder), acquired 100% of Pfleiderer Group. The Pfleiderer Group S.A. was delisted and transformed into Pfleiderer Group B.V. & Co. KG, a limited partnership with a limited liability company as a general partner. After numerous changes, the company is currently managed by CEO Dr. Frank Herrmann and CFO Dr. Max Padberg. Executive Chairman of the Advisory Board is the former CEO Zbigniew Prokopowicz (Pfleiderer, 2023b).

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Christina Heidemann, Luisa Wicht & Dirk Holtbrügge

Developing Human Resources for International Activities. The Case of Leoni

"We know that high quality local management is vital and that intercultural differences need to be recognized and pro-actively managed in a sympathetic way."
Dr. Horst Rudolph, former Managing Director Leoni AG (cited in Major, 2007)

1. Corporate History

A little more than a century after its foundation in 1917, Leoni has emerged as one of the global leaders in wiring systems and cable technology. The company's product portfolio ranges from standardized and special cables to highly complex wiring systems and related components, which are used in the global automotive industry. Currently, the Leoni Group employs about 95,000 people in 27 different countries across the globe (Figures 1 and 2).

The history of Leoni dates back to the 16th century when Anthoni Fournier from Lyon founded the first workshop for the manufacture of Lyonese wares in Nürnberg in 1569. At the time, the production mainly focused on refined wire products and threads, which were utilized in the manufacturing of precious ribbons, braids, and embroidery. Fournier's sons established further workshops for the production of Lyonese wares, which constituted the basis for three companies – Johann Balthasar Stieber & Sohn, Johann Philipp Stieber, and Vereinigte Leonische Fabriken. In 1917, these three firms were merged into the Leonische Werke Roth-Nürnberg AG.

Since its foundation, the company expanded steadily through new plants, subsidiaries, and acquisitions and developed from a German medium-sized company into a multinational corporation. The initial focus on wires was extended by adding various types of cables, power cords, and wiring harnesses to the product portfolio. In 1994, Leoni expanded its product range further through fiber optic cables in order to meet the growing demand in the IT industry, the trend towards local area networks, and the continuously increasing demand for datamining. This diversification led to a major restructuring of the company in 1999. Leoni AG as a joint-stock company became the holding of the three separately managed business units viz: Leoni Draht, Leoni Kabel, and Leoni Bordnetz-Systeme, which were all organized as limited liability companies with a limited partnership (Leoni, 2023a).

Recently, Leoni has strategically shifted its focus towards the automotive industry to align with major trends, such as electromobility and autonomous driving. Consequently, the organizational structure was reconfigured accordingly in 2023 (Leoni, 2023b). In addition, various divestments of activities in foreign markets were completed.

Figure 1. Locations of the Leoni Group (World)

Source: Leoni, 2023c

Figure 2. Locations of the Leoni Group (Europe)

Source: Leoni, 2023c

2. Internationalization Strategy

The internationalization of Leoni started in the 1970s, when the company relocated parts of the cable harness production to low-cost countries in order to obtain significant cost reductions. According to the former CEO Klaus Probst (2009), the internationalization process followed a clearly defined pattern: “As the first step we escort our clients into this region. That assumes, however, that we are strong in our home market and have good relationships with our clients there. After we have established the first base together with existing clients we try in the following step to gain our own markets in the region through local sales activities (…). To build up your own activities from nil and against the local competition in a new country is very difficult. And it takes much longer to be successful.”

The first foreign production site was established in Sousse, Tunisia, in 1977. Until today, the Tunisian subsidiary produces wiring systems for the European automotive industry. As the political situation in North Africa became increasingly uncertain in the 1980s, Leoni turned towards Eastern European markets. The first simple cable harnesses were manufactured in Eger, Hungary. In the 1990s, Leoni opened further production facilities in

Hungary, Slovakia, and Poland. These investments were mainly motivated by low labor costs and geographic proximity to key customers, such as Daimler, Fiat, Ford, and VW, which established manufacturing operations in these countries at the same time.

After the wage level in these countries had increased, several operations became unprofitable and were shut down. For example, Leoni closed its plant in Ostrzeszów, Poland, and had to lay off 500 workers in 2010 (Pavlínek, 2017). However, around the same time, new factories in Romania and Ukraine were established. In 2022, Leoni opened a new plant in Kraljevo, Serbia, generating employment opportunities for 5,000 individuals and solidifying its position as the foremost private-sector industrial employer in the country (Leoni, 2023a).

In the 1990s, Leoni also expanded to North America and South America in order to exploit international growth opportunities and get access to new markets. The first subsidiary in the USA focusing on the wire business was established in Chicopee, Massachusetts, in 1990. In the next 30 years, further facilities for wiring systems and cables were founded in Brazil, Mexico, Paraguay, and the USA.

Leoni's engagement in Asia started in 1993, with a joint venture in Singapore and the production facilities in Xiamen and Changzhou, China, which today represents the focal country of the company in the region. In 2008, Leoni also entered the Korean market via a 55% share in the wiring manufacturer Daekyeung. Because of the promising forecasts for the Asian markets, Leoni extended its expansion in the region. In the beginning of 2010, the group opened a production facility in Nagoya, thereby pooling the activities of its Wire & Cable Solutions Division in Japan. Later the same year, Leoni established a development office in Pune, India, for wiring systems operations. Pune is the hub of the Indian automotive industry and hosts large plants of companies, such as Daimler, Tata Motors, and Volkswagen (Holtbrügge & Friedmann, 2011). From there Leoni intensified its collaboration with the local motor vehicle industry as well as with foreign companies active in the Indian market. In 2016, the company strengthened its market position in Asia further by purchasing 51% of the Chinese wiring harness manufacturer Wuhan Hengtong Automotive in the Hubei province. The company was an initial supplier for the carmaker DPCA, a joint venture between PSA Group and Dongfeng Motors, China's second largest car producer in 2016 (Leoni, 2016a).

In 2008, Leoni made the most important acquisition in the group's history by acquiring the wiring harness division of the French automotive supplier Valeo. This acquisition made Leoni the European market leader for automotive wiring systems and the fourth largest supplier worldwide.

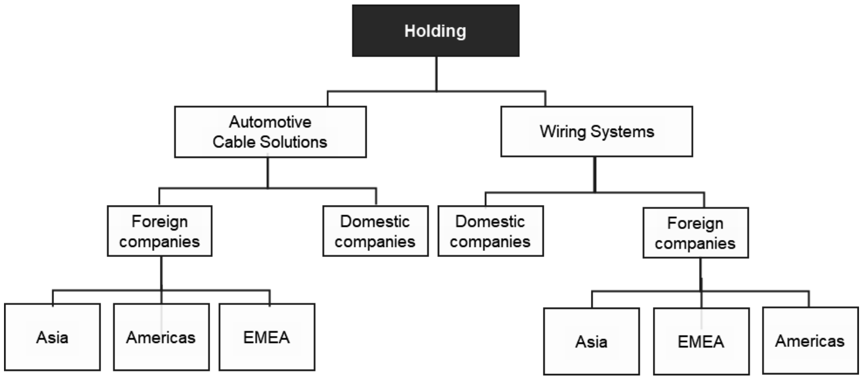
In 2016, Leoni's Romanian subsidiary in Bistriţa was in the focus of a fraudulent activity by cyber criminals (Leoni, 2016b). Unidentified hackers attained 45.1 mn. € with the help of falsified documents and identities and the use of electronic communication channels. Leoni's financial director in Romania apparently wired the money into a bank account in the Czech Republic provided by the hackers via email as she thought the emails came from her bosses in Germany. The hackers seemed to have known the company's protocols, including the fact that directors in Germany had asked for money transfers via email before (Anonymous, 2016). When Leoni discovered that sizable corporate funds had been transferred to accounts abroad, the company immediately launched an in-house investigation and assessed damage and insurance claims. As a consequence of the fraud, the company's internal control mechanisms were reviewed and intensified at a number of interfaces (Leoni, 2017).

3. Organizational Structure

The Leoni Group consists of the Leoni AG as a group holding company, which focuses on financing, governance, and capital market-related tasks, and the two corporate divisions Wiring Systems and Automotive Cable Solutions (Figure 3).

The Wiring Systems Division follows a functional focus to enhance standardization benefits and efficiency gains by clearly defining process responsibilities. The corporate functions of the division are allocated to the CEO and CFO as well as to the following areas: Development, Sales, Operations, and Personnel & Organisation. The divisional management consists of the heads overseeing these areas (Leoni, 2022). The Wiring Systems Division is among the top five providers of cable harnesses and wiring systems worldwide and the main customers are the leading carmakers. In 2022, the division generated 71.3% of total sales and employed 95.6% of total people (Leoni, 2023b).

Figure 3. Organizational Structure



Source: updated from Leoni, 2017, p. 62

Until 2022, the Wire & Cable Solutions Division was structured around distinct business areas, namely Automotive (Business Group Automotive Cable Solutions), Industry (Business Group Industrial Solutions), and additional smaller units like the Business Group Wire Products & Solutions. Following the divestments completed in 2022, the division was renamed into Automotive Cable Solutions Division, formerly referred to as the Business Group Automotive Cable Solutions. With its redefined organizational structure, Leoni is finalizing its concentration on the automotive sector. The division is a leading provider of vehicle cables within Europe and the customer base consists of wiring systems manufacturers and other automotive component suppliers (Leoni, 2023b).

The Executive Board of Leoni AG consists of four members. Since July, 2023, Klaus Rinnerberger is the CEO of Leoni. Dr. Harald Nippel is the Chief Financial Officer (CFO), Dr. Ursula Biernert is the Chief Human Resources Officer (CHRO) and Labour Director, and Ingo Spengler is the Chief Operations Officer (COO) (Leoni, 2023d).

With regard to the group's geographical structure, Leoni is present in Asia, the Americas, and EMEA (Europe, Middle East, and Africa). The majority of companies belonging to both divisions are located abroad. In 2022, the Wire & Cable Solutions Division comprised 8 domestic and 11 foreign companies, of which five are in the remaining EMEA region, two in Asia, and another four in the Americas. The Wiring Systems Division consisted of three domestic and 36 foreign companies, 21 of which are in the remaining EMEA region, seven in Asia, and eight in the Americas (Leoni, 2023b).

Leoni relies significantly on the European, American, and Asian markets. Among these, the EMEA region is the primary market, contributing approximately 69.6% to total sales. The Americas account for about 17.2% of consolidated sales, while Asia generates around 13.2% of Leoni's total sales (Table 1).

Table 1. Sales and Employment Structure of Leoni Group Divisions 2022

Divisions	Sales and employees per division	Sales breakdown per region
Wiring Systems	Total sales: 3,629 mn. € Employees: 90,940	EMEA: 2,816 mn. € Asia: 326 mn. € Americas: 487 mn. €
Wire & Cable Solutions (renamed into Automotive Cable Solutions in 2023)	Total sales: 1,464 mn. € Employees: 3,935	EMEA: 731 mn. € Asia: 346 mn. € Americas: 387 mn. €

Source: Leoni, 2023b

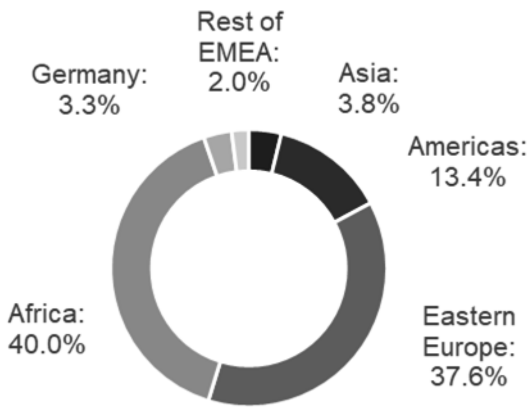
4. International Assignments

In 2022, the majority of Leoni's employees (82.9%) work in the EMEA region, thereof 37.6% in Eastern Europe, 40.0% in Africa, 3.3% in Germany, and 2.0% in the remaining EMEA countries. The employees in the Americas represent 13.4% of the total workforce, while 3.8% of all employees work in the Asian region (Figure 4).

Besides the employees working on a local contract, Leoni also sends expatriates to foreign branches. The company considers international assignments as an opportunity for the individual development of the respective employees and the global progress of the group. Expatriate deployments allow Leoni to generate know-how in growth regions, fill key positions with skilled employees, and complete important projects, such as the establishment of plants or product ramp-ups. In turn, the expatriates obtain a different local perspective on Leoni, broaden their own horizons, and increase their technical and intercultural competence (Leoni, 2023e).

In order to increase the attractiveness of foreign assignments, the expatriates are taken care of before, during, and after their stay abroad. For this reason, Leoni established an International Assignment Management (IAM) system, which organizes and supervises the international deployment in collaboration with the Human Resources (HR) department. Intercultural training is offered before the sojourn to prepare the expatriates for the unfamiliar environment and interactions with host-country nationals. During

Figure 4. Geographical Structure of Employment



Source: Leoni, 2023b

the actual deployment, which usually covers between one and four years, IAM and HR are available as a contact in the case of occurring problems. After their stay abroad, the expatriates receive support for their reintegration in the home country or are prepared for further foreign assignments.

In 2013, around 120 employees were sent abroad. These international assignments involved about 50 different country combinations. While in 2010, 75% of the assignments were from or to Germany, other regions are increasingly gaining importance. In 2014, almost half of the assignments were between countries other than Germany with Asia and the Americas as the focal regions (Leoni, 2014). While in 2016, several important positions in core areas in Asia were handed over to local successors, foreign assignments remain a fundamental management tool. Moreover, an executive position in the Americas was occupied by a candidate of Leoni's Global Executive Management Training scheme. Furthermore, trainees were assigned to the UK, Switzerland, and the United States. In the course of a program subsidized by the French government, young talents were assigned from France to specific foreign locations in order to prepare them for more advanced positions in the future (Leoni, 2017).

5. Intercultural Training and Employee Development

Even though international assignments offer numerous opportunities for personal development and knowledge sharing, they also expose the employees to great intercultural challenges. Leoni's UK subsidiary in Newcastle represents a good example of how such challenges are faced (Major, 2007). In 2006, all employees at this plant obtained intensive training aimed at a comprehensive change process comprising inter alia intercultural issues. As an important supplier of the automotive industry, Leoni UK serves prestigious customers, such as Ford, Land Rover, and Aston Martin. Due to severe cost pressures in the industry, the manufacturing of assembled wiring harnesses was relocated to plants in Egypt, Tunisia, and Romania. The availability of well-educated, motivated young people, competitive manufacturing costs, government support for foreign investments, and extraordinary employee commitment attracted Leoni to these countries.

It soon became clear that the full benefits of the manufacturing transfer could only be exploited if communication breakdowns, extended lines of supply, and a duplication of functions were avoided, the transportation costs were kept small, and a customer focus was maintained. In order to run a successful business across diverse cultures, all processes and interfaces had to be clearly defined and cultural differences between all respective parties had to be comprehended. In cooperation with a consultancy, 11 recommendations relating to communication, culture, and development were elaborated in accordance with Leoni's business targets and objectives.

During small and large group workshops, the desired changes were made clear to the staff at all the hierarchical levels. The training applied an action learning approach, using groups that represented the complete range of stakeholders, hierarchical levels, functions, and regions. The group's business plan and the fundamental strategic objectives were communicated to the whole workforce. Moreover, the workshops aimed at creating an atmosphere of honesty, openness, and respect between employees from the different locations. In order to achieve this goal, intercultural problems between the UK division, the German headquarters, and the production sites in North Africa and Eastern Europe were discussed during the training sessions. As a result of the extensive change process, the previous silo mentality of the functional organization was transformed into a matrix organization with clearly defined roles. Moreover, the explicit definition and communication of objectives in accordance with key accountabilities for sites, teams, and individuals improved the common understanding across the group.

Leoni not only prepares its employees for culture-related challenges with other employees at different locations, but also provides intercultural trainings for international teams on site. During the interactive team-building workshops, the team members learn about the specific cultural differences within their team and obtain tactics to deal with upcoming misunderstandings. The workshops are customized to the needs of the respective team and teach the employees culturally appropriate conflict management (Eidam, 2017).

Aside from addressing cultural considerations, employee development programs focus on other topics that are relevant for employees in all countries. Leoni actively encourages its workforce to engage in e-learning modules and training sessions covering anti-corruption, compliance, human rights, and leadership, among other topics. Furthermore, to enhance sustainability awareness among its employees, Leoni conducts specialized training sessions for executives and offers a comprehensive global sustainability e-learning course for all staff. In 2022, 56.0% of Leoni's workforce participated in at least two learning activities (Leoni, 2023e).

6. Evaluation and Outlook

In the past few years, Leoni encountered major financial difficulties due to disruptions in global supply chains, falling demand from automobile manufacturers, and an inflation-related increase in material prices (Aupetit, 2021). Moreover, the company has been heavily affected by the Russian war against Ukraine. Leoni operates two plants in the Western Ukrainian cities Stryi (Lviv region) and Kolomyja (Ivano-Frankivsk region) where approximately 7,000 people are employed. Around 10% of the global production capacity for wiring systems is in Ukraine. After the two factories had to be temporarily closed at the start of the war, production has recommenced under the strictest security regulations and to a limited extent. However, there are regular missile attacks and air raid alarms. As the former CEO Aldo Kamper stated: "Our employees repeatedly have to go to the air raid shelters and wait there for several hours in low temperatures before going back to work (…). I have very high regard for the employees who make this production possible" (cited in Peitsmeier, 2022).

In addition to the macroeconomic and geopolitical developments, Leoni also had to cope with numerous management changes. After the international growth strategy pursued by former CEO Klaus Probst (2002-2015) led to high debts, Dieter Bellé's term of office ended in 2017 with claims for damages due to the fraud case in Leoni's Romanian subsidiary. His successor Aldo Kamper left the company in March 2023 after the proposed sale of the Business Group Automotive Cable Solutions to the Thai Stark Corporation for 442 mn. € failed at the end of 2022 (Castner, 2023).

These developments caused Leoni's sales to fall by 0.5% to 5,093 mn. € in 2022 as compared to the previous year (Table 2). Reported consolidated EBIT dropped to a loss of 539 mn. €. The free cash flow of 126 mn. € is positive; however, this includes the sale of a division worth 278 mn. €. Without this special effect, the free cash flow would have been -152 mn. €. The workforce decreased by 6,282 employees to 95,090 due to the divestments.

Table 2. Key Financial Indicators 2019-2022

	2019	2020	2021	2022
Group sales (in mn. €)	4,846	4,134	5,119	5,093
EBIT before exceptional items (in mn. €)*			130	18
EBIT (in mn. €)	-384	-280	91	-539
Net income/loss (in mn. €)	-434.8	-330.1	-47.9	-604.7
Free cash flow (in mn. €)	-307.8	-73.7	-11.5	126.0
Employees (as of 31.12.)	94,928	101,007	101,372	95,090

* This figure represents adjustment of EBIT for exceptional, non-recurring factors to facilitate easier comparability between the periods and better interpretation of operating profitability. Effects stemming from the Group's refinancing (incl. impairments), restructuring measures, M&A transactions as well as extraordinary costs related to the Ukraine war are classified as exceptional items.

Source: Leoni, 2023b, p. 191

To avoid insolvency, Leoni took the path of financial restructuring, applying the German Corporate Stabilization and Restructuring Act in spring 2023. The goal of the financial restructuring was to find a strong new owner for the company and reduce its debts. An investment company held by Stefan Pierer, after a simplified capital reduction of Leoni AG to 0 euros, contributed 150 mn. € through a cash capital increase in exchange for the issuance of new shares in Leoni AG. In addition, this company took over financial claims against Leoni AG in the amount of 708 mn. € from its financing parties in return for a recovery instrument corresponding to an economic interest of 45%. This is expected to remove the company's excess balance-sheet debt reported in the annual year for 2022 (Leoni, 2023g). As Hans-Joachim Ziems, Speaker of the Executive Board and Chief Restructuring Officer, explained: "With the restructuring plan, Leoni will sustainably return to financial stability and can continue its operational recovery in the coming years" (cited in Leoni, 2023f).

As a result of this capital increase, to which only the investment company by Stefan Pierer is to be admitted, this company will become the new sole shareholder of Leoni AG (Leoni, 2023g). As a consequence, Leoni AG was delisted, which implies that initial shareholders are no longer part of the structure and are unable to participate in the capital increase. In the fight against their expropriation, minority shareholders of Leoni lodged a constitutional complaint in September 2023. However, the Federal Constitutional Court in Germany rejected their complaint without giving detailed reasons (Maier & Groth, 2023).

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Dirk Holtbrügge, Tassilo Schuster & Alexandra Frykler

Restructuring and Organizational Change at Siemens

"Continuous change and renewal has always been a characteristic of Siemens and one of the company's success factors."
Peter Löscher, President and CEO, Siemens AG, 2007-2013
(cited in Siemens AG, 2009)

1. Siemens at a Glance

Siemens is a highly diversified global technology company with a history spanning more than 175 years. Its main industry focus is on digital industries, infrastructure, mobility, and healthcare. With headquarters in Berlin and Munich and its largest development and administration location worldwide in Erlangen, Siemens is active in more than 200 countries. As of September 30, 2022, the company had around 311,000 employees worldwide. In the FY 2022, Siemens achieved revenues from continuing operations of 71,977 mn. € (+15.6%) with a profit of 7,497 mn. € (-4.6%) (Tables 1 and 2).

Table 1. Siemens at a Glance

(in mn. €)	Total revenue		Profit		Assets	
	FY 2022	FY 2021	FY 2022	FY 2021	Sept 30, 2022	Sept 30, 2021
Digital Industries	19,517	16,514	3,892	3,360	10,861	10,123
Smart Infrastructure	17,353	15,015	2,222	1,729	6,501	4,385
Mobility	9,692	9,232	794	850	2,547	2,661
Siemens Healthineers	21,715	17,977	3,369	2,847	36,948	31,205
Industrial Business	**68,277**	**58,759**	**10,277**	**8,786**	**56,857**	**48,374**
Siemens Financial Services	661	697	498	512	33,263	30,384
Portfolio Companies	3,234	3,058	1,520	(84)	659	576
Reconciliation to Consolidated Financial Statements	(195)	(249)	(5,141)	(1,717)	60,724	60,038
Continuing operations	**71,977**	**62,265**	**7,154**	**7,497**	**151,502**	**139,372**

Source: Siemens, 2022, p. 76

In the last decades, Siemens has undergone several fundamental changes in its management board and organizational structure. In the following sections, these restructurings will be described and their main reasons will be outlined. This is preceded by a brief overview of the corporate history.

Table 2. Revenue Structure

Location of Customer (in mn. €)	FY 2022	FY 2021	% Change
Europe, CIS, Africa, Middle East	33,481	31,138	8%
- therein: Germany	*11,961*	*11,249*	*6%*
Americas	20,680	16,312	27%
- therein: USA	*17,241*	*13,521*	*28%*
Asia, Australia	17,816	14,815	20%
- therein: China	*9,557*	*8,232*	*16%*
Continuing operations	**71,977**	**62,265**	**16%**
- therein: Emerging markets	*20,249*	*17,651*	*15%*

Source: Siemens, 2022, p. 15

2. Milestones of Corporate History

In 1846, 31-year-old Werner von Siemens and his friend Johann Georg Halske invented the pointer telegraph in a small garage in Berlin (for the following, see Siemens, 2015a). One year later, they founded the ten-man company Telegraphen-Bauanstalt von Siemens & Halske. By 1850, the German market was saturated and von Siemens and Halske took on their first internationalization project by establishing a representative office in London. Five years later, they founded their first subsidiary in Russia, after having secured a significant contract to construct a large-scale telegraph system in the country. This was followed by a subsidiary in England in 1855. Another breakthrough invention was launched in 1866, when von Siemens and Halske established the dynamo electric principle and designed the first dynamo generator. Numerous other innovations followed, such as the first electric locomotive (1879), the first electric streetcar (1881), the first electric streetlights (1882), and the first light bulb (1903).

In 1890, Werner von Siemens retired from operational management and transferred the business to his successors who transformed Siemens & Halske into a joint-stock company in 1897. In the following years, the company grew steadily through consolidation and partnerships. By 1914, it had a worldwide workforce of 82,000 employees, of whom a quarter worked outside Germany.

As a consequence of World War I, Siemens lost nearly 40% of its business assets, including nearly all of its patent rights abroad, and the majority of its foreign subsidiaries were expropriated. However, the top management, based around Carl Friedrich von Siemens, succeeded in returning to the world market. The company grew through acquisitions and entered into various partnerships in order to increase its portfolio.

Starting in 1933, Siemens was increasingly integrated into military preparations and the war economy. In order to meet steadily rising production quotas, the company built barracks plants and used forced labor. In late 1944, at the height of World War II, Siemens' total workforce of 244,000 included some 50,000 people who had been put to work against their will (Feldenkirchen, 1999).

The postwar reconstruction of Siemens started in 1946 after the destruction and subsequent dismantling of industrial installations. This began with initial manufacturing programs for public services and utilities, such as the rail network, the postal service, and power generation. Given the uncertainty of the political situation in Berlin, it was decided in April 1949 to relocate the Siemens companies' headquarters. Siemens & Halske moved to Munich, and Siemens-Schuckertwerke moved to Erlangen. In both cases, secondary company headquarters were retained in Berlin.

Although domestic business gradually began to recover, sales outside Germany remained negligible. This situation only began to change in the mid-1950s, once the company had succeeded in reacquiring its expropriated foreign subsidiaries and the rights of ownership to its patents and trademarks. In the 1960s and 1970s, Siemens primarily expanded its activities into Western Europe, the United States and Asia. The combination of superb technological achievements, organic growth and an active investment policy brought Siemens a strong market position in its three interrelated divisions: high-voltage current products, electrical medical equipment, and telegraph and radio technologies. On October 1, 1966, these three corporate entities were consolidated under one single corporate umbrella, the Siemens AG.

When the iron curtain fell, worldwide deregulation and international competition increased. Siemens was not well-equipped to deal with this new business environment because prior to the 1990s, it had mainly conducted business with state-owned and public monopolies in regulated markets. Beginning in 1989, Siemens needed to undergo a decentralization process in order to focus on local responsiveness and to be able to benchmark the companies against its main competitors. Thus, Siemens switched from a functional to a divisional structure with 15 operating units, two special divisions, two major independent subsidiaries, and 12 regional units (Feldenkirchen, 2000).

The 1990s were also characterized by several large-scale acquisitions, mainly in the computer industry. These included the acquisition of Nixdorf in 1990 and a strategic partnership with the Japanese firm Fujitsu in 1993. In order to expand its operations into the US market, Siemens entered into an agreement with IBM, which involved developing computer memory chips. However, these attempts did not bring Siemens to a leading position in the global computer industry. On the contrary, Siemens' products became too expensive for overseas markets due to the depreciation of the Dollar against the Deutsche Mark in 1995. At that time, the computer and telecommunication industries were characterized by fierce competition and anticipating change was an important competitive advantage. With its focus on high quality, Siemens produced many parts and components by itself which slowed down its production process tremendously. Hence, the company could not keep up with its main competitors and failed to develop products for the mass market. Moreover, as a highly diversified conglomerate, Siemens found it increasingly difficult to compete against rival companies such as Nokia or Cisco whose business portfolios were much more focused. While some Siemens units outside of the computer division did well, such as Automation and Drives or Osram lightning products, other divisions reported major losses.

3. The Darkest Chapter in Siemens History

November 2006 marks the beginning of the darkest chapter in Siemens history. It was made public that several top executives had been involved in bribing government officials in order to win state orders (Graeff, Schröder & Wolf, 2009). It was suspected that executives had misappropriated funds worth 200 mn. €. The Siemens bribery case became known as one of the largest scandals in modern corporate history and cost the company around 1.5 bn. € in fines and fees – the largest ever fine for bribery.

In April 2007, the already stricken company was shaken up by another scandal. According to trade union IG Metall, Siemens had funded AUB, IG Metall's rival union, to frequently oppose IG Metall's requests during the company's labor negotiations. The two scandals of 2006 and 2007 did not only hurt the company financially, but also deeply harmed its reputation and created an environment of uncertainty among its shareholders, employees, customers and suppliers. Accordingly, a task force clarified and standardized the employees' business practices, while an ombudsman was appointed and an internal investigation was carried out. Additionally, a law firm was hired to investigate Siemens' compliance and control systems and an anti-corruption expert scrutinized anti-corruption controls and training (Siemens, 2008a).

The scandals were also a stimulus for Siemens to review the inadequacies of its internal structure and to tackle antiquated practices (Löscher, 2012). Siemens was accused of being tolerant of corruption and of having a weak corporate governance regime. This is exemplified by former CEOs regularly becoming the supervisory board chairman and in turn, not holding senior executives accountable. Additionally, mid-level managers and regional chiefs expressed severe resistance to change. However, despite the considerable damage the scandals had caused, Siemens shares largely withstood the pressure, reflecting investors' confidence in the company's future.

4. The Helm of the Company

In its long history, Siemens has had many impressive CEOs (Table 3). Most of them entered the company early on in their respective careers and worked their way up to the top of the company, beginning as the head of a division and then assuming an executive management role (Siemens, 2022). The case of Heinrich von Pierer is a perfect example of a typical career at Siemens. Immediately after receiving his doctorate in law from Friedrich-Alexander-University Erlangen-Nürnberg, he entered the Siemens group in 1969, and was eventually appointed CEO in 1992 (von Pierer, 2011). Von Pierer followed a participative leadership style, based on consensus building rather than on giving directions (von Pierer, 2021), which was typical not only for Siemens, but also for many other German companies at that time.

After 13 years as CEO, von Pierer became the chairman of the supervisory board and Klaus Kleinfeld took over. Kleinfeld had also entered the company early on in his career and assumed the post of the CEO in 2005. Faced with pressure from both shareholders and unions, Kleinfeld introduced a new management style aimed at speeding-up decision-making processes and increasing profitability. He broke the Siemens tradition of forming alliances or joint ventures with other companies to rescue poorly performing businesses. Instead, each business was given two years to achieve its profit targets; otherwise the unit would be spun off. Under his reign, employees were given tougher targets and had to work longer hours, which was one of the reasons why the Financial Times Deutschland granted him the title "most-hated corporate boss" (Bakst, 2006). Criticism was raised that Kleinfeld's brash and heartless American leadership style, as well as the changes he made, caused too much disruption for Siemens and its employees.

Hence, Kleinfeld had to leave the company after only two years as CEO and Austrian Peter Löscher took over. It was the first time that a non-German outsider who had not risen from within the company became the CEO. Löscher worked in the pharmaceutical industry for almost two decades – fifteen years at Hoechst and Aventis, two years at the British pharmaceutical company Amersham, which was acquired by GE Healthcare, and one year at Merck & Co. At Siemens, Löscher was faced with unhappy employees and shareholders as well as a reputation which had suffered tremendously during the past years. Löscher set ambitious targets, but lacked the internal networks necessary to enforce his visions and plans. Accordingly, he was forced to leave the company in 2013, four years before his contract was set to expire, due to a new profit warning.

With Josef Käser, who calls himself Joe Kaeser since his appointment, Siemens went back to its tradition of grooming its CEOs from within its own ranks. Kaeser had previously been CFO and had worked for Siemens for 33 years before being promoted to CEO. After he took over the company, he geared it towards the high-growth business areas of digitalization,

Table 3. The Chairmen of the Managing Board of Siemens AG

	**Heinrich von Pierer** (*1941) Ph.D. in Law (Friedrich-Alexander-University Erlangen-Nürnberg) 1969: joined Siemens (Legal Department) 1989: Member of the Managing Board of Siemens AG 1992-2005: President and CEO of Siemens AG 2005-2007: Chairman of the Supervisory Board
	**Klaus Kleinfeld** (*1957) Ph.D. in Strategic Management (University of Würzburg) 1987: joined Siemens (Sales Department) 2002: Member of the Managing Board of Siemens AG 2002-2005: CEO of Siemens USA 2005-2007: CEO of Siemens AG
	**Peter Löscher** (*1957 in Austria) Economics & Business (University of Economics Vienna) 2006-2007: Member of Executive Committee (Head of Marketing) of Merck & Co. Inc. and President of Global Human Health 2007: joined Siemens (CEO) 2007-2013: President and CEO of Siemens AG
	**Joe Kaeser** (*1957) Business Administration (Regensburg University of Applied Sciences) 1980: joined Siemens (Components Group) 1994: Executive Vice President, CFO, and CEO of Siemens Components and Siemens Microelectronics (USA) 2006: Member of the Managing Board of Siemens AG 2013-2021: President and CEO of Siemens AG Since 2021: Chairman of the Supervisory Board of Siemens Energy AG
	**Roland Busch** (*1964) Ph.D. in Physics (Friedrich-Alexander-University Erlangen-Nürnberg) 1994: Project manager, Central R&D Department 2011: Member of the Managing Board of Siemens AG 2019: Deputy CEO and Labor Director of Siemens AG Since 2021: President and CEO of Siemens AG

Source: Siemens, 2023a

automation and electrification and trimmed Siemens back towards profit – also with a heavy hand and painful job cuts. In his words: "The cumbersome tanker Siemens is to be replaced by many small speedboats which are best adapted to the rapidly changing environmental conditions" (cited in Busse & Fromm, 2017). In 2021, he handed over the executive chair to Roland

Busch – in contrast to his two predecessors – on his own initiative and planned for a long time.

Roland Busch studied physics at Friedrich-Alexander-University Erlangen-Nürnberg and subsequently completed a doctoral degree with a dissertation on the subject of high-temperature superconductivity. He also earned an undergraduate degree from the University of Grenoble. Having entered Siemens in 1994 as project manager in the central R&D Department, Busch served in various positions at Siemens in Germany and China. In 2011, he became member of the managing board, where he acted as CEO Infrastructure and Cities, Chief Technology Officer, Chief Operating Officer and Chief Sustainability Officer. In 2019, he was elected Deputy CEO and Labor Director. Since 2021, Busch has been the President and CEO of Siemens AG.

5. Different CEOs – Different Directions

5.1 Heinrich von Pierer – Portfolio Streamlining and Global Expansion

In the last decades, Siemens underwent several restructuring projects. When von Pierer took over as CEO in 1992, he followed a strict plan of cost reductions to make Siemens more competitive (Steward & O'Brien, 2005). By 1998, Siemens was in a critical condition, and von Pierer introduced a 10-Point Plan that focused on three main areas: selling or closing underperforming business units, growing businesses with a promising future through acquisitions, and setting more ambitious profit margin goals (Figure 1). Accordingly, Siemens spun off its Infineon semiconductor unit to terminate its involvement in the volatile chip industry. Furthermore, Siemens brought its transportation business into a joint-venture with French company Alstom to produce a new high-speed train and sold, among others, businesses involved in the production of power cables and electronic components. Siemens also made acquisitions in its telecommunications and medical software businesses and acquired American-based Westinghouse Power Generation to compete with GE in the power business. Another achievement was the strong expansion of activities in China and other emerging markets. Because of his good contacts with many heads of state in Asia, Pierer was often referred to as the 'Foreign Minister of German Business.' When von Pierer resigned as CEO in 2005, Siemens operated on a broad geographic and product scope and was involved in a wide array of businesses including power generation equipment, IT security, and food and beverage filling.

Figure 1. Von Pierer's 10-Point Plan (July 1998)

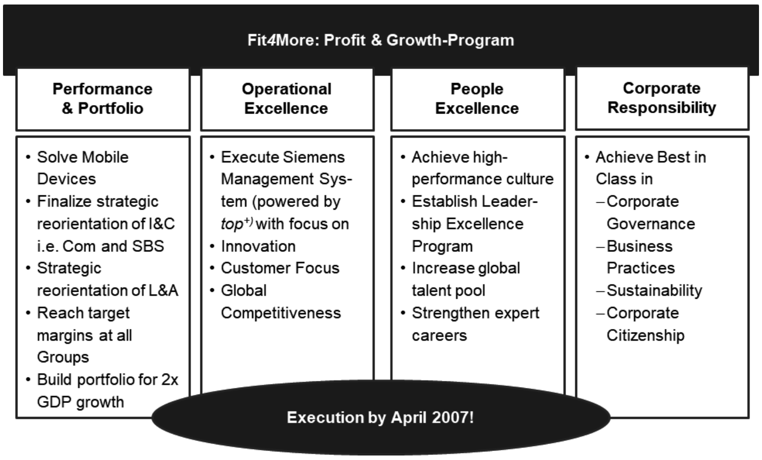
Point 1 aims at cutting losses at Semiconductors. Measures include closing a chip plant in northeast England, accelerating the move from 16- to 64-megabit memory chips, and implementing productivity-boosting programs.
Point 2 focuses on augmenting and accelerating the *top* management program. Under the motto "clear goals, concrete measures, rigorous consequences", the revamped *top*+ initiative defines a single yardstick for success: creating Economic Value Added. We have introduced a value-based management system that rigorously sharpens the focus of all activities in the company on pursuing sustained value creation.
Point 3 concerns the reorganization of our business segments. In the Industry segment, this process was completed with the formation of Industrial Projects and Technical Services, Production and Logistics Systems, Automation and Drives, and, on October 1, 1998, Siemens Building Technologies. Reflecting the worldwide trend toward the convergence of data and voice transmission technologies and the related terminals, systems and services, we have merged our Information and Communications segments. We have restructured the activities of Public Communication Networks, Private Communication Systems and Siemens Nixdorf into three new Groups providing fully integrated information and communications solutions: Information and Communication Networks, Information and Communication Products, and Information and Communication Services. The latter operates as a legally independent company called Siemens Business Services.
Points 4 and 5 relate to our business portfolio, which we have subjected to a critical, thorough process of assessment. Siemens will remain firmly anchored in many fields of electrical engineering and electronics. Our goal is to shape a portfolio that incorporates enough commanding positions in mature markets to support entrepreneurial risks in rapidly growing but less predictable businesses. In the past, Siemens had seven business segments: Energy, Industry, Information and Communications, Transportation, Health Care, Lighting, and Components. As part of our restructuring strategy, we have decided to withdraw from one of these segments: Components. The three Groups in this segment will initially be converted into independent legal entities. We are preparing to list both Semiconductors and Passive Components and Electron Tubes on the stock market, and are seeking a partner for Electromechanical Components. We are also considering a public offering of Siemens Nixdorf Retail and Banking Systems, our point-of-sales and self-service systems business. Having sold our power cable business to Pirelli, we now plan to divest our copper communications cables operations as well. Including a number of smaller divestments, we intend to shed a total sales volume of DM17 billion and some 60,000 employees. By contrast, we substantially strengthened the Industry segment by purchasing the industrial business of Switzerland's Elektrowatt, and expanded the Energy segment by acquiring the fossil-fuel power plant operations of Westinghouse. Other strategic investments are also being planned, particularly at Information and Communication Networks.
Points 6 through 10 of the program involve financial and capital measures. At our Annual Shareholders' Meeting on February 18, 1999, we will propose a stock buy-back as well as a stock-option incentive plan for our managers. In addition, we are preparing to publish our consolidated financial statements according to U.S. GAAP by fiscal year 2000, and subsequently intend to list the company on a U.S. stock exchange.

Source: Adapted from Siemens, 1998

5.2 Klaus Kleinfeld – Integrated Solutions for Global Customers

In 2005, the newly appointed CEO Kleinfeld announced the simplification of the corporate structure under the two-year project Fit*4*More (Figure 2). The message Kleinfeld sent with the restructuring process was, "We commit to something and we deliver. That is the culture we want to form" (cited in Ewing, 2007). As part of the restructuring project, Kleinfeld transferred parts of the underperforming logistics and assembly systems division and sold the remaining parts (Siemens, 2006). He sold the suffering mobile-phone unit to the Taiwanese company BenQ and started a joint-venture with Nokia into the telecom equipment business. He also cut jobs in logistics and communications and other weak units, such as Siemens Business Services.

Figure 2. Kleinfeld's Fit4More Program (2005)

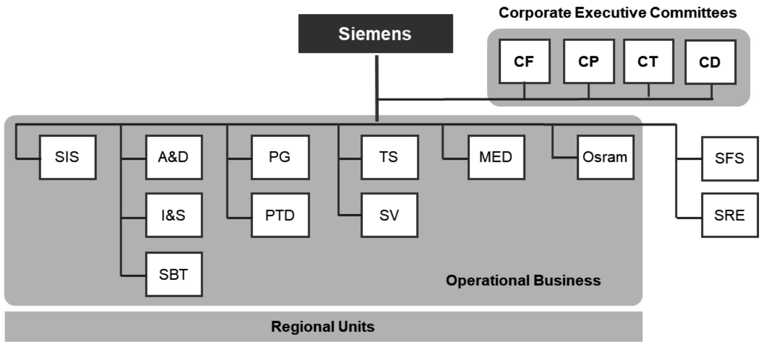


Source: Kleinfeld & Neubürger (2005)

Approximately one year after Kleinfeld became the CEO, ten business units either met or were close to meeting their profit targets. Furthermore, Kleinfeld oriented Siemens towards two megatrends in which he saw profound growth opportunities: demographic change, which raised the demand for health care, and urbanization, accompanied with an increasing demand for power (Siemens, 2005). Kleinfeld also promoted the Siemens One program, which he had developed with von Pierer. With Siemens One, Siemens offered its large global customers integrated solutions that had been developed by multiple Siemens companies, thereby saving costs, maximizing profits, ensuring seamless coordination and accountability as well as providing greater customer control (Siemens, 2010a). Kleinfeld tried to change the managers' mindset by focusing more on the customers and their needs rather than on making superior products. At the end of the first quarter of 2007, all divisions except for Siemens IT Solutions and Services met their profit targets for the first time in years.

At that time, the managing board was comprised of 10 top executives, most of who had been working at Siemens for years. The managing board elected the Corporate Executive Committee (CEC) which was responsible for defining the company's business priorities, formulating corporate strate-

Figure 3. Organizational Structure of Siemens AG (until 2007)



Source: Compiled from various company sources

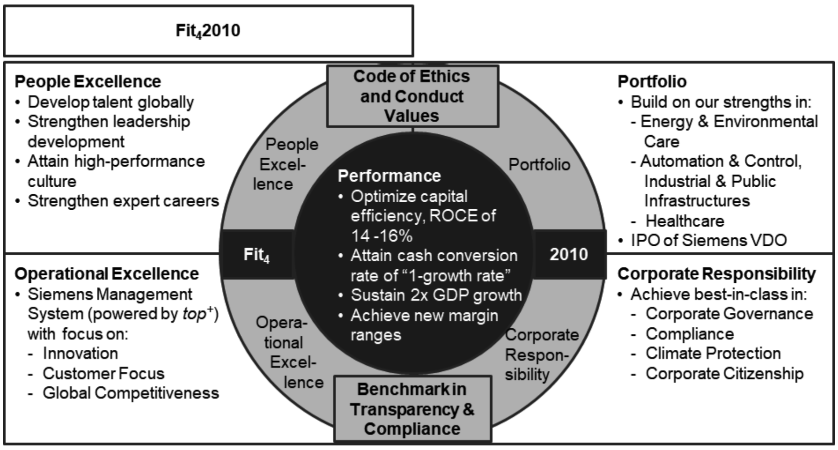
gy on portfolio management and mergers & acquisitions, as well as for monitoring their implementation. Moreover, the CEC decided the size of the annual R&D budget and determined bidding practices and staffing levels.

There were 12 operating groups below the managing board and the CEC which were further divided into six business areas: Automation & Control, Power, Medical, Lighting, Transportation, and Information & Communications (Figure 3). These consisted of around 70 divisions and several subdivisions which had worldwide presence and were responsible for business operations. Next to the operating groups there were regional units, shared services, corporate departments, and corporate centers below the managing and supervisory board level. The operating groups were substantially autonomous and responsible for operational decisions, whereas the CEC had mainly a coaching function. Hence, each CEC member oversaw one or two operating groups and specific geographic regions.

As Siemens intended to offer integrated solutions to its customers, it fostered the collaboration between different businesses and divisions. This was supported by Siemens' Corporate Technology (CT), which conducted long-term research projects on new technologies and assisted the operating groups and divisions in innovation processes. Accordingly, the CT played a major role in the technological alignment of the entire Siemens group.

Committees at each level of the organization were responsible for decision-making. At the higher organizational levels, they consisted of several members whereas the divisions and subdivisions of the committees were comprised of two members: a technical head (CEO) and a commercial head

Figure 4. The Fit42010 Program 2007



Source: Adapted from Siemens, 2007a

(CFO) who reported to one CEC member. They shared responsibility and were both held accountable for the division's performance. Thus, decision-making was based on mutual agreements (four eyes principle). Siemens also had various country managers in the geographic regions. These Mr./Mrs. Siemens were simultaneously responsible for all Siemens' businesses in their respective region and the CEOs of the regional companies. Their main task was market development as well as serving local customers through product integration. Hence, they had substantial discretion in tailoring individual solutions for their specific region. However, emphasizing local responsiveness often led to conflicts between the regional organizations and the headquarters in Germany (Siemens, 2007a).

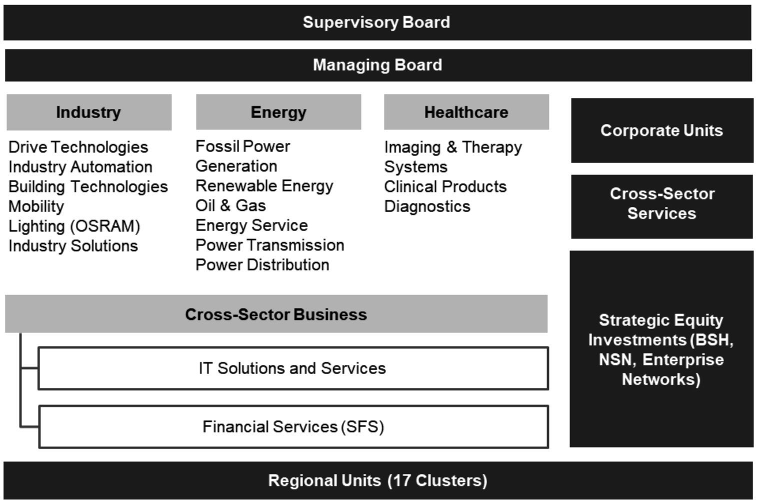
5.3 Peter Löscher – Degradation of the Clay Layer

When Kleinfeld left in 2007, Siemens introduced a new program, Fit$_4$2010, with the aim to increase both competitiveness and shareholder value, and to improve transparency and compliance. This would require applying the highest possible ethical standards (Siemens, 2007b; Figure 4).

As soon as Löscher took over as CEO, he appointed his friend Peter Solmssen, with whom he had worked with at General Electric for several years, as general counsel. Löscher and Solmssen both emphasized the importance of transparency and collaboration with external authorities.

They launched an amnesty program and announced the simplification of Siemens' management structure which had blurred responsibilities and accountabilities over the years. Following the Fit$_4$2010 objectives, Löscher reorganized the company by consolidating the ten operating groups into three sectors – Industry, Energy, and Healthcare – and 15 subdivisions (Figure 5). Löscher also set higher targets for each Siemens business and planned to streamline the portfolio via acquisitions and divestments to become the market leader in all of its businesses (Siemens, 2009). Hence, Löscher sold the automotive parts division, VDO, and acquired the American medical equipment supplier Dade Behring (Siemens, 2007a).

Figure 5. Organizational Structure of Siemens AG (2007-2010)



Source: Siemens 2020

Moreover, Löscher appointed strong general counsels for each sector, division, and region, and entrusted one managing board member as Head of Legal and Compliance. Since the managing board members had many direct reports, they were overloaded with information. Löscher reduced the number of managing board members from eleven to eight and replaced almost all of them as well as many other division and business unit heads. Furthermore, he eliminated the CEC, hence making the management board the sole governing body. The four eyes principle was replaced by the CEO Principle. Löscher eliminated the management layers that did not possess clear responsibilities, which he referred to as "Lehmschicht" ("clay layer") and linked the salary of top managers closer to performance (Siemens, 2010b). "Siemens needed to execute more rapidly, and to do that we had to take a hard look at both our organizational structure and whether we had the right people in the right jobs. Within months of my taking over, we replaced about 80% of the top level of executives, 70% of the next level down, and 40% of the level below that. I fundamentally changed how our managing board made decisions (…). What I learned was that Siemens employees were frustrated with bureaucracy and wanted more independent decision making. At the same time, people felt that the corruption scandal represented a failure of leadership. They were shocked and ashamed, because they are very proud to be part of Siemens" (Löscher 2012).

Löscher also consolidated Siemens' regional structure by organizing the 190 countries the company operated in into 17 clusters. "It was clear to me from the time I'd spent competing against Siemens that its strong country organizations were one secret to its success. Nevertheless, some of these organizations had become like separate companies, with the local teams operating almost independently. For example, many years ago Siemens decided to get out of the mobile-phone handset business. Some of the country organizations decided that for them it was a great business, and they'd stay in it. So we found ourselves with a very eclectic collection of local businesses, and we immediately got rid of them. I decided that every business needed one person who was accountable for global performance" (Löscher 2012).

The focused structure was created to improve resource allocation processes and increase the regions' customer focus due to reduced administrative and coordination activities of individual countries. The clusters were responsible for shared services and a cost-effective infrastructure. The establishment of competence centers within each cluster ensured that even smaller countries had access to Siemens resources. In order to support the new Siemens structure, Löscher re-introduced the Right of Way concept which had been originally established in 1989. According to the Right of Way, regional management was empowered to adapt the global strategy developed by the headquarters to the local conditions in order to address local customer needs. This focus on local customization was expected to ensure a spirit of entrepreneurship in the regions (Siemens, 2007c).

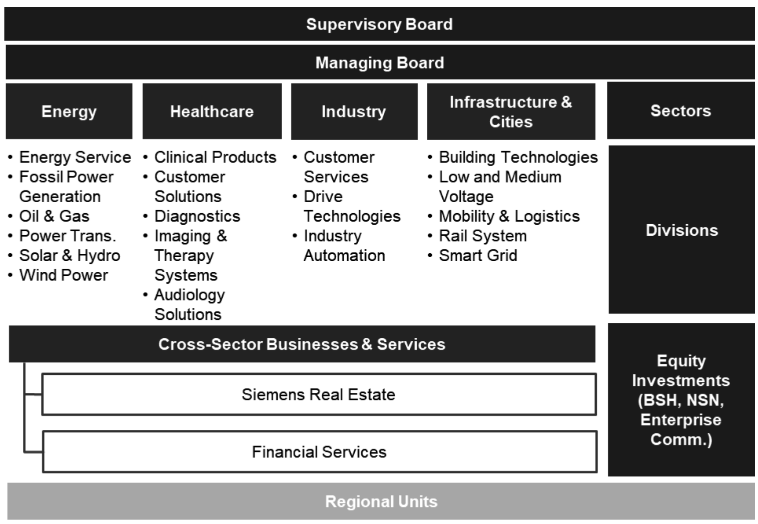
In a further step, Löscher relaunched the Siemens One program initiated by von Pierer and Kleinfeld in order to sell integrated solutions to customers. He also established virtual organizations called Market Development Boards (MDBs) which combined different business units across different sectors in order to address cross-sector projects. For example, one of the MDBs focused on cities and thus, comprised all business units selling products or services to municipalities such as power supply or water purification plants (Siemens, 2008b).

To restore faith in the company's future, Löscher introduced a 10 bn. € share buyback program. Löscher personally bought shares worth 4 mn. €, while other board members purchased shares worth 1.5 mn. €. This was greatly appreciated by financial analysts. The fourth quarter of 2007 showed strong results. Siemens' businesses were booming, and sales and orders increased (Siemens, 2007d). Therefore, it was a great shock for investors when Siemens suddenly announced a profit warning in March 2008, and the reputation was once again put at risk. The profit warning was based on delays and cancelled orders in the energy, transport, and technology businesses and caused Siemens' shares to fall by more than 15% – the largest single-day drop for the company's shares in nearly two decades. Additionally, the joint-ventures with Nokia and Fujitsu performed worse than expected, and no buyer had yet been found for its telecommunications divisions. It was speculated that, "business practices at Siemens were deep-rooted and difficult to change. Some investors even asked whether cleaning up its ethics had handicapped its ability to do business" since its "whole business model was based on corruption" (Landler, 2008).

Löscher dismissed these rumors by claiming that the announcement of a profit warning was part of Siemens' new culture of openness, transparency, and accountability. It is "a step that will bring about a 'no surprises, no excuses' Siemens culture going forward" (cited in Saporito, 2008). At the Annual Shareholder Meeting in January 2009, Löscher further stated, "We want the company to make its peace – with its recent past and with the individuals who stand not just for the dark chapters but also for major accomplishments and important strategic decisions" (Siemens, 2009). Löscher remarked that Siemens had a solid base, but was facing a difficult business environment in 2009. He also announced plans to cut selling, general, and administrative expenses by up to 20% by 2010 which would lead to cost savings of 1.2 bn. € without further job cuts (Siemens, 2009). Löscher also added climate change and globalization to the Siemens megatrends, thus positioning the company as the pioneer of green technologies, selling environmentally-friendly products and services worth 23 bn. € in the FY 2009 (Siemens, 2009).

In September 2011, Siemens announced that it would launch a fourth sector called Infrastructure and Cities. This would be comprised of five divisions with the goal to become a market leader in urbanization and infrastructure investment projects. At that time, Siemens already offered the broadest portfolio of urban infrastructures worldwide and the market share that it addressed with its portfolio totaled approximately 300 bn. € per annum. Siemens established its first Center of Competence in London to bundle its competencies and offer comprehensive urban solutions for mobility, environmental protection, and energy saving. With this move, Siemens focused its business even more strongly on growth. Two other Centers of Competence were planned in Asia and the US. The Centers of Competence guaranteed close customer proximity in line with the Siemens One program. The launch of the new sector also affected the Industry and Energy sectors. The Industry sector's focus was now entirely on industry customers covering three divisions, whereas the Energy sector consisted of six divisions (Figure 6).

Figure 6. Organizational Structure of Siemens AG (2010-2013)

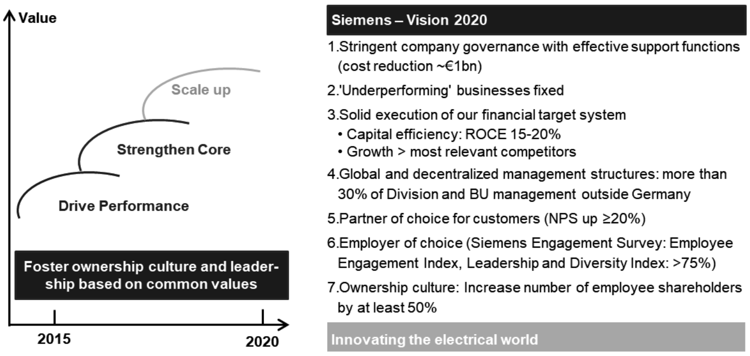


Source: Compiled from various company sources

5.4 Joe Kaeser – From Tanker to Speedboats

When Löscher left Siemens in 2013, the new CEO Joe Kaeser refocused the company on its core business by selling off underperforming business units. Two months after his arrival, Siemens share prices had already increased by 10% and Kaeser announced his first reorganization project: to re-empower country managers by eliminating the 17 regional clusters and by appointing

Figure 7. Kaeser's Vision 2020 Program (2014)



Source: Kaeser (2014)

all cluster CEOs to country chiefs who would report directly to one of four managing board members responsible for the four Siemens sectors. According to Kaeser, "eliminating the clusters will make Siemens more streamlined and closer to the markets. We're substantially strengthening our regions, whose heads are our customers' most important contacts" (cited in Siemens, 2013b).

Accordingly, the four sector CEOs were not only responsible for their respective sector, but also for a specific regional area. The Energy sector CEO oversaw the US, Canada, Mexico, and Middle East. The Industry sector CEO was in charge of Europe, Africa, and Eastern Europe, and the Healthcare CEO was responsible for South America and Japan. The Infrastructure and Cities CEO monitored Australia and with the exception of Japan, Asia. By re-empowering local management, Kaeser hoped to make Siemens more competitive, streamlined, and faster due to closer market proximity. The elimination of the cluster system was Kaeser's first autonomous step and a sharp deviation from Löscher. Kaeser substantiated his decision by stressing the fact that the clusters had been a wall between local businesses and customers and had slowed down business decisions.

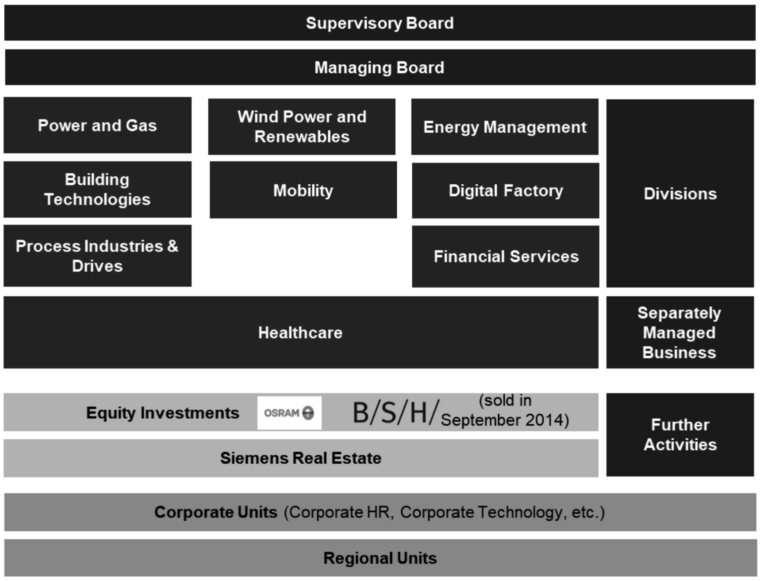
In May 2014, Kaeser introduced the new program, Vision 2020, with the aim to focus Siemens on important growth fields such as electrification, automation, and digitalization (Figure 7). As part of the program, Kaeser eliminated the sector level and bundled Siemens businesses into nine divisions (Figure 8).

With this new organization, Siemens hoped to reduce bureaucracy and cut costs, and to make the company more customer-oriented by speeding up decision-making processes. Support functions, such as HR and Communications, were to be centrally managed and expected to further increase productivity. In order to optimize total cost productivity, a new target for total cost productivity was set at three to five percent per annum, starting in the fiscal year 2015 (Siemens, 2015b). Moreover, each division was given a target profit margin range (excluding the acquisition-related amortization of intangibles) which was oriented on the division's main competitor's profit margin. As Kaeser said in the official press release upon his appointment: "Our company is certainly not in crisis, nor is it in need of major restructuring. However, we've been too preoccupied with ourselves lately and have lost some of our profit momentum vis-à-vis our competitors" (Siemens, 2013a).

It was further announced that the Healthcare sector would be managed separately in the future, since this would provide the flexibility required for the volatile medical technologies market. Kaeser viewed the Healthcare sector as a company within the company and claimed that it would be able to react more efficiently to current market developments when it was separated from other Siemens businesses. However, the Healthcare sector was Siemens most important cash cow and generated more than 40% of Siemens' cash flow. Hence, it was feared that the spin-off would lead to a de-rating of the company. In a meeting with members of the work council and the IG Metall trade union, Kaeser has agreed that the Healthcare business would remain part of Siemens' strategic core portfolios in the long-term. It was also agreed that if the Healthcare sector becomes publicly listed, Siemens would have a majority stake. Furthermore, the headquarters and central facilities as well as the core competencies of the Healthcare business were to remain in Germany and redundancies based on operational requirements were prohibited in the near future.

In fact, the public's concern was not unjustified. There were many examples of Siemens spin-offs that ended in failure or bankruptcy. In 1999, Siemens and the Japanese company Matsushita listed Epcos on the stock exchange. Initially, the share price rose steeply due to the Dot-Com-Boom, before it dropped rapidly. Siemens and Matsushita both sold their stakes in the company in 2006. Epcos was delisted from the NYSE in 2007 and from the German Stock Exchange in 2009. In 2000, Siemens publicly listed Infineon whose stock price did well at first, however Siemens had already left the company by the time it eroded. Infineon spun off its memory business with 12,000 employees under the name Qimoda, a company that filed for insolvency in 2009. Furthermore, after Siemens had sold its mobile business to BenQ in 2005, BenQ went bankrupt in less than a year and more than 3,000 employees lost their jobs. In 2007, Siemens and Nokia founded

Figure 8. Organizational Structure of Siemens AG (2014-2018)

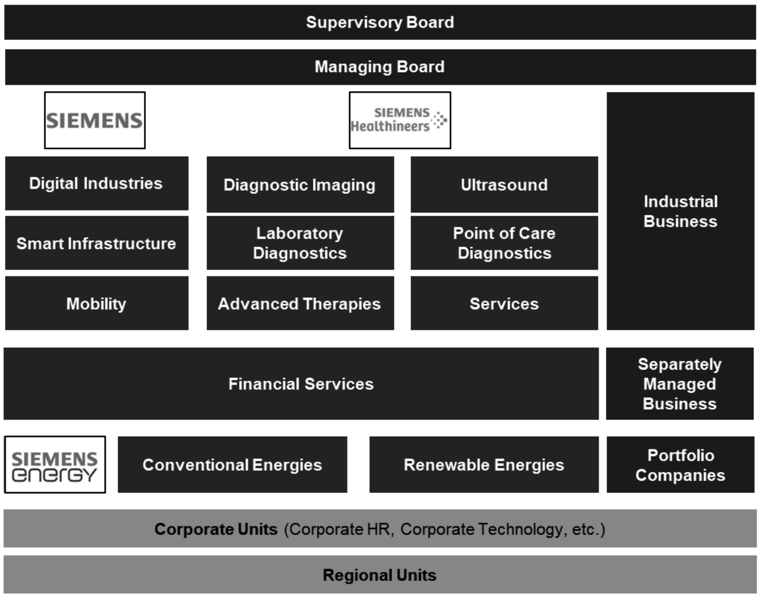


Source: Compiled from various company sources

the joint-venture Nokia Siemens Networks (NSN). NSN underwent a huge restructuring process with more than 10,000 job cuts worldwide and multi-billion Euro losses. In July 2013, Siemens sold its stake and thus left the communication business. When spinning off its lighting company, Osram, in 2013, Siemens claimed that this would provide Osram with the necessary freedom to address changes in the lighting industry. One and a half years after the spin-off, Osram was in a critical situation. Finally, Siemens wanted to list its Audiology business on the stock exchange before it was sold to the Swedish financial investor EQT instead.

Thus, Kaeser was not only faced with pressure from stakeholders and analysts, but also from trade unions and employee representatives. This increased when the company announced in February 2015 that it would cut 7,800 jobs worldwide, including some 3,300 in Germany in connection with the company's new organizational structure (Siemens, 2015c). An additional 4,500 jobs were cut in the power and gas division and further underperforming industrial businesses that were hit by upheaval in the energy industry. However, Siemens has also hired more than 11,000 people in other busines-

Figure 9. Organizational Structure of Siemens AG (since 2020)



Source: based on Siemens, 2020

ses, of whom more than 1,500 were in Germany. As a result, the company expects the total number of employees worldwide to remain virtually stable.

Despite the pressure, Siemens decided to carve out its healthcare business and take it public in March 2018 under the name Siemens Healthineers. Siemens AG remained the majority shareholder and holds just over 75% of the shares of Siemens Healthineers as of September 30, 2022. In 2020, the company also spun off its energy business as Siemens Energy. Currently, Siemens AG holds a 35% minority stake in Siemens Energy AG. This realignment was more fundamental than anything the company had experienced since the establishment of Siemens AG in 1966 (Siemens, 2020).

As a result of these spin-offs, a new organizational structure was established. As of September 30, 2022, Siemens consists of four segments which together form the company's Industrial Business: Digital Industries, Smart Infrastructure, Mobility and Siemens Healthineers. Siemens Financial Services (SFS) is responsible for the financing of infrastructure, equipment and supplies as well as the management of financial risks in the Siemens group.

The largest of the company's separately managed Portfolio Companies is Siemens Energy, which includes Siemens Gamesa Renewable Energy as its largest subsidiary (Figure 9).

5.5 Roland Busch – Investments into the Future

When Joe Kaeser handed Siemens over to Roland Busch at the end of his seven-year tenure in 2021, Siemens was a refocused technology company. Revenues from continuing operations increased by 16% to 71,977 mn. €. Digital Indutries grew by 18.2%, Smart Infrastructure by 15.6%, Mobility by 5.0% and Siemens Healthineers by20.8%. Growth was particularly strong in the USA (+28%) and Asia (+20%) (Siemens, 2022).

To promote future growth, Siemens has decided to make major investments of around 2 bn. € in 2023. From this, 500 mn. € will be invested into a new technology campus in Erlangen, which will make the Nürnberg Metropolitan Region a global research and development hub and the nucleus of global technology activities for the industrial metaverse (Siemens, 2023c). Around 200 mn. € will be invested into a highly-automated factory in Singapore to meet the growing demand in Southeast Asia. Siemens will also expand its digital factory in Chengdu to serve the local growth opportunities in China, investing 140 mn. €. Further major investments will flow to Amberg, Frankfurt-Fechenheim (both Germany) and Trutnov, Czech Republic. Siemens Mobility will build a new rolling stock factory in Lexington, North Carolina for 220 mn. € to meet growing demand for passenger trains in the United States. The construction of a new headquarters in Spain has an investment volume of 160 mn. € (Siemens, 2023b).

6. Outlook

Siemens is currently confronted with two major challenges. The biggest challenge is the loss-making energy business. In the third quarter of the FY 2023, Siemens Energy reported a net loss of 2,931 mn. €, which was mainly impacted by charges at Siemens Gamesa. For the FY 2023, the net loss of Siemens Energy Group is expected to reach around 4.5 bn. € (Siemens Energy, 2023). Even after several management changes, there are still deep and expensive problems: "The setback is more serious than I would have thought possible", said Siemens Energy CEO Christian Bruch (cited in Höpner & Witsch, 2023). The main reason is quality problems with wind turbines that have already been erected on land. In addition, the build-up of manufacturing capacity for better-performing offshore wind power is progressing more slowly than planned.

Moreover, Siemens is faced with changing market conditions in China. As political tensions between China and the USA rise, customers are increasingly looking to decouple from the Chinese market. "We see our customers, local and international, believe in the Chinese market and they stay there. Do they do incremental, new investments in China? Here we see a trend they would rather go to other places in order to see how to diversify and increase their resilience", Busch said (cited in Revill, 2023). Although Siemens is still investing in China, its third biggest market, the company is also focusing more on other parts of Asia, the USA and Europe. It can be assumed that the changing geopolitical realities and strategic priorities will sooner or later once again lead to a change in the company's strategic direction and organizational structure.

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Dirk Holtbrügge

The Internationalization of GfK. From University Spin-off to Multinational Corporation

"The globalization and boundary breaking of the industry continues."
(AMA, 2016)

1. The Global Market for Market Research

Market research is a truly global industry. More than 50% of the revenue from the 25 largest companies in the world is derived from outside their home countries. The Global Top 25 are headquartered in six major countries, but many Global Top 25 companies have multiple headquarters in locations other than their home country (AMA, 2016).

In 2021, revenues in the global market research industry expanded by 15% from 102 bn. $ to almost 119 bn. $. For 2023, a market volume of 130 bn. $ is expected. The highest growth rate is observed in the tech-enabled sector with 18.9%. North America generated the largest share of market research revenue, closely followed by Europe (ESOMAR, 2022).

There are currently over 3,400 market research companies worldwide. The industry is characterized by a strong process of concentration. GfK is by far the largest market research institute in Germany and the seventh largest in the world, after Nielsen, Gartner, IQVIA, Kantar, Ipsos and IHS Markit (Table 1).

Table 1. The 10 Largest Market Research Companies in the World (2022)

Rank	Company	Headquarters	Founded	Revenue 2022 (in $)	Employees
1	Nielsen	USA	1923	6.5 bn.	44,000
2	Gartner	USA	1972	4.3 bn.	15,000
3	IQVIA	USA	2016	4.1 bn.	82,000
4	Kantar	UK	1993	2.9 bn.	30,000
5	Ipsos	France	1975	2.2 bn.	16,530
6	IHS Markit	UK	2016	2.1 bn.	14,000
7	GfK	Germany	1934	1.7 bn.	8,000
8	CoStar Group	USA	1987	1.4 bn.	5,653
9	Information Resources	USA	1979	1.2 bn.	5,000
10	Westat	USA	1963	590 mn.	1,900

Sources: Company homepages

2. The Birth of GfK

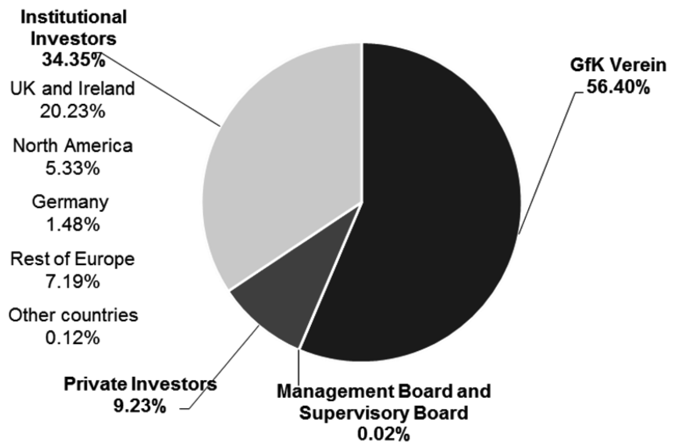
GfK was established in 1934 as Gesellschaft für Konsumforschung (Society for Consumer Research) by an association of professors at the Handelshochschule Nürnberg (today part of the Friedrich-Alexander-University Erlangen-Nürnberg), among them Wilhelm Vershofen (1878-1960), Erich Schäfer (1900-1984) and Ludwig Erhard (1897-1977), later Minister for Economics and Chancellor of Germany. The aim was “to make the consumer’s voice heard”, as put forth in the preamble of the constitution.

The focus of GfK was initially to track consumers through household panels. Later, the company diversified into retail sales surveys, media usage measurements and ad-hoc market research. After the devastation of Nürnberg in World War II had destroyed much of GfK’s archives, the company was granted a business license in 1945 and soon began rebuilding its operations.

A milestone in the company’s history was the separation of the operative business units of the GfK Group from the GfK-Nürnberg e.V. (GfK Verein) in 1984. A limited liability company (GmbH) was established as a holding of six domestic and 14 foreign subsidiaries, which enjoyed high operational autonomy. The GfK Verein, as the sole owner of GfK GmbH, restricted itself to ideational activities such as the support of science and studies in the areas of market and consumer research.

In 1990, GfK GmbH was transformed into a joint-stock company (AG). Initially, the GfK Verein remained the sole owner. In 1999, however, GfK AG went public. The initial public offering was particularly aimed at financing the further international expansion of the company. In 2009, GfK AG was converted into a European joint-stock company, GfK SE (Societas Europaea), in accordance with EU corporate law. Subsequently, the share of the GfK Verein was reduced to 56.46 % in GfK SE (Figure 1).

Figure 1. Shareholder Structure of GfK SE (2015)



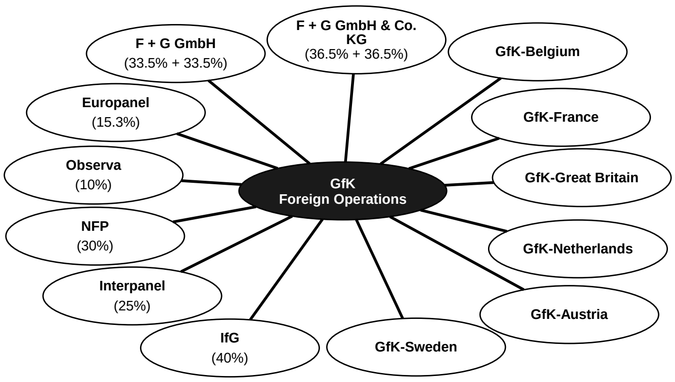
Source: GfK Verein 2015

In 2019, the GfK Verein was renamed to Nuremberg Institute for Market Decisions (NIM). NIM is a non-profit organization which concentrates on fostering market research, while GfK SE focuses on collecting and analyzing market, brand and product-specific insights. Positioned at the interface between science and practical application, NIM produces and shares insights on how consumer and managerial decisions are changing in the face of new trends and technologies and how people can make better decisions in markets. As an anchor shareholder with 550 individual and corporate partners, the NIM accompanies GfK SE in its economic development and helps to set the course for future growth. In turn, GfK SE uses the research findings of the NIM to advise customers and develop new tools (Nuremberg Institute for Market Decisions, 2022).

3. Early Internationalization Steps

The internationalization of GfK started in 1961 when the first foreign subsidiary was established in Vienna, Austria (for the following, see Feldenkirchen & Fuchs, 2009, pp. 127). Plans for further investments in other European countries failed due to the lack of funds and international experience. Instead of foreign subsidiaries, GfK opened representative offices in several countries whose task was to establish customer contact. Despite low resource requirements, however, this attempt was also not successful. Therefore, GfK changed its internationalization strategy and decided to engage in a non-equity cooperation in the form of a European household panel. In 1966, this cooperation led to the establishment of the joint-stock company Europanel-Études Internationales de Marches SA, with partners from France, Great Britain, The Netherlands and Switzerland.

Figure 2. GfK's Foreign Operations (1984)



Source: Feldkirchen & Fuchs, 2009, p.183

In the late 1970s, GfK began to establish foreign subsidiaries in several European countries (Figure 2). They were active mainly in television and radio audience research and operated by GfK's Retail and Technology & Media division. Although these internationalization steps were more successful than in the 1960s, GfK remained a predominantly national institution until the end of the 1980s, with 75% of its sales generated in Germany. The other 25% came from 15 other European countries. A major obstacle for further international expansion was the lack of a concise internationalization strategy. The various divisions and subsidiaries had a high level of autonomy and acted in a rather uncoordinated way. Also, the service portfolio differed from market to market.

4. Strategic Internationalization in the Late 1980s and Early 1990s

This changed in 1988 when a European strategy was implemented. The aim was to gain market leadership by offering modern services and technologies to all European countries. Existing subsidiaries were to be strengthened and new subsidiaries established through greenfield investments and acquisitions. For new market entries, minority participations were preferred in order to involve local partners and to reduce financial risks.

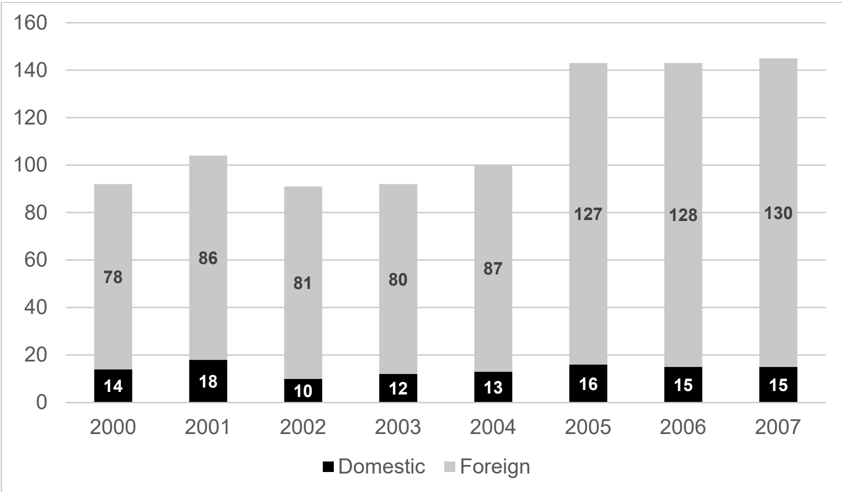
After the fall of the iron curtain, GfK was among the first market research companies to move into Central and Eastern Europe. GfK Hungária, opened in 1989, was only the second foreign-owned company of any kind to be established in the country. This was followed in rapid succession by GfK Polonia in Warsaw, GfK Praha in the Czech Republic and GfK Rus in Russia. As of 2006, GfK was the largest market research company in Romania, Slovakia, Slovenia and Ukraine; the second largest in Bulgaria, Croatia, Russia, the Czech Republic and Turkey; and ranked either third or fourth in Bosnia & Herzegovina, Poland, Serbia and Hungary.

The activities in Asia-Pacific started with Japan in 1985. In 2005, GfK launched its healthcare business in Asia in the form of subsidiaries in Singapore, Hong Kong and Thailand, as well as the former NOP World company, GfK Healthcare, in China. In 2007, GfK acquired the optics panel from Nielsen in Japan. Later, GfK also began operations in India (in partnership with Nielsen), Indonesia, Malaysia, Philippines, South Korea, Taiwan, Vietnam, Australia and New Zealand.

Operations in the United States started in 1999 when GfK Custom Research became the Group's first U.S. research company. This was followed in 2003 by V2 GfK and a year later by GfK Arbor. In 2005, GfK acquired NOP World, and in 2009 Nielsen's contact lens panel.

The number of consolidated subsidiaries worldwide increased from over 80 in the year 2000, to more than 140 in 2007 (Figure 3). Despite these investments, GfK was not able to establish a strong presence in the key market USA. Instead, the business was strongly dependent on the German and European markets.

Figure 3. Development of Fully Consolidated Subsidiaries (2000-2007)



Source: Feldenkirchen & Fuchs, 2009, p. 271

5. Failed Merger with British TNS

In 2008, GfK AG announced talks with the British company Taylor Nelson Sofres plc (TNS) about a merger of equals between the two companies (GfK AG, 2008). A combined GfK and TNS would have been the world's second largest market information group by revenues. The boards of the two companies believed that the combined group would be able to deliver a greater range of value-added solutions to all its clients more effectively. It was also believed that the combination would extend coverage in the fast-growing markets of Asia, Latin America and Eastern Europe. Shareholders of GfK and TNS would have each held 50% of the merged group. The GfK Verein would have remained the largest shareholder in the merged group, however, its shareholding would be reduced to around 28%. The global head office would have been based in London, while a German head office with significant business operations would have remained in Nürnberg. According to GfK AG CEO Klaus Wübbenhorst: "The combination of GfK and TNS would create a global leader in our industry. The two companies are a perfect fit and have a long and successful track record of working together. I have always believed that a combination would be in the best interests of customers, employees and shareholders."

While the merger was favored by the GfK Management Board, the plan finally failed due to financial constraints. Moreover, the intention to move the headquarters from Nürnberg to London, and the expected loss of importance led to resistance from the GfK Verein. Finally, TNS was acquired by British advertising and public relations company WPP and later rebranded as Kantar TNS.

6. From Multinational to Transnational Strategy

Until 2012, GfK had focused on internationalization and acquisitions to achieve a global footprint. However, there were many problems with the integration of the new acquisitions within a short period of time. GfK had been managed as a holding company with independent local entities. The foreign subsidiaries enjoyed a high level of autonomy. Their activities were often in the same fields, but accomplished with different software systems, organizational structures and reporting procedures, which were often only marginally adapted to the demands of the GfK Group. Moreover, research methodologies and data structures differed from country to country. Communication and pricing strategies also remained largely localized.

In June 2011, GfK announced that a new strategic initiative would commence from 1 January 2012. The priority of the One GfK initiative was globalization and integration (Hartmann, 2016). Furthermore, the initiative was designed to align with and take advantage of the transformations and innovations in the market research industry and the changing demands of clients in an increasingly global and digital world (GfK SE, 2011). The new strategy focused on organic growth and selective technology driven acquisitions.

A key element of the new strategy was to focus the businesses and consolidate its portfolio into two new sectors: Consumer Choices and Consumer Experiences. This should allow the company to cover the entire purchase cycle, from media usage and advertising exposure to consumer buying behavior. According to the long-standing CEO Klaus Wübbenhorst who left GfK in 2011, "the new strategic direction is a vital evolution. It is the logical development and culmination of the initiatives we have undertaken that have led to GfK's success. And our profound knowledge of consumers all around the world remains at the heart of everything we do."

In December 2011, GfK appointed Matthias Hartmann as the new CEO. The former Head of Strategy and Industries at IBM Global Business

Services moved from New York to Nürnberg and emphasized the need for further digitalization and internationalization, but also business integration: "Customers should have one contact person, no more three or four. We also set up a global product management system that represents our complete range of services in a uniform and clear manner" (cited in Janke, 2012). Moreover, GfK's business shifted from a local, low margin product portfolio to global, high margin offerings, while accepting overall reduced volumes (Table 2). This went along with a reduction of complexity. While in 2009, GfK operated 224 legal entities, this number was reduced by 19% to 182 in 2015 (Figure 4).

Table 2. GfK's Strategy, the Changing Market Environment and the Effect on Goodwill

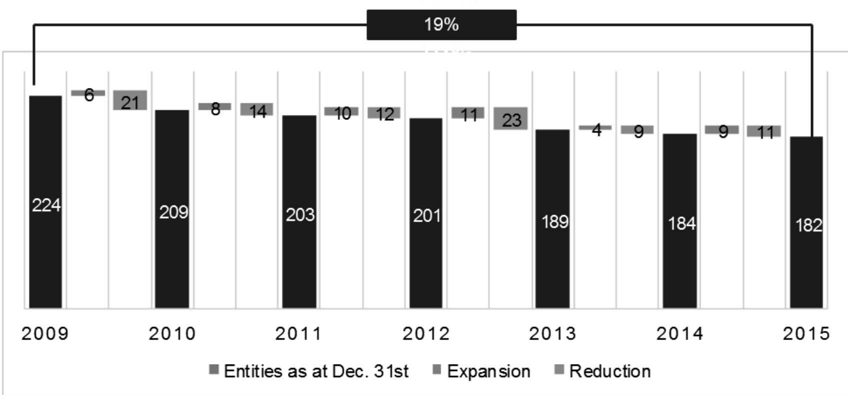
"Internationalization" of GfK – pre-2012	"Globalization and Integration" of GfK – since 2012
• Focus on acquisitions to achieve a global footprint • Strong growth of market research industry • Competitive M&A environment drove high multiples • Significant increase of Goodwill • GfK managed as a "Holding" company with independent local entities	• New strategy focusing on organic growth. Selective technology driven acquisitions • Decelerated growth, price pressure and commoditization in Customs Research market • Changing environment makes transformation of GfK's business model necessary • Shift from local, low margin product portfolio to global, high margin offerings accepting overall reduced volumes • Impairment test based on current market conditions and the new GfK business model • Goodwill impairment is cash neutral and therefore has no effect on investments and future business success

Source: Hartmann, 2016, p. 34

A new regional structure was implemented that consisted of six regions: Northern Europe (including Germany), Southern and Western Europe, Central Eastern Europe/META, Asia and the Pacific, North America, and Latin America (Table 3). For the first time in history, sales in Germany were no longer separately reported. The One GfK strategy also had consequences for the structure of the company's foreign operations. For example, in North America the existing two sectors were combined under the One GfK strategy. This would enable GfK to offer its range of services in North America in a more integrated manner. Gary Cofer became the first Managing Director in North America to be responsible for both sectors (GfK, 2016c).

The restructuring went along with a tighter control of international operations. Under former CEO Klaus Wübbenhorst, the foreign subsidiaries had received considerable leeway as long as they reported increasing reve-

Figure 4. Development of Legal Entities (2009-2015)



Source: Hartmann, 2016, p. 27

nues. This high level of autonomy was heavily abused in at least one case. In 2013, it was discovered that GfK's subsidiary in Turkey defrauded the GfK Group through tax and social security avoidance schemes for several years. GfK Group reported the matter to the authorities in Turkey which demanded a supplementary payment of 20 mn. €. GfK defended itself against the claim, but lost the process at the beginning of 2015 in the main points. In 2016, the company's Supervisory Board therefore initiated civil proceedings against its former CEO Klaus Wübbenhorst, who was the Board member responsible for Turkey and the Chairman of the Management Board of GfK Turkey during the period in which the violations occurred, and former CFO Christian Weller von Ahlefeld. In the opinion of GfK, the defendants breached their supervisory duties due to insufficient oversight (GfK, 2016b).

Table 3. Sales (in mn. €) by Sectors and Regions (2008-2016)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sectors (old structure until 2011)									
Custom Research	782.8	709.2	785.6	829.2					
Retail and Technology	304.1	325.8	370.8	407.0					
Media	130.1	126.4	133.1	132.9					
Sectors (new structure from 2012)									
Consumer Experiences				829.2	907.8	881.3	826.0	859.1	804

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Consumer Choices				539.8	601.6	607.8	623.6	681.1	680
Regions (old structure until 2011)									
Germany	316.1	301.3	340.8	376.6					
Western Europe/Middle East/Africa	487.2	458.1	483.0	520.5					
Central and Eastern Euro-pe	87.2	71.7	89.7	97.6					
North America	219.7	207.2	219.3	200.3					
Latin America	35.5	39.4	54.9	59.4					
Asia and the Pacific	74.8	86.9	106.5	199.5					
Regions (new structure from 2012)									
Northern Europe (including Germany)				596.3	622.4	607.7	574.9	575.6	538
Southern and Western Eu-rope				280.4	282.1	272.6	265.4	267.0	270
Central Eastern Europe/ META				118.0	121.8	127.7	127.5	126.5	128
North America				200.3	266.8	265.9	263.0	321.0	290
Latin America				59.4	66.6	66.5	61.2	67.9	70
Asia and the Pacific				119.5	155.0	154.4	161.0	185.4	189

Sources: GfK SE 2016a, p. 174 ; GfK SE 2017

7. Existential Crisis and Takeover by KKR

By the end of 2015, GfK was active in around 100 countries on all continents (Figure 5). While with the announcement of the One GfK strategy in 2011, the GfK Group aimed to increase annual sales to 2 bn. € by 2015, actual sales only reached 1.5 bn. € in that year (Table 4). Sales in the first half of 2016 even decreased by 1.5%, and adjusted operating income was down by 12.3 mn. € compared to 58.9 mn. € in the same period in the previous year. The regions Latin America and Central Eastern Europe/META reported robust organic growth rates. However, substantial negative currency effects also occurred. At the same time, a downward trend was evident in the mature markets of Northern Europe, Southern and Western Europe, as well as North America (GfK SE, 2016a). After two profit warnings, GfK's stock fell by 20% in August 2016.

Figure 5. Worldwide Sales and Employment Structure of GfK SE (2015)

Source: GfK SE 2016a, p. A1

As a consequence of the disappointing business development, GfK announced in August 2016 that CEO Matthias Hartmann had mutually agreed with the Supervisory Board of GfK SE to leave the company as of December 31, 2016. "His departure is the result of differing views regarding the long-term direction of the business between Mr. Hartmann and the majority shareholder, GfK Verein." He was succeeded by Peter Feld, formerly CEO of WMF Group and member of the executive board at Beiersdorf, on March 15, 2017 (GfK SE, 2017b). Additionally, Arno Mahlert resigned as Chairman of the Supervisory Board effective September 12, 2016 "given differences of opinions in the cooperation with the majority shareholder." Arno Mahlert had been serving as a member of the Supervisory Board of GfK SE since 2004 and had been its chairman since 2008 (GfK SE, 2016d).

Four months after the departure of CEO Matthias Hartmann, Acceleratio Capital, a Dutch holding company controlled by funds advised by the private equity company Kohlberg Kravis Roberts (KKR), announced a voluntary public tender offer for GfK at a price of 43.50 € per share in an all-cash transaction (GfK SE, 2016f). This offer represented a premium of about 44% to the estimated three months volume weighted average share price prior to the announcement. The GfK Verein retained its majority

Table 4. GfK Group in Figures (2014-2015)

		2014	2014 1)	2015	2015 1)	Change (in %) 1)
Sales	mn. €	1,452.9	1,452.9	1,543.4	1,543.4	+6.2
EBITDA	mn. €	202.2	202.2	231.2	231.2	+14.4
Adjusted operating income	mn. €	178.8	178.8	187.6	187.6	+4.9
Margin	%	12.3	12.3	12.2	12.2	-
Operating income	mn. €	68.0	127.5	104.2	143.6	+12.6
Income from ongoing business activity	mn. €	47.6	107.1	87.9	127.3	+18.9
Consolidated total income	mn. €	19.4	78.9	40.7	80.1	+1.6
Tax ratio	%	59.3	26.3	53.7	37.0	-
Cash flow from operating activity	mn. €	196.9	196.9	170.9	170.9	-13.2
Earnings per share	€	0.16	1.79	1.01	2.09	+16.8
Dividend per share	€	0.65	0.65	0.65	0.65	+0.0
Total dividend	mn. €	23.7	23.7	23.7	23.7	+0.0
Number of employees at year-end	full time positions	13,380	13,380	13,485	13,485	+0.8

1) Excluding goodwill impairments of 59.5 mn. € (2014) and 39.4 mn. € (2015)

Source: GfK SE 2016a, p. A1

shareholding in GfK of 56.46% and the GfK headquarters remained in Nürnberg (GfK SE, 2016g). The remaining minority shareholders were squeezed-out and the company was delisted (GfK SE, 2017c).

According to Ralf Klein-Bölting, Chairman of the Supervisory Board of GfK, "the objective of this transaction is to support and accelerate GfK's strategic transformation. We are combining GfK Verein's deep understanding of the business with the international market and sector expertise of a leading global investment firm. We are convinced that KKR is the right partner to support the Management Board's strategy to reposition GfK, in the interest of the entire company, and its dedicated employees as well as its customers, to help create long-term growth" (cited in GfK SE, 2016f).

KKR has been a leader in the private equity industry for 40 years and is still led by its founders, Henry Kravis and George Roberts. It has a record of successful investing in Germany and German speaking countries and has extensive experience in media and new technologies such as Nielsen and ProSiebenSat1. During KKR's ownership, Nielsen grew its revenues and EBITDA through a combination of investing into its digital operations and acquisitions in strategic growth markets (GfK SE, 2016f).

The investment of KKR took place in a period of fundamental changes in the market research industry. Established firms like GfK are challenged by entrepreneurial start-ups that predominately invent innovative technologies and research methodologies. For example, smartphone applications are becoming increasingly popular which allow for customer-specific and flexible mobile market research at low costs. At the same time, "a grand fusion of intelligence-provider subsegments to deliver solutions demanded by clients in the era of Big Data" (AMA, 2016) can be observed. This requires globally operating full-service firms that combine expertise in different segments, such as predictive analytics, social media, data visualization and enterprise feedback. Like most other large market research firms, GfK therefore has to find a balance between global efficiency derived from standardized high-scale services on the one hand, and flexible adaptation to diverse and fast-changing customer demands on the other. This balance had to be found under the conditions of a unique corporate structure with a non-profit organization as majority stakeholder and a strong affinity to the company's hometown Nürnberg.

8. Strategic Combination with NielsenIQ

After KKR's takeover, GfK underwent major restructuring following its delisting in 2017. This resulted in leaner structures, simplified and standardized processes as well as a simplified portfolio. The year 2021 was completed with high single-digit percentage growth in net sales. A key element of GfK's strategy is the digital AI-powered insights and analytics platform 'gfknewron' which tracks data from more than 100,000 retailers with around 180 million products in over 50 countries worldwide.

After a successful transformation of the company, Peter Feld, who had been CEO since March 2017, decided to leave the company on March 14, 2022. He was replaced by interim CEO Lars Nordmark who joined GfK as CFO in February 2019. Nordmark previously worked for the Swedish communications company Tele2 AB and the Securitas Direct Group (GfK SE, 2022a).

Shortly afterwards, GfK announced a definitive agreement to combine with the US-American NielsenIQ. "GfK's leading position in technology and durables across 67 countries, combined with NielsenIQ's leading position in the measurement of fast-moving consumer goods in 90 countries will allow for expansion within the companies' traditional client industries as well as new market segments" (GfK SE, 2022b). Advent International, which acquired NielsenIQ in 2021, would be the majority shareholder in the combined company, while Nuremberg Institute for Market Decisions (NIM) and KKR would remain invested as significant shareholders. The merger was completed in 2023 after GfK sold its European Consumer Panel business to YouGov, thus addressing competition concerns by the European Commission. The combined company has over 4 bn. $ in sales and more than 30,000 clients covering more than 100 countries. It will be headed by NielsenIQ CEO Jim Peck. After the departure of GfK-interim CEO Lars Nordmark, US-American Joshua Hubbert is the only former GfK manager to remain on the management board of the new company. The combined company will have its headquarters in Chicago (GfK, 2023).

GfK will retain its name as well as the location in Nürnberg. However, it is still unclear how many people will work in the future in Nürnberg and for GfK in general. After years of downsizing, there are currently 8,000 employees worldwide. “The term ‘merger’ glosses over the fact that the US giant, three times larger, is swallowing up the German number one. Formally, the parent company of NielsenIQ, the US financial investor Advent, takes over GfK for a rumored 2.7 bn. € (…). However, there has long been no room for nostalgia at GfK. The company has fared too badly for too long, and the concentration process that the market and opinion research industry is experiencing is too great for that” (Ritzer, 2022).

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Dirk Holtbrügge

The Acquisition of Waldrich Coburg by Beijing No. 1 Machine Tool Plant. A Case Study of Successful Acculturation

"The Franconian and Chinese mentalities go well together."
Hubert Becker, Former Managing Director of Waldrich Coburg

1. Chinese Investment in Germany: Motives and Challenges

The acquisition of the Franconian machine tool company Waldrich Coburg by Beijing No. 1 Machine Tool Plant in 2005 was one of the first large investments by a Chinese company in Germany. Often strongly supported by their government, many Chinese companies go abroad in order to gain access to modern technologies, management know-how and qualified employees (Holtbrügge & Berning, 2014). However, many attempts fail due to a lack of international experience and a negative country-of-origin image.

In contrast, the acquisition of Waldrich Coburg by Beijing No. 1 is an example of successful cooperation between a German and a Chinese firm. As opposed to the previous American owners, Beijing No. 1 pursued a careful, culture-sensitive leadership style, and managed to successfully integrate the two diverse cultures. Consequently, almost two decades after the acquisition, Waldrich Coburg has nearly doubled its sales volume and workforce.

2. Company Backgrounds

2.1 Waldrich Coburg

The history of Waldrich Coburg dates back to 1919 when engineers Adolf Waldrich (until then a partner of the company H.A. Waldrich Siegen) and Emil Hardt came to Coburg and opened a small factory consisting of 20 employees, which was later renamed as Globuswerke (Table 1; Waldrich Coburg 2023a). They were first engaged in the repair of machine tools, but soon began to develop glass processing machines and hydraulic drive systems of their own. In 1926, Emil Hardt left the company, which was renamed as Maschinenfabrik Adolf Waldrich after his departure.

Table 1. Waldrich Coburg at a Glance (2023)

Founded	1920
Number of Employees	530
Turnover	150 mn. €
Sites	Germany, China, USA
Products	Portal-type machining centers with travelling table or travelling gantry, horizontal machining centers, flexible manufacturing systems, vertical lathes, guideway and surface grinding machines, grinding centers, grinding machines for corrugating rolls, milling machines for components of switchrails
Managing Board	Uwe Herold, Falk Herkner, Qunwei Wu

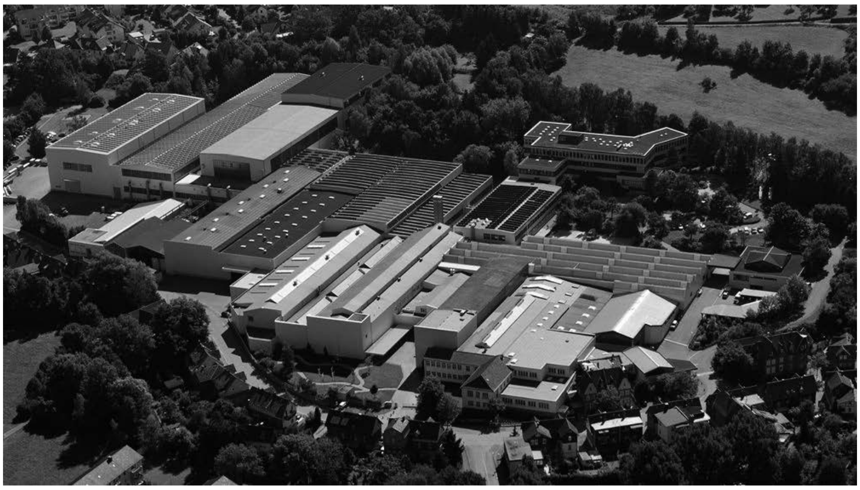
Source: Company Information

By 1950, the staff had increased from 50 to 347 employees due to the production of a series of planers, the further development of the production range and the continuous expansion of the production capacity. In 1950, the company's founder Adolf Waldrich died at the age of 61 and his son Otto took over the company which was subsequently renamed Werkzeugmaschinenfabrik Waldrich Coburg GmbH. The line of planers was expanded with combined grinding and milling machines, thread-peeling and extrusion worm-milling machines, and guideway and surface grinding machines. Waldrich Coburg earned a reputation as a supplier of high precision and reliable products, which allowed the company to enter new markets and to increase its export share continuously. In 1970, the company had its largest workforce with 1,000 employees.

Otto Waldrich retired in 1986 and sold the very successful company to the American Ingersoll Group. The market was divided up and the staff was reduced to approximately 400 employees within the following six years. In

2004, the new owner Ingersoll filed for insolvency and the company was sold to the Herkules Group. Hubert Becker, General Manager of Waldrich Coburg described these years as a 'tragic odyssey'. The turnover sank sharply and the number of employees was cut in half. The main causes for this were poor management decisions by the new owners who did not completely understand German business and massively disturbed organizational processes and development.

Figure 1. Aerial Photography of Waldrich Coburg Plant in Coburg



Source: Company Information

2.2 Beijing No. 1 Machine Tool Plant

Beijing No. 1 Machine Tool Plant was founded in 1949 and is currently owned by Beijing Jingcheng Mechanical & Electrical Holding Co., Ltd., which in turn is owned by the Beijing city government. In 2007, the company had 6,000 employees, a registered capital of 90 bn. RMB and a turnover of about 1 bn. RMB (Sohm, Linke & Klossek, 2009). Its products include CNC machines, machining centers, mills, and other drilling and boring machines which are sold in China and exported to more than 50 countries. Although founded as a state-owned enterprise (SOE), Beijing No. 1's management has been open to new strategies and methods from early on during China's reform period and was among the first firms to partner with foreign manufacturers. For example, the company entered into a joint venture with Okuma Corporation to produce horizontal and vertical machine tool centers and digital machine centers in 2002 (Ge, 2007).

3. The Partnership Evolves

The contacts between Beijing No. 1 and Waldrich Coburg started in 1984 and were initially restricted to a fairly loose form of cooperation. After Beijing No. 1 became a customer of Waldrich Coburg, the two companies became better acquainted and learned to appreciate each other's reliability. For a long time, the Chinese were primarily interested in technology transfer, however, later on they also became interested in cooperating for employee training and exchange of experiences in international management. Behind all this was the strategy of moving ahead with increasingly high-value products, at first in the Chinese and then in the international market. Waldrich Coburg, on the other hand, seized the opportunity to enter the Chinese market and to acquire intercultural experience in working together with Chinese entrepreneurs.

The strategies of the two companies gradually began to converge on account of their positive experiences. When Beijing No. 1 decided that it would try to achieve technological leadership and access to the global market, it submitted an offer to acquire Waldrich Coburg in 2003. However, because the owners did not believe that the Chinese company could pull off a deal of this magnitude, it was at first rebuffed. The situation changed suddenly when the new owner, the machine manufacturing company Herkules in Siegen, decided that it was no longer interested in Waldrich Coburg.

On June 18, 2005, top executives of Beijing No. 1 went to Germany to conduct talks about a possible acquisition. As one Chinese top manager explained: "We decided to buy Waldrich Coburg for strategic reasons. We wanted to become a global player. Now we're practically standing on the shoulders of a giant." The American investment banking and restructuring consulting firm Amherst Partners was retained to conduct due diligence and to make an initial assessment. During interviews with mid-level managers in purchasing, production, sales and other departments, it became obvious that the Waldrich Coburg managers were afraid of being acquired by a Chinese company. They feared that the new owner would cannibalize their company, taking its technology, designs and equipment to China. "When we were to be acquired by Beijing No. 1, our main worry was how the customers would react" (cited in Huiping & Lynton, 2011).

In response, Cui Zhicheng, plant manager of Beijing No. 1 at that time, assured the managers that his company wanted a robust subsidiary in Germany and solicited their advice on how to improve Waldrich Coburg's competitive position: "Waldrich Coburg is like a big tree, deeply rooted in Germany. It would be foolish for me to move this tree to China. I would very much like to share the fruits with you. Right now Waldrich Coburg only has 22% of the market share in the world. Together we should go after the other 78%" (Cui 2009). Hubert Becker, the Managing Director of Waldrich Coburg, admitted: "In the beginning there was some skepticism among the employees and customers when it became known that a Chinese company is intending to buy the old-established Coburg company. But all doubts were gone, when it soon became clear that Beijing No. 1 regards Waldrich Coburg as an independent German company and that the company decisions will remain in the responsibility of the local managers. The statement 'Waldrich Coburg remains Waldrich Coburg' satisfied employees as well as customers" (cited in Huiping & Lynton, 2011).

On September 7, the two parties reached a principal agreement for the sale of Waldrich Coburg at a price equal to 20% of its annualized cash flow (Huiping & Lynton, 2011). After being approved by the Chinese authorities, the sale to Beijing No. 1 was formally concluded on October 24, 2005. Because Waldrich Coburg is one of the largest employers in the Coburg region, the deal was also supported by the local authorities, for example, through a non-bureaucratic issue of work permits for Chinese managers.

4. Key Executives

From the very beginning, trust between the key executives was a very important factor. With the selection of three managing directors, Hubert Becker (Chairman), Horst Rothhaupt (Marketing), and Uwe Herold (Finance), Beijing No. 1 relied on long-standing Waldrich Coburg executives who enjoyed the complete confidence of the employees, and at the same time had excellent relationships with the top Chinese executives built over many years. Xiangjun Qu became the only Chinese member of the management team and his main task was to exchange information with the headquarters in China. He was later replaced by Qunwei Wu. Beijing No. 1 ensured that the Chinese expatriates did not one-sidedly represent Chinese interests, but regarded themselves as linking pins who transmit concerns, problems and facts directly from Coburg to Beijing and vice versa. This ongoing transparency formed an important basis for joint meetings between executives from Coburg and Beijing, which take place on a regular basis in order to evaluate business successes and to define the goals of the company (vor der Sielhorst, 2012).

The new chairman of the management board Hubert Becker was born in 1954. He started his career as a metalworker apprentice at Waldrich Coburg and has worked at the company ever since. After his vocational training, he worked in the assembling and construction areas, and simultaneously studied mechanical engineering at FH Heidelberg from where he graduated in 1978. Afterwards, he worked as a mechanical engineer in various functions before being appointed as a member of the executive board of Waldrich Coburg in 2002. In 2020, Becker handed over the office to Uwe Herold and Falk Herkner (Nagel, 2020).

The decisive person on the Chinese side was Cui Zhicheng, who had been promoted to the position of plant manager of Beijing No. 1 Machine Tool Plant in June 2005 (Ge, 2007). Born in China's Northeast province of Liaoning, he studied at Shanghai's prestigious Jiaotong University and received an Executive MBA from Qinghua University, one of China's leading universities. Cui began his professional career in Beijing working for the Beijing No. 2 Machine Tool Plant. During this employment, he rose to be the supervisor in charge of the workshop, information technology, and administration and was later promoted to the position of deputy plant manager in charge of import and export. In 2004, he became the director of the International Department of Beijing Capital Investment Co., the holding company of Beijing No. 1, where he was responsible for international cooperation. Despite his impressive list of accomplishments, Cui Zhicheng had practically no international experience when Waldrich Coburg was acquired in 2005 (Huiping & Lynton, 2011).

5. Post-acquisition Repositioning and Acculturation

On account of the workforce's negative experiences with the former owner Herkules, which wanted to introduce less favorable working conditions after acquiring Waldrich Coburg, the expectations of the workforce were initially very low. This provided an opportunity to change the mood among the employees by introducing a number of sensible measures. A decisive step was taken by Cui Zhicheng, the Managing Director of Beijing No. 1. In a speech to the workforce, he explained the strategy of his company and promised that no one would be made redundant, guaranteed the continued existence of the Coburg plant and stated: "Waldrich Coburg is a hundred-year-old oak tree that could only continue to grow on German soil" (cited in Zhang, 2010).

Another positive sign was that the new Chinese parent company decided to finance the acquisition using its own financial resources and to reinvest the profits generated by Waldrich Coburg in the company. As a result, the equity-capital ratio increased to 40%, which was an excellent figure for a company in the industry. Over a period of five years, 40 mn. € was spent on new factory buildings and machines, offices, repairs, canteen and social rooms. This resulted in the most successful period in the company's recent history. Sales more than doubled and the workforce grew from 500 to 800 employees (Huiping & Lynton, 2011).

The employees responded in a positive way to the transparent explanation of the reasons for the acquisition and the clear description of what was going to happen in the future (Sohm, Linke & Klossek, 2009). It was also appreciated that the existing employment conditions, such as compensation policies, working hours, training and career opportunities, were left largely unchanged. This resulted in a very low fluctuation rate. After the acquisition, only one sales representative left the company (for personal reasons) and the remaining sales force signed renewed contracts (Huiping & Lynton, 2011). As the former chairman of the works council Hardy Müller confirmed: "The investments in the German locations show that the Chinese stand by Waldrich" (cited in IG Metall, 2016).

Another important aspect comprises the intentions of the Chinese management. Whereas Waldrich Coburg did not have a say in the actual takeover, the management of the company was co-opted by the new owners to participate in the development of a common strategy. The company continued to not only apply itself to the international markets, but also increasingly to the Chinese market where Waldrich regained some freedom on the operational side of the business. The product strategies of the companies also complement each other. While Waldrich Coburg is considered a premium manufacturer, Beijing No. 1 is a low-cost manufacturer. Thus, the two companies can serve the market in two price segments. In Beijing No. 1's marketing strategy on the Chinese market, Waldrich Coburg contributes its reputation as a quality manufacturer, so that the communication strategy can point to the existence of high technological standards in both price segments. At the same time, the parent company in Beijing has won the respect of Chinese competitors and customers on account of its successful acquisition in Germany, which strengthened its strategic position on the domestic market and subsequently in international terms (Sohm, Linke & Klossek, 2009).

A key element of the acculturation process is technical and intercultural training. German technicians regularly fly to China in order to do routine maintenance, and to train their Chinese colleagues to deal with the service side of the business. Conversely, small groups consisting of mainly young Chinese technicians and managers are sent to Coburg for on-the-job trainings and to experience the highly sophisticated manufacturing organization. For off-the-job training, Waldrich Coburg cooperates with the Coburg University of Applied Sciences and the University of Shanghai for Science and Technology, which has developed a special Sino-German course (Oswald, 2012). These measures are accompanied by leisure activities for German and Chinese employees which are designed to promote intercultural progress and mutual understanding (vor der Sielhorst, 2012).

Finally, communication with employees and external stakeholders has proved to be an important aspect of the acculturation process. A company newspaper "Waldrich Coburg News" is regularly published in German and English (http://www.waldrich-coburg.de/company-newspaper.html?L=1). Initially introduced in order to facilitate internal communication at the Coburg plant, it has become widely influential in informing the general public about the developments of the company. The special nature of Sino-German cooperation in a provincial town such as Coburg has also been the subject of many reports in local and national newspapers as well as on television. The favorable media response has helped make the employees proud to work at Waldrich Coburg and to overcome the negative country-of-origin image of Chinese firms (Holtbrügge & Kreppel, 2015).

6. Headquarters-Subsidiary Relationship

As a result of their due diligence, Beijing No. 1 had already learnt that Waldrich Coburg was a very well-managed company. The German managers were therefore given a high degree of operational autonomy which allowed them to run the day-to-day business. Only a very small number of Chinese expatriates have been sent to Coburg and their responsibility is mainly to coordinate the activities of the two partners – an approach often referred to as "light-touch integration" (Liu & Woywode, 2013). "We identified 56 different operational issues in business management and implemented a clear division of responsibility between German managers and those from Beijing No. 1 to address these issues. Among the 56 issues, nine are financial, such as selecting an auditing firm, preparing a year-end balance sheet, signing long-term agreements with banks and making extraordinary payment. These financials issues are decided by Beijing No. 1. On many other issues, such as Waldrich Coburg's hiring employees (no more than 10 at one time, or 20 within a six-month period), no approval from Beijing No. 1 is required.

Similarly, sales that produce a profit of 3% or more do not require approval from Beijing" (Cui, 2009).

In order to coordinate the activities at Waldrich Coburg, its general manager reports to Beijing No. 1 executives at the beginning of each calendar year. There is an annual joint management meeting with participants from Beijing No. 1 and Waldrich Coburg, representatives of the state-owned Beijing Jingcheng Mechanical & Electrical Holding and customer representatives. During this meeting, representatives review the company's past performance and set goals for the coming year (Lee & Lynton, 2012).

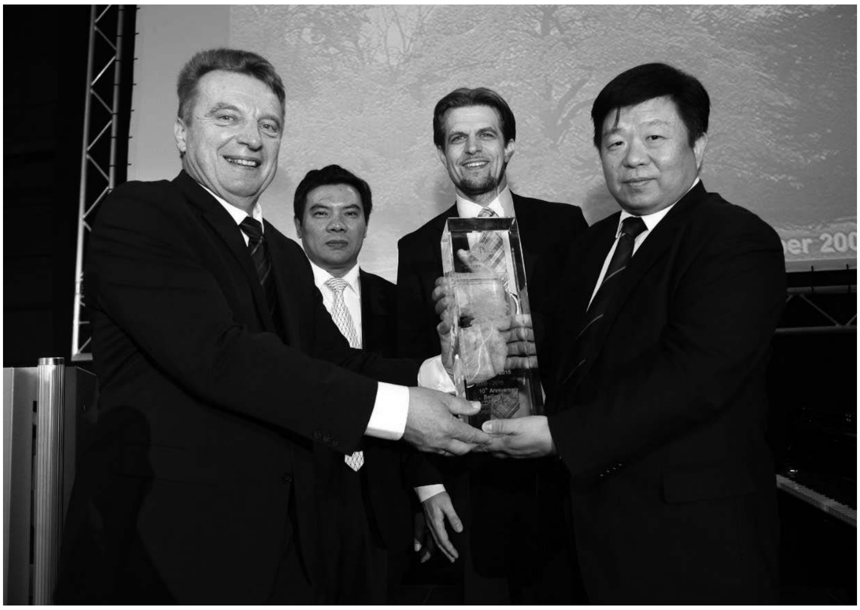
7. Evaluation and Outlook

On the occasion of celebrating 10 years of partnership between the two companies (Figure 2), Managing Director Hubert Becker emphasized the trusting relationship that Waldrich Coburg has established with its Chinese partners. Wang Xu, the newly established Director of Beijing No. 1, complemented: "We really have grown together, working in partnership at every step of the way to yield opportunities for both companies" (cited in Nagel, 2015).

Becker admitted that there was initially plenty of skepticism among employees, customers and the general public: "If an American company buys a German one, nobody cares two hoots. But if a Chinese company does, everyone is very worried all of a sudden", said Hubert Becker (cited in Zhang, 2010). However, the very positive development of sales and profits helped to smooth these concerns. "In 2005, we had about 500 employees and now there are 750 of us", said Becker (cited in Zhang, 2010). "We had Chinese-like growth rates, which makes us an exception in the machine tool industry in Germany." Even in 2009 – during the global financial crisis – the company had a growth rate of 20%, whereas the machine tool industry in Germany fell overall by 30%. "Our situation cannot be found elsewhere. We were able to breathe during the crisis and implement our customers' requests better than in 2008."

Today, Waldrich Coburg is one of the world's leading large machine tool manufacturers with manufacturing facilities in Germany, China and the USA. Customers include ALSTOM, Caterpillar, Siemens, Volkswagen, MAN, Wärtsilä, China Shipbuilders CSSC and CSIC, Dongfang Turbine, Mitsubishi, Hyundai, Larsen & Toubro and BHEL. As the main reasons for success, Cui Zhicheng emphasized careful due diligence, good communication, adherence to international practices, and a competent executive leadership team: "I can only advise other companies in a similar situation to give the German managers all the freedom they need to cultivate a reticent leadership style" (cited in Sohm, Linke & Klossek, 2009).

Figure 2. Celebrating 10 years of Cooperation with Beijing No. 1



From left to right: Managing Director Hubert Becker, Managing Director Qunwei Wu, Managing Director Uwe Herold and Director Wang Xu

Source: http://www.waldrich-coburg.de/print/pressemitteilungen/newsdetails/article/vertrauen-schafft-erfolg.html.

When asked about the contribution of Beijing No. 1 to the success of Waldrich Coburg, Hubert Becker added: "Actually, their contribution is minimal. We operate alone, and so does our Chinese partner. Everybody has their own markets (…). Our former owners often interfered into our operative business. This decelerated our development. Since the acquisition by Beijing No. 1, we can now act as required of an entrepreneur: We can expand globally and decide independently" (cited in Müncher, 2014).

Almost two decades after the takeover, Waldrich Coburg positions itself primarily as a medium-sized German company and only rarely emphasizes the fact that the company has Chinese owners. And as with most German medium-sized companies, the biggest challenges facing Waldrich Coburg currently are disrupted supply chains, the Russian war against Ukraine and high energy prices (Waldrich Coburg, 2023b). The takeover by a Chinese company is – thanks to successful acculturation – only one episode in the more than 100-year history of Waldrich Coburg.

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Tassilo Schuster & Dirk Holtbrügge

Internationalization of Professional Service Firms. The Case of Rödl & Partner

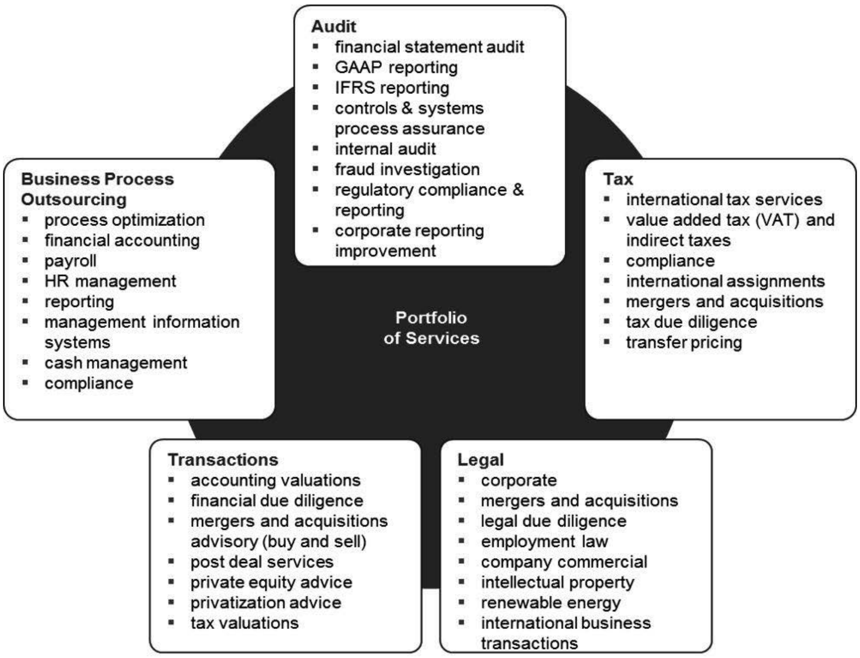
"Our clients are just like us, unremittingly active around the world. We cross linguistic and cultural boundaries for mutual success."
Rödl & Partner Managing Director Martin Wambach, 2014

1. Rödl & Partner: A Global Company with Franconian Roots

"You are biting off more than you can chew" and "this is one step too far for you" (Kastl & Rödl, 2000), is what managing directors Monika Rödl-Kastl and Bernd Rödl of the auditing, tax consulting and law firm Rödl & Partner from Nürnberg kept hearing when they started to expand into markets that had been considered difficult. This was especially true for their engagement in China starting in 1994 when the company entered the market almost simultaneously with much greater competitors such as KPMG and Ernst & Young. However, despite previous doubts, the company has been – much like in numerous other countries – highly successful. "China is undoubtedly one of the most important foreign markets for us. Our aim for the future expansion is to have a strong presence throughout China. Although the market entry came with several obstacles, we can say that the risk was worth the trouble", stated Monika Rödl-Kastl and Bernd Rödl (Kastl & Rödl, 2000).

Rödl & Partner is an integrated professional services firm headquartered in Nürnberg. It has developed into one of the leading German firms for auditing, accounting, tax, legal and business consulting services, and advises clients in their business activities worldwide. Most of its clients

Figure 1. The Service Portfolio of Rödl & Partner



Source: compiled from Rödl & Partner, 2023a

are family-owned companies with substantial international investments that greatly benefit from Rödl & Partner's broad portfolio of advisory services (Figure 1). "I was truly convinced that especially family-owned companies are in need of comprehensive advice", highlighted Bernd Rödl. "This has been at the core of our business model ever since" (Rödl & Partner, 2023b).

To serve its worldwide operating clients, the company has established an extensive network of offices in all major industrialized countries and has built a strong market presence especially in Central and Eastern Europe, Asia, and the USA. Rödl & Partner can look back at a continual and tremendously fast international expansion. In fact, as one of the 500 fastest growing companies in Europe, Rödl & Partner received the "Europe's 500 Award" in 2001.

2. Milestones of Corporate History

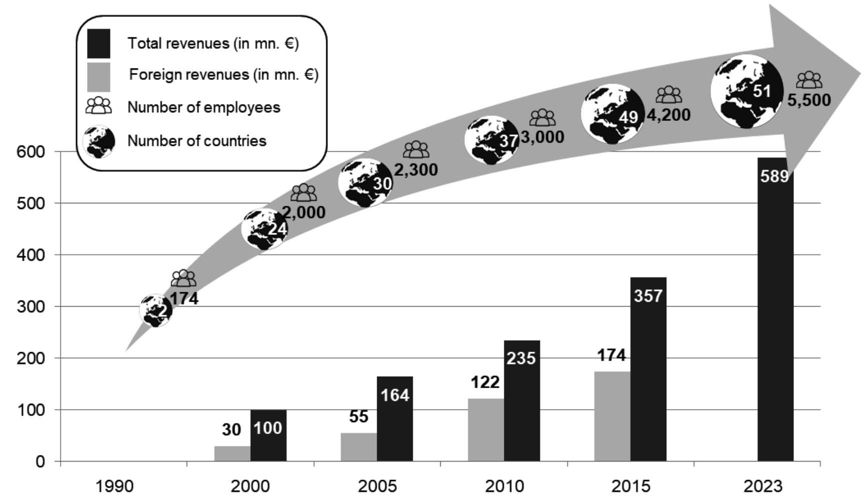
The history of Rödl & Partner began in Nürnberg in 1977 when Bernd Rödl, after receiving his doctorate in law from the Friedrich-Alexander-University Erlangen-Nürnberg, decided to become self-employed and founded the company in the hobby room of his terrace house (Jahn, 2008). Rödl & Partner soon started to expand its business activities to other locations in Germany and opened local branches in Munich, Hof and Plauen in the late 1980s. At that time, the company employed 120 employees in its four locations.

The breakthrough for Rödl & Partner came with the fall of the Iron Curtain and its expansion to East Germany and Central and Eastern Europe in 1989 and 1990. Rödl & Partner was the first professional services firm to open offices in East Germany prior to German reunification and in Prague in the former state of Czechoslovakia, followed by offices in Warsaw and Budapest. "It was obvious to us that we wanted to assist our clients in their ventures in Eastern Europe. We put our heart and soul into establishing new offices abroad" (Rödl & Partner, 2023b), remembered Bernd Rödl when he talked about the pioneering experiences at that time. "I remember that the border officials stood there with their Kalashnikovs. And when they looked at my passport and saw that I was born in Carlsbad (Karlovy Vary), they wondered why I don't speak their language. Today, we can share this business experience with others", he further emphasized (cited in Jahn, 2008).

The 1990s were characterized by further internationalization steps. In 1992, the company entered Russia, in 1994 it entered China, and in 1998 it opened its first office in Indonesia. The activities in Southeast Asia were greatly expanded with the establishment of offices in India, Vietnam, Thailand, and Singapore. Further sites were added in Middle and Eastern Europe and in Scandinavia. After 2000, Rödl & Partner strengthened its market positions throughout Eastern Europe, Asia and the USA. In the last few years, despite a continuous emphasis on expansion in Asia, Rödl & Partner started to turn towards Africa where it opened its first office in Johannesburg in 2008. Ethiopia and Kenya followed in 2014.

In 2023, Rödl & Partner has 21 offices in Germany and more than 80 offices in around 50 other countries. The company has a workforce of more than 5,500 employees worldwide, around 3,400 of them abroad (Rödl & Partner, 2023c). The fast international expansion has helped Rödl & Partner to nearly triple its revenues in the last 15 years to 588.6 mn. € in 2022 (Figure 2).

Figure 2. International Expansion of Rödl & Partner (1990-2023)



Sources: Bender, 2011; IHK, 2002; Rödl & Partner, 2003; Rödl & Partner, 2005; Rödl & Partner, 2011; Rödl & Partner 2016a; Rödl & Partner, 2023c

"We owe our success especially to our clear focus on providing advice to German companies", said Bernd Rödl. "Our clients both in Germany and abroad are mainly German family-owned companies with operations worldwide. Whatever the country, we apply the same standards to all our advisory services. This is possible because Rödl & Partner is not a loose network, but a professional services firm with its own offices. This allows us to ensure top quality worldwide" (Rödl & Partner, 2023b).

This statement discloses that the early internationalization of Rödl & Partner was guided by the belief that the German Mittelstand must actively participate in internationalization to be successful. If small and medium-sized companies fail to participate in the process of globalization, they will be condemned to a marginal existence within the national niche and thus threatened to become extinct in the long run (Kastl & Rödl, 2000). For Rödl & Partner, a medium-sized law firm at that time, this implies a belief that in order to offer a globally consistent range of high-quality services, a company must be present in a market before its clients decide to go there.

This strategy enabled Rödl & Partner to be acquainted with the unique market conditions before a considerable demand had emerged. For example, the company rented billboards at airports in Eastern Europe in order to give a homely feeling to its clients when they arrived there. "Many clients came to me and said that the first thing they saw when they got out of the airplane were our billboard", remembered Monika Rödl-Kastl, who as a managing partner had been responsible for international activities. "This has not only reduced our clients' uncertainty, but also demonstrated that we are the ideal partner to assist with their expansion to international markets" (Kastl & Rödl, 2002). "Our greatest strength lies in international financial auditing, which can be managed consistently from Germany. Simultaneously, we are able to win more and more of our foreign clients over as they expand to Germany. There is a growing number of big and publicly listed medium-sized companies amongst them that have come to appreciate the quality of our consultancy abroad", she added. "The service to German companies, especially in Middle and Eastern Europe, Asia and the USA has contributed strongly to our growth. The German Mittelstand, but also the big corporations, count on our German-speaking, international consulting services from a single provider. It pays off to be comprehensively present with strong law offices in Europe, as well as in the economic centers in the Southeast of the USA and Asia", she stressed (Kastl & Rödl, 2002).

Despite its global presence, Rödl & Partner has always remained faithful to Nürnberg, the place where it was originally founded. "We have strong roots in this region. The business environment is truly unique here", emphasized Bernd Rödl who always promoted the development of the Nürnberg Metropolitan Region, for instance, as Vice President of the Chamber of Industry and Commerce Nürnberg for Middle Franconia or as Managing Director of the Association for Innovative Entrepreneurship in Northern Bavaria. Moreover, he promoted the close exchange of research, science and business information in his function as a member of the university council of the Friedrich-Alexander-University Erlangen-Nürnberg (Rödl & Partner, 2015).

In 2005, the company once again showed its loyalty to the region when it moved its head offices to new business premises in Nürnberg. This was in conjunction with the opening of the new Rödl & Partner Campus, a worldwide active training center. "The Rödl Campus vividly embodies our organizational culture as a professional services firm. In our work as accountants, auditors, lawyers, management and tax consultants, we put great emphasis on communication and an open-minded attitude. Architecture is of core importance if we want to make our corporate concept of a modern and forward-looking professional services firm stand out. The building perfectly epitomizes our organizational culture", added Bernd Rödl (Rödl & Partner, 2023b).

In 2010, the founder Bernd Rödl withdrew from the operational management and handed the company over to his son Christian Rödl. The change in the leadership team, however, was without consequences for the business strategy of the company as it was planned and executed over five years. “We are very proud to continue our success story, and to start a new generation with a strong and well-working team. All executive partners at Rödl & Partner have been in position for more than ten years (Figure 3). This continuity and reliability is an important pillar of our corporate culture and values”, said Christian Rödl (cited in Anonymous, 2011).

Figure 3. Managing Partners of Rödl & Partner

Source: Rödl & Partner, 2023f

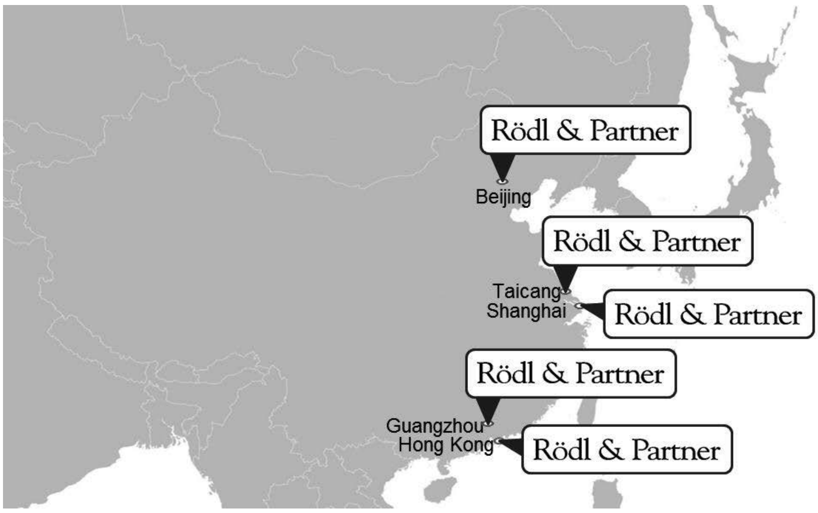
On November 9, 2015, the founder Bernd Rödl passed away at the age of 72 after suffering from cancer (Rödl & Partner, 2015). With his death and the resignation of his widow Monika Rödl-Kastl, the management of the company has now completely transferred to the next generation.

3. Rödl & Partner in China

3.1 Business Strategy

A key focus of Rödl & Partner's internationalization strategy has been China (Holtbrügge and Schuster, 2008). After the company received a license to offer financial auditing in China in 1994, Rödl & Partner opened their first office in Shanghai in 1995, which was followed by a second one in Hong Kong. To further expand in China and strengthen the local presence and customer proximity, two additional offices were opened in Beijing and Guangzhou in 2004, and finally in Taicang near Shanghai in 2016 (Figure 4).

Figure 4. Locations in China



Source: Rödl & Partner (2023e)

Bernd Rödl saw two main reasons for the growing success on the Chinese market; individualized personal consulting and customer proximity. "We have managed to establish a close and trusting relationship with our clients while being present globally. Every client has a contact person who is able to offer the comprehensive services altogether" (Kastl & Rödl, 2002). "Rödl & Partner has always been growing by itself and therefore been able to establish a strong company culture", he stressed (Rödl, 2001). On rare occasions, the company has also examined the possibility of acquiring successful specialized law firms, but only if the team fits in with the organically grown corporate culture.

By obtaining the license for legal consulting, Rödl & Partner took another important step by offering its clients not only financial auditing, but also tax and legal advice. Monika Rödl-Kastl emphasized: "Especially in a booming market such as China, a comprehensive full-service consultancy which we can offer from Germany is a very attractive offer for companies. You cannot imagine how great the relief of some clients is when they can settle their problems in Shanghai by making a call to Nürnberg."

To support the local offices in China, both an Asia and a China desk were established in the head office. These competence centers provide employees with specific information on industries and markets, while serving as a contact at the German headquarters for the clients in China.

3.2 Human Resource Management

The necessary knowledge of the Chinese market is mainly acquired by recruiting Chinese industry experts and international assignees from the head office. "The most important type of learning is 'Training on the Job.' Colleagues and superiors actively ensure that our new employees profit from the team's treasure trove of experience and that they act in their own responsibility as soon as possible," explained Christian Rödl (Rödl & Partner, 2016b).

"This learning experience can be complemented with relevant training sessions offered by the Rödl & Partner Campus, which are tailored to different professional groups and participants' experience level. The basic principles behind our continuing education concept are flexible course offerings that are well-adjusted to the specific needs of course participants along with utilizing our internal know-how. In fact, the major part of our professional training sessions is organized and conducted by colleagues which ensures the internal transfer of knowledge and promotes networking among colleagues. We offer all our employees the opportunity to become actively involved as a speaker or lecturer, and build up both their internal network and their reputation right from the start", adds Christian Rödl (Rödl & Partner, 2016c). These statements underline that the company attaches great importance to continuous personal development and considers it an essential building block for long-term success.

Nevertheless, recruitment of qualified employees is increasingly becoming a challenge in China (Holtbrügge & Puck, 2008). In the auditing segment, Rödl & Partner is competing with the major American consulting and auditing firms, while companies from China are the biggest competitors in the accounting segment. Due to the strong growth of the industry as a whole, there is a shortage of skilled personnel. As a result, Rödl & Partner is increasingly trying to cooperate with leading Chinese universities. The aim is to provide students with a better understanding of Germany as a business location, to make them familiar with the company, and to recruit university graduates who already possess country- and company-specific knowledge.

Another way to cope with the shortage of qualified personnel is to send expatriates for a period of three to five years to China in order to establish know-how and support local teams (Holtbrügge & Schuster, 2008). To overcome language barriers and cultural differences, Rödl & Partner provides cultural training. The company also offers potential expatriates and their family preliminary trips to China, so that they can visit the new location and get to know the conditions there. Despite these preparations, language differences pose a significant challenge. In particular, the need to sign Chinese documents without understanding their content is often met with discomfort. Additionally, tax and legal consultancy require a high degree of interaction and trust which is difficult to build when communication happens through interpreters.

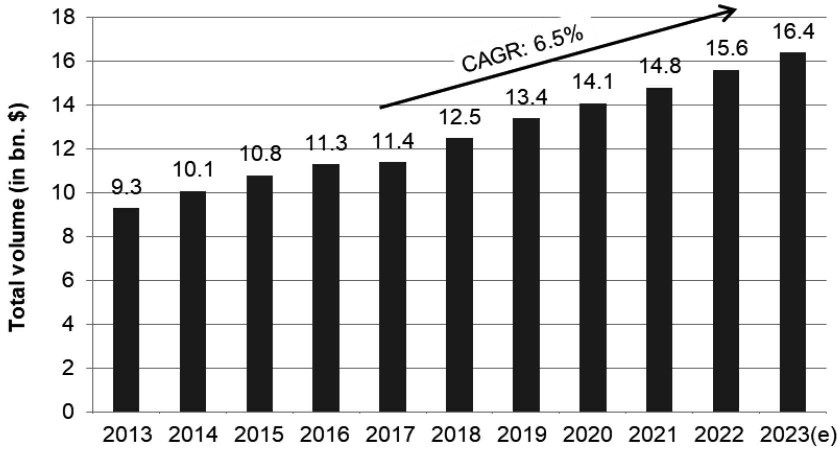
3.3 Competition in the Chinese Market

The total volume of the Chinese accountancy market grew from 0.8 bn. $ in 2000 and 9.6 bn. $ in 2015 to 15.6 bn. $ in 2022, representing a compound annual growth rate (CAGR) of 6.5% over the five years from 2017 to 2022 (Figure 5). The largest segment is audit which accounts for more than 40% of the entire market, followed by advisory and tax.

The auditing and accounting industry in China is dominated by the 'Big Four' international accounting firms – Deloitte, PwC, EY, and KPMG. They are often preferred by multinational companies and larger Chinese firms for their global reach, industry expertise, and reputation. According to a 2020 report by the China National Institute of Standardization (cited in Interesse, 2023), the combined market share of these firms is around 24%, with nearly 22,000 domestic firms accounting for the remaining 76%.

The first auditing and consulting firm that became active on the Chinese market was PricewaterhouseCoopers (PwC). Their activities go back to 1902 when Arthur Lowe started his work in Hong Kong. Several mergers teamed up with PwC in 1962. Today PwC has over 800 partners and employs more than 20,000 people in 26 offices (PwC, 2023). The strong performance in China has helped the company to increase its revenue in

Figure 5. China Accountancy Market



Source: IBIS World, 2022

Asia-Pacific from 4.4 bn. $ in 2016 to 9.9 bn. $ in 2022. Hence, PwC achieves 19.6% of its global revenue in this region. Former CEO and Senior Partner Samual A. DiPiazza Jr. explained: "China is and will be one of the most important markets for PwC in the next two decades" (cited in Nield &Way, 2002). The new chairman for Greater China, Raymund Chao, added that PwC "will need to remain agile in order to capture new opportunities in China and across Asia. PwC will continue to invest in our people with the aim of building trust and solving important problems in society" (Wong, 2015). Therefore, PwC plans to continue investing heavily into China and to recruit thousands of graduates over the next years.

Other companies have recognized China's great economic potential as well. Deloitte Touche Tohmatsu opened a subsidiary in Shanghai already in 1917 and another one in Hong Kong in 1972. In 1997, the company was able to expand its local presence and merged with Kwan Wong Tan & Fong, the biggest Chinese financial auditing and tax consulting firm in Hong Kong. In the year 2004, Deloitte presented a 150 mn. $ investment plan. Such an investment into one single market had never been made in the entire company history. Just a year later, the firm announced two mergers with leading local companies, Beijing Pan-China and Shenzhen Pan-China Schinda, both of which had a large portfolio of clients. In 2013, Deloitte China successfully completed the localization conversion by establishing

Deloitte Touche Tohmatsu Certified Public Accountants LLP. In the strategic investment program for 2013 to 2015, Deloitte devoted 160 mn. $ to the Chinese market. This followed the total strategic investment of 250 mn. $ made between 2004 and 2012 with the objective of expanding the breadth and depth of the firm's service offerings to its clients. In 2022, Deloitte China achieved a revenue of around 4.2 bn. $. The firm has around 18,000 professionals across 25 Chinese cities (Deloitte, 2023). In March 2023, the Ministry of Finance found that Deloitte had "serious audit deficiencies" and suspended operations of its Beijing office for three months. Moreover, Deloitte Touche Tohmatsu was fined 30.8 mn. $ (Bloomberg News, 2023).

KPMG was the first auditing and consulting firm to receive a joint venture license from the Chinese government in 1992. In 2010, KPMG China was also the first among the 'Big Four' in mainland China to convert from a joint venture into a general partnership. The mix of international experience and local knowledge helped KPMG to increase its revenue in Asia-Pacific from 6.0 bn. $ in FY 2021 to 6.3 bn. $ in FY 2022 (+13%). Hence, KPMG achieves 18.2% of its global revenue in this region. KPMG China has offices located in 31 cities with over 15,000 partners and staff (KPMG, 2023).

Finally, Ernst & Young (EY) discovered the Chinese market as an opportunity already in 1973 when the company opened a subsidiary in Hong Kong. In 1981, the Chinese government permitted the firm to open a representative office in Beijing. In 1992, EY expanded its market presence by forming the joint venture Ernst & Young Hua Ming. In 2001, it merged with Da Hua, one of the largest domestic auditing and consulting companies in China. Today, EY has a network of 27 offices with more than 14,000 people in Greater China, enabling the company to provide services to foreign and domestic customers in proximity to its clients (Ernst & Young, 2023).

The 'Big Four' have a significant presence in the Chinese market, but they face increasing competition from domestic firms, such as Ruihua Certified Public Accountants and ShineWing Certified Public Accountants (Interesse, 2023b). Ruihua Certified Public Accountants was founded in 1987. In the last decades, it has become one of China's largest accounting firms with over 15,000 employees and offices in more than 60 cities. The firm provides various services, including audit and assurance, tax advisory, and financial advisory services. In recent years, Ruihua has also expanded into consulting services, offering advice to clients on issues such as corporate strategy, risk management, and digital transformation.

Meanwhile, ShineWing has also expanded rapidly in recent years, with over 8,000 employees across China and offices in more than 100 cities. The firm offers a range of services, including accounting and auditing, tax advisory, and consulting. In addition to its domestic operations, ShineWing has also established partnerships with accounting firms in other countries to offer cross-border services.

Domestic accounting and auditing firms are likely to increase their market share in the future as the Chinese government is pushing for state-owned enterprises (SOEs) to switch to local Chinese or Hong Kong-based accountants instead of relying on the 'Big Four'. The move is reported to be driven by concerns about data risk and potential cyberattacks that could compromise national security (Interesse, 2023a).

4. Evaluation and Outlook

Despite the strong competition from the 'Big Four' accounting firms (Figure 6), Rödl & Partner have managed to establish a leading market position in the auditing and consulting segment of medium-sized enterprises and continues its international expansion. One important reason for the ongoing success of the company is the integration of worldwide activities into its global strategy. The auditing and consulting services across countries as well as the high-quality standards of the firm make a uniform service offer and quality level necessary. A large step to uniform standards is achieved by establishing competence centers in Germany. Here, future expatriates acquire the necessary know-how and international managerial skills in order to secure worldwide quality standards and corporate goals.

Additionally, a strong emphasis is placed on training local employees to achieve consistent quality levels. For that purpose, its own training center – the Rödl Campus – and e-learning systems offer a wide range of courses from accountancy to language classes. Apart from the systematic basic and advanced training of employees, strong emphasis is attached to the transnational exchange of information. For that, the leading employees from all foreign offices gather in Nürnberg at the Going Global forum once a year. The establishment and renewal of personal contacts are an important element in the worldwide exchange of best practices. Furthermore, internationally active clients have the opportunity to speak with those employees of Rödl & Partner who are responsible for their foreign activity. The achieved spillover effects are regarded as an important success factor.

Figure 6. The Big Four Accounting Firms in Comparison to Rödl & Partner (2022)

Company	Revenues	Employees	Headquarters	Global presence
Deloitte.	59.3 bn. $	411,900		> 150 countries
pwc	50.3 bn. $	327,947		157 countries
EY	45.2 bn. $	365,399		> 150 countries
KPMG	34.6 bn. $	359,449		145 countries
Rödl & Partner	588.6 mn. €	5,500		50 countries

Sources: Compiled from corporate homepages

At the same time, Rödl & Partner offers its employees the opportunity to spend a period of time abroad in one of its international offices or with cooperation partners. "This 'change of scenery' is an attractive opportunity for younger colleagues to develop professionally and, above all, personally in an unfamiliar setting", explains partner Thomas Fräbel (cited in Rödl & Partner, 2023d). "Experience in a different working environment and culture as well as acquired or enhanced language skills also enrich our team as a whole. Since we have many exciting projects in an international environment, a secondment is also an opportunity to deal with the needs and requirements of globally active clients."

In the future, foreign subsidiaries may become even more important for the company's worldwide operations. For example, certain activities which are not just relevant for the local market, but also take on a worldwide service function, such as IT-services, may be outsourced to China. Furthermore, the company could establish a regional headquarters for the Asian region. Despite increasing internationalization, however, the heart of Rödl & Partner will continue to beat in Nürnberg.

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Internationalization of Professional Football Clubs. The Case of 1. FC Nürnberg

"In the Netherlands, the players always want me to explain everything and ask why. Here they simply do what they are told."
Former Coach Gertjan Verbeek

1. Background

Football as the world's most popular sport has also become an important international business. It is estimated that around 250 million people are direct participants of this global game, while around 1.4 billion have an interest in it (Giulianotti & Robertson, 2004). Due to technological advances, mass media and globalization, the ability for professional football clubs to reach new markets has greatly expanded. Fans have unprecedented access to foreign leagues and their teams, allowing them to form bonds with teams and players across the globe regardless of their own geographic location (van Overloop, 2013).

While international top clubs, such as Manchester United, Real Madrid or FC Bayern München, have systematically internationalized their activities in the last decade, and generate an increasing part of their revenues from abroad (Puck & Wirth, 2009; Richelieu & Desbordes, 2009; Baena, 2014), other clubs are gradually following the same approach. Examples of international activities are the recruitment of foreign players and coaches, international media presence, and marketing trips and training camps in foreign countries.

2. History of 1. FC Nürnberg

1. FC Nürnberg (FCN) was founded by 18 pupils of local secondary schools on May 4, 1900 (for details see Bausenwein, Kaiser & Siegler, 2012; Hagendorf, 2016). After World War I, the FCN emerged as one of the most successful football clubs in Germany. Between 1920 and 1930, FCN won five German Championships (Figure 1). During the period from July 1918 to February 1922, the team was unbeaten in 104 official matches and henceforth simply became to be known as 'The Club' (Franconian: 'Der Glubb') in recognition of its playing style and extraordinary success.

Figure 1. Main National and International Titles

German Football Championships/Bundesliga
• **Champions**: 1920, 1921, 1924, 1925, 1927, 1936, 1948, 1961, 1968
Cup/DFB-Pokal
• **Winners**: 1935, 1939, 1962, 2007
European Competitions/UEFA Intertoto Cup
• Group Winners: 1968

Source: www.fcn.de

After World War II, FCN soon rose to its previous success and won the 7th German Championship in 1947. The 8th title was gained in 1961, with Max Morlock, a member of the World Championship team of 1954, as one of its key players. In the following year, FCN also went on to win the German Cup (DFB-Pokal).

After the German Bundesliga was founded in 1963, professional football was established in Germany, and FCN attained its last championship victory in 1968. Managed by Max Merkel, an Austrian national, the club won the UEFA Intertoto Cup in the same year. For over 60 years, FCN has had the record of winning the most German championships – although occasionally having to share the honor with Schalke 04 – before being overtaken by Bayern München in 1987.

In the season of 1969, for the first time as the incumbent champions in Germany, FCN was relegated to the second division. It was not until 1978 that the club returned to the first division again. Since then, FCN fluctuated between the first and the second (in one year also third) divisions. Altogether, FCN has been relegated from the German Bundesliga on eight occasions – beating the record set earlier by Arminia Bielefeld.

The last great title was the DFB-Pokal in 2007. As a Cup winner, FCN qualified for the UEFA Europa League in the following year. However, FCN lost in the round of 32 against Benfica Lissabon in their last official international match ever since then.

3. Internationalization Activities

3.1 Squad

In 1995, the European Court of Justice decreed that the limit imposed on the football clubs to have only three foreign players is illegal. Since then, the number of foreign players in the European football leagues has increased substantially. In 2009, on average, foreign players accounted for around 43% of all players in England, Spain, Germany, Italy, and France. The highest share (59%) is in the English Premier League. For top clubs like Arsenal FC (93%) or Inter Milan (92%), the percentage of foreign players is even higher (Maderer, Holtbrügge & Schuster, 2014).

The recruitment of international players has several reasons. Young talents from Africa, Latin America, Asia, and Eastern Europe often involve lower salaries and lower transfer fees. By signing foreign players, clubs also hope to benefit from the specific strengths of individuals with different cultural backgrounds. Football players with different origins often have diverse skills, as football education is focused on different qualifications (Maderer, Holtbrügge & Schuster, 2014).

Table 1 shows the nationalities of FCN's players over the past twelve seasons. The percentage of foreign players reached its peak during the years when the Club competed in the first division. Outstanding in this regard is the 2006/2007 season with the latest national title, as well as the following season when FCN played in the UEFA Europa League. After the relegations in 2008 and 2014, the percentage of foreign players reduced significantly, falling from a peak of 50% in the 2014/2015 season to just 15.4% in 2022/2023.

Table 1. Nationalities of Players

Season (Division) Nationality	2023 (2nd)	2022 (2nd)	2021 (2nd)	2020 (2nd)	2019 (1st)	2018 (2nd)	2017 (2nd)	2016 (2nd)	2015 (2nd)	2014 (1st)	2013 (1st)	2012 (1st)
Germany	33	28	22	22	19	22	15	17	15	12	13	15
Argentina									1	1	1	1
Austria		1	3	3	2	2	1	3	2	1	1	
Brazil					2	1					1	
Cameroon						1	1					
Congo												1
Croatia		1	1		1				1	1		
Czech					1	1	1	2	4	3	1	2
Denmark	1	1	1	1								
Ecuador									1			
Georgia							1					
Greece				1								
Iceland						1						
Israel											1	1
Italy	1	2	1	1	1	1						
Ivory Coast							1					
Japan					1					2	2	
Mexico								1				
Morocco							1					
Netherlands			1	1	1		1	1	1			
New Zealand			1	1								
Norway	1	1	1	1	1	1	2	2	1	2		
Portugal									1			
Romania							1	1			1	1
Slovakia			1	1	1	1		1	1	1	1	1
Slovenia							2	1				1
Spain										1		
Sweden				1	1	1	1			1	1	1
Switzerland	1			1					2		1	2
Turkey										1		1
USA	1									1	1	1
Wales	1											
Foreign Players (in %)	*15.4*	*17.7*	*31.3*	*35.3*	*38.7*	*31.3*	*46.4*	*41.4*	*50.0*	*46.0*	*48.0*	*46.4*

Source: Transfermarkt (2023)

The majority of the players come from the neighboring countries. Prominent examples are Reinhold Hintermaier and Emanuel Pogatetz (Austria), Josip Drmić (Switzerland), and Tomáš Galásek, David Jarolim and Tomáš Pekhart (Czech Republic). Moreover, many players from Eastern European countries, such as Marek Mintál and Robert Vittek (Slovakia), Zvjezdan Misimović (Bosnia) and Ivan Saenko (Russia) played for the club. On the other hand, Mehmet Ekici and İlkay Gündoğan have Turkish roots, but were both born in Germany.

The main non-European countries of origin are Australia (2006-2011), the USA (2010-2014), and Japan (2012-2014) with Hiroshi Kiyotake and Makoto Hasebe. Players from Argentina and Brazil – the two leading South American football countries – play only a minor role. A notable exception is the Argentinian defender Javier Pinola who played for the club between 2005 and 2015, and was a member of the Cup-winning team in 2007. As part of the club's celebration of its 110th anniversary in 2010, three international players Marek Mintál (Slovakia), Saša Ćirić (Macedonia), and Reinhold Hintermaier (Austria) were elected as members of the greatest team ever by Nürnberg fans.

3.2 Coaches

The Club has a long tradition of hiring foreign coaches (Table 2). Already in the 1920s and 1930s, the two Hungarian coaches Alfréd Schaffer and György Orth led FCN to German Championships and Cup wins. Under the Austrian coach Max Merkel the Club won its last championship so far in 1968. Since the year 2000, only five out of 25 coaches came from abroad – René Weiler (Switzerland), Valérien Ismaël (France), Gertjan Verbeek (Netherlands), Damir Canadi (Austria) and interim coach Marek Mintál (Slovakia).

Occasionally, other management positions are also staffed with foreign nationals. Between 2005 and 2014, Adam Matysek, a Polish national, was appointed as the goalkeeping coach. The former player Marek Mintál of Slovakia was an assistant coach from 2013 to 2015, before he was appointed as the interim coach for one match after the dismissal of Damir Canadi in 2019.

Table 2. Foreign Coaches (1919-2023)

Name	Nationality	From	To
Marek Mintál	Slovakia	06.11.2019	13.11.2019
Damir Canadi	Austria	19.05.2019	05.11.2019
René Weiler	Switzerland	12.11.2014	30.06.2016
Valérien Ismaël	France	01.07.2014	10.11.2014
Gertjan Verbeek	Netherlands	22.10.2013	23.04.2014
Arie Haan	Netherlands	01.07.1990	30.06.1991
Jef Vliers	Belgium	01.07.1979	18.08.1979
Zlatko Cajkovski	Croatia	06.12.1971	30.06.1973
Robert Körner	Austria	25.03.1969	12.04.1969
Max Merkel	Austria	03.01.1967	24.03.1969
Jenö Vincze	Hungary	08.11.1966	31.12.1966
Jenö Csaknády	Hungary	01.07.1965	07.11.1966
		01.11.1963	30.06.1964
Franz Binder	Austria	01.07.1955	30.06.1961
György Orth	Hungary	01.07.1936	30.06.1938
Alfréd Schaffer	Hungary	01.01.1934	30.06.1935
		01.07.1919	28.02.1920

Source: Transfermarkt (2023)

3.3 Fans

The website of FCN lists 724 official fan clubs which are predominantly located in Middle Franconia and in the neighboring regions. In the city of Nürnberg alone, there are 110 registered local supporters clubs. However, no official fan clubs exist in the North, Southwest, and East of Germany.

Moreover, FCN has nine official fan clubs outside of Germany – namely in Austria, Czech Republic (2), Spain, Switzerland, and the UK. These countries, at least partially, reflect the country of origin of a majority of FCN's foreign players in the last decade. Three of the fan clubs are located in Indonesia, Togo, and the USA, which were founded by German emigrants from Nürnberg and Franconia. Thus, FCN has only a small number of satellite fans, for example, as compared to FC Bayern München which has already 130 fan clubs in the USA, and 16 in China (FC Bayern, 2023).

Table 3. German Professional Clubs' Followers on Facebook

Club	Fans	Foreign fans (in %)	Top 5 countries of foreign fans
FC Bayern München	57,000,000	92.2	Egypt, Indonesia, Brazil, Algeria, Morocco
Borussia Dortmund	15,000,000	86.0	Brazil, Egypt, Mexico, Indonesia, Poland
Bayer 04 Leverkusen	2,900,000	93.4	Mexico, Egypt, Brazil, USA, Indonesia
FC Schalke 04	2,800,000	76.0	Peru, Brazil, Egypt, Indonesia, Mexico
VFL Wolfsburg	2,000,000	86.5	Brazil, Egypt, Algeria, Mexico, Peru
Borussia Mönchengladbach	1,300,000	N/A	N/A
Eintracht Frankfurt	1,200,000	41.4	Mexico, Algeria, USA, Egypt, Bangladesh
SV Werder Bremen	1,000,000	52.3	Peru, Brazil, Egypt, Indonesia, Mexico
1. FC Köln	807,629	37.4	Brazil, Indonesia, Austria, Turkey, Egypt
Hamburger SV	772,123	35.1	Brazil, Indonesia, Egypt, Thailand, Algeria
FC St. Pauli	549,863	35.0	UK, Spain, Italy, Austria, Greece
VFB Stuttgart 1893	541,108	30.1	USA, Brazil, Mexico, Austria, Bosnia
1. FSV Mainz 05	422,739	75.8	Egypt, Iraq, Mexico, Indonesia, Algeria
SC Freiburg	384,892	29.3	Switzerland, Brazil, Austria, Algeria, Morocco
Hertha BSC	383,681	34.0	Hungary, Tunisia, Brazil, USA, Austria
TSG 1899 Hoffenheim	338,134	32.8	India, Brazil, Bosnia, Algeria, Morocco
Hannover 96	324,019	30.0	Brazil, Turkey, Tunisia, USA, Poland
1. FC Nürnberg	319,103	33.7	Austria, Turkey, Brazil, Egypt, USA
FC Augsburg	276,664	35.0	Poland, Brazil, Morocco, Austria, Algeria
Fortuna Düsseldorf	215,519	24.0	Austria, Brazil, USA, Turkey, Morocco

Source: Clubs' official pages on Facebook and data retrieved from likecheck.com

Currently, FCN ranks 18th on the list of Facebook followers of all German football clubs (around 319,000). In the second division, only Hamburger SV and FC St. Pauli, and the two relegated teams FC Schalke 04 and Hertha BSC have more Facebook followers (Table 3). Around one-third of the Facebook followers come from abroad with Austria, Turkey, Brazil, Egypt, and the USA as the most represented countries.

3.4 Sponsors and Investors

The most recent sponsors of FCN are local companies from Nürnberg and surrounding cities like Erlangen, Kulmbach, and Würzburg (Table 4). While FCN previously collaborated with several large international sponsors like Umbro, Coca-Cola, and Turkish Airlines, all their current main sponsors are based in Germany. Aside from adidas and Vaillant, the activities of the German sponsors are limited to their home country and neighboring countries, such as Czech Republic, Poland, and Switzerland.

In 2021, FCN and adidas renewed their partnership, facilitated by the support of 11teamsports, a football specialist based in Baden-Württemberg. This collaboration marked a deviation from adidas' 2015 strategy of focusing on top-tier clubs like Real Madrid and FC Bayern München. It encompassed not only game jerseys but also leisure and training outfits for the licensed team, youth teams, and the FCN football school children (1. FC Nürnberg, 2020). This partnership reflects FCN's broader regional collaboration strategy, enhancing its Franconian identity alongside key regional sponsors, in contrast with the previous engagement with the British sportswear provider Umbro from the 2016/17 season.

In 2016, the former lead sponsor Wolf Möbel was replaced by Nürnberger Versicherung. Since then, the logo of the insurance company, which includes the Nürnberg Castle, has appeared on the front of matchday jerseys. It also entitles the company to a range of marketing rights, including a presence on TV, visible advertising boards, and on digital channels, as well as an allowance for matchday hospitality tickets. According to Michael Meeske, FCN's commercial director, it was "a stroke of luck" to have found a local partner which shares the Nürnberg name (Anonymous, 2016).

At the end of the 2015/16 season, Grundig terminated its sponsorship of the Nürnberg Stadium after the Turkish parent group Koç-Holding decided to leave Nürnberg as a business location (Ritzer, 2016). For the 2017/18 season, Consorsbank secured the naming rights to the stadium for three years. However, instead of opting for a traditional naming sponsorship, they launched a crowdsourcing initiative to rename the stadium "Max Morlock Stadium" in honor of Nürnberg's most prominent soccer player.

In 2013, FCN tried to win international sponsors by perimeter advertising (Lehnebach, 2013). For example, in a home match against VfL Wolfsburg, the marketing partner Sportfive promoted perimeter advertising in Japanese with the slogan: "Interested in a partnership with 1. FC Nürnberg? Information at fcn@sportfive.com", as the interest of Japanese viewers for FCN was high that year due to the two Japanese national players Hiroshi Kiyotake and Makoto, who played for the club. This unusual attempt, however, was not successful.

Table 4. Sponsors of FCN

Name	Headquarters	Revenue	Outreach
Lead Sponsor			
Nürnberger Versicherung	Nürnberg	4.3 bn. €	Germany
Supplier			
Adidas	Herzogenaurach	22.5 bn. €	Worldwide
Exclusive Partners			
Kulmbacher	Kulmbach	220 mn. €	Germany
Lotto Bayern	München	1.2 bn. €	Germany
N-Energie	Nürnberg	2.9 bn. €	Germany
Club premium partners			
bisping & bisping	Lauf a.d. Pegnitz	N/A	Germany
Corendon airlines	Düsseldorf	650 mn. €	65 countries
Franken Brunnen	Neustadt/Aisch	180 mn. €	Germany
Kummich Autohaus	Bopfingen	126 mn. €	Germany
OSF Handels GmbH	Ipsheim	30 mn. €	Germany
Neumarkter Lammsbräu	Neumarkt	32 mn. €	Germany
Club Partners			
Avia-Braun	Nürnberg	N/A	Germany
Bauckhof	Rosche	72 mn. €	Germany
Brezen Kolb	Nürnberg	N/A	Germany
BSS Sichelstiel Firmengruppe	Nürnberg	N/A	Germany
Gress spedition	Gerolzhofen	N/A	Germany
Lebkuchen-Schmidt	Nürnberg	82 mn. €	Germany
Redlof Medien	Ansbach	N/A	Germany
Richter+Frenzel	Würzburg	1.2 bn. €	Germany
Vaillant	Remscheid	3,7 bn. €	Worldwide
FCN-Partners			
ADD-ON PERSONAL & LÖSUNGEN, Alfafood, AMSPORT Shop, B&M Marketing, BAUSTOFF UNION, CITY TALK Würzburg, CoMo Solution, Mercato Di Dio, Edelmetalle Hanauer, ESW, fourplex, Fränk'ness, FUNKHAUS Nürnberg, GUAMPA Energy, KBMS Logistik, Knoblauchsländer Schlemmerbox, Kaspar Schmauser, Hans Kupfer & Sohn, L'Osteria, MERCADO Nürnberg, Mein EinkaufsBahnhof, Noris Rollrasen, Nordbayern, Optik Schlemmer, Putzrausch, Retterspitz, SIMON HEGELE Gesellschaft für Logistik und Service, SCL Management, Winzerhof Stahl, sendmepack, Umzüge dominik Selisch, VGN			

Sources: fcn.de and company homepages

Table 5. Languages on the Homepages of German Professional Football Clubs

Club	Languages	Homepage
Borussia Mönchengladbach	German, English, Spanish, Chinese, French, Dutch	borussia.de
FC Bayern München	German, English, Spanish, Chinese	fcbayern.com
Bayer 04 Leverkusen	German, English, Spanish	bayer04.de
FC Augsburg	German, English, Spanish	fcaugsburg.de
SC Freiburg	German, English, French	scfreiburg.com
1. FC Köln	German, English	fc-koeln.de
1. FC Nürnberg	German, English	fcn.de
Eintracht Frankfurt	German, English	eintracht-frankfurt.de
FC Schalke 04	German, English	schalke04.de
FSV Mainz 05	German, English	mainz05.de
Hamburger SV	German, English	hsv.de
Hertha BSC	German, English	herthabsc.de
RasenBallsport Leipzig	German, English	rbleipzig.com
SV Werder Bremen	German, English	werder.de
TSG 1899 Hoffenheim	German, English	tsg-hoffenheim.de
VFL Wolfsburg	German, English	vfl-wolfsburg.de
VfB Stuttgart	German, English	vfb.de
Borussia Dortmund	German	bvb.de
FC Ingolstadt	German	fcingolstadt.de
Hannover 96	German	hannover96.de
SV 98 Darmstadt	German	sv98.de

Source: Clubs' homepages

3.5 Communication

FCN's most important medium of communication is its homepage. Like at most other German football clubs, it is available in two languages: German and English (Table 5). However, only a few general facts about the club are provided in English. The frontrunner is Borussia Mönchengladbach which offers information in six different languages, followed by FC Bayern München with four languages. The most important languages other than German and English are French, Chinese, and Spanish.

3.6 Marketing Trips and Training Camps

Favored by the extraordinary successes in the 1920s, FCN has a long history of friendly matches against international teams. In the 1920s, the club played several friendly matches against Rapid Wien, Sparta Praha, MTK Budapest, and Bolton Wanderers from England. In 1951, friendly matches against Athletic Bilbao and FC Barcelona took place in Spain, and in 1953, FCN, as one of the first European football clubs made a trip to the USA (Bausenwein, Kaiser & Siegler, 2012).

In the last decades, however, international marketing trips have become very rare. Sometimes, international matches take place during training camps. For example, during the training camp in Belek in 2015, FCN played friendlies against Újpest FC (Hungary), and SV Grödig (Austria). Unlike some European top clubs, training camp locations are chosen less for marketing reasons, but for their geographic proximity to Nürnberg and good weather conditions (Table 6).

3.7 Merchandising

Merchandising serves as a vital revenue stream for professional football clubs. According to the German Football League DFL, the Second Bundesliga observed a significant increase in merchandising revenues, rising by more than 70% from 30.4 mn. € in the 2020/21 season to 52.2 mn. € in the 2021/2022 season. On the other hand, the First Bundesliga experienced a decline in merchandising revenues by 4.6% to 173.9 mn. € in the 2021/2022 season (DFL Deutsche Fußball Liga, 2023). The most popular fan product with a share of 50% of total merchandising sales is the jersey with the name imprint of the favorite player.

The merchandising activities of FCN are concentrated in its home region Franconia. All four official fan shops are located in the city of Nürnberg. In contrast, German record champion FC Bayern München has fan shops in Berlin, Irschenberg, Mannheim, and Oberhausen, and even two representative offices in New York and Shanghai (Rentz, 2016).

3.8 Broadcast Revenues

In comparison to the German top clubs FC Bayern München and Borussia Dortmund which generated broadcast revenues of 95.3 mn. € and 82 mn. € respectively in the 2022/23 season, broadcast revenues of FCN were much lower. With 10.1 mn. €, FCN ranks tenth in the second division, positioned

Table 6. Training Camps (2012-2023)

Year	Season	Location	Country
2023	Summer	Kothmühle	Austria
2023	Winter	Belek	Turkey
2022	Summer	Natz-Schabs	Italy
2021	Summer	Natz-Schabs	Italy
2020	Summer	Saalfelden	Austria
2019	Winter	Marbella	Spain
2019	Summer	Maria Alm	Austria
2018	Summer	Natz-Schabs	Italy
2017	Summer	Natz-Schabs	Italy
2016	Summer	Grassau	Germany
2016	Winter	Belek	Turkey
2015	Summer	Bamberg	Germany
2015	Summer	Grassau	Germany
2015	Winter	Belek	Turkey
2014	Summer	Oberstaufen	Germany
2014	Winter	Mijas	Spain
2013	Summer	Grassau	Germany
2013	Summer	Längenfeld	Austria
2013	Winter	Mijas	Spain
2012	Summer	Längenfeld	Austria
2012	Summer	Köln	Germany
2012	Winter	Belek	Turkey

Source: Based on fcn.de (Effective date: September 20, 2023)

between Hannover 96 and FC St. Pauli (Fussball-Geld.de, 2023). International broadcast revenues have not been generated after FCN was relegated to the second division in 2014.

4. Evaluation and Outlook

With the exception of FC Schalke 04, there is no other professional football club in Germany where history and tradition are as important as for FCN (Holtbrügge & Maderer, 2012). One indication is the renaming of the stadium after the club icon Max Morlock, who never played for another club in his entire career.

On the one hand, this tradition and previous successes support the club's internationalization activities. FCN has high brand awareness in many countries – particularly in comparison to other clubs in the German second division. For example, it was the most-viewed Bundesliga club in Japan in the first half of the 2012/2013 season (Largadère, 2017). FCN may use this brand awareness, especially in the countries of origin of previous FCN stars, such as the Czech Republic, Slovakia, or Austria. Moreover, FCN's glorious history may be an advantage in Asian countries like China, Japan, and Korea where tradition is generally highly valued.

On the other hand, FCN's tradition may serve as a restriction for future internationalization. The club is deeply rooted in Franconia and the city of Nürnberg, and local fans observe any influence from outside very critically. Thus, it is crucial that future internationalization activities consider FCN's local roots (Maderer & Holtbrügge, 2019). Especially, a strong identification of all players with the club and its history is essential. As the FCN icon Heiner Stuhlfauth once said: "It is an honor to play for this city, this club, and the inhabitants of Nürnberg. May all this be kept and the great FC Nürnberg never be defeated."

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Sindhu Nair, Dirk Holtbrügge & Judith Ambrosius

Challenges of Foreign Inpatriates in the Nürnberg Metropolitan Region. The Case of Vinay Kumar and his Family

"It had been their dream to spend a few years in a country that would help their careers (…). Little had they anticipated that significant changes would also be part of the package"

1. Background

The thirty-minute train ride that Vinay Kumar undertook each morning to travel from his home in the suburbs of Nürnberg, Germany, to his place of work in Erlangen was the part of his day he most looked forward to – the quiet time spurred thoughts about how his career and family goals were falling into place. Today, however, he was unable to enjoy the scenic European landscape. Instead, he thought back to the argument he had with his wife the evening before. Vinay had arrived in Germany five months ago with his wife and their two young children. An offer to work at the Global Research and Development (R&D) center at Siemens AG had been a dream come true for the young couple. However, he now felt greatly disappointed with how things had turned out. Vinay was now at a crossroads and faced the decision of whether to stay in Germany and find a way to deal with his current situation or to move back to India. While returning to India would appease his wife, it would be a major setback to his career.

Vinay had invested ten years of his career at Siemens India. It had been his first job and the economic growth in India had accelerated his career. Having started as an intern in the software development division at the Siemens subsidiary in Bangalore, he was now a project manager leading a team of software developers. Seven months earlier, Vinay had received a call from the secretary of Jonathan Siebert, Vice President at the Siemens headquarters in Erlangen. She wanted to schedule a lunch meeting with the young executive the following week when Mr. Siebert would be visiting the Bangalore office. Jonathan Siebert was a highly reputed German manager who had been one of the founding members of the Siemens Global R&D center 30 years ago. He had become known as one of the most valuable employees of the company ever since.

Vinay spent the entire week eagerly anticipating his meeting with Jonathan Siebert. He was expecting the senior executive to compliment him on his outstanding work, but his jaw dropped when Jonathan Siebert offered him a permanent position at the global R&D office in Germany. Vinay would be a project manager remotely handling a team of 12 software developers working on critical R&D projects in the Bangalore office. He was required to be physically present in Erlangen because Jonathan Siebert felt that a trusted Indian manager handling the team in India, but at the same time present in the headquarters, would better understand the requirements of the critical tasks in detail. Furthermore, Vinay could understand the nuances of communicating with Indian subordinates and thereby act as a 'linking-pin' between the two offices. Additionally, Vinay was given the task of managing a team of four software developers at the Erlangen office, which would be responsible for the final integration of the software. The team consisted of one Indian and three German members.

But now, seven months later, Vinay pondered how he could possibly give up and trust that Siemens and Jonathan Siebert had bestowed upon him? Working with the best minds in the business at the global R&D center and securing the future of his family had been the driving force behind Vinay's move to Germany. But his wife, Sangita, was adamant that she wanted to move back to India where she had left behind a promising career in the booming IT industry. She had hoped that her experience and engineering degree would be sufficient to get her a job in Germany, but that had not happened. Instead, she was tired and miserable, and spent her days doing housework and caring for their two children, both under the age of four. She despised the fact that she had to leave her family behind to come to a place where she had no friends and no one to talk to. Even the nice elderly neighbors only spoke German. She felt that they had given up a comfortable life in India where they both had secure jobs, an active social life, parents who lived with them and took care of the children, and domestic help to do all the household work. On the evening of the argument, Sangita had a breakdown of sorts. She packed her bags and told Vinay that she was resolute on going back to their old lives. It was then that Vinay realized how out of hand things had gotten.

2. Vinay and Sangita

Vinay and Sangita's marriage had been arranged by their parents, as is quite common in India. They both lived in Bangalore, the 'Silicon Valley of India.' Both had a degree in computer engineering and had joined Siemens and Infosys respectively straight out of college. The booming Indian economy and the ever-growing IT industry had propelled them into mid-management positions in the short span of a decade. Vinay had also finished a part-time MBA, which led him into a team management role just a few years into his job. They both traveled extensively for work, most often to the U.S. and Europe, and had come to appreciate and strive for the lifestyle offered in the West. Vinay and Sangita were a perfect match – well-educated, ambitious, and supportive of each other's goals.

Sangita had taken a couple of short breaks in her career when the children were born, but Vinay's parents stepped in immediately to help raise the children and to take care of the household while the young couple focused on advancing their careers. Ultimately, Vinay's parents moved in with them and took over the full responsibility of caring for the young children. This arrangement worked well for everyone. Vinay's parents had a place to live, as his father had retired from his government job and given up his official accommodation. The grandparents viewed raising the grandkids as a natural pastime during their golden years. For Sangita and Vinay, having a trusted family member at home with the kids meant that they could put in longer hours at work and focus on their professional goals. For the children, having grandparents around meant being well looked after rather than spending their days at a day-care center or with a nanny. Sangita was also very close to her parents. Since they lived in Bangalore as well, the couple spent most Sundays being pampered at her parent's home, which was just a short distance away.

Vinay and Sangita were content with their achievements so far – dual careers, two loving children, and a brand new four-bedroom apartment which could accommodate the big family. Everything was going as per their plan.

However, Vinay secretly harbored worries regarding the mortgage payments on the big apartment, the growing expenses with his parents moving in, the impending fees that they would need to shell out for a good private school, and the healthcare expenses that would arise should the parents fall ill. Vinay saw the success of his friends from college who worked abroad and knew that such an opportunity would be the solution to all his worries. It would allow him to build up the savings necessary to secure the family's future. He discussed his thoughts with Sangita, and she whole-heartedly agreed that moving to the U.S. or Europe with the kids for a few years might give them the boost in their careers and fortunes. They both concurred that their jobs and their frequent travels had made them quite savvy in dealing with different cultures. Therefore, they believed that they would have no troubles adjusting to their new environment.

3. The Offer

Vinay had been an outstanding student at the prestigious Indian Institute of Technology Bombay. His intelligence, ambition, and way of handling people had enabled him to get his first job as an intern at Siemens, and let him to being promoted to a senior software developer after only six months. He spent the first four years doing core software development, but soon realized that his next big leap would only come with an MBA degree. Therefore, he enrolled part-time at the reputed Indian Institute of Management Bangalore to pursue the degree. Within the next two years, he was handed a team lead position which he handled with flair. Vinay's initial years in a technical role gave him a good understanding of software development and his natural leadership qualities made him a very successful manager.

He was known to be a tough boss who pushed his team hard, took on plenty of work and had the ability to motivate his people to achieve seemingly impossible targets. He spent twelve hours a day at work and expected the same level of commitment from his team members. However, outside the office he was an empathetic and well-loved boss who made Friday night 'drinks and dinner' with his team a norm. His team members often took this opportunity to unwind with him and provide him with feedback, and Vinay used this occasion to cushion his team against all the stress they faced at work. He had a set of loyal people who greatly admired his leadership style. As a consequence, he was one of the best performers in the company, so much so that even the headquarters began to take notice of Vinay's dynamism and potential.

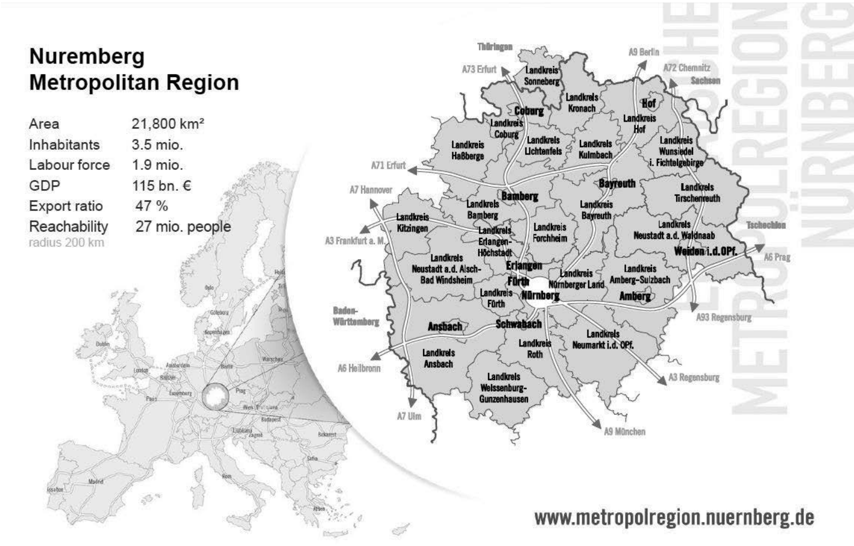
Jonathan Siebert's offer came as a genuine surprise to Vinay. It was hoped that Vinay could begin work at the headquarters in about five or so weeks. Vinay called Sangita right after the lunch meeting. She was thrilled and the couple spent the following days discussing the nuances of the drastic change that their life was about to undergo.

4. Preparing for the Move

The next day, Vinay informed Jonathan Siebert that he would accept the offer. He and Sangita spent the following weeks learning about the Nürnberg Metropolitan Region. While Vinay had traveled to Nürnberg on business trips many times in the past decade, Sangita had never been to Germany. Most of what she knew about Nürnberg was the city's grim past she had learned from history books (Gregor, 2009; Macdonald, 2008). However, after reading current brochures (e.g., Nuremberg Chamber of Commerce and Industry, 2012) and testimonials from expatriates (e.g., Dryden, 2023) she found out that Nürnberg had in fact transformed itself into a modern cosmopolitan city with a population of more than 500,000. The Nürnberg Metropolitan Region's economic prowess, with more than 3.6 million inhabitants, is obvious in its Gross Domestic Product of 147 bn. €, which is more than that of the Czech Republic or Singapore (Figure 1). The city is a mix of urban culture and tradition, and the citizens enjoy a high quality of living (Table 1). Several well-known companies such as Adidas, Puma, Siemens, Schaeffler, GfK, Faber-Castell, and Leoni have their headquarters in the region (Table 2). With an export rate of 49%, many of these companies have a very high degree of internationalization. What interested Sangita was that information technology is one of the most promising sectors in the region.

At the end of the day, Sangita and Vinay sat down to discuss all aspects of the move. They came to the conclusion that the change would be good for both of their careers, as well as for the children who would have access to a superior education and a more holistic upbringing by way of exposure to different cultures and languages. It would also mean the end of monetary worries. They would financially support their families from Germany and would also be able to build substantial savings.

Figure 1. Map of the European Metropolitan Region of Nürnberg



Source: Nürnberg Metropolitan Region (2023)

Vinay had spent some time researching his new role by talking to other Indian colleagues at Siemens Germany, as well as reading up about foreign assignments of such nature. A common theme that he found was that inpatriates, i.e., employees from subsidiaries who move to work at the headquarters, sometimes face certain prejudices (Reiche, 2006; Schuster, Holtbrügge & Engelhard, 2019). They are accorded a lower status than the other employees who are already working at the headquarters. Additionally, some of the Indian colleagues he spoke with complained about adjustment challenges. They were expected to adapt to both the national and corporate culture. Given the large differences between the German and the Indian culture (Hofstede, 2001; House et al., 2004; Holtbrügge, 2002), this proved to be very difficult.

Table 1. Quality of Living in Nürnberg and Middle Franconia

Date	Topic	Criteria	Ranking	Statistical Population	Source
11/2022	Business location, quality of life	88 indicators in the areas of the labor market, economic structure, real estate market, quality of life	Erlangen: Rank 2; Nürnberg: Rank 18; Fürth: Rank 23	71 cities with more than 100,000 inhabitants	IW Cosult
11/2019	Luck atlas	General life satisfaction, satisfaction with housing situation, income, work, health	Franconia: Rank 4	SOEP	Deutsche Post
10/2019	Economic competiveness	11 criteria, e.g., macroeconomic stability, level of education, market size, infrastructure, labor market efficiency, innovations	Middle Franconia: Rank 27	268 EU NUTS-2 regions	European Commission
03/2019	Quality of life	39 criteria, including political, social, economic and environmental aspects, health, education and transport, security	Nürnberg: Rank 23	Survey of expatriates in 231 major cities worldwide	Mercer Consulting
09/2016	Quality of life	Price-performance ratio: determined by two studies of Mercer Consulting (quality of life: rank 25 and living expenses: rank 169)	Nürnberg: Rank 2	Worldwide	Finanzen 100
09/2014	Business location	Growth (60%), existing wealth (20%), economic structure (20%)	Nürnberg: Rank 21	100 European regions > 500,000 residents	LaSalle Investment Management
12/2013	Satisfaction survey	Accessibility of local transport, image of the city, shopping facilities, suitability for children and senior citizens	Nürnberg: Rank 15	1,500 citizens in 15 large German cities	Immonet.de, GfK
07/2013	Business location	Value creation, educational qualifications, internationality, innovation and demographic change	Nürnberg: Rank 18	30 largest locations in Germany	HWWA, Berenberg Bank
12/2011	World market leader	City with the most world market leaders	Nürnberg: Ranked 16th internationally and 4th domestically	1,116 companies that are world market leader	Leibniz Institut für Länderkunde, Weissman Institut für Familienunternehmen
11/2011	Green city index	Eight categories, including quality of air, local transport, environmental management, recycling, use of renewable energy	Nürnberg: above average	41 European metropolises (including 12 German cities)	Siemens, Economist Intelligence Unit

Source: IHK Nürnberg für Mittelfranken (2020)

Table 2. Largest Employers in Middle Franconia (2020)

	Headquarters	Employees in Middle Franconia	Employees in Germany	Employees Worldwide
SIEMENS	Berlin/Munich	29,000	90,000	293,000
SCHAEFFLER	Herzogenaurach	11,260	30,800	84,200
SIEMENS energy	München	7,440	22,200	66,800
DATEV	Nürnberg	7,264	8,587	8,590
adidas GROUP	Herzogenaurach	6,300	7,700	60,000
Sparkasse Mittelfranken	Middle Franconia	5,539	205,039	205,039
BOSCH Technik fürs Leben	Stuttgart	5,000	205,039	205,039
Rummelsberger Diakonie	Schwarzenbruck	4,200	6,000	6,000
MAN	Munich	3,485	19,431	35,189
DIEHL	Nürnberg	3,419	12,417	17,557
NÜRNBERGER VERSICHERUNG	Nürnberg	3,194	4,208	4,577
Volksbanken Raiffeisenbanken	Middle Franconia	2,979	140,650	140,650
N-ERGIE	Nürnberg	2,549	2,549	2,549
Continental	Hannover	2,423	58,766	240,000
framatome	Paris	2,300	3,000	14,000
DORFNER GRUPPE	Nürnberg	2,100	10,400	10,835
FESER GRAF	Nürnberg	2,100	2,200	2,200
VAG	Nürnberg	1,954	1,954	1,954
REHAU	Rehau	1,900	8,000	20,000
schüller	Herrieden	1,881	1,905	1,917

Source: IHK Nürnberg für Mittelfranken (2020)

Vinay reflected upon how this was contrary to the way the German expatriates are treated in India. As representatives of the Siemens headquarters, they carry a certain level of status and influence, and the Indians who work with them often adapt to the German way of work. Many of the German expatriates socialize with the Indian employees, but coordinate more closely with the managers in Germany rather than their counterparts in India when it comes to official matters.

Vinay and Sangita spent the weeks leading up to the move in eager anticipation. Siemens was taking care of the entire process efficiently. An apartment had been arranged for them in a quiet suburb, a thirty-minute train ride away from the office in Erlangen and most of their furniture had already been shipped to Germany. Arrangements had also been made for Vinay to attend German language classes in the evenings after work. Sangita quit her job at Infosys and planned to find a job in Germany straight away, with the kids being placed into a full-time day care.

5. Early Experiences

On a pleasant sunny day in September, Vinay, Sangita and their children finally landed in Nürnberg. While Sangita got busy unpacking, Vinay went to work the very next day. Jonathan Siebert, who would be his immediate boss, spent the first hour with Vinay taking him through his duties at his new job. Vinay already knew the Indian team that he would be working with, and was introduced to his German team later in the day. Although Vinay was aware from his previous visits to Germany that a formal decorum exists at work, he was taken aback by the less than warm welcome he received from his new team. His colleagues shook hands with him and promptly turned back to their computer screens. The only exception was the young Indian software developer in his team who made his way to Vinay's cubicle. Vinay spent the next 15 minutes casually chatting with him and getting recommendations for Asian supermarkets and vegetarian restaurants.

Vinay dived deeply into his work soon after. He spent the following two days in intense meetings with Jonathan Siebert, who took him around to meet other colleagues. He also spent time trying to create a pleasant working relation with his team – Maximillian, Daniel, Andreas and Ramesh. While his team was courteous, he noticed a subtle divide. The German colleagues almost always ate together at the cafeteria and spoke only in German despite the presence of other non-German speakers. Vinay attended a few meetings with Jonathan Siebert and other colleagues, but he was left feeling quite lost since most meetings took place in German. When he brought up his concern with Jonathan, he was simply told that he would eventually need to participate in all meetings in German. Vinay knew that the basic language course that he took when he had joined Siemens ten years ago would not take him very far. Therefore, he was determined to ace his evening German lessons.

A month later, Jonathan called him into a meeting where Vinay was handed the responsibility of managing the creation of a software code batch for the new Siemens scanners. It was nearly November and Vinay was given a deadline of January 15th to deliver an error-free code. He was free to divide the work between his Indian team and his team in Erlangen. This was something Vinay was confident he could handle, as he had done this a number of times in the last four years as a project manager.

On the home-front, Vinay and Sangita enjoyed the newly found quietness. They spent the first few weekends exploring the city and its near-by areas. One complaint that the couple had was that it was quite difficult to find good vegetarian restaurants. While a lot of Indians eat meat, Vinay and Sangita had been brought up as vegetarians and saw no reason to change that now. Sangita, who had always been surrounded by family and friends, was looking forward to meeting like-minded people, but to her surprise she did not find any organized expatriate groups. It bewildered Sangita that a big city like Nürnberg – despite the many foreigners living there (Table 3) – had no such social structure.

Sangita could not drive in Germany and being confined at home made her increasingly irritable. The process of converting her Indian license was long and tedious, and even if she did get her license, she could not read or understand any road signs. Taking public transport and the underground trains was an ordeal. Sangita thought back to an unpleasant incident that occurred a few days ago when she decided to meet another young Indian woman, with whom she had interacted with on a social network, for a coffee in the city. She was excited to finally meet someone new and thought an outing would also cheer up the kids, but to Sangita's horror, she realized she had no idea how to take the subway to the city. Once she reached the subway station, she struggled to get her child's stroller down the escalator when she eventually realized that the ticket vending machines were outside the station, forcing her to fight her way back to the top again. She cursed herself for not knowing how to print a ticket. After much struggle and help from a young girl she finally got her ticket, but the whole exercise had left Sangita already feeling defeated.

All in all, the first month had been mixed for Sangita. She was enjoying the beauty and quiet of the region and found it safe and extremely clean – a pleasant change from the noise and congested streets in Bangalore. But sometimes the silence also frightened her. There were days when she didn't speak to a single person outside of her small family and it was then that she missed the hustle and bustle in India.

Most of Sangita's days were monotonous and boring. Vinay was never around, as his two-hour lessons every evening meant that he would not arrive home before eight. Sangita was left alone to do all the housework and cook meals for the family. A few days after they arrived, she decided to take a trip to the local supermarket. She had made a list of things to buy, but upon reaching the grocery store she was aghast that not one product had English labels. The entire trip to the supermarket turned into a horrific nightmare. Sangita had to use the translator on her phone to find most things on her grocery list and the children grew impatient and cranky. Two hours and an irritated supermarket attendant later, Sangita reached back home angry and tearful.

In the following days, she emailed and called several kindergartens and daycare centers, but finding a place for her two daughters was very difficult. With the help of Google Translate, she painstakingly filled in the necessary registration forms only to get dismal responses. The earliest that her younger daughter Priyanka could get a place was in March the following year. The whole exercise of trying to explain her predicament in English was a painful experience. Luckily, the Franconian International School in Erlangen offered her older daughter Amulya a place in the Primary School, where she spent the weekdays with other expatriate children.

Dealing with the German bureaucracy was also a challenge. Although there is a shortage of skilled workers in the region and IT experts are urgently needed, applying for a work permit proved to be a nightmare. It took her more than two months to get an appointment with the authorities – only to find that she was missing some documents, and that she would have to come back after a couple of weeks. In Bangalore, she had received her new passport within a day.

Sangita found that other expatriates face similar challenges in Germany (InterNations, 2023). While the job market and job security are among the most attractive in the world, the country's lack of digitalization, the inflexible bureaucracy, and the tense situation in the housing market make life for foreigners complicated. Many foreigners find it difficult to live in Germany and to make friends without speaking the local language. This is especially true for expatriate partners who lack the organizational support of a large employer.

Table 3. Population Structure in Nürnberg (as of 31.12.2022)

Citizenship	Total	< 18 years	18-39 years	40-59years	> 60 years
Eligible residents	548,390	86,117	165,997	147,567	141,422
Germans	402,407	63,820	10,9123	102,753	119,768
Non-Germans	145,983	22,297	56,874	44,814	21,654
Non-Germans by nationality (%)					
EU member states	63,260	9,947	23,446	20,802	8,944
- Romania	15,856	3,112	7,162	4,864	718
- Greece	11,970	1,951	3,742	3,922	2,355
- Bulgaria	6,565	1,577	2,553	2,124	311
- Italy	6,617	641	2,175	2,210	1,590
- Poland	5,324	638	1,828	2,087	771
- Croatia	6,161	889	2,040	1,993	1,239
- Hungary	1,850	225	731	705	189
- Austria	1,480	53	377	474	576
- Czech Republic	1,115	123	364	439	189
Turkey	16,048	328	4,565	6,929	4,226
Ukraine	11,820	2,713	3,332	2,928	2,847
Syria	6,397	2,056	3,299	896	146
Iraq	4,733	1,232	2,081	1,071	349
Russia	3,698	367	1,234	1,243	854
India	2,596	377	1,878	305	36
Bosnia & Herzegovina	3,658	417	1316	1161	764
Serbia	3,356	345	1,123	1,143	745
Kosovo	2,639	386	1,161	908	184
North Macedonia	1,589	241	698	468	182
Iran	1,556	236	861	368	91
Ethiopia	1,463	534	696	219	14
China	1,310	111	755	377	67
Albania	1,117	215	623	263	16
USA	1,187	59	420	407	301
Azerbaijan	1,128	276	406	282	163
Afghanistan	1,072	313	637	84	38

Source: https://www.nuernberg.de/imperia/md/integration/dokumente/integration/statistischer_jahresbericht_mi_sta_ 2023.pdf.

6. Growing Frustration

The day after Jonathan Siebert handed him the task, Vinay called his team for a meeting. He explained how the assignment would be divided between his team in the Bangalore office and the German team. Vinay had already worked out the timelines and milestones for each phase of the project, however, after presenting his ideas, the team seemed less than enthusiastic. The Germans protested the deadline and believed it to be unrealistic on account of the upcoming Christmas holidays. Vinay tried to convince them that the success of this batch of software would bring recognition and more lucrative projects in the future, but the team remained wary. Nevertheless, Vinay was determined to prove himself to his superiors, and decided to nevertheless push his team to achieve the deadlines. He also decided to outsource a bigger chunk of the project to his team in India who seemed positive that the deadline was in fact achievable.

And thus began the nightmare for Vinay. His team in India that had seemed so positive at the outset of the project missed its first deadline three weeks later. Vinay was furious and demanded that his team in India put in extra hours and work weekends to get the assignment on track. He closely monitored the work done by each member of the team and frequently followed up with them to track the progress. Meanwhile things were no better with his team in Germany. Max and Andreas were taking two weeks off during Christmas, and Ramesh and Daniel could simply not manage the workload unless the entire team put in extra hours in the first half of December.

Vinay invited his team to dinner one evening in the hope of getting to understand his colleagues better and changing their minds about putting in the extra hours needed to complete the project by mid-January. While Max reluctantly conceded to staying a few extra hours, Andreas made it quite clear that he took care of his children most evenings because his wife worked late and would therefore be unable to put in any more hours. Vinay was quite surprised at the lack of commitment shown by his colleagues. A couple of days later, Vinay made the same remark to Ramesh who suggested that he push back the deadline by a month. That would give everyone on the team some breathing space and allow everyone to give their best without worrying about an impossible deadline. Ramesh also mentioned that the one-way directives being issued by Vinay were not taken well by the teammates. Vinay countered by saying that there was no way he could go back to Jonathan Siebert and ask for an extension on the deadline.

Two days before Christmas, Vinay was sitting alone in the office frustrated at how things had not progressed at all. Max and Andreas had left for their holidays without having finished their assigned tasks. They said they would pick up where they left off once they were back in January. Vinay assessed the situation with the Bangalore team who assured him that they would do all that was necessary to give their first batch of completed software by the first week of January, three weeks later than what had been planned. At this point, Vinay knew that the January 15th deadline would not be possible. He assessed that the Indian team would not be able to meet the deadline despite sounding positive. His German team refused to make any commitments as to if and when the task would be completed.

Sangita's annoyance and frustration had also gotten worse in the past weeks. It was almost Christmas, and both thought an evening out at the Christkindlesmarkt might lift her spirits. As Vinay rightly assessed, Sangita had become frustrated with her life in Germany and her mood darkened further as the cold grey winter progressed. All her positivity and confidence about being able to find a job in Germany had been annihilated by her unsuccessful attempts at even being called in for an interview. Sangita was smart, qualified, and well-spoken and could easily impress any prospective employer, but she was just not getting the opportunity she needed. Although her certificates were officially recognized by the German authorities, her qualifications seemed to be valued less highly by German employers – an experience that she shares with many non-German applicants (Damelang & Abraham, 2016). She did find a small Indian community where she befriended a few like-minded women, but their futile attempts at finding jobs only further demotivated Sangita. This combined with the misery of staying home all day with two young children and no one to help with household chores and childcare, put her on the brink.

The week-long holidays provided the couple with some alleviation despite the biting December cold dampening their spirits, but Sangita and the kids welcomed the change of having Vinay around. They enjoyed walking around the big stores in the city decorated with Christmas lights, the mulled wine at the market and the general air of festivities. Sangita felt nostalgic and ached to be back home with her family and friends.

7. The Break Down

Vinay went back to work in January feeling reenergized and refreshed, but all his worries about the deadline in four weeks came rushing back as he greeted Jonathan Siebert that morning. Jonathan Siebert was getting a cup of coffee and casually enquired how the project was coming along. Vinay replied that he had things under control, not wanting to disappoint his boss. After a quick status update with Ramesh and Daniel, Vinay called his team in India for a conference call. The team was quiet and seemed less enthusiastic. He knew what this meant, having been on the other side of such a call many times. After finishing the meeting, he called one of the members of his Indian team and asked him what the problem was. He replied that the deadline was unrealistic. Despite having put in extra hours and working weekends, the team would simply not be able to deliver by the 15th of January.

Vinay knew that the breaking point had come. He needed to talk to Jonathan Siebert and explain what had gone wrong. He reluctantly made his way to his boss' office and explained to Jonathan Siebert how things had gotten out of hand and how he had missed deadline after deadline. He provided reasons such as Alex and Max's absence for two weeks and the Indian team having waited this long to tell him that they would indeed miss the deadline yet again. He could see the deep disappointment on Jonathan Siebert's face. He only asked why Vinay had not come to him earlier. After much discussion and deliberation, Jonathan Siebert proposed that this project be handed to another team and claimed that he needed a couple of weeks to decide how things would progress with Vinay.

For Sangita, the new year started on a slightly positive note. She was finally called for an interview at a mid-sized IT company in Nürnberg. Vinay took half the day off to watch the kids and Sangita went for her interview feeling upbeat for the first time in a long time. However, when she walked into the meeting and one of the interviewers started speaking in German, her heart sank. She requested for the interview to be switched to English, but could sense an immediate discomfort among the interviewers and the questions came haltingly. As she was leaving, a kind-faced German lady from the company's human resources department told Sangita that, while her experience and credentials were outstanding, working in a team where all other employees speak German would be uncomfortable for her. At the same time, it would be unfair to expect all the other team members to switch to English for just one employee and suggested that Sangita should invest some time in learning the language. Sangita knew there was no way they would offer her employment. Deeply disappointed and angry, she resolved to talk to Vinay about moving back to Bangalore when she got home.

Vinay and Sangita had a huge argument that evening. Sangita saw no reason to stay in Germany. She hated both Nürnberg and its cold weather, and despised staying home while she had a promising career to look forward to and parents who took care of her family in India. Although Vinay agreed with everything that Sangita said, he could simply not accept defeat. He was worried about how Jonathan Siebert would react and what his prospects in Siemens India would be, should he choose to go back.

8. The Decision

It had been Vinay and Sangita's dream to spend a few years in a country that would help their careers, provide their children with a good education and put an end to their financial worries. Little had they anticipated that significant challenges would also be part of the package. After five months of living in Germany, Sangita had accepted defeat and wanted to go back to her old life in India. She was adamant and there was nothing Vinay could do to change her mind. Vinay, too, had landed himself in an unfortunate situation at work. It had been ten days since the fateful meeting with Jonathan Siebert and he had not been assigned a new project yet. He was embarrassed at having lost face in front of his German and Indian teams. Still, Vinay did not just want to give up all that he had worked for – how could he disappoint his boss, his team and his parents? On the other hand, Sangita had given the ultimatum: she was going back, with or without Vinay. How could he convince her to stay? Or was she right about everything after all?

As the train pulled into Erlangen, Vinay was brought back to the present. He wearily got off and headed to work, the usual spring in his step missing, his head filled with the problems he was facing at work and at home, and the weight of the impending decision he had to make.

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Can International Defence Companies be Socially Responsible? The Case of Diehl

"The employees of Diehl Defence consider abiding by ethical principles and observing high standards of transparency, integrity and fairness a matter of course."
Diehl Defence corporate mission

1. The Diehl Group at a Glance

The Diehl Group is a globally operating company with subsidiaries in 18 countries and five corporate divisions: Metall, Controls, Defence, Aviation, and Metering. In 2022, it had a turnover of 3.506 bn. € (+10.7% compared to the previous year) and a workforce of 16,550 employees (+2.6%). EBIT rose from 19.4 mn. € in 2021 to 166.5 mn. € in 2022 after negative EBIT of -132.1 mn. € in 2020 (Diehl, 2023a).

The Diehl Group operates under the head of the Diehl Stiftung & Co. KG as a limited partnership with the Diehl Verwaltungs-Stiftung as a general partner (Diehl, 2023b). Its organs are the Executive Board and the Supervisory Board. The late Karl Diehl (†2008) is still mentioned as Honorary Chairman of the Supervisory Board and his two deceased sons

Peter Diehl (†2016) and Thomas Diehl (†2017) as board members. Karl Diehl's son Werner Diehl is Vice Chairman and Thomas Diehl's youngest son Markus Diehl is a member of the Supervisory Board. Despite its growth into a globally operating company, Diehl is still owned by family members. With an estimated private fortune of 2.1 bn. €, Karl Diehl's three sons, Werner, Peter, and Thomas, were ranked 46th among the richest Germans in 2010 (Aigner & Rödl, 2012).

In 2021, Diehl ranked 99th among the 100 largest arms-producing and military services companies in the world (SIPRI, 2022). It is the sixth largest German defense company after Airbus, Rheinmetall, KNDS, ThyssenKrupp, and Hensoldt and one of the largest employers in the Nürnberg Metropolitan Region.

The Diehl Group in general, and Diehl Defence in particular, frequently stress the relevance of high ethical standards and compliance regulations. However, it is questionable whether Diehl as an international defense company can "be socially responsible while producing products harmful to human beings, society, and environment" (Cai et al., 2012, p. 467). In the following, the history of the Diehl Group will be outlined. Particular attention is paid to its controversial role during the Nazi time. Afterwards, a closer look at the defense division and its corporate social responsibility activities will be provided.

2. Milestones of Corporate History

The history of Diehl dates back to 1902 when Margarete and Heinrich Diehl started the production of epitaphs, building fittings, and artistic cast goods (for the following, see Schöllgen, 2002). During the 1930s, Diehl proceeded to the mass production of precision mechanical products and expanded to customers in the construction and automotive industries. In 1938, Heinrich Diehl died and committed the company to his son Karl who led it for 70 years until his death in 2008.

In 1933, Karl Diehl joined the NSDAP, a step which biographer Gregor Schöllgen (2002) describes as a "concession to the Zeitgeist". At the beginning of World War II, Diehl was classified as a war-strategic company, and between 1939 and 1942, the company steadily increased production and sales and tripled its workforce. Almost half of the workers were forced laborers from Eastern Europe and concentration camp prisoners, among them about 1,000 Jewish women from the Concentration Camp Groß-Rosen. About a dozen inmates claimed to have been held like slaves. Those who did not meet their production targets were deported to Auschwitz and often killed. Schöllgen (2002) argues that Karl Diehl "like most entrepreneurs in his situation, acted pragmatically" in order to avoid conflicts with the NSDAP. "Despite their NSDAP membership, [they were] no Nazis in the common sense". In 1947, Karl Diehl had been categorized as a "Mitläufer", a passive adherent of the Nazi ideology, and it was not the last time that his Nazi membership would be of high controversy.

After the war, civil production was gradually restored in the largely destroyed plants. On a temporary basis, repair work was carried out on German railroad equipment, and commodities such as ladles and soup pots were manufactured. Precision-mechanical production restarted later, and in 1947, the first Diehl clock was released on the market.

In the 1950s, Karl Diehl also benefitted from his good connections to Federal Minister of Defense Franz Josef Strauß, so that the company could successfully restart defense production. The foundation of the Bundeswehr in 1955 took place in the process of the German rearmament due to the upcoming Cold War. The subsequent demand for domestic defense technology brought Diehl back into the defense business by using its experience in fuse production that was gained during the war. Partnerships soon encompassed the armed forces of allied countries like the USA. In 1959, Diehl received orders for munitions, ammunition packaging, and curb chains. Mines also belonged to the product range. Over the years, defense engineering accounted for more than half of the steadily growing turnover of the Diehl Group.

The company resumed its production of ammunition and started the development of new technologies, such as for the production of tank tracks. For this purpose, Diehl acquired Backhaus, a tank tracks production company, in 1959. In 1971, Diehl built a development center for ammunition and weapons in Röthenbach near Nürnberg in order to expand its production of defense engineering, timers, and semi-finished goods. Shortly afterwards, Diehl acquired the Brazilian automotive supplier Bristan in São Paulo, a specialist in the production of brass parts. Since then, Diehl do Brasil has become an important supplier for car and gear manufacturers on the American continent (Diehl, 2023b).

In the 1970s, Karl Diehl's sons joined the company. The oldest son Werner, a graduate in Law, entered Diehl as an authorized representative in 1975. Since his accession to the administrative board in 1992, his main tasks have revolved around the social issues of the company. Karl Diehl's second son Peter, a business economist, started his career in the company in 1976. Subsequently, he became the managing director of the partner company Süddeutsche Metallhandelsgesellschaft mbH, mainly with operational management functions. In 1977, after completing his studies in industrial engineering, Karl Diehl's third son Thomas started working in the development department of Junghans, a German watch and clock manufacturer that was acquired by Diehl in the 1950s. After being head of R&D in the ammunition division, he presided over the newly created central technology department. Since 1998, Thomas Diehl had been the Chairman of the Supervisory Board of the Diehl KG. After Thomas Diehl's death in 2017, Dr. Herbert Fehrecke took over this position. The former BMW and Airbus manager Dr. Klaus Richter is President of the Executive Board (Diehl, 2023a).

In the 1990s, Diehl went through a period of significant organizational restructuring, and was converted into a limited partnership under the lead of a family foundation to protect its independence and autonomy. In 1998, the Diehl Stiftung & Co. KG. was founded, and many positions, responsibilities and structures were changed. Diehl took this decision in order to limit the family's power in the company and to include consultants from outside in the Executive Board and the Advisory Board (Kiani-Kreß, 2015). Nevertheless, Diehl remains an independent family-owned company until today (Diehl, 2023b).

3. Karl Diehl's Controversial Role during the Nazi Time

In 1997, Karl Diehl was about to receive the honorary citizenship of his hometown Nürnberg when details of his involvement during the Nazi regime became public and a heavy public discussion broke out (Noack, 1997; Gregor, 2003). Karl Diehl explained briefly that the company had been forced to act under the Nazi regime. He called the use of forced employees during the ongoing war "unavoidable". Abuses were persecuted "to the extent that the Gestapo allowed it" (cited in Noack, 1997). Witnesses stated that Diehl had no say in his company during that time, but held his protective hand over it. "As the owner of a business which was classified as vital to the war at the time, I was in the position to either submit to the demands dictated by the Nazi regime, or to face danger to life and limb. I chose the former," said Karl Diehl more than 50 years after the end of the war to justify his decision (cited in Aigner & Rödl, 2012).

After Karl Diehl had consistently rejected all demands for compensation for a long time, Diehl's Family Council voted to engage in dialogue with the former forced laborers in December 1997. In Israel, Werner Diehl met four women from the former Concentration Camp Groß-Rosen and got in touch with 180 other survivors. In the same month, Diehl agreed on an aid fund of 3 mn. DM (around 1.5 mn. €). The forced laborers have made no further claims ever since (Loose, 1999). Later, the Family Council joined the Foundation Remembrance, Responsibility and Future, an initiative launched by the German government and industry in 1999 to provide individual humanitarian payments to former forced laborers during the Nazi regime (Diehl, 2023b). In 1999, Diehl paid between 10,000 and 15,000 DM (around 5,000 to 7,500 €) to each of the 180 Jewish women who had been forced to work in the armory.

4. Diehl Defence

Diehl Defence, as a corporate division of the Diehl Group, comprises the business activities in the fields of defense and security as a holding company. It coordinates the activities of eight affiliated and program companies (Figure 1):

Figure 1. Diehl Defence – Affiliated and Program Companies

Source: Own illustration based on Diehl Defence (2023a)

The product portfolio of Diehl Defence consists of highly accurate guided missiles for armies, air forces and navies, remote carriers, air defence systems, ammunition, and reconnaissance and protection systems (Figure 2). Production plants are located in Frankfurt, Nürnberg, Rostock and Überlingen. In addition, representation offices exist in France, Thailand and the UAE. In 2022, Diehl Defence had a turnover of 810 mn. € (+23.1%) and employed 3,190 people which accounts for approximately 23% of the entire Diehl Group (Diehl, 2023a). In addition to the defence division, Diehl Aviation produces goods for military needs, such as cockpit and steering technology, avionics and lighting installations as well as systems for flight control and doors.

While Diehl does not publish any information about arms exports, the company has been frequently accused of selling weapons not only to NATO partners, but also to countries that violate human and democratic rights, such as Saudi Arabia (Tatje, 2010; Bickel, 2019). Generally, Germany is the ninth largest arms exporter after the USA, Russia and France with a world market share of 1.6% (SIPRI, 2022). The export of arms is subject to the War Weapons Control Law and requires the approval of the Federal Ministry of Economics. Thomas Diehl criticizes the restrictive treatment of arms exports and the sluggish processing of applications as "highly annoying" (cited in Hegmann, 2016).

Figure 2. Product Portfolio of Diehl Defence

Source: Own illustration based on Diehl Defence (2023b)

5. Corporate Social Responsibility

5.1 Compliance Guidelines, Committee and Training

As a defense company that is critically observed by the media and the general public, Diehl has developed a code of conduct covering, among others, statements about the prohibition of bribery/corruption, compliance with import and export trade laws, human rights, the environment, sustainability reporting, compliance training, and supplier responsibility (Appendix). In order to implement these guidelines, a compliance committee has been established. It is headed by the Corporate Compliance Officer who regularly reports to the Executive Board. In addition, the compliance organization includes an independent, external ombudsman who is obliged to maintain strict confidentiality and protect whistleblowers. Diehl employees and third parties may contact him in confidence if they observe improper business practices within companies of the Diehl Group.

Compliance training (on-site and through e-learning) is regularly conducted on all hierarchical levels and in all countries where the Diehl Group operates. The training provides explanations regarding the General Business Principles of the Diehl Group, with emphasis on corruption prevention and competition law. In particular departments, such as sales and purchasing, specially tailored training courses are conducted (Diehl Defence, 2023c). Moreover, the company has formulated value statements regarding the contribution to peace and security and the environment (Table 1).

Table 1. Diehl Defence – Values

Living in a safe environment – technology for peace and freedom
We long for peace and security. Armed forces are deployed around the world to prevent conflicts, manage crises, fight terrorism or provide support for humanitarian aid operations. Soldiers protect people and facilities, fend off attacks and have to assert themselves in battles at the global hotspots of the world. Their missions are dangerous, and their training and gear are critical to survival and success in the field. The basis for the business activities of Diehl Defense is the order of the German Armed Forces. This includes defending the sovereignty and territorial integrity of our country and its allies, protecting the population and averting threats to international trade routes. For our engineers, technicians and specialists in the development laboratories and production centers, it is a daily challenge to consistently align products and services with the operational requirements of modern armed forces. With the application of cutting-edge technologies, we often push the limits of what is feasible. Field reports from the troops help us to constantly improve. Our mission: providing the necessary equipment at the right time and within agreed costs.

Source: Diehl Defence, 2023d

An example of Diehl's efforts to avoid critical statements about their activities is the negotiations on the international ban of cluster munition. Under the pressure of the German delegation, Diehl's ammunition type SMArt 155 was excluded from the ban, although NGOs like Handicap International and Bündnis Landmine protested. In neighboring Austria, SMArt 155 was prohibited as cluster munition before the agreement took effect (Aigner & Rödl, 2012). When Werner Diehl was honored with the Bavarian Order of Merit (Bayerischer Verdienstorden), the journalist Stefan Aigner (2008) commented in an article that "Diehl […] among others, […] produces cluster ammunition." Only days after the article was published, this last sentence had to be erased. Diehl had obtained a preliminary injunction against Aigner and requested him to pay the company's legal expenses. Aigner, on the other hand, declared that the issue represented a restriction to the freedom of the press. Later, the journalist agreed to a settlement with Diehl to avert a considerable financial penalty (Zumach, 2009).

5.2 Anti-corruption Measures

Diehl's business principles explicitly refer to corruption and bribery, and it is clearly stated that bribes may not be taken by any employee in any form. Emphasis is put on transparent relationships with business partners, especially in the areas of purchasing and sales (Appendix). The company is a member of the Aerospace & Defence Industries Association of Europe (ASD) – an international initiative that aims to curb corruption by setting Common Industry Standards (D'Hollander, 2021).

In an assessment of anti-corruption measures among defense companies by Transparency International Defence and Security (2020), Diehl is placed in band D, indicating only moderate anti-corruption measures (Table 2). "There is evidence that the company publishes an anti-bribery and corruption policy which specifically prohibits bribery and commercial bribery (…). However, (…) it is not clear from publicly available information that the company prohibits facilitation payments or payments to public officials." It is also criticized that "there is no clear publicly available information that the results of risk assessments are reviewed by the board on at least an annual basis. There is also no clear evidence that the results of such reviews are used to develop tailored mitigation plans and to update specific parts of the company's anti-bribery and corruption program." Moreover, "there is no evidence that the company publishes any data to accompany this statement, such as the number of reports received, number of investigations launched, and number of disciplinary actions taken as a result." Transparency International researcher Leah Wawro (cited in Walker, 2015) concludes: "There tend to be high levels of secrecy in the defense sector. Sometimes there are genuine national security concerns that require secrecy, but too often 'national security' can be a veil for corrupt activities."

5.3 Philanthropy and Social Projects

For a long time, the Diehl family has been involved in several philanthropic and social projects (Diehl, 2023c). The Heinrich-Diehl Memorial Fund was founded on the 50-year company anniversary in 1952. It intends to be a voluntary company pension scheme for retired employees that still exists today.

The main aim of the Karl-Diehl Foundation, created in 1987, is to provide help for people in need. Its purpose is to support current or former

Table 2. Assessment of Diehl in the 2020 Defense Companies Index on Anti-Corruption and Corporate Transparency

Section	**Number of Questions**	**Score based on publicly available information**
Leadership and Organizational Culture	4	7/8
Internal Controls	6	4/12
Support to Employees	7	11/14
Conflict of Interest	4	3/8
Customer Engagement	7	3/14
Supply Chain Management	5	2/10
Agents, Intermediaries and Joint Ventures	10	9/20
Offsets	4	1/8
High Risk Markets	4	3/8
State-Owned Enterprises	0	N/A
Total		43/102
Band		**D**

Source: Transparency International Defence & Security, 2020

employees or their dependents who have gotten into difficulties. In addition, needy residents of the city of Nürnberg and the surrounding areas can also apply for help. Since its inception, more than 11,000 applications have been approved to help people in need. Additionally, assistance is granted to cultural, social and sports-related institutions around Nürnberg and on company locations on a regular basis as well as on special occasions.

In 2008, Werner Diehl established the Irmgard Diehl Children's Foundation in memory of his mother. It aims to aid children from a difficult family environment who have experienced abuse and violence, or who suffer from a serious illness or handicap.

Current philanthropic activities include cooperation with the Altstadtfreunde Nürnberg e.V., an association of friends of Nürnberg's historical center, as well as the support of the Germanisches Nationalmuseum and other cultural organizations in the city. Over many decades, Karl Diehl had collected valuable copper engravings, woodcuts and etchings by Albrecht Dürer. After his death, the Albrecht-Dürer Collection was donated to the people of Nürnberg as one of the most important art donations ever received by the city of Nürnberg (Mulzer, 2015).

6. Evaluation and Outlook

According to its company values, Diehl aims to contribute to peace and security. Members of the Diehl family have been engaged in several philanthropic and sponsoring projects. Moreover, its detailed compliance guidelines should guarantee proper business practices as well as social and environmental responsibility.

While Diehl frequently mentions its CSR engagement, independent organizations like Transparency International criticize the company for the lack of clear ethical statements, transparency and systematic monitoring procedures. Thus it may be asked whether CSR at Diehl as an international defense company is only "a distrustful attempt to legitimize questionable business and deceive stakeholders (window-dressing), or (…) utilized (..) as a means to improve transparency, strategies, philanthropy, and to eventually enhance firm value (value-enhancement), or (..) simply follows the current trend of CSR engagement as socially neutral activities without any true intention of deceiving stakeholders or value generation (value-irrelevance)" (Cai et al. 2012, p. 467).

Doubts about compliance with the company's own code of conduct arose around September 2023. Following settlement proceedings, the European Commission fined Diehl 1.2 mn. € for participating in a cartel concerning the sale of military hand grenades together with its Swiss rival RUAG. The two manufacturers had split national markets across the European Economic Area between themselves for almost 14 years. Following this allocation, only the designated manufacturer was entitled to sell military hand grenades in its allocated territory unless the other party gave its consent. Both companies admitted their involvement in the cartel and agreed to settle the case (European Commission, 2023).

The question of whether international defense companies can assume social responsibility has gained new relevance following the Russian invasion of Ukraine in 2022. For example, Diehl manufactures the IRIS-T air defense system, which the German government made available to Ukraine to protect against Russian air raids (Ritzer, 2023). According to Diehl's President of the Executive Board Klaus Richter, "IRIS-T is a pure defense system for borders and cities" (cited in Schülein, 2023). "A non-violent resolution of conflicts must always have priority", says evangelical pastor Regine Klusmann, Dean in Überlingen where Diehl Defense produces the IRIS-T air defense system. "In view of the illegal attack on Ukraine, it is still legitimate to defend oneself – if necessary, also by force of arms" (cited in Hilser, 2022).

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Appendix

Code of Conduct of the Diehl Group (Excerpt)

Preliminary Remark

Diehl carries out its business activities both in agreement with the laws and regulations of public authorities in the countries where its employees work in accordance with the principles described here. All employees on all hierarchical levels, as well as the executive bodies, are to comply with them without exception. Unfair or even illegal practices are not compatible with our Code of Conduct.

We therefore attach importance to a working environment in which employees address compliance issues openly and discuss them with their superiors as well as with the Compliance Organization. Our goal is to sensitize all employees to compliance in their daily work by means of sustainable communication.

1. Prohibition of Bribery/Corruption

Diehl complies with all laws and regulations applicable to its business, including the local laws and regulations of all countries outside Germany in which operations are managed or services are provided.

2. Proper Business Practices

2.1. Anti-Corruption Laws

Diehl complies with the anti-corruption laws, directives and regulations that govern operations in the countries in which Diehl does business, regardless of any local customs. This also includes compliance with anti-corruption laws with extraterritorial application.

Diehl forbids every kind of bribery and corruption. No employee may offer, provide or accept bribes. Bribery is a criminal offense. This includes bribery in business transactions as well as bribery of any holder of office or granting of advantages

and facilitation payments. In particular, any direct or indirect offer, promise, provision, or acceptance of inappropriate benefits, whether material or of any other kind, for the purpose of acquiring orders or procuring unlawful advantages is forbidden to all employees (corruption).
Diehl conducts reasonable due diligence to prevent and detect bribery and corruption in all business arrangements, including partnerships, the engagement of contractors and sub-contractors, joint ventures, offset agreements and the hiring of third-party intermediaries such as sales agents or consultants.

2.2 Illegal Payments

Diehl does not offer any illegal payments to, or agrees to receive any illegal payments from, any customer, supplier, their agents, representatives or others. Diehl prohibits its employees from receiving, paying and/or promising sums of money or anything of value, directly or indirectly, intended to exert undue influence or improper advantage. This prohibition applies even in locations where such activity may not violate local law.
Diehl does not offer, promise, make, accept or agrees to accept any improper payments of money or anything of value to government officials, political parties, candidates for public office or any other persons. This includes a prohibition on so-called ‘facilitation’ or ‘grease’ payments intended to expedite or secure performance of a routine governmental action, like obtaining a visa or customs clearance, unless there is a formal legal governmental fee schedule for such expediting services and the Government provides receipts. Personal safety payments are permitted where there is an imminent threat to health or safety.

2.3 Business relations

Relationships with other companies and between employees and their business partners – e.g., with suppliers and customers and with governmental offices and their employees, etc. – must be characterized by transparency, especially in the areas of purchasing and sales. This also applies to relationships with former employees and, in particular, to the family members of employees who directly or indirectly supply goods or services to the Group.
Employees who are involved in contractual negotiations with authorities must be familiar with the guidelines governing the process of submitting business offers in each respective country and may not violate them.
Diehl competes for orders by fair and legal means and carries out contractual negotiations in compliance with all legal provisions.

2.4 Fraud and deception

Diehl does not seek to gain an advantage of any kind by acting fraudulently, deceiving people, making false claims or allowing anyone else representing Diehl to do so. This includes defrauding or stealing and any kind of misappropriation of property or information.
(…)

2.6 Gifts/business courtesies

Diehl competes on the merits of its products and services. Diehl does not use the exchange of business courtesies to gain an unfair competitive advantage. In any business relationship, Diehl ensures that the offering or receipt of any gift or business courtesy is permitted by applicable laws and regulations and that such exchanges do not violate the rules and standards of the recipient's organization and are consistent with reasonable marketplace customs and practices. No cash gifts or cash equivalents will be offered or accepted.
Gifts and other benefits may be accepted or granted only after approval by the respective company superior and/or the Corporate Compliance Officer (COO) and only under the condition that the gifts or benefits do not contravene laws or guidelines, are within proper limits, and are not intended to influence decisions in a dishonest manner. The question of whether gifts or invitations are appropriate is to be decided according to normal business practices and with due consideration, if necessary, for the special customs of each individual country. Every appearance of dishonesty and incorrect behavior is to be avoided.
(…)

3. Global compliance with import and export trade laws

3.1 Import

Diehl ensures that its business practices are in accordance with all applicable laws, directives and regulations governing the import of parts, components, technical data and services.

3.2 Export und Sanctions
Diehl ensures that its business practices are in accordance with all applicable laws, directives and regulations, including economic sanctions and embargoes, governing the export and transfer of parts, components and technical data and services. Diehl provides truthful and accurate information and obtains export licenses and/or consents where necessary.
3.3 Responsible sourcing of minerals
Diehl complies with applicable laws and regulations regarding the direct and indirect sourcing of critical material and conflict minerals (i.e., when integrated in purchased products). Those materials include 'conflict minerals' (tin, tungsten, tantalum, and gold), rare earth elements, as well as other minerals or metals (e.g., bauxite, cobalt, titanium, lithium). Diehl has established a policy and a management system to reasonably assure that the 'conflict minerals' as well as critical material, which may be contained in products delivered by Diehl, are sourced responsibly (i.e., with limited environmental impact and not detrimental to Human Rights).
Diehl supports efforts to eradicate the use of any conflict minerals, which directly or indirectly finance or benefit armed groups that are perpetrators of serious human rights abuses. Diehl conducts due diligence and provides with supporting data on its sources and supply chain of custody for these minerals when requested, and identifies any potential doubt on the origin and/or on the production means.
In the event that the material 'chain of custody' supplied is 'indeterminable' or otherwise unknown, Diehl either attains the appropriate certifications, or phases out that source of mineral.
(…)
4. Maintain Accurate Records
Diehl has in place appropriate controls to accurately and securely create, store and maintain business records, and does not alter any record entry to conceal or misrepresent the underlying transaction. All records, regardless of format, made or received as evidence of a business transaction fully and accurately represent the transaction or event being documented. Records are retained based on the applicable retention requirements.
(…)
9. Human Rights
Based on the UN Guiding Principles on Business and Human Rights and the four fundamental principles of the ILO core labor standards, Diehl conducts its business and operations in a way the respects human rights by treating its own workers, and people working for its suppliers, with dignity and promoting fair employment practices. This includes providing fair and competitive wages, prohibiting harassment, bullying and discrimination, prohibiting use of child, forced, bonded or indentured labor and not engaging in trafficking of persons for any purpose.
Diehl identifies risks and actual adverse human rights impacts related to its activities and business relationships and informs the responsible persons and the management about this as part of internal risk management. Diehl takes appropriate steps to identify, prevent, reduce risk and ensure its operations do not contribute to human rights abuses and to remedy any adverse impacts directly caused, or contributed to, by its activities or business relationships.
9.1 Child Labor
Diehl ensures that illegal child labor within the meaning of Nos. 138 and 182 of the International Labor Organization (ILO) Convention is not used in the performance of work. The term "child" refers to any person under the minimum legal age for employment where the work is performed, and/or the minimum working age defined by the ILO, whichever is higher.
All workers under the age of 18 are protected from performing work that is likely to be hazardous or that may be harmful to their health, physical, mental, social, spiritual, or moral development.
9.2 Modern Slavery including Human Trafficking, Forced, Bonded or Indentured Labor
Diehl prevents any involvement in all forms of modern slavery, including human trafficking, forced, bonded or indentured labor. All work is involuntary on the part of the employee.
Diehl provides all employees with a written contract in a language they understand clearly indicating their rights and responsibilities with regard to wages, working hours, benefits and other working and employment conditions. Diehl does not retain any form of employee identification (passports or work permits), nor destroys or denies access to such documentation, as a condition of employment unless required by applicable law.
Diehl does not charge employees fees, recruitment costs or deposits, directly or indirectly, as a precondition of work.
Diehl respects the right of workers to terminate their employment after reasonable notice and to receive all owed salary.
Diehl respects the right of workers to leave the workplace after their shift (see also Wage, Benefits and Working Hours).
(…)

11. Environment
Diehl values a sustainable and responsible approach to the environment as well as natural resources. Therefore, in the course of its business activities, Diehl strives to continuously improve the environmental performance of its locations, products and services and actively manages environmental risks across its operations, products and supply chain.
Diehl has established an appropriate environment management system at its locations, including directives and procedures aimed at ensuring compliance with laws, regulations and other binding obligations in order to improve environmental performance and protect the environment from harmful effects. In doing so, Diehl aims at a continuous reduction of consumption of energy, water and natural resources and ensures a legally compliant handling of waste, waste water and hazardous substances. Diehl minimizes hazardous waste, ships goods in appropriate repackaging and promotes reusable/recycled packaging materials, and responsibly manages its air emissions.
Furthermore, Diehl incorporates environmental aspects into its own product development and service. Diehl is committed to environmentally compatible, advanced and efficient technologies and implements them over the entire life cycle of its products.
12. Sustainability Reporting
Diehl prepares and publishes sustainability reports in accordance with the applicable legal requirements.
13. Ethics Program
13.1 Directives and Code of Conduct
Diehl implements and adheres to this Code of Conduct and operates an effective compliance program and requires its employees to make ethical, value-based decisions in doing business.
Superiors and managers have a special role model function and ensure that their employees are familiar with the content of this Code of Conduct. The managers implement preventive measures in their area in order to prevent violations. All employees at all hierarchical levels, as well as the executive bodies, are themselves responsible for compliance with this Code of Conduct. Notwithstanding any further civil and/or criminal consequences, violations can be punished with disciplinary measures.
13.2 Compliance training courses
In all countries in which the Diehl Group is active, compliance training courses (on-site events and e-learning) on the requirements of this Code of Conduct are held regularly for employees at all hierarchical levels.
13.3 Help and advice
In order to anchor compliance in the Diehl Group and to enforce this Code of Conduct, the Executive Board and the Supervisory Board have established a Compliance Organization. The Corporate Compliance Officer (CCO) heads the Group's Compliance Organization. He can be consulted on all relevant matters.
In order to regularly review our business processes with regard to compliance with this Code of Conduct, and to identify compliance problem areas and to investigate identified violations, a Compliance Committee has been set up, to which members of the Executive Board also belong. Moreover, the CCO regularly reports to the Executive Board.
The Compliance Organization at Diehl is supplemented by a neutral external ombudsman (lawyer) who is obliged to maintain strict confidentiality. Diehl employees and third parties can turn to the ombudsman as a neutral body in confidence if they have observed improper business practices in companies of the Diehl Group. The contact details of the ombudsman are published on the Internet (www.diehl.com / Group / Company / Compliance).
In addition, Diehl offers its employees and third parties access to other appropriate reporting channels, including the option to report anonymously (www.diehl.com / Group / Company / Compliance).
Diehl encourages its employees to report suspicious cases in order to prevent damage to the company. The identity of employees who report a possible violation will be treated confidentially. Similarly, no employee may be sanctioned or otherwise disadvantaged as a result of having made such a report. Diehl takes measures to prevent, detect and correct acts of retaliation.
13.4 Forwarding to the supply chain
Diehl binds its suppliers to comply with the aforementioned principles by means of a Supplier Code of Conduct.

Source: Diehl Defence, 2023c

Dirk Holtbrügge

Corporate Social Responsibility in Globally-Operating Family Firms. The Case of Faber-Castell

"What matters to me as a businessman is not short-term profit, but securing a long-term future for the company."
Late Anton Wolfgang von Faber-Castell, ex-CEO of the Faber-Castell Group

1. Nürnberg – The Cradle of the Global Pencil-making Industry

Nürnberg is home to four of the world's largest producers of drawing and writing instruments; Faber-Castell, Lyra, Schwan-Stabilo and Staedtler. Favorable geographic conditions, fierce local competition and charismatic owners helped these companies to become world-market leaders in their domains (Haussmann, Rygl & Holtbrügge, 2010). According to the former Lord Mayor of Nürnberg Ulrich Maly, they are "more than just companies, but part of the city's history" (cited in Bayley, 2011).

The production of pencils in the Nürnberg region started around 1662. At that time, pencil lead mainly consisted of graphite from England. Pure graphite proved to be very brittle, so carpenters in Nürnberg hit upon the idea of simply encasing the graphite in wood. These wood-cased pencils did not require the high quality of English graphite and were produced with cores made by mixing graphite, sulfur and various binding agents (Faber-Castell, 2010). However, this technique violated the Nürnberg Council because it required two different trades, woodwork and metalwork. Therefore, pencil makers had to build their mills outside of the imperial city. In 1731, these craftsmen were granted their own Handicrafts Code as pencil makers in Nürnberg. For many years they managed to keep their skills a secret, with their know-how kept within the city walls. This resulted in Germany's pencil manufacturers still being based in and around the city of Nürnberg today (Weinrich, 2008).

The roots of Staedtler can be traced back to 1662 when the first references to Friedrich Staedtler as a pencil-making craftsman were made in the city annuals. On October, 3, 1835, J.S. Staedtler received permission from the municipal council to produce blacklead, red chalk and pastel pencils in his industrial plant. Today, Staedtler produces pens, pencils, markers, and other writing instruments for arts and crafts, technical drawing, and everyday use. It employs around 3,000 people in its headquarters in Nürnberg, 20 global subsidiaries and seven manufacturing facilities in South America and Asia. Despite its global presence, Staedtler remains committed to its German origin where over 85% of the production takes place.

Schwan-Stabilo is headquarterd in Heroldsberg, around 10 kilometers north of the Nürnberg Castle. Founded as Grossberger & Kurz Bleistiftfabrik (pencil company) in Nürnberg in 1855, the company was acquired by Gustav Adam Schwanhäusser in 1865 after becoming bankrupt. He named the company the Schwan Pencil Factory after his surname and added the picture of the swan, which became one of the first registered trademarks in Germany. Owned by the Schwanhäusser family for five generations, Schwan-Stabilo today has four production sites in Germany and eleven production sites abroad. The company employs over 4,400 people, almost half of whom work in Germany, and operates in three independent business areas – cosmetics, writing instruments, and outdoor equipment.

The Lyra pencil company was founded in 1806 by Johann Froescheis, who married into an existing small crafts enterprise. His son Georg Andreas took over the company in 1848 and transferred it to Kleinweidenmühle, where the hydraulic power of the Pegnitz River could be used. In 1868, Lyra was registered as a trademark for pencils. 10 years later, the mill was relocated to Großweidenmühle where it existed for the following 130 years. A branch in Geußnitz (Saxony-Anhalt) was established in 1992. In 2008, the company was sold to the Italian FILA-group. Today, Lyra employs around 115 people in its mill in Nürnberg.

2. Faber-Castell – Milestones of Corporate History

Faber-Castell was founded in 1761 as a pencil factory in Stein near Nürnberg (for the following, see Plate et al., 2011; Faber-Castell, 2023b). It is thus one of the world's oldest industrial companies and has not only remained in family ownership, but has also been managed by a direct descendant of the founder for eight generations (Table 1). Several family members have become "company heroes" and are often praised "for their entrepreneurial drive and their legacy" (Casillas, Moreno & Acedo, 2010, p. 25). The long tradition of the company is frequently referred to in marketing campaigns and corporate communication, and regarded as a major source of competitive advantage (Simon, 2009, p. 207).

Table 1. The Family History of Faber-Castell

Generation	Name	Years
1st Generation	Kaspar Faber	1730-1784
2nd Generation	Anton Wilhelm Faber	1758-1819
3rd Generation	Georg Leonhard Faber	1788-1839
4th Generation	Lothar von Faber	1817-1896
5th Generation	Wilhelm von Faber	1851-1893
6th Generation	Alexander Faber-Castell	1866-1928
7th Generation	Roland von Faber-Castell	1905-1978
8th Generation	Anton Wolfgang von Faber-Castell	1978-2016
9th Generation	Charles, Katharina, Victoria and Sarah von Faber-Castell	since 2016

Source: Faber-Castell, 2023b

In 1761, the carpenter Kaspar Faber started the business of making lead pencils known as Bleyweißsteffte. Initially, his wife sold the pencils at the market in Nürnberg, as during those days there was no established market for pencils in Germany. In 1784, Kaspar's son Anton Wilhelm took over the family business. He established a small workshop and built the family business under the name A.W. Faber.

In 1839, Lothar von Faber took over the company in fourth generation. Under his leadership, the company grew to a small factory with 20 employees. He introduced the first hexagonal pencils, improved the production process and came up with the clay graphite process to create leads that were unbreakable. In order to explore new markets for his business, Lothar sent his youngest brother Eberhard to the United States, where he established the company's first foreign subsidiary in New York in 1849. This was followed by sales offices in London (1851) and Paris (1855), as well as trading agencies in Vienna (1872) and St. Petersburg (1874). In 1856, a rich graphite deposit in Siberia, Russia was acquired. The company also tried to obtain crucial cedar wood from California, USA as its cedar plantation in Stein yielded wood that was too hard for use in pencils.

In 1870, the name A.W. Faber was officially entered into the US Register of Companies. In 1872, the company set up its own eraser factory in Newark, New Jersey. Meanwhile in 1873, Lothar's only son Wilhelm, who was a business administration graduate, joined the company. On the other hand, Lothar's two brothers, Johann and Eberhard, started competing companies. Eberhard, who managed the New York office, started his own pencil company named Eberhard Faber, Inc. In 1876, Johann, who explored new markets in South America for A.W. Faber Company, also left the family business to set up his own pencil company.

After his son Wilhelm died unexpectedly at an early age, Lothar von Faber chose his eldest granddaughter, Ottilie von Faber, as heiress of his estate. When she married Alexander Count zu Castell-Rüdenhausen, the firm name was accordingly changed to Faber-Castell.

After Alexander's death in 1928, his son Roland took over the company as its seventh generational leader and remained its head for 50 years. Under his leadership, the company opened a sales company in France in 1960. In 1962, two factories in Austria and Australia were founded. In 1965, manufacturing started in Argentina and Peru. In 1967, the internationalization activities led to the majority acquisition of the world's biggest pencil production facility in São Carlos, Brazil. The company not only expanded geographically, but also introduced entirely new products such as the first mechanical pencil, ballpoint, and felt-tip pens.

In 1978, Anton Wolfgang Graf von Faber-Castell succeeded his father as the major shareholder and managing director of the company. After having graduated from a Swiss Lyceum, he studied law at the University of Zurich and completed an additional management degree in Lausanne. He then started his professional career in 1971 as a banker at Credit Suisse in London and New York, until his father chose him out of nine other children as the sole successor.

Anton soon expanded the firm significantly by adding completely new product lines to the firm's portfolio, such as makeup pencils under private labels for the cosmetics industry. In 2000, the GRUP 2001 was introduced, a triangular writing instrument with featured lacquer dots along its silver shaft (Hagedorn et al., 2005). Anton also drove forward internationalization by opening sales offices in Hong Kong, Japan and South Africa, as well as additional production facilities in Malaysia (erasers) and Indonesia (pencils). Furthermore, he intensified the Brazilian operations by creating a unique reforestation project in order to gain independence from external wood suppliers. In 1987, Eberhard Faber Inc. was reunited with Faber-Castell.

In the early 1990s, a distribution and logistics center was founded in the Czech Republic for Central and Eastern European countries. In the late 1990s, the company also acquired a majority interest in Faber-Castell Colombia and following the foundation of a distribution company in 1997 in Bombay, India, an eraser production facility was created in Goa. The firm's 15th production facility was opened in 2000 in Guangzhou, China. Since 2018, cosmetic pencils have been produced in Elgin, Illinois.

Today, Faber-Castell is one of the world's leading manufacturers and sellers of high-quality products for writing, coloring, and creative design (Table 2).

Table 2. Faber-Castell at a Glance

Founded	1761
Holding company	Faber-Castell Aktiengesellschaft, Stein, Germany
CEO	Stefan Leitz
Core competence	High-quality products for writing, drawing, creative design and decorative cosmetic products Worldwide production capacity of over 2 000 million wooden-cased pencils per year (world's largest pencil manufacturer)
Certifications	ISO 9001-2000; ISO 14001; FSC®-FM, FSC®-CoC; PEFC™; NATRUE; IFS HPC (household and personal care products)
Associations	UN Global Compact; The German Environmental Management Association (B.A.U.M.); The Bavarian Environmental Pact and Climate Pact; Association for European Sustainability and Eco-Management (VNU)
Employees worldwide	ca. 6,500
Employees in Germany	1,000
Marketing and sales regions	Europe/North America, Latin America, Asia/Pacific
Production sites	in 10 countries
Sales organizations	in 22 countries
Sales agents	in more than 120 countries
Group revenue	FY 2022/23: 649 mn. €

Source: based on Faber-Castell, 2023a

The company produces over 2 billion black-lead and color pencils a year, making it the world's major manufacturer in its core field of wood-cased pencils. 2,000 different articles, ranging from wax crayons for children to exclusive fountain pens are divided into five product divisions – Playing & Learning, Art & Graphic, Premium, General Writing, and Marking. Since 2000, Faber-Castell is a non-listed joint-stock company.

Around 6,500 people are employed in production sites in 10 countries and sales organizations in 22 countries around the globe (Figure 1). The largest among the company's subsidiaries is located in São Carlos in the state of São Paulo in Brazil, where every year some 3,000 employees produce 1.5 million wooden pencils as well as about 1,500 other items. Faber-Castell Brazil also grows its own wood in a sustainable forestry project near Prata in the state of Minas Gerais (Table 3).

After a significant decline in sales caused by management changes and the COVID-19 pandemic between 2017 and 2021, the company has since returned to growth. In the FY 2022/23, Faber-Castell achieved revenues of 649 mn. € (+19.9%), the second highest turnover in the company's history (Figure 2).

Figure 1. Production Sites and Sales Organizations (2022)

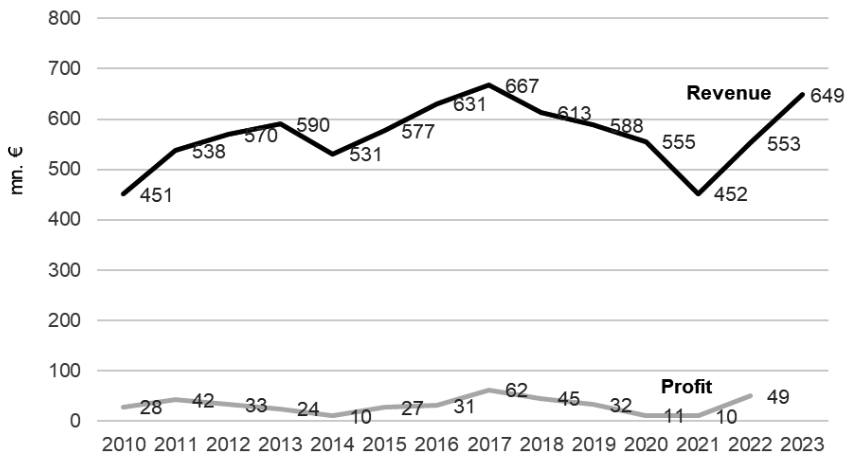
Source: Faber-Castell, 2023a

Table 3. Production Sites – Incorporation and Product Spectrum

Countries	Location	Incorporated	Activities and products
Germany	Stein	1761	Headquarters, research & development, production, marketing and sales; wood-cased color and graphite pencils, products for writing and painting and superior artist pencils and crayons
	Geroldsgrün	1871	Development and production of products made from plastic materials, ink writing implements, mechanical pencils, drawing instruments
Austria	Engelhartszell	1963	Inks & text liners
Peru	Lima	1965	Ballpoint pens, marker pens & fiber tips
Colombia	Bogotá	1976	Wax crayons & drawing accessories
Malaysia	Kuala Lumpur	1978	Research & development, production, sales; erasers (largest manufacturer in the world), ink pens and writing accessories
Brazil	São Carlos	1930	Research & development, production of wood-case color and graphite pencils, wax crayons, fine leads, writing accessories and cosmetic products
	Prata	1989	10,000 hectares of forest and a sawmill; tree nursery for pine seedlings, production of slats for color and graphite pencils
	Manaus	2006	Ball-point pens, children's markers, sharpeners
Indonesia	Bekasi	1990	Wood-cased color and graphite pencils, writing accessories
	Jakarta	1999	Textliners, fibre-tip pens, markers
	Sumatra	1999	Slats for color and graphite pencils
Costa Rica	Neily	1996 (closed in 2013)	Wooden pencils & colour pencils
India	Goa	1998	Wax crayons, text liners
China	Guangzhou	2000	Sharpeners, erasers and writing instruments from plastic material
USA	Elgin, IL	2018	Cosmetic pencils

Source: Faber-Castell, 2023a ; various company materials

Figure 2. Financial Performance (2010-2023)



Source: Company publications

3. Corporate Social Responsibility Initiatives

3.1 CSR as a Core Value

Faber-Castell has shown a high degree of corporate social responsibility (CSR) for many generations. This began with Lothar von Faber, who set up one of the first company health schemes in Germany in 1844 and one of the first kindergartens in 1851. The company also financed the building of housing, schools, and a church.

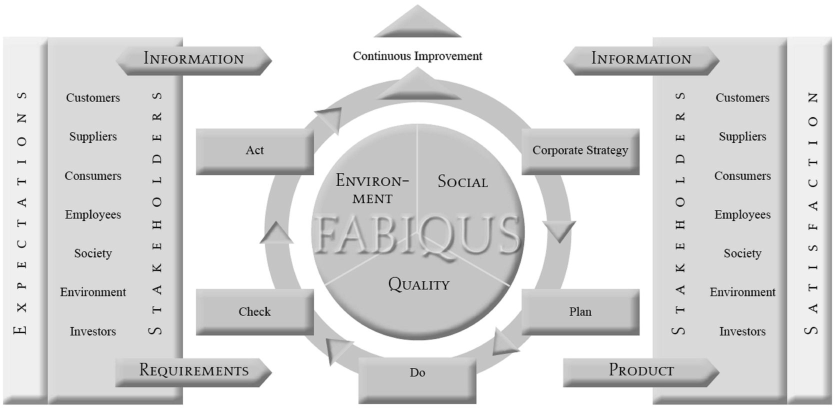
Anton Wolfgang von Faber-Castell, Chairman of the Faber-Castell Group of Companies between 1978 and 2016, continued this commitment and put special emphasis on sustainability: "In order to achieve long-term success, you have to think in terms of the future. For me as a businessman it is extremely important not to make profit at the cost of future generations (…). I am not interested in short-term profit-seeking. For a business that wants to be successful in the long term, the ability to generate sustained profit is absolutely vital. For me, business and integrity go hand in hand. The kind of integrity that embodies values such as social and ecological responsibility, trust, honesty and fairness is fully compatible with profitability. After all, only profitable businesses can devote themselves to social and ecological issues. Our healthy financial situation and the respect of our business partners gives me all the assurance I need that our chosen path is the right one" (Faber-Castell, 2015, p. 2). For his philanthropic initiatives, Anton-Wolfgang von Faber-Castell received several awards, such as the "Eco Manager of the Year" award of the German branch of the World Wide Fund for Nature (WWF) and the business magazine Capital in 2008. However, the philanthropist attitude often came at the expense of Faber-Castell's profits. For example, in 2015, the EBIT margin was estimated at 4.6%, while rival Schwan-Stabilo achieved 8.8% (Mehringer & Schwarzer, 2016).

3.2 Integrated FABIQUS Management System

An important measure of sustainable corporate policies at Faber-Castell is the integrated FABIQUS management system which was introduced in 1998 (Figure 3). Using standardization and unified requirements, it aims to ensure the identical and efficient implementation of the corporate strategy in every country.

As a part of the FABIQUS management system, environmental issues are considered integral. This includes methods and tools for compliance with requirements in the fields of quality, environment, social issues and safety at work, the implementation of company guidelines, the Social Charter and ISO as well as Forest Stewardship Council (FSC) standards (see below). A regular analysis of quality, environmental and social data through the proprietary FABIQUS Information System (FIS report) is aimed to measure positive effects such as savings, and to identify and implement potential improvements early on. It also queries and analyses the biodiversity indicators of the Global Reporting Initiative.

Figure 3. Faber-Castell Integrated FABIQUS Management System



Source: Faber-Castell, 2011, pp. 46

3.3 The Faber-Castell Charta

The key corporate philosophies and core values as well as basic principles and rules are formulated in the Faber-Castell Charta (Code of Conduct). It is binding on all employees of the Faber-Castell Group and shall provide concrete guidelines on how to act. In addition, it is designed to raise awareness among employees about critical practices which can, for example, entail major financial risks for the company or damage the company's good reputation (Figure 4).

Figure 4. The Faber-Castell Charta

1. Basic Principles – Law-abiding, Compliant, Responsible and Fair Behaviour
Faber-Castell undertakes to abide by all applicable national and international laws, regulations and guidelines and, in so doing, to observe cultural differences in the respective countries. All Faber-Castell employees, as ambassadors of the company, undertake to comply with the Faber-Castell Charta in their dealings with third parties and not to engage in any conduct that may harm the reputation of Faber-Castell in the public.

2. Product Quality and Safety
Faber-Castell customers have confidence in the quality of our products and services. At Faber-Castell, we ensure that our products and services satisfy applicable statutory quality and safety requirements in effect from time to time.

3. Anti-corruption
Faber-Castell does not tolerate corruption in any form. Corrupt behaviour on the part of employees or business partners is a criminal offence which leads to distorted competitive practices as well as resultant financial loss and reputational harm to Faber-Castell.

Corruption entails the act of promising or conferring a benefit, e.g., to public officials, business partners or employees of our business partners, as a way of exerting an influence on their decision-making.

Faber-Castell employees are also prohibited from receiving or accepting a benefit or the promise of a benefit offered to them by a third party, e.g., by customers or suppliers, who are chiefly looking to profit for own personal gain instead of acting in the best interests of the company. In instances where an employee is unsure about whether a particular act constitutes bribery or corruption, such as accepting an invitation to attend an event or a business meal, or to accept a gift, the employee in question should immediately contact their supervisor, the Legal Department or the Chief Compliance Officer for advice.

4. Adherence to Fair Competition
Compliance with the relevant regional, national and international competition rules is essential for ensuring fair competition. Faber-Castell undertakes not to engage in any unfair trade practices such as deceptive or misleading advertising practices or sales and distribution programmes.

Any types of arrangements with competitors in violation of antitrust law or engaging in any form of collusive practices, including but not limited to, agreements on prices, conditions, market allocation schemes, allocations of customers, or any other competitively sensitive data are strictly prohibited. The sharing of competitively sensitive information with competitors and other third parties is also covered by this prohibition.

Faber-Castell undertakes not to abuse its market power in contravention of applicable laws in effect from time to time, to the extent that it holds a dominant market position.

5. Preventing Conflicts of Interest
All Faber-Castell employees are obligated to ensure that business decisions are made based on fair and objective criteria at all times. Situations where personal interests of any given employee (such as direct or indirect financial, business or personal interests) conflict with the interests of Faber-Castell should be avoided in course of their professional duties (…).

6. Prevention of Money Laundering
"Money laundering" is defined as the concealed introduction of illegally acquired assets into the legal economic cycle. Money laundering is a criminal offence in numerous jurisdictions. Faber-Castell will not tolerate any violations of anti-money laundering laws and is committed to combatting all forms of money laundering.

7. Data Security and Confidential Information
All sensitive data pertaining to employees, customers, suppliers or other contracting partners of Faber-Castell is kept strictly confidential and secure. We ensure compliance with applicable statutory reporting requirements. All employees must ensure that rules and regulations concerning IT security are adhered to (…).

8. Protection of Intellectual Property
All employees of Faber-Castell are obligated to protect the intellectual property of Faber-Castell. Intellectual property comprises, in particular, copyrights (e.g., for the protection of computer software or images), trademarks, designs, patents, utility models, know-how or business secrets such as inventions, product compositions, formulae, as well as confidential information pertaining to customers or suppliers. For Faber-Castell, intellectual property is a significant asset, which may not be used by or disclosed to third parties without our consent.

9. Maintaining Accurate Books and Records
Faber-Castell undertakes to prepare all of its business documents and financial records in an orderly manner with due care and diligence in accordance with the applicable national and international accounting rules. The company shall ensure that its records and books of account are maintained in compliance with the principles of orderly accounting. Employees who are entrusted with such tasks shall ensure that any recording of data and other records are complete, correct, up-to-date, and compatible with the system at all times.

10. Labour Standards and Occupational Health and Safety
Faber-Castell is committed to promoting cultural diversity, tolerance, fairness and equal opportunity. For this reason, in 2000, Faber Castell became one of the first, small and medium-sized enterprises, to voluntarily sign up to a social charter with the trade union IG Metall, setting out Faber-Castell's commitment to uphold the employment and working conditions recommended by the International Labour Organization (ILO). It conducts audits on a regular basis to monitor adherence to the social standards set out in the Social Charter. Each and every Faber-Castell employee undertakes to adhere to the Faber-Castell Social Charter, which is valid worldwide (…).
All Faber-Castell employees are obligated to comply with the directives, laws and regulations, applicable from time to time, in relation to upholding occupational health safety and must ensure that other employees are not endangered through their behaviour. Engaging in behaviour which compromises a safe and healthy working environment, is to be avoided, and must be reported.

11. Customs and Export Control Compliance
Faber-Castell is explicitly committed to the strict observance of applicable customs and foreign trade regulations and shall ensure proper implementation thereof. In our contracts involving the granting of funds and/or economic resources, Faber-Castell therefore takes great care not to violate any embargoes that may be in effect.

12. Environmental and Climate Protection
Sustainability is firmly embedded in Faber-Castell's corporate values, as we have always attached great importance to environmental and climate protection. The company is committed to complying with all applicable national and international guidelines, laws and regulations in order to preserve and protect the environment and the climate, including the procurement, production, distribution and disposal of Faber-Castell products. Priority is given to available certified, sustainable raw materials and natural resources (…).

13. Illegal Utilisation of Company Property
Faber-Castell has a zero-tolerance policy with regard to any kind of fraud, theft, embezzlement, data misuse etc., and will file criminal charges, as applicable, and will cooperate with state investigating authorities, if necessary. Any business information or other assets of Faber-Castell may not be misused by employees, even after the termination or expiry of their employment contracts. The property of Faber-Castell may only be utilised for permissible transactions or legitimate business purposes and never for illegal purposes.

14. Communication
In order to safeguard the company's reputation and brand, Faber-Castell employees are obligated to ensure that all media inquiries are immediately referred to the press department (Corporate Communications).

15. Accountability – Internal Control System
The rules contained in this Faber-Castell Charta, and/or any additional company rules based thereon, apply to the relations between the respective Faber-Castell company in the Faber-Castell Group and their employees. They are mandatory directives. Third parties may not derive any legally enforceable individual rights from this Faber-Castell Charta. This Faber-Castell Charta shall be distributed to all Faber-Castell employees, who are required to undertake mandatory code of conduct training on a regular basis (…).

Source: Faber-Castell, 2018

3.4 The Faber-Castell Social Charter

In March 2000, Faber-Castell and the IG Metall trade union ratified the Faber-Castell Social Charter, which is still applicable in all countries today (Figure 5). At that time, Faber-Castell was one of the first companies with such an internationally binding code of conduct (Köhnen, 2003). The company voluntarily commits itself to assuring the terms of employment and working conditions recommended by the International Labour Organization (ILO) in all its subsidiaries. The charter includes, among other things, the prohibition of child labour, equal opportunities and equal treatment irrespective of race, religion, gender or nationality, and the guarantee of safe and hygienic working conditions. In October 2008, the social charter was extended to all contractors, subcontractors and suppliers.

Figure 5. The Faber-Castell Social Charter

Agreement between A.W. Faber-Castell Unternehmensverwaltung GmbH & Co, 90546 Stein and Industriegewerkschaft Metall/Bau- und Holzarbeiter Internationale, BHI

1. The Faber-Castell Social Charter:

Faber-Castell undertakes to observe the following standards and recommendations:

1.1 Employment is voluntary and can be chosen freely

Forced labor or compulsory labor must not be practiced. (ILO Conventions nos. 29 and 105). No employees must be forced to furnish a 'deposit' or to hand in his/her identity papers with their employer.

1.2 No discrimination in employment

Equal opportunities and equal treatment regardless of the ethnic origin, color, gender, religion, political opinion, nationality, social background or any other special characteristics shall be provided (ILO Conventions nos. 100 and 111). All employees shall receive the same pay for an activity ranking on the same level. Physical abuse, threats of physical abuses, unusual punishments or disciplinary measures, sexual or other forms of harassment and intimidations by the employer are strictly prohibited.

1.3 No Child Labor

Child labor must not be practiced. Only employees aged over 15, or over the age of compulsory education, may be employed (ILO Convention no. 138). Children under 18 years are not permitted to execute a job that might endanger their health, safety or moral principles (ILO Convention no. 182) because of its nature or the conditions under which it is performed.

1.4 Respect for the right to freedom of association and free collective bargaining

The right of all employees to form and join trade unions shall be recognized (ILO Conventions nos. 87 and 98). Employees' representatives must not be discriminated against and must be granted access to all the work places as required for exercising their duties as trade union representatives (ILO Convention 135 and Recommendation 143). The employers shall have a positive attitude towards the activities of the trade unions and be open to their employees being organized in a trade union.

1.5 Decent wages

Wages and benefits for a standard working week must at least meet the legal standards or the minimum standards valid for the industry. Wage deductions without the express consent of the employees concerned are not permitted, except when they are founded by national laws. All employees receive written and understandable information in their native language about their salary before they start working. They also receive a written salary statement with each payout.

1.6 No excessive working hours

The working time is to be defined in line with the valid laws or national collective bargaining agreements for every trade. All employers must be granted at least one day off per week for their own recreation.

1.7 Safety at work and decent working conditions

A safe and hygienic working environment shall be guaranteed and implemented by an inhouse work protection organization ('Health and Safety Committee'). Optimum health and safety measures are supported in consideration of the current state of knowledge of the industry and of any given specific dangers.

1.8 Conditions of employment are defined
The obligations of the employer towards the employees regarding the national Labor Laws and the regulations on social protection based on a regular employment relationship are observed. The employment relationship is to be fixed in a written agreement.

2. Contractors, subcontractors and suppliers
It is the objective of Faber-Castell to only co-operate with contractors, sub-contractors and suppliers who themselves recognize and implement the standards and recommendations (no.2) quoted above. When drawing up a contract with a supplier, Faber-Castell shall include a self-assessment made up by the supplier in the supplier rating. In addition, the responsible staff of the purchasing department shall undergo further advanced training in this respect. On a long-term basis, it is our intention to also apply our internal, multistage monitoring procedure to the suppliers.

3. Implementation

3.1 Communication:
The agreement ('Faber-Castell Social Charter') shall be made accessible to all employees in their respective languages. The implementation results shall be published internally and externally by means of appropriate means of communication (e.g. Faber-Castell Newsletter, Homepage).

3.2 Multistage monitoring procedure:
The multistage monitoring procedure comprises a self-assessment of every company, internal and external audits.

– **Self assessment:**
  Every company shall fill in a "questionnaire on the self-assessment" every two years which covers all items detailed in the Social Charter.
– **Internal audits:**
  Internal "Management Representatives" shall monitor on an annual basis if the Social Charter is adhered to. Their audit results are included in the integrated Management System (FABIQUS) of Faber-Castell.
– **External audits:**
  A Monitoring Committee equally composed by representatives of Faber-Castell and representatives of IG Metall/BHI shall monitor the implementation of the agreement. The committee will meet at least every 2 years and hold its meetings at the premises of the production and sales companies. BHI can make it possible for the local trade unions to participate in the meetings of the Monitoring Committee on the spot. The participants shall receive any and all information required for the exercise of their mandate. Faber-Castell shall bear the costs for the external audit.

3.3 Settlement of disputes:
Every production and sales company is responsible for the adherence to the agreement. Any and all disputes which cannot be settled on the spot shall be transferred to the monitoring committee who will review the facts and propose corresponding measures (…).

Source: Faber-Castell, 2008

The terms of the social charter are an integral part of the FABIQUS management system and are regularly checked by an independent committee. For this purpose, the corporate processes are examined by both internal and external boards. The monitoring mechanism includes self-information of all plants in social checklists, regular audits of the plants by internal auditors, and verification audits by an external monitoring committee every two years.

While both Faber-Castell and the IG Metall regard the social charter as an exemplary model of industrial relations, its implementation in an international context is faced with several challenges. For example, communication and coordination of interests between the employee representatives in the various subsidiaries is still limited (Hamm & Koch, 2010). Moreover, the freedom of association can hardly be enforced in countries like China where the All-China Federation of Trade Unions is not independent, or in Brazil where trade unions are often corrupt. In some countries, such as India, the statutory minimum wages are too low to secure existence. High labor standards not being welcomed by employees in all countries makes things even more difficult. One example is the subsidiary of Faber-Castell in Guangzhou, where the prohibition of excessive working hours contradicts the requests of many Chinese workers to receive overtime payments (Wisdorff, 2007).

Therefore, some analysts regard the social charter more as a marketing instrument than a collective agreement in terms of labor law (Sobczak, 2006). This is also reflected in some (non-representative) statements of actual and former employees on Glassdoor (https://www.glassdoor.de/Bewertungen/Faber-Castell-Bewertungen-E8441.htm) and Kununu (https://www.kununu.com/de/faber-castell) that criticize slow decision-making, lethargic management, and high turnover rates. It is also recommended that the core values of Faber-Castell should be filled with life.

3.5 UN Global Compact Membership

In 2003, Faber-Castell entered the UN Global Compact as one of the first small and medium-sized companies from Germany. By joining this initiative, the company aimed to underline its support for achieving better conditions for human beings and nature by means of socially and ecologically compatible business practices.

While Anton Wolfgang von Faber-Castell played a major role in establishing these policies, the director of corporate human resources is responsible for the implementation of the Global Compact principles within the company. As required by the UN Global Compact, Faber-Castell regularly publishes Communication on Progress reports (Faber-Castell, 2021). In the last report, the main focus was on environmental issues, while anti-corruption measures were only briefly mentioned (Table 5). It has also been criticized that the criteria of the Global Reporting Initiative are not systematically applied (Hamm & Koch, 2010).

According to interviews with company representatives conducted by Hamm & Koch (2010), Faber-Castell regards the Global Compact membership primarily as part of its communication strategy, while the effect of the learning and dialogue platform is seen more critically. Moreover, the CSR-officer perceives potential conflicts between profits and social commitment. Although Faber-Castell has implemented systematic CSR-instruments, such as the FABIQUS management system and various certifications, no explicit rules in cases of goal conflicts exist. “At the end it is Graf Faber who decides” (Hamm & Koch, 2010, p. 45).

Table 5. UN Global Compact – Summary of the Communication of Progress

Principle		Practical example
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and	• Social Charter including annual internal/external audits • Corporate Essentials • Social Supplier monitoring • Faber-Castell Charta • Regular training for employees • Supplier Audits • Indirectly: the Policy for the Association with FSC forbids the ILO Core Conventions
	2. make sure that they are not complicit in human rights abuses.	
Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	
	4. the elimination of all forms of forced and compulsory labour;	
	5. the effective abolition of child labour; and	
	6. the elimination of discrimination in respect of employment and occupation.	
Environment	7. Businesses should support a precautionary approach to environmental challenges;	• Environmental Policy • Corporate Essentials • Environmental Policy • Environmental Management System and annual audits • Climate Protection (e.g., Corporate Carbon Footprint & neutralization, Product Life Cycle Analysis) • Certification according to ISO 9001, ISO 14001, FSC® and PEFC • Environmental projects (e.g., Forestry projects in Brazil “Animalis” & “Arboris”)
	8. undertake initiatives to promote greater environmental responsibility; and	• Sustainable certification (FSC®, PEFC, CCF) • Participation in different work groups and initiatives
	9. encourage the development and diffusion of environmentally friendly technologies.	• Sustainable products (e.g. water-based coating, refillable designs) • Renewable energy (heating with wood chips, hydro-energy) • Alternative materials (recycled plastics)
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.	• Faber-Castell Charter • Internal Compliance Principles, Risk Management System, internal, external and supplier audits

Source: Faber-Castell, 2021, p. 16

3.6 Other Initiatives

In the previous years, Faber-Castell has implemented various measures that are aimed at reducing the ecological impact of its operations (for the following, see Faber-Castell, 2023a).

In 2001, the Animalis and Arboris biodiversity programs were launched in order to analyze the on-going progress of biological diversity in the Brazilian forests. Some 2,700 hectares of woodland are left in their natural state as a habitat for flora and fauna, including some species threatened with extinction. In the Animalis project, the local biodiversity is recorded, the stocks are controlled and the animals' habitat is secured in collaboration with local universities. The Arboris project has planted 40,000 local trees and other crops in the reserved areas of the plantation to establish and promote the natural flora. The aim is not only to preserve native plant species, but also to ensure natural pest control for the forests through the multitude of insect populations settling on the plants. The program is also expected to secure high levels of soil and water quality and provide protection against erosion.

In 2008, the company joined the Global Forest & Trade Network (GFTN), an organization within the WWF. GFTN offers a platform for companies which feel a responsibility to encourage environmentally and socially compatible forestry. GFTN members are committed to traceability in the procurement of timber and paper, and incorporating an increasing proportion of products certified by the FSC in their range.

By joining GFTN, Faber-Castell committed itself to raising its proportion of FSC-certified timber resources from about 80% at that time to 90% by the year 2012. That target was in fact exceeded by mid-2010. 95% of all wood used is now certified according to the stringent criteria of the FSC. The remainder comes from monitored sustainable forests. In addition, all production sites and sales companies around the world have received FSC-CoC (Chain of Custody) certificate, so that the origin of all the wood, from felling the tree to packaging the pencils, can be traced back with certainty.

In the El Magdalena region in northern Colombia, the land has been spoiled by excessive animal husbandry. 51 farmers are currently planting and looking after around 2,000 hectares of woodland as a source of timber for Faber-Castell. The forestry project is part of a large-scale restructuring program in the municipalities along the Rio Magdalena that have been seriously affected by overgrazing and soil erosion. The project is expected to save the region battered by floods and crop failure in ecological terms, as well as to stabilize it economically and politically. The forestry project has gained recognition from the UN, which has certified it for the Clean

Development Mechanisms Program. Due to this certification, Faber-Castell is the first private company in the world entitled to deal with emission certificates from forests, as foreseen by the Kyoto Protocol to reduce world-wide emissions of carbon dioxide.

The production site in Stein, Germany has operated its own hydroelectric plant since 1956. This measure accounts for about 30% of the site's total energy needs being covered by environmentally friendly electricity. Furthermore, the subsidiaries in Peru, Indonesia and Brazil have their own waste-water treatment plants. The plant in Stein has its own pellet heating system in which wood waste is compressed, stored and thermally recycled. The recycling process begins with the use of wood chips, which are stored in silos and compressed into pellets. The produced pellets are then stored in the company's former coal bunker in order to be used during the winter. This pellet heating system accounts for 25% of the total thermal energy produced and is considered environmentally friendly.

As a result of these initiatives, Faber-Castell has received ISO 9001 and ISO 14001 certifications for all its subsidiaries. Moreover, the carbon footprint of the company was assessed by TÜV Rheinland in 2011 and certified in line with the ISO 14064 standard. In 2007, the company received the B.A.U.M. Environmental Award for preventive and total environmental management (Faber-Castell, 2011).

Recently, Faber-Castell prepared an environmental analysis in order to prioritize the 17 United Nations Sustainable Development Goals (SDGs) in terms of their relevance to the company and to subsequently define fields of action. The projects already initiated by Faber-Castell were compared and associated with the SDGs. Over the coming years, the analysis and work on these UN goals is to be further expanded (Faber-Castell, 2023a).

4. Evaluation and Outlook

The death of Anton Wolfgang von Faber-Castell on January 21, 2016 marked an important break in the recent history of Faber-Castell. His American-born widow Mary E. von Faber-Castell, who rose from the management of the cosmetics division to the Executive Board in January 2016, temporarily took over the role as board spokesperson. In 2017, the supervisory board selected the Swiss-born Daniel Rogger as CEO. Before his appointment, he held senior positions at, among others, the watch manufacturer Swatch Group, the luxury group Richemont and the Austrian eyewear manufacturer Silhouette International Schmied (Kewes, 2017).

The decision to appoint an external manager to head the family business for the first time in the company's more than 250-year history was criticized as "stupid and wrong" by Andreas von Faber-Castell, brother of the late Anton Wolfgang, who had been responsible for the Asian markets until recently (cited in Anonymous, 2016). "I regret that my brother did not have the courage to establish his son Charles for the top position against the will of Mary. He would be the right person to preserve the legacy of his father. Mary has a completely different attitude to the company than my brother. For her it's all about money." The resistance of Mary von Faber-Castell to appoint her stepson Charles (*1980) as CEO may result from their problematic relationship. Whenever the late Anton reflected about his successor, she referred to the twins Sarah and Victoria (*1996) and their sister Katharina (*1988): "We have three daughters. Why shouldn't a woman become chief one day" (cited in Mehringer & Schwarzer, 2016).

In 2019, after less than two years, Daniel Rogger decided not to extend his contract as CEO for family reasons. Stefan Leitz was appointed as his successor. He previously headed the Hamburg delicatessen company Carl Kühne (Höltschi, 2019). The CFO is Constantin Neubeck who has been with Faber-Castell since more than 10 years. The CTO Simon Hauser previously worked for BSH Hausgeräte in various management positions in Germany and abroad, before he joined Faber-Castell in 2021 (Faber-Castell, 2023c).

In 2021, the shareholders also agreed on a new governance structure that includes a more active role for the owner family. Charles von Faber-Castell joined the supervisory board of Faber-Castell AG, while his half-sister Katharina von Faber-Castell joined the board of directors of A.W. Faber-Castell, that is the sole shareholder of the AG. Her two sisters Victoria and Sarah have no official functions in the company, but like Charles and Katharina von Faber-Castell, they want to help shape the future of the company "in trusting cooperation and in open dialogue between shareholders, supervisory bodies, the board of directors and the entire workforce" (cited in Ritzer, 2021). "What sounds pleasant is a laborious and hard-won compromise. It took some time and an external consultant to align the family with a common ownership strategy and to balance individual interests. If this had not been successful, sooner or later Faber-Castell would have been threatened with fragmentation in the worst case" (Ritzer, 2021).

In addition to overcoming internal family differences, the main long-term challenge of Faber-Castell is to "survive in the paperless world" (Sharma, 2010). Industry analysts predict that new technologies will render pens and pencils obsolete in the next decades. Since innovations in the pencil industry are scarce and according to Anton Wolfgang von Faber-Castell, the way pencils are made "is unlikely to change much in the next ten to 15 years" (cited in Anonymous, 2010), companies have to find new markets for their products. One strategy of Faber-Castell is to focus more on emerging markets in Asia and Latin America where pencils – in contrast to computers – are cheap, sturdy and popular in schools (Leitz, 2023). Moreover, the company seeks to expand its premium line where profit margins are higher. In this market segment, customers are particularly prone to social and environmental issues which makes further efforts in this area necessary.

Faber-Castell's focus on social and environmental responsibility is therefore not only motivated by philanthropy, but also an important source of the company's international competitiveness. While most other stationery items, such as pens and markers, are made of non-biodegradable plastic, pencils are made of wood, which is fully biodegradable and does not pollute the environment. In addition, pencil makers from China, Brazil, Mexico and other emerging markets produce at significantly lower costs, but often place less emphasis on social and environmental responsibility. There are continuing reports of pens contaminated with toxic substances, and of children chewing pens and therefore having high lead levels (Mraćević et al., 2022). Environmentally conscious customers are therefore often willing to pay a price premium for pencils that meet high environmental and safety standards.

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Dirk Holtbrügge

Internationalization through Mergers & Acquisitions. The Case of Grammer

"Part of Grammer's growth strategy is to supply customers across national borders with products and innovations of the same quality."
Thorsten Seehars, former CEO of Grammer AG

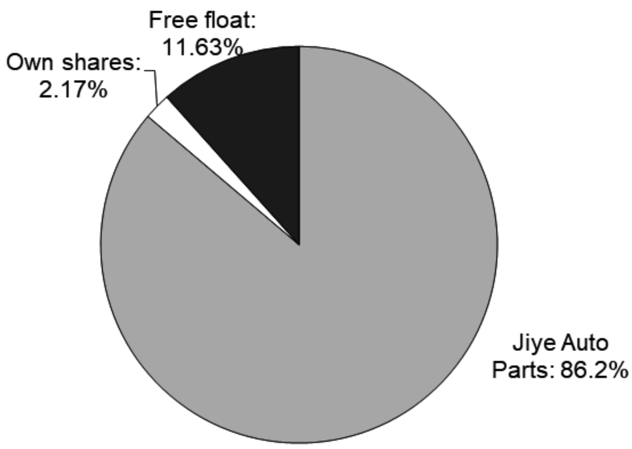
1. Milestones of Corporate History

The history of Grammer dates back to 1880, when Willibald Grammer established a saddlery in Amberg in the Upper Palatinate, around 70 km east of Nürnberg (for the following, see Grammer, 2023). In 1954, Georg Grammer, the grandson of Willibald Grammer, founded a company for the fabrication of tractor seat cushions. Ten years later, the production of suspended driver seats started. In 1980, Grammer broadened its product portfolio by developing and manufacturing office chairs, and in 1982, the company entered the bus seat market. In 1985, the series production of products for car interiors began. In 1990, the company entered the production of train interiors with the manufacturing of seats for the ICE.

In 1989, the company was converted into a public limited company and has been trading under the name Grammer AG ever since. The initial public offering (IPO) took place in 1996. First, the majority of the shares remained in the possession of Georg Grammer. In 1998, Georg Grammer resigned as chairman of the board due to his age and moved to the supervisory board, where he served until his death in 2005. In the same year, Grammer's second IPO followed and the company was included in the SDAX index.

The most important event in the recent history of the company was the takeover by Jiye Auto Parts (JAP) Capital Holding for Ningbo Jifeng Auto Parts (NBJF), which is Grammer's majority shareholder with a share of 86.2% since 2019. 2.17% are own shares and 11.63% are free float (Figure 1). Founded in 1996, NBJF is a Chinese automotive supplier, which specializes in the development and manufacture of headrests, central armrests, door armrests, and related subcomponents such as headrest rods (NBJF, 2023). NBJF currently employs over 2,600 people at eight locations in China. In 2021, the company had an operating income of nearly 500 mn. €.

Figure 1. Shareholder Structure (as of December 31, 2022)



Source: Grammer, 2022, p. 12

Today, Grammer AG is the parent company of the Grammer Group. It acts as an operating holding company in which the executive board members and the business-relevant group departments are based. A new operating management body in the form of an executive committee was also established in 2022. Since 2020, the company's headquarters is located at the new campus in Ursensollen, around 11 km east of the long-standing headquarters in Amberg. The new campus for 700 employees was built by the Franconian construction company Max Bögl (Knobel, 2021).

2. Grammer at a Glance

The Grammer Group is divided into the two divisions (business segments) Commercial Vehicles and Automotive. Grammer Commercial Vehicles develops and produces driver and passenger seats for agricultural and construction machinery, forklifts, trucks, buses, and trains worldwide. Grammer Automotive supplies thermoplastic components, headrests, armrests, center consoles, and integrated child seats to car manufacturers and system suppliers in the vehicle industry.

The three regions Americas, APAC, and EMEA are the group's reportable operating segments. The Americas region includes all companies in the USA, Mexico, Argentina, and Brazil, while APAC (Asia Pacific) consists of all Chinese companies and Japan. The EMEA region (Europe, Middle East, Africa) comprises all European companies and the companies in Turkey and South Africa. The regions are also responsible for the respective income statements, statements of financial position, as well as cash flows.

Table 1. Grammer Group Key Figures (FY 2022)

	Grammer Group	Americas	EMEA	APAC
Revenue (mn. €)	2,158.8 (+13.4%)	672.5	1,131.4	426.7
– Automotive	1,390.3 (+12.6%)	537.1	581.0	290.5
– Commercial Vehicles	768.5 (+15.0%)	135.4	550.4	136.2
EBIT (mn. €)	–45.0 (–238.1%)	–125.8	58.6	47.0
EBIT margin (%)	–2.1 (–3.1%-points)	–18.7	5.2	11.0
Operating EBIT (mn. €)	35.5 (+55.7%)	–48.3	60.0	48.5
Employees Ø	14,044 (+0.2%)	4,724	7,429	1,483

Source: Grammer, 2022, p. 29

In the financial year 2022, Grammer achieved revenues of 2,158.8 mn. €, of which more than 50% was in the EMEA region, around 30% in the Americas and almost 20% in the APAC region. The automotive business segment generates around two-thirds of revenues. Consolidated earnings before interest and taxes (EBIT) were impacted by a significant impairment loss of 73.6 mn. € on property, plant, equipment and intangible assets in the Americas region. This reduced EBIT from 18.9 mn. € to –45.0 mn. €.

Operating EBIT came to 35.5 mn. €. The group employed 14,044 people, of which around 79.2% worked outside of Germany (Table 1).

3. Internationalization Strategy

3.1 Early Internationalization Activities

Historically rooted in the Upper Palatinate, Grammer received its first export orders from Europe and USA in the 1970s. In the following years, the company increasingly expanded abroad, particularly to Europe, North America, and South America.

One of the first major international engagements was the foundation of the manufacturing plant in Querétaro, Mexico, in 1978. The location in the heart of the Bajío automotive corridor was chosen because of its road infrastructure and its connection to air and seaports. According to plant manager Julio César Apaez: "The particular thing about this plant is the strategic location, as well as the ability to attract talent and human capital, since the industry has been growing along with educational development, thanks to the alliances that exist with the government. We have access to the North American market and seaports, which means our supply chain has remained quite stable, despite the post-pandemic disruption" (cited in Vázquez, 2021).

Initially, the Querétaro plant carried out cutting and sewing processes for BMW seat covers transferred from the USA. Today, it is globally Grammer's largest and the most diversified plant in terms of products, materials, models, and customers (Rosas, 2019). It manufactures headrests, center consoles, seating systems, and armrests for the automotive industry, although there is also business in the agriculture, construction, shipping, and landscaping sectors. It is Grammer's only plant that performs all the manufacturing processes that the company offers: cutting, sewing, plastic injection, foam injection, foam injection in place, assembly, welding, lamination, tube production, upholstery, and suspension assembly for commercial vehicles. Around 90% of its production is for export to the USA and Canada, while only 10% stays in the national market. It employs 1,750 people, of which 80% are women (Anonymous, 2023).

Some of the early internationalization activities of Grammer were side-effects of large acquisitions. For example, in 1998, Grammer acquired the entire upholstery parts division of Eugen O. Butz GmbH, Langenfeld, which included five associated foreign subsidiaries in the Czech Republic, Mexico, Poland, Slovenia, and Spain (Grammer, 1998). In the same year, it took over a complete business area from Probel SA in Brazil. All activities – production of seats, interior parts and seat components for trucks, buses, and cars, as well as seat covers for cars – were transferred to the Brazilian subsidiary Grammer do Brasil. The two acquisitions doubled Grammer's automotive sales to 500 mn. DM (253 mn. €).

Because the two acquisitions could not be integrated as planned and the Brazilian market experienced a sharp downturn, Grammer lost 60.6 mn. DM (32 mn. €) in 1999, on total group sales of 1.1 bn. DM (560 mn. €). The loss was due to costs associated with the weakness in the Brazilian economy and bigger than expected restructuring measures associated with the growth of the group. Since the sums involved were beyond the resources of the Grammer family, it had to seek an external strategic partner willing to invest in the company. Schroder Venture Funds took up the 3.5 million shares issued in a 50% increase in Grammer's share capital at the end of April 2001. The capital injection was used to reduce net debt to 300 mn. DM (151 mn. €), and the family's share of the company fell from 70 to 47% (Chew, 2001).

3.2 From Internal Restructuring to Further International Expansion

In the early 2000s, Grammer initially concentrated on internal restructuring and portfolio adjustments to reduce administrative costs. The focus on the core business automotive interior as well as driver and passenger seats resulted in the sale of the office furniture division and Bürostuhl GmbH in 2000 (Grammer, 2000).

Extensive restructuring was also completed in the two Brazilian plants in Atibaia and Curitiba. Labor-intensive sewing activities performed in various locations were largely concentrated at Grammer Kaliningrad, Russia, and activities at the Langenfeld site were relocated to Poland and the Czech Republic. Moreover, Grammer's Mexican subsidiary in Tetla was merged with its sister company in Puebla in order to achieve greater transparency and effectiveness (Grammer, 2000).

Internationalization gained momentum again in the mid- and late-2000s. In the wake of the strong growth of the Chinese automotive industry, two new plants were opened in Changchun (2005) and Tianjin (2006), in which Grammer produces armrests and headrests for Audi and VW models as well as center consoles for the VW Passat. The company also began producing headrests, door armrests, and elements for center consoles of the BMW 5 series there (Grammer, 2006). In 2009 followed the expansion of the company's Shanghai location into an Asian R&D center and production site for interior components. In 2008, Grammer entered the Russian truck market with the customer KamAZ (Grammer, 2008).

3.3 External Growth Through International Mergers & Acquisitions

The 2010s were characterized by several international mergers & acquisitions (M&As) in all core product segments with the aim to strengthen Grammer's regional and innovative position (Table 2).

In 2011, Grammer acquired a 100% stake in EiA Electronics N.V. for 10.5 mn. €. The company is based in Aartselaar in the autonomous northern region of Belgium. EiA specializes in the development, integration, and distribution of electronic components for commercial vehicles. The product range includes displays, consoles, control elements, communication modules, and sensors (Anonymous, 2011). At the time of the acquisition, the company employed approximately 50 people and generated revenue of around 20 mn. €. According to the former CEO of Grammer, Hartmut Müller: "The acquisition of EiA is meant to strengthen our leadership in the field of innovation. Through the combination of electronic and ergonomic components, we will be able to offer our customers driver seats with integrated control elements as a complete system" (cited in Anonymous, 2011).

In 2013, Grammer took over the headrest manufacturer Nectec based in Česká Lípa in the Czech Republic. Nectec develops and produces headrests primarily for the premium car segment. The company was founded in 2008 by the Fehrer Group and had developed into one of the leading providers of headrest systems in Europe in just a few years. At the time of the acquisition, Nectec had around 240 employees and generated sales of over 30 mn. € in the 2011 financial year. "Nectec's product range and production location ideally complement our existing corporate structure," said Hartmut Müller. "With the takeover, we are further expanding our product segment with the highest sales and underpinning our market position in the headrest segment in Europe" (cited in Maurer, 2012).

In the same year, Grammer established a joint venture for the production and distribution of truck and bus seats with Jiangsu Yuhua Automobile Parts, a Chinese supplier of components and systems for commercial vehicles and passenger cars (Grammer, 2012). Initially, Grammer held 60% of the joint venture and Jiangsu Yuhua had a 40% stake. Jiangsu Yuhua brought in a new production facility as well as their truck seating business and an established customer base. In 2015, Grammer bought out its Chinese partner and converted the joint venture into a wholly-owned subsidiary, thus becoming the sole shareholder (Puck, Holtbrügge & Mohr, 2009). "Our strategy for the Chinese market has proved itself and, moving forward, we want to continue outpacing the growth in the commercial vehicle market in Asia", said former Grammer CEO Hartmut Müller. "As a

Table 2. Grammer M&A Strategy (2011-2021)

Year	Target Company	Mode	Segments	Main Purposes
2011	EiA Electronics N.V., Belgium	100% acquisition	Seating systems, off-road segment	• Expansion of electronic know-how • Development of integrated seat/armrest systems
2012	Nectec, Czech Republic	100% acquisition	Automotive headrest segment	• Additional safety technologies • Strengthening of leadership in European premium segment
2013	Jiangsu Yuhua Automobile Parts, China	60/40 joint venture (now 100%)	Seating systems, truck segment	• Entry into Chinese truck market • Purchase of 40% stake and contribution in the new joint venture Shaanxi
2015	Reum Kunststoff- und Metalltechnik, Germany/Poland	100% acquisition	Automotive console segment	• Extension of technological capabilities (esp. plastic injection) • Expansion of product portfolio
2016	Shaanxi Automobile Group, China	90/10 joint venture	Seating systems, truck segment	• Joint venture with 4th largest truck OEM • Strategic milestone to secure growth in Chinese truck market
2018	Toledo Molding & Die Inc., USA	100% acquisition	Thermoplastic products, vehicle interiors	• Acquiring technological expertise • Expansion of product portfolio
2018	Allygrow Technologies, India	30/70 joint venture	Interior parts	• Improving efficiency of global R&D • Reducing the share of external services in connection with sustainable development
2019	Changchun FAWSN Group, China	50/50 joint venture	Automotive interior components	• Proximity to major Chinese customers • Accelerate growth in China
2021	FAW Group, China	60/40 joint venture	Truck seats	• Proximity to major Chinese customers • Accelerate growth in China

Source: updated from Grammer, 2016, p. 18

sole-owner we are now able to react on market and customer potential even faster and more flexibly" (cited in Grammer, 2015a).

Another major acquisition happened in 2015 when Grammer took over Reum Kunststoff- und Metalltechnik for 50 mn. €. This included the Polish subsidiary Reum Polska in Sosnowiec, Silesia. Before the acquisition, the Reum Group generated sales of around 130 mn. € with 950 employees. By taking over the Reum Group as a leading specialist for surface technology, plastics, and metal technology, Grammer aimed to further strengthen its product range and scope of delivery as well as expand its own technological expertise (Grammer, 2015b).

In 2016, Grammer took a 90% stake in a joint venture with Shaanxi Automobile Group (Anonymous, 2016). The joint venture produces a wide range of mechanical and air-suspended driver and co-driver seats locally. The seats are primarily fitted to the commercial vehicles produced by Shaanxi Automobile. The location in northwest China ensures close proximity to important customers by simultaneously optimizing production and logistics costs in China.

The largest acquisition in Grammer's history to date was the complete takeover of the US-based Toledo Molding & Die Inc. (TMD) for around 271 mn. $ in 2018. TMD develops thermoplastic products, materials, and manufacturing processes for equipping vehicle interiors. "With this transaction, Grammer Group is systematically implementing its strategy of acquiring technology companies with the objective of enhancing its own product range and process expertise," said the Germany-based company in a statement (cited in Scheiner, 2018). In the financial year 2017, TMD generated sales of over 300 mn. $ with around 1,600 employees at eleven locations in the USA and Mexico, including one in Celaya, Guanajuato (Scheiner, 2018). The Celaya facility started operations in 2015 with an initial investment of 26 mn. $. Located in the Amistad Industrial Park, the plant employs more than 300 workers that manufacture interior parts and air & fluid systems for all three major car manufacturers from the USA, namely Ford, General Motors, and Stellantis, but also for Asian manufacturers that produce in North America. The site has a production capacity of more than 80 million parts per year.

In contrast to most other international M&As in the last decade, which focused mainly on manufacturing sites, the joint venture with the Indian engineering solution provider Allygrow Technologies is aimed at leveraging the Indian engineering design and development competencies. Grammer and Allygrow Technologies, which held 30% and 70% of the joint venture respectively, invested 2 mn. € in a technical center in Pune with a capacity of 120 engineers. It provides engineering services to Grammer's global R&D sites, helps the company to optimize its development processes and to improve the efficiency of its global R&D structures. Moreover, the tech center shall is expected to save costs and reduce the share of external services in connection with sustainable development. Apart from this, it shall enable Grammer to make inroads in the Indian automobile sector (Anonymous, 2018; Taumar, 2018).

In the last years, the focus of Grammer was particularly on strengthening the company's already strong position in China. In 2019, Grammer established a 50/50 joint venture in Changchun for automotive interior components with the Changchun FAWSN Group. With its headquarters in Changchun in the Province of Jilin, Changchun FAWSN Group is an affiliated company of First Automotive Works (FAW), the third largest automotive manufacturer in China at that time. The Group has 9,500 employees and produces a wide range of automotive components and systems mainly for the FAW Group for the Chinese and export markets. The joint venture develops and produces a wide range of automotive interior components for vehicles produced by the FAW Group and its foreign partners. Grammer contributes its development and manufacturing know-how for products, such as consoles, interior components, and functional plastics. "By working closely with a leading local OEM, we will be able to reinforce our position in the largest automotive market and substantially spur our planned growth in Asia", explains former Grammer CEO Thorsten Seehars (cited in Grammer, 2019).

Two years later, a joint venture for truck seats with FAW Group was established, in which Grammer holds a 60% majority stake. Together with a subsidiary of the largest Chinese commercial vehicle manufacturer, Grammer produces high-quality truck seats available ex works in many of FAW Group's truck model platforms. "With this joint venture, we are systematically implementing our growth strategy in China. The partnership with the FAW Group helps us to rapidly expand our position as a leading supplier of commercial vehicle seating solutions in this mega market", explained former Grammer CEO Thorsten Seehars. "We offer the compelling products that the market clearly demands – and we produce them locally. Now, we are further using this excellent starting position to invest heavily in new models and new production sites in China" (cited in Grammer, 2021b).

In the same year, Grammer opened a new production site in Shenyang in the northern Chinese province Liaoning. The plant is producing high-quality center consoles, armrests, and other interior components for BMW Brilliance, which operates three factories with an annual capacity of 830,000 units in the city (BMW, 2023). According to Thorsten Seehars, "the decision in favor of our new plant in Shenyang was a decision in favor of our customers, short distances, the use of local resources, fast response times and thus increased customer satisfaction" (cited in Grammer, 2021c). With a total area of around 8,000 square meters, including around 3,500 square meters of production space, the new plant employs around 80 people. Further expansion stages are already being planned. The site features state-of-the-art workplaces and facilities for all production steps from injection molding to final assembly.

3.4 Divestments and Portfolio Adjustments

The accelerated internationalization in the past decade went along with several divestments and portfolio adjustments. In 2016, Grammer closed the plant in Dolní Kralovice in the Central Bohemian Region of the Czech Republic. The plant, which produced headrests, armrests, and side cushions for German automobile manufacturers, was founded in the beginning of 1997 and was taken over by Grammer in 1999. The main reason for the factory closure was the building structure at the location. The production spread over several floors was no longer compatible with the technical requirements of Grammer production organization. All of the plant's production lines were relocated to the previously rebuilt and expanded sites in Žatec and Česká Lípa (DGAP, 2016).

In 2021, Grammer sold its plant in Olérdola, in the Barcelona region, to the private equity company Tucano (Anonymous, 2021). The company employed around 120 people and produced mainly headrests and armrests for Daimler, Seat, and other Volkswagen Group brands. Due to the declining order backlog, Grammer perceived no positive earnings development and sold the company without consideration. The sale and deconsolidation of the Olérdola plant impacted Grammer's earnings in 2021 by -4.5 mn. € (Grammer, 2021a).

4. Black Knights and White Knights

After acquiring many foreign companies, Grammer itself became the target of a hostile takeover attempt. In 2016, the Bosnian Hastor family gradually acquired 19% of Grammer through their two investment firms Cascade and Halog. Afterwards, the Hastors pushed at the annual shareholders meeting to replace much of Grammer's leadership, including CEO Hartmut Müller, and demanded that board and supervisory board positions be filled with confidants (Henning, 2018).

Nijaz Hastor and his two sons Damir and Kenan Hastor are listed as the richest Bosnians by Forbes. They own several investment funds and companies, among them the automotive supplier Prevent and its subsidiaries CarTrim and ES Automobilguss (Seiwert et al., 2017). In 2016, Prevent was involved in a massive dispute with Volkswagen over supplies worth 500 mn. €. After the Prevent Group stopped all deliveries, VW had to temporarily halt the production of the Golf and Passat models in Wolfsburg (Germis, 2020). To date, several legal disputes are pending (Scarcella, 2023).

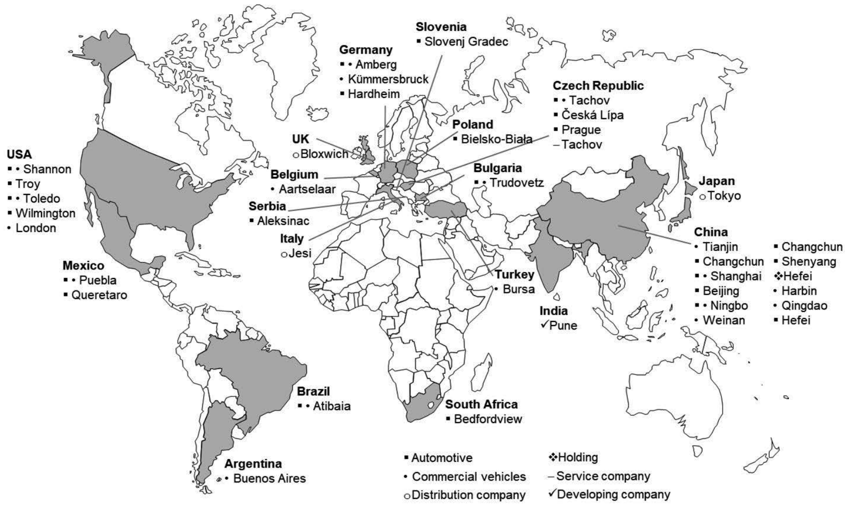
The attempt of Hastor to gain significant influence at Grammer was therefore viewed with great skepticism by Volkswagen, which accounts for 25% of sales at Grammer's automotive business. Hastor's aggressive actions at Grammer were also sharply criticized by German politicians. The former Bavarian Minister of Economics Ilse Aigner accused "Hastor of playing irresponsible power poker on the backs of the company and its employees." She stressed that in the social market economy, a major shareholder bears social responsibility for employees and jobs. "Hastor endangers Grammer's future" (cited in Vetter, 2017).

In order to fend off a hostile takeover by Hastor, Grammer, with the support of Volkswagen, held talks with the Chinese supplier Ningbo Jifeng Auto Parts (NBJF) regarding a friendly takeover. The Wang family, which holds a majority stake in NBJF, granted wide-ranging guarantees for jobs, facilities, and intellectual property. NBJF made an indicative proposal of 60 € per share, which corresponded to 17% more than the share price at the time, plus a share dividend of 1.25 €. After Grammer's management welcomed this initiative of NBJF as a 'white knight,' nearly 60% of the shareholders accepted the tender offer (Huebner & Taylor, 2017).

Hastor then withdrew from Grammer after more than two years of takeover efforts, in which Grammer's share price roughly doubled, and NBJF gradually increased its share to currently 86.2%. "We are pleased about the high acceptance by our shareholders for the offer and the trust that they have shown in the investor as well as the agreements that have been signed to guarantee the Grammer Group's independence and future development (…). Our customers also view the new principal shareholder very positively and with the enlarged partnership with Ningbo Jifeng we can expect a positive contribution to Grammer's future development", said Grammer CEO Hartmut Müller (cited in Grammer, 2018).

Although CEO Hartmut Müller and the two board members Gérard Cordonnier (CFO) and Manfred Pretscher (CTO) pushed forward the takeover by NBJF, all three unexpectedly terminated their contracts shortly afterwards. After the change of control clause, which has existed since 2013, was adjusted in favor of the board members in 2017, Müller was entitled to a severance payment of 4.14 mn. €, while Cordonnier and Pretscher received around 2.3 mn. € each. Müller justified the termination as follows: "Due to the unexpectedly high acceptance rate of the takeover offer, the future shareholder structure has shifted more significantly than expected. With my resignation, I give the supervisory board and major shareholders the opportunity to discuss fundamental decisions about the future direction of the company independently of me and thus initiate the necessary decisions" (cited in Reiche, 2018). NBJF's junior boss Jimin Wang, who managed the

Figure 2. Production and Logistics Sites (as of December 31, 2021)



Source: compiled from Grammer, 2022, p. 146

takeover, was surprised and disappointed by the exodus, according to those close to him. The strategy was developed together and the Chinese relied on the leadership team to be there. It was also unusual that the step was announced before a supervisory board meeting (in Reiche, 2018).

5. Evaluation and Outlook

Started as a small saddlery in Amberg in 1880, Grammer has developed over nearly 150 years to a diversified international company with a global presence. In 2022, it operated 46 production and logistics sites in 19 countries worldwide. They assemble and distribute products for the global vehicle industry with varying degrees of vertical integration: 20 are located in EMEA, 11 in APAC, and 15 in the Americas region (Figure 2).

A main characteristic of Grammer in the last two decades has been its non-organic growth strategy, which heavily relies on international M&As. In the future, the company wants to further examine and make use of opportunities for acquisitions and partnerships. At the same time, Grammer emphasizes that “merger and acquisition activities are ordinarily subject to uncertainties. These risks not only relate to market reactions but also concern the integration of people, cultures and technologies as well as products and developments into existing structures" (Grammer, 2022, p. 44).

In the next years, risks may also arise from an intensification of geopolitical tensions, such as the escalation of the Russia-Ukraine conflict. However, due to the very limited activities in the Russian and Ukrainian markets, no significant direct effects on revenue and earnings are to be expected. Since most of Grammer's foreign subsidiaries operate independently and on a local-for-local basis, serious threats through supply chain disruptions or trade restrictions are also less likely.

An exception could be the company's strong presence in China, where Grammer generates almost 20% of its global revenue and is therefore particularly vulnerable to geopolitical risks. "Any sanctions on China, whether resulting from an escalation of the China-Taiwan conflict or potential arms deliveries from China to Russia, could have a dramatic impact on the economy as a whole, including indirectly by disrupting supply chains for Grammer suppliers and customers worldwide and, in turn, reducing call-off figures at OEMs" (Grammer, 2022, p. 46). Moreover, due to its majority shareholder NBJF, Grammer could be increasingly perceived as a Chinese company. This could lead to challenges as a result of protectionist measures taken by certain governments against China, which aim to decouple their economies from growing Chinese influence (Tan & Yang, 2021; Witt et al., 2023).

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Dirk Holtbrügge

The Internationalization of Playmobil. Balancing Quality, Cost, and Local Market Requirements

"We are committed to the German and European location.
Outstanding quality can only be achieved if the manufacturing is done in-house."
Horst Brandstätter (cited in Scharff, 2007)

1. The Global Toy Industry

The toy industry includes a large number of different product categories, including action figures, dolls, board games, puzzles, and construction sets. In 2022, the global toy market attained a value of about 103.0 bn. $. It is expected to grow in the next five years at a compound annual growth rate (CAGR) of 5.2% to reach an estimated value of 143.6 bn. $ by 2028 (EMR, 2023).

The toy industry is dominated by globally operating companies like Lego, Hasbro, Mattel, and Spin Master, which hold significant market shares. While most large players are headquartered in North America, Europe and Japan, their production facilities are often in China – the largest producer and exporter of toys in the world (Table 1).

Unlike their North American and Japanese counterparts, German toys manufacturers are often family-owned and have a long history. Many of

Table 1. The Largest Toys Companies in the World

Company	Headquarters	Production facilities	Main products/ brands	Founded	Revenue 2022 (in mn. $)	Employees 2022
Lego	Billund, Denmark	Denmark, Czech Republic, Hungary, China, USA, Mexico, Vietnam	Lego	1932	9,280	27,338
Bandai Namco	Tokyo, Japan	N/A	Video games	2005	7,466	10,562
Hasbro	Rhode Island, USA	Mostly outsourced to China, India, Indonesia, Vietnam	Monopoly, Transformers action figures, Nerf blasters	1923	5,857	5,600
Mattel	El Segundo, CA, USA	USA, China, Indonesia, Malaysia, Thailand	Barbie, Hot Wheels, Fisher-Price	1945	5,435	33,900
Spin Master	Ontario, Canada	Canada, Mexico, China, India, Vietnam	Board and card games	1994	2,040 (2021)	>2,000
Funko	Everett, WA, USA	China, Vietnam	Miniature figures and games	1998	1,320 (2020)	1,466
Tomy	Tokyo, Japan	N/A	B-29 friction toy, luck-based game Pop-up Pirate	2006	1,200	831
Jakks Pacific	Santa Monica, CA, USA	Mostly outsourced to China	Action figures, visual electronics, handheld games, toy vehicles	1995	796	622

Source: Compiled from various company publications

them, like Bruder, Simba Dickie, HABA, and Brandstätter, are headquartered in Franconia and still have large production capacities in the region (Table 2). Franconia is also home to the largest and most important event for the toy industry – the Spielwarenmesse (Toy Fair) in Nürnberg. Every year in February, well-known brands and start-ups present their novelties to buyers for major chains and independent retailers. In 2023, 2,142 exhibitors from 69 countries attracted more than 58,000 visitors from 128 countries (Spielwarenmesse, 2023).

Table 2. The Largest Toys Companies in Germany

Company	Headquarters	Production facilities	Main products/ brands	Founded	Revenue 2022 (in mn. $)	Employees 2022
Horst Brandstätter Group	Zirndorf	Germany, Malta, Czech Republic, Spain	Playmobil	1876	800	4,133 (2021)
Simba Dickie	Fürth	Germany, France, Spain, Hungary, UK, Thailand, China	Bobby-Car, Märklin model railways, Schuco tin toys and die-cast model cars	1982	783	3,200
Ravensburger	Ravensburg	Germany, Czech Republic	Jigsaw puzzles, video games, Brio wooden toy trains	1883	650	2,153 (2018)
HABA	Bad Rodach	Germany	Wooden and textile toys	1938	402 (2019)	2,285 (2019)
Bruder	Fürth	Germany, Czech Republic	Toy vehicles	1926	98 (2020/21)	464 (2020/21)

Source: Compiled from various company publications

2. Playmobil at a Glance

The Horst Brandstätter Group headquartered in Zirndorf, a county town around 10 km west of Nürnberg, is the producer of Playmobil (for the following, see Bachmann, 2006; Horst Brandstätter Group, 2023a). The company was founded by Andreas Brandstätter in 1876. In 1952, his grandson Horst Brandstätter, aged 19 and trained as a mould maker, entered the family business and successfully modernized it. One of his major successes was the production of hula hoops in 1958. In the early 1970s, he commissioned master mould maker Hans Beck (1929–2009) to produce a new toy system. This resulted in the 7.5 cm tall play figures which were first introduced to the general public as Playmobil at the 1974 Toy Fair. Since then, more than 3.5 billion Playmobil figures have been produced (Figure 1). In 2000, the Lechuza brand for self-watering planters was launched.

Figure 1. Playmobil Figure of Margrave Friedrich of Brandenburg-Bayreuth (Founder of the Friedrich-Alexander-University Erlangen-Nürnberg)

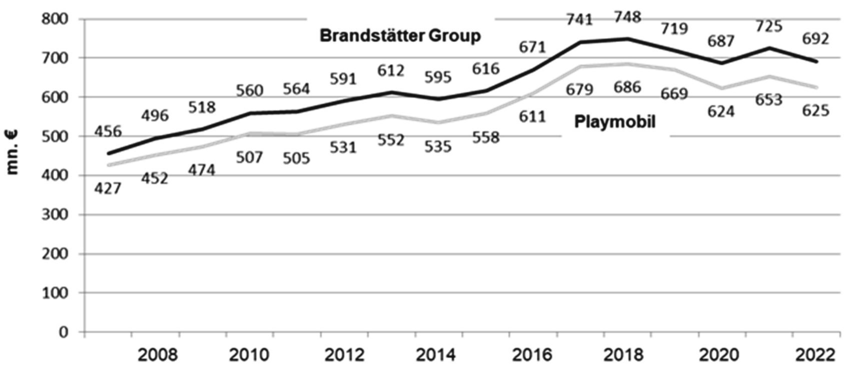
Source: FAU, 2019

Horst Brandstätter died in 2015 at the age of 81 years. Until the very end, the typical 'down-to-earth Franconian' – as Brandstätter liked to describe himself – was in charge of his company. Even from Florida, where he spent the winter, he faxed his management in Zirndorf directives every day. He left behind an intricate corporate structure of affiliated foundations (Kotowski, 2016). The Foundation for the Promotion of Children by Playmobil, a non-profit organization established in 1995, is the main owner of the group (Kinderstiftung Playmobil, 2023). It devotes itself to social and charitable tasks and has no operational functions, but acts de facto as the supervisory board of the group. The board of trustees of the non-profit foundation is led by Horst Brandstätter's former secretary Marianne Albert. After she took over this position, many former employees and executives resigned or were replaced (Tropf, 2016; Meier, 2019; Mehringer, 2021). Among others, the long-standing Managing Director Andrea Schauer, who Horst Brandstätter had originally intended to be his successor, left the company in 2015 for "personal, mainly health reasons" (cited in Anonymous, 2014).

The Brandstätter Corporate Foundation, which has existed since 2008, manages the business operations of geobra Brandstätter Stiftung & Co. KG, which is responsible for the production, development, and sale of Playmobil and Lechuza products. After several management changes, René Feser was appointed Chief Operating Officer (COO) in July 2023. He has been responsible for finance and human resources since 2016 and was previously deputy chief executive of the group. In the future, he will be responsible for the control and organization of all operational processes and operational services for the entire group of companies. There will be no new CEO for the time being (Müller, 2023). "It's a huge cultural upheaval, which Playmobil is obviously only going through with great pain. A company that was always run in a patriarchal way has to learn to get along without the usual, sometimes kind, sometimes strict supervisor" (Ritzer, 2015).

In 2022, the global revenue of the Horst Brandstätter Group reached 692 mn. € (-4.5%), of which 625 mn. € (85%) was from Playmobil (Figure 2). The company distributes its toy system in around 100 countries with an export share of around 70%. The Brandstätter Group employs nearly 4,200 people, of which around 60% are in Germany.

Figure 2. Revenue of the Horst Brandstätter Group and Playmobil 2007-2022

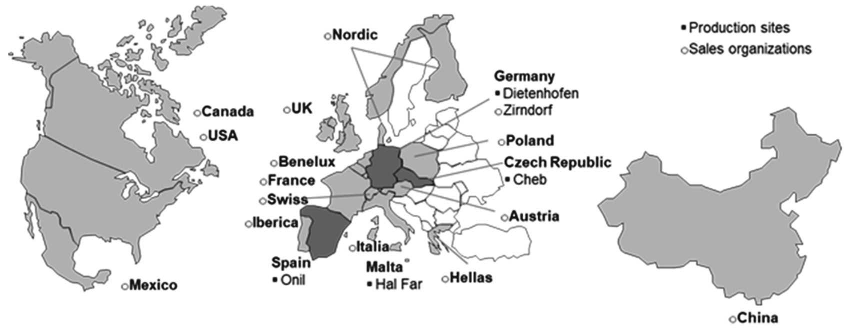


Source: Compiled from various company publications

3. International Presence

When almost the entire toy industry moved production to low-wage economies in Asia, Brandstätter opted for a collaborative production network in Europe. The largest facility is located in Dietenhofen, a market community around 20 km southwest of the corporate headquarters in Zirndorf. Further production sites are in Malta, the Czech Republic, and Spain. Moreover, the company has major sales organizations in several other Western and Northern European countries, North America, and China (Figure 3).

Figure 3. Production Sites and Sales Organizations



Source: Compiled from various company publications

3.1 Germany

Playmobil's most important production site is in Dietenhofen – the largest production and shipping facility for toys in Germany. Approximately 60% of the Playmobil production volume (everything except the figures) is handled here and shipped worldwide. Due to the geographic proximity to the headquarters, the management continuously monitors the production and can react quickly to errors. As the former Managing Director Andrea Schauer explains: "You cannot blindly believe in German manufacturing. But when you are so close to the factory, you can jump in your car and be there in 20 minutes" (cited in Landler & Ekman, 2007). Cost disadvantages compared to Asian producers are compensated by a high degree of automation. According to Horst Brandstätter (cited in Scharff, 2007): "We are committed to the German and European location. Outstanding quality can only be achieved if the manufacturing is done in-house, with people who have developed an understanding of the brand over a long period of time and have learned to produce with the highest quality."

The success of Playmobil is essentially based on the production quality, which is driven forward with perfectionism and regularly tested (Playmobil, 2011). In Dietenhofen there are machines that inject plastic in several colors at the same time, that eject parts made of different plastics, and that print cars and helicopters in such a way that the writing does not fade even after years (Playmobil Collector's Club, 2014). Brandstätter has been a leader in such technologies for a long time, so that even experts from the automotive industry made a pilgrimage to the plant (Meier, 2019). According to a company spokesperson (cited in Eyre, 2013): "We use injection molding machines of sizes between 6 and 3,200 tons by Austrian manufacturers like Battenfeld, German manufacturers like Krauss Maffei, Demag or Ferromatik, and our smallest machines injecting tiny little pieces like tooth brushes or mice come from Italy – Babyplast."

Until 2022, there was another location with around 30 employees for the production of tires in Selb in Upper Franconia. This site was closed in order to better achieve the company's sustainability goals. The entire production with all the machines and systems was relocated to the Dietenhofen plant (Godawa, 2022).

3.2 Malta

Since 1974, all Playmobil figures are produced in Malta. When the factory was opened, wages were much cheaper than in Germany and roughly the same as in Asia. The production costs were therefore significantly lower than in Germany. Moreover, Playmobil received attractive tax advantages (Jones, 2008). After Malta's accession to the EU in 2004, wage differentials are narrowing, while the membership in the European common market has facilitated logistics (Sauerborn, 2016).

In 2019, Playmobil decided to expand its figure production in Malta. A new production hall with an area of 16,000 m^2 was built for around 30 mn. €. In 2017 and 2018, the company had already invested 33 mn. € into new injection molding machines and fully automatic pad printing systems. Around 200 new employees, such as machine setters, robot programmers, and maintenance teams, were hired and many other employees received extensive training to be able to operate the highly automated production systems (Anonymous, 2019a). The Hal Far plant currently covers a total area of 80,000 m^2, has an annual capacity of around 145 million figures and employs around 1,300 people. Every 1.5 seconds a new figure is put together (Wallop, 2014). The finished figures are then sent from Malta to the main factory in Dietenhofen from where they are shipped worldwide (Anonymous, 2019b).

3.3 Czech Republic

The plant in Cheb in the Karlovy Vary region, around 180 km north-east of Zirndorf, was founded in 1996. Originally, parts from Dietenhofen were transported by truck to Cheb where they were sorted into preliminary bags. Back in Dietenhofen, the products were packed in boxes and shipped worldwide (Hofelich, 2011).

In 2006, Playmobil decided to extend the plant with a production and assembly facility and administrative spaces for 7.5 mn. €. Machines for injection molding of plastic parts for toys were installed to produce plastic parts for toys, which are subsequently completed on assembly and packaging machines. The main reasons for this are the lower production costs and the plant's close proximity to its parent factory in Dietenhofen (Anonymous, 2006).

In 2018, the plant also took over the children's kit business on the Czech domestic market. The entire company currently has a workforce of 450 employees (Šenk, 2018).

3.4 Spain

The focus of Playmobil's Spanish factory in Onil, around 56 km north of Alicante, is on selected finished items for global needs and the manufacture of pre-bags and assemblies for the other production facilities. The plant also takes on special orders and serves as a capacity buffer for Playmobil's European collaborative production network. In March 2020, Playmobil Ibérica employed 33 men and 38 women on a permanent basis (Martínez, 2021).

3.5 China

While about 80% of the toys sold worldwide are made in China, Playmobil has resisted frequent pressures to produce in the country. China's unit labor costs are a fraction of those in Germany, but the distance between China and the biggest Playmobil markets would erode some of this cost advantage. In addition, outsourcing to China would reduce the company's flexibility to respond quickly to volatile consumer demand, because factories in China are usually designed to produce large quantities of toys with long lead times. According to the former Managing Director Andrea Schauer: "The risks are too high for us. We have a good overview of the processes and production here. I can react directly to fluctuations in demand. And with my own team, I'm sure that nothing unpleasant will pop up. Only some electronic gimmicks like flashing lights and sirens are produced in China. The rest is made entirely in Europe, a lot in Franconia" (cited in Meister, 2014).

Playmobil is also skeptical about the quality and safety of toys made in China. The company's success is largely based on the high quality of its products, and parents in Western countries are very concerned about the safety of toys that their children play with. Compared to Mattel and other American toys makers, which have suffered recalls of millions of Chinese-made toys in recent years, Playmobil uses the 'Not-made-in-China' label as an important competitive advantage in its key markets in Europe and North America. "Looking back, it feels like it was right to make that decision," said Andrea Schauer. "At the level of quality we need, we didn't have enough manpower to inspect factories in China" (cited in Landler & Ekman, 2007).

While Playmobil does not produce in China, the country has long been considered an attractive sales market. After initially cooperating with a local distributor and over 500 stores in China, Playmobil decided to set up their own branch in Shanghai in 2022. Legal support for the market entry and the start of operational business of Playmobil Creative Play (Shanghai) Co., Ltd. was provided by Rödl & Partner (Anonymous, 2022a). Shortly before that, the world's first Playmobil Experience Center had opened in Shanghai. During a 'Phygital Journey', children and adults can make use of various offers, such as interactive play tables, design software, photo shoots with digitalized Playmobil figures, or even participate in immersive games. The Experience Center also has an 'Inclusion Café' (Horst Brandstätter Group, 2023b).

Even with growing sales in China, Playmobil is not planning to set up local production, but will continue to export products from Germany. Transport to China is inexpensive because most transport capacities in this direction are empty (Giersberg, 2009). However, Playmobil has to accept frequent inspections by the Chinese authorities in their European plants. They keep examining the entire business process to document that the products are truly safe for Chinese consumers. That sounds paradoxical, because so far there have been more problems reported about dangerous toys from China. "Possibly they are spying on our production in this way in order to have it easier when copying later", suspects a manager (cited in Frank, 2013). However, unlike their competitor Lego, Playmobil has hardly taken action against imitators. Playmobil figures are so complex and elaborately produced that no one has yet succeeded in making convincing copies.

Before shipping to China, Playmobil needs to make some product adjustments. In contrast to Western countries, where children's preferences are very similar, China has some cultural differences. For example, the topic of construction sites with excavators, cranes, trucks, and construction machinery, which is popular in Europe and America, is not for sale in China because construction there is still largely done by human hands and accordingly has a very bad image. Construction sites are seen as a daunting example of hard work, and mothers threaten their children that they will end up on construction sites if they do not study for school (Frank, 2013). Similarly, Playmobil's playmo friend, pirate, special plus, and other themed small items are not selling well in China. Instead, larger gift sets of higher value are more popular. The reason is that imported products have special appeal to Chinese consumers, and consumers who buy imported products generally have stronger purchasing power and are thus willing to pick large pieces as gifts to show their status (Zhong & Xie, 2022). However, there will be no Chinese version of the faces with slanting eyes. The friendly smile of the figures with the large round eyes has proven itself worldwide and Playmobil is convinced that it will also appeal to Chinese girls and boys (Frank, 2013).

3.6 USA

Playmobil was also confronted with intercultural marketing challenges in the USA. In 2015, Ida Lockett, an African-American mother in California, raised concerns on Facebook over racism in Playmobil toys (Bowersox, 2022). When assembling the elaborate 'Big Pirate Ship' gift her son received for his fifth birthday, the last page of the instructions directed her to place a gray collar around the neck of one of the smiling orange pirates. This pirate wears tattered and torn clothes that reveal a hairy chest and bare feet and is a figure who, despite his smile, seems to have experienced some suffering. Confronted with these features, Lockett was horrified at the thought that her son had received a 'pirate slave' for his birthday. Beyond her accusation that inviting children to play at slavery was inappropriate, she decried the general reduction of Black figures to slaves.

The story was quickly picked up by local media, and the local chapter of the National Association for the Advancement of Colored People offered support by demanding that the toy be removed from shelves immediately. The American and international press also reported on the story, and the attention produced a brief swell of online commentary before the controversy blew over. Playmobil responded by removing the pirate ship in question and replacing it with a new model the following year. The new ship featured an orange pirate captain and two crewmen, one peach and one brown, and no shackles of any sort (Bowersox, 2022).

Similar to China, Playmobil sees great sales potential in the USA. Despite the turbulence surrounding the insolvency of Toys "R" Us, sales increased by 20% in 2019. Through trading partnerships with Walmart and Target, the company is undergoing a strategic shift from focusing on niche products to targeting the mass market. Playmobil had also considered setting up its own production facility in the USA in order to relieve logistical processes and be closer to the local market. The company had already been looking for a suitable location. However, this plan was later rejected for cost reasons (Anonymous, 2022a).

3.7 Sales Organizations in Other Countries

Playmobil has major sales organizations in several Western and Northern European countries, North America, and China (Figure 3). France is by far the sales subsidiary with the highest turnover. With a market share of around 6%, Playmobil ranks first among the toy brands in the country. Playmobil is also the most important toy brand in the Benelux countries with a market share of close to 9%. Playmobil Ibérica (Spain and Portugal) is the fourth largest European market.

In March 2022, shortly after the Russian invasion of Ukraine, the Horst Brandstätter Group decided to stop supplying products to Russia with immediate effect. For the year 2022, the Horst Brandstätter Group had budgeted a turnover of around 10 mn. € for its two companies in Russia (Horst Brandstätter Group, 2022).

4. Evaluation and Outlook

Since the introduction of Playmobil figures in 1974, the company has undergone a steady internationalization process. While the export share rose to around 70%, manufacturing is still largely concentrated in Germany and Malta. Not outsourcing production to China could prove to be a good decision. After experiencing lockdowns during the COVID-19 pandemic and major supply-chain disruptions, many toys companies have started to reshore and nearshore critical value activities (Zimmermann, 2021; Reece, 2023). Nearshoring reduces uncertainties in supply chains and increases the speed companies get products to market in-season. It allows companies to gain better control and de-risking of their supply chains, increases agility and speed, and offers better protection against trade barriers. It is also a more sustainable operating model in the eyes of consumers. At the same time, however, maintaining production in Europe instead of outsourcing to Asia involves significantly higher production costs.

Moreover, the centralization of product development and marketing carries the risk of neglecting cultural differences. In the past, Playmobil has mainly been active in Western and Northern European markets, which are culturally very similar. However, these established markets only show low growth perspectives. Playmobil therefore aims to expand to Asia and North America, which are culturally different from its traditional markets in Europe. The consideration of cultural differences in these markets is important because toys are a semiotic conveying a specific view on the world (Van Leeuwen, 2009). Playmobil figures and toy sets, such as knights, princesses, or adventurers, implicitly represent, produce, and challenge prevailing norms of race, gender, class, ability, and nation (Welch, 2013; Kühberger, 2021). These norms, in turn, are to a high degree culture bound.

Toys manufacturers have developed different strategies for dealing with cultural diversity in their product portfolio. For example, Mattel overhauled its Barbie line to more publicly embrace inclusivity and empowerment by modelling on prominent women of color and actively broadening the range of hair styles, skin tones, fashion accessories, and body types (Piñon 2019). Similarly, the world's largest toymaker Lego has also publicly made a commitment to overcoming historic under-representation a central part of its toy design and marketing. By contrast, Playmobil's press officer Björn Seeger (cited in Bowersox, 2022, p. 154) stressed that "diversity dips into our game worlds in many facets, but is not an explicit criterion for the development of products."

Playmobil's seemingly neutral stance towards representations of ethnicity and race is often criticized as Eurocentric, stereotypical, and marginalizing (Waburg et al., 2021). For example, British school teacher Rachel Abramson complained to Playmobil about the lack of representation of non-white figures, which instead frequently appeared in serving roles. "I am astonished at how barefaced and unashamed Playmobil are in representing every ethnicity except white as uncivilised, unworthy of a home or vehicle, and only fit to work for the white people" (cited in Gani, 2015), she said after purchasing a Playmobil hotel set for her children. Abramson added that upon closer inspection, she saw that the toy hotel was entirely populated with white characters, except for one black figure depicted serving food. "I find it astounding that Playmobil have not considered the responsibility which they have to promote 'good' play, and instead seem to be investing their time in perpetuating ugly stereotypes." Apart from stone-age figurines and a 'Native American' family, Abramson said that she had been unable to find a single modern family that appeared to be of any other ethnicity than white.

While Playmobil successfully managed the firestorms over the 'pirate slave' and 'Black servants' in the past, lack of intercultural awareness or accusations of cultural appropriation could easily damage the company's reputation (Holtbrügge, 2002). This risk becomes greater the more the company expands to countries, which are culturally different from its traditional markets in Western and Northern Europe.

A second challenge for Playmobil is the increasing digitalization of the toy industry. "Half a century ago, kid's toys were made of solid materials: wood, iron, plastic, etc. To play was synonymous with physical activity. Kid's toys often resembled the material inventory of the adult world: they were miniatures of mother's and father's real worlds (…). Today, toys are increasingly of an immaterial nature (…). Play has become synonymous with mental activity: imagining, planning, simulating, reacting, communicating, etc. Physical activity is, to a limited extent, still a necessary part of playing, but the manipulation of objects no longer involves the same concrete sensomotoric action. Objects are visual representations on a screen and they are manipulated through a media interface: the mouse, the joystick, game pad etc." (Hjavard, 2004, p. 43).

While digitalization offers numerous opportunities, this could also undermine one of Playmobil's core competencies – the mass production of high-quality plastic figures. In fact, previous attempts to diversify through licensing agreements with popular franchises and characters from movies, TV shows, and books have not been very successful (Ritzer, 2020). For example, newly designed game worlds such as 'EverDreamerz' and 'Novelmore' were not well received by consumers (Anonymous, 2022b). The most striking example of the company's difficulties with digital products is 'Playmobil – The Movie'. Directed by Lino DiSalvo, a former Disney animation director, the plot revolves around the siblings Marla and Charlie, who are drawn into the Playmobil world and have adventures there. The film, which hit theaters in 2019, is said to have cost around 75 mn. $ to produce. In the USA, the film had the worst opening weekend ever for a film that opened in over 2,300 theaters (Brodie, 2019).

In response to these challenges, the consulting firm McKinsey was commissioned to develop a concept for strategic repositioning. Accordingly, among other things, mold making will no longer be one of the company's core competencies and will be outsourced. This will result in significant job cuts. In October 2023, the Horst Brandstätter Group announced that around 700 jobs would be lost worldwide (-17%), of which around 370 would be in Germany alone. Further options for reducing the high production costs are being examined (Mehringer, 2023).

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In 2022 he was listed in a research-related ranking of the German weekly business news magazine Wirtschaftswoche for the fifth time in a row as one of the top-5% professors of business administration in Germany, Austria and the German-speaking Switzerland. He was listed in the Stanford

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