TRENDS AND PROSPECTS IN ECONOMY
- EVERYTHING IS IN TRANSITION -

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Annotation

This report describes a brief overview of changes and challenges in the economy which can have affects to employees and product quality.

Key words

Trends, high performance, multi-polar world, automotive industry, work stress, burn-out.

Abstract

Quicker, better, more flexible. These are criterias which have a top priority in a meritocracy. More and more people suffering about constant strain in job and privat, even pupils and students complain to be under stress.

But many people come no longer with the pace. The result: They feel stressed, ill and forget to relax. We address how a modern meritocracy in a new world can affects to people, organizations and product quality.

1. Rise of a new world

For a long time the global economy was dominated by the USA, Western Europe and Japan. But with tremendous dynamics something develops new. The world changes into a multipolar world. Already in few years we will live all in a multipolar world with new economic powers such as China, India and Russia, Brazil, Mexico and South Korea, in addition, Australia, Gulf or the Baltic states which compete on eye level with the old industrial nations for markets and resources (raw materials, staff, etc.).

Globalization was yesterday. The economic map of the world have to be drawn new because of floating by the liberalization of the world trade, world wide acting of multinational groups and the revolution in the information technology. New economic powers with multiplicity of economic centers and new challenges will be in the straight developing multipolar world. Stefan Scholtissek shows in his latest book “Multipolare Welt” (in German language) the next phase of the globalization. On the basis of five challenges it describes, how the future of the world economy will looks.

• The competition for the best staff will be lead globally. In the emerging markets with their enormous population growth and well educated staff is available a large number of motivated people.
• The flows of capital begin to change its direction. Western tradition companies become the goal of multinational companies or groups from the emerging markets.
• The world-wide fight for raw materials will strengthen because the need of the new coming industrial nations grows rapidly.
• In the today's emerging markets develop new consumer markets and offer new sales possibilities for companies all over the world.
• Innovations will proceed in the future no longer only from Silicone Valley or Munich. It will come from Bangalore, Peking, Krakau or Rio de Janeiro, etc.

2. Seeing and understanding new developments

The traditional economic power has moved and shared on a multiplicity of economical and political centers in the whole world. The emerging markets has developed and not only that: Today they already over haul the tradition western industrial nations. Their rising resource and its influence affect our economic everyday. We work today in a multipolar world with a multiplicity of challenges, many new possibilities and in addition, risks as well.

2.1 Technical aspects

Since the 80's the product life cycles of the car manufacturers shortened significantly. Thus development and start-up phase corresponded to one period of six years. Today this span for a new vehicle is at approximately four years. For model derivatives, which use an existing building group from chassis and drive strand, the development time lies already today at approximately three years. Virtual development processes make a substantial contribution for the reduction of the development processes. In particular by virtual assemblies and test methods can be done without time-consuming and costly manufacturing of physical prototypes.

The contraction of the market cycles resulted from a customer's request-conditioned increase product and technology-referred alteration rates and leads thereby to a fast aging of present products at the market by new (improved) substitutes. As long as the customers honor the
innovative progress, the trend is lasting and an accordingly aligned strategy successful. As the further indicator for the today's time competition is to be determined the trend that companies reduce the “time-to-market” drastically because to begin later with the development, ensure an early market entrance for the innovations and the patentability of the products as well. This trend is shown in the following illustration 1.

Illustration 1: Shift in innovation and product life cycles.

2.2 Organizational and working aspects

The world of work has changed and is still changing because the organizations of work are changing their ways. At the same time the organizations are having a adapt to a changing world of work. In 1989, Charles B. Handy proposed a model of the future organizations. A “shamrock organization”\(^1\). This model consists of three “leaves”, each of which represents a set of individuals who make up the sum total of the organization’s workforce. This is represented in illustration 2.

Illustration 2: The shamrock organization.

Many organizations have now moved towards this flexible model, which has enabled them to become much more adaptable to environmental and organizational change. A key activity in any organization is the recruitment and selection of skilled, qualified, competent and experienced people to work in the business. Yes, temporary staff from temporary employment agencies can be skilled, qualified, competent, etc. but not really experienced in-depth with the work like a long working core worker. Flexible workforce have to made the same work like core workers with a short or even without a settling-in period. It is in question if a flexible worker is able to monitor, control or handle complexity regarding logistics, distribution, processes or even products. In our time of turbulent economic companies have to respond quickly and fill peaks or workforce lacks. Sometimes flexible workers do a job which have to be done just be core workers because of special education and/or long work experience. Because of these and/or other reasons you can have quality discrepancies or even a product recall.

A further potential negative issue could be that mistakes, omissions and risks can be occurred by such complexities, especially if products are developed and produced by humans under time pressure during ever shorter development periods (see 2.1) and in processes which are not completely defined. In addition, there is a responding to the expectations of an increasingly well-educated workforce, attention has turned to the role of the employee within a more participative workplace. In this dynamic environment, leaders are moving away from the “command and control” philosophy to a “lead, coach, and counsel” framework. That means that delegation involves allowing subordinates to make decisions (and sometimes to be wrong!). Causes within the organization could be misunderstanding (objectives or boundaries poorly communicated), inaction (subordinate lacks confidence), incompetence (lack of preparation and training), abuse (subordinate oversteps boundaries), foolishhardiness (poor judgment by subordinate), etc. which makes things difficult. You must anticipate product errors which inevitably cause even a product recall within all potential sales channels. But as the case in real life, everything has its downside. The product may have moved further along the supply chain and than immediately to your customer, e.g. from manufacturer to the wholesalers and retailers. Consideration should be given to this problem when your Product Recall Plan is made. Essentially the product is beyond your control, and action needs to be taken to stop the product reaching the consumer. Subject to the level of risk, this can be handled by initiating product recall procedures and taking appropriate steps to ensure consumers are made fully aware.

\(^1\) Handy, C. B., - The age of unreason -, p. 87.
2.3 Educational aspects

A far-sighted HR development is the basis for innovation ability of companies. Who oversleeps this trend, drops back!

Truth in Engineering is the credo of a well-known car manufacturer who will shown the lead by technology. Such a projection presupposes a strategic personnel development. Because the best heads are the drivers of a successful corporate strategy. Fact is that the purposeful development of knowledge is at the beginning of each innovation. However in many companies knowledge, innovation, etc. still do not have a general place! The competition around the intelligent heads will be more and more sharply. In particular in the automotive sector. Thus the increasing complexity of the processes and products also the fusion of the fields of knowledge makes a long-term personnel development to the key for innovations. Already in the school time have to be placed the correct switches. Finally, in Eastern Europe, China and India well trained university graduate are available to take over the jobs from the „old Europe“. The requirements in the world of employment grow faster than many conscioued. Rapid internationalization, shorter product life cycles, frequent change of job and positions. All these make the topic “Personnel Development” to a central function of the management. Anyway the number of engineer functions is rising and a classical diploma training is not enough any longer. Knowledge-intensive occupations have experienced a boom in the past ten years, and jobs for knowledge-poor occupations were strongly reduced. Particularly in the sectors electronics and in the automotive industry the demand for higher qualifications is increased strongly above average. This knowledge intensification of the world of employment will continue!

This development is a chance for the West and the high-wage country Germany. The number of radical innovations in the automotive industry is increasing. The trend shoves and gives hope to secure high wages and social standards also in the age of the globalization. Lead by education!

2.4 Market and competition aspects

End of dominance

The unipolar world, which formed the principal item of the “old world”, does not exist any longer. On their place stepped a “multipolar world”. The supremacy of Western Europe, Japan and especially dominated USA was partially certain by its economic size and its military power, but only partially. The English language is the commercial or international language world wide. American universities are open to foreigners, American mass media is dominating the market in the whole world.

All these are indications for a leading position of the country. With view of the future it lets state that no country has not basically the necessary characteristics in order to be able to transfer a leading position in the world. But nobody will economically dominate the world in the time lying before us.

New Players from Emerging Markets

Mahindra & Mahindra, Tata Group or Beijing Automotive perhaps unfamiliar to many people a decade ago, today such companies are the trailblazers for a new breed of multinational companies arising from emerging markets. They are internationalizing fast and leaving an indelible imprint on global markets, business models and competition. The most common reason why these companies expand abroad is the need for new markets and customers for their goods and services.

Companies in emerging markets are now becoming some of the largest in the world. These companies are accounting for an increased market share in the new multipolar world. These companies can lead mergers and acquisitions (M&A) or takeover companies or company shares from the old industrial nations.

Structural changes e.g. in the automotive industry

The progressive pressure to reduce costs in the automotive industry leads to a necessarily increasing cooperation of all concerned parties. This network includes vehicle manufacturers (OEM) as well as direct and indirect suppliers (Tier 1 to X). This will lead to the consolidation on the market which expresses itself in a further reducing of the number of suppliers on the one hand and on the other hand, increasing transferring development services by the OEM to the supplier. This consolidation of independent OEMs is showed in the below mentioned illustration 3.

Illustration 3.: OEM consolidation trend in the automotive industry.²

In recent years many automotive supply companies become increasing margin pressure and financial afflictions within the raised consolidation which have given opportunities for mergers and acquisitions (M & A). This can give opportunities for many companies, which want to rise in strategic areas or take advantage of scale economies. On the other side it can be also interesting for financial investors, who are specialized on the restructuring of companies and intend to resell an assumed company with profit or implement at least a certain annual minimum return. In recent years also so-called hedge funds take over companies. Most of them are externally funded and do with some extremely aggressive methods to gain the discretionary power company. Financial investors track two important value enhancement strategies in their investments in the automotive supply industry. It is the acquisition of other companies "Buy-and-build" and return increases by tight cost management.

In 2005 Europe was worldwide the most active region regarding M & A activities. Also Asia was involved in many transactions because of the consolidation. Chinese and Indian companies benefited by booming home markets and good ratings. That is why they increasingly seek investments or acquisitions.

What opportunities for the automotive industry can be seen for the next years and where is potential for growth?

In the coming years is even stronger than before and two groups of automotive suppliers will come out. A group which offers outstanding technologies, service or development services - a complete package of services to which a technologically sophisticated product belongs. The second group are commodity producers which are ultimately interchangeable and seen to the extent as a partner of the vehicle manufacturers. The consolidation in the industry will continues. The number of tier 1 supplier will reduce further and more and more assemblies will arise. Although this does not mean that there will be fewer suppliers but some Tier 1 will change the position into Tier 2. Crucial for the future success of an automotive supplier will be whether he provides a technology which lift out you as unique positioned supplier from the others.

Manufacturers and suppliers must adapt to the conditions of a lower market level worldwide now. Although the automotive industry was prepared for stagnating sales, but nobody could foresee that the financial crisis would be on such a huge scale. In addition, nobody now can predict how long the situation will last and what further consequences will emerge. But it is certain that the consolidation/"cleansing process" will be accelerated and there will be structural changes within the supplier industry.

However, consolidation does not automatically mean that companies leave the market entirely. Companies might still survive even after suffering insolvency and often parts of companies are absorbed into larger corporate groups by mergers or acquisitions and may even continue with their own brand names. Companies also sometimes enter into joint ventures with other suppliers and establish a new independent organization.

3 Problems and boundaries

3.1 Humans

Everyone of us have to know and discover that job success has a downside. The better you perform, the more the company’s expectations rose. Today if managers want to meet managements’s expectations, you have to work more and not less. In the long term you will see that he or she is burning out.

Most humans feel more and more difficult to switch off in the new world of employment. In the most cases warning signals are over-heard for a long time. First signs of a burnout can be:

- Muscle spannings and back pain.
- Permanently headache and migraine.
- Constant colds.

Nervousness, provokingness and fear. These symptoms are a warning. If you do not deal with the cause of your stress, it could lead to serious health problems. Indeed, stress has become one of the main sources of work-related illnesses. According to a study of a German health insurance company which announced dramatic numbers: Each third German stands shortly before a burnout. The study occupies: Nearly each second suffers occasionally from stress. In addition 22 per cent which are frequently stressed and ten per cent become a permanent strain. It observes a rapid rise of stress-troubled patients - men and women, straight through all occupational groups. Reasons are compression of work and the constant accessibility. We have become a long-hours work cultural. The long hours were actually damaging their productivity. That work can interfere with home and personal live. In addition, it can be seen that a major source of stress is the work resulting from organizational changes due to cut costs, reduced staff or introduced cultural changes which are necessary because of global orientation, M&A, etc. The responsibility of the managers had risen, but their morale and motivation had suffered because of unmanageable workloads, unrealistic objectives, having too little control over many aspects of their work and not having enough time to do their job well. In the last years many organizations buy into the US work culture with working long hours, job insecurity, autocratic management style and a focus on short-term performance, etc. This is bad for the productivity of staff and managers, for people’s health and our society.

3.2 Products

The causes for these new different changes are:

- Global development.
- Higher complexity of products and organizations.
- Shorter development time.
- Shorter product life cycle.
- Higher outsourcing of components or even whole assembly groups by vehicle manufacturers (VMs)/ Original Equipment Manufacturers (OEM) to “Tier 1” OE-suppliers.
- More and more components will be delivered by “Tier 1” suppliers from all over the world (global logistics).
- New players from emerging markets.
- etc.

E.g. the automotive industry is particularly affected by these challenges, because it manufactures vehicles in large series (OE) over comparatively long periods with hard cost goals and high quality yardsticks, and it has to supply also after End of Production (EOP) with spare parts in Parts & Service (Aftermarket/OES). This situation forces the vehicle manufacturers and their OE suppliers to new concepts, more flexibility, more product diversification, etc. That means that you have to manage more product/component and logistic complexity what can affect errors in assembling, handling or machining, and in the worst case it can cause a product recall. These are already in the focus for a long time and it seems that the number of the recalls will increase. The numbers of the German Kraftfahrt-Bundesamt (KBA)\(^4\) show a frightening, constantly rising tendency of product recall actions (source: Kraftfahrt-Bundesamt, annual report 2008). The illustration 5 shows this development of the recall actions from 1998 to 2008.

Illustration 5: Recall overview in Germany.\(^5\)

4 The Kraftfahrt-Bundesamt (KBA) is the official German Federal Motor Transport Authority which provide information and services for vehicles and their users. The Kraftfahrt-Bundesamt is within the scope of the German Federal Ministry of Transport, Building and Urban Affairs and their tasks are allocated by laws and ordinances. [www.kba.de](http://www.kba.de).

5 Annual Report from the Kraftfahrt-Bundesamt (KBA), report from 2008.
culture accordingly. Also the staff from today and especially from tomorrow are affected as well and will be more and more in competition because “We stand in the competition around knowledge”. Employees have to be open for new things, intercultural openness, life long learning, etc. In addition, there is a strong trend for interdisciplinary working (technology, languages, etc.). All these aspects bring large challenges which are again increased by the current economic crisis, fear of job, etc. Unrealistic objectives, more and more requirements and unmanageable workloads can stress staff and reach limits very quickly. Too much stress makes ill and you can not come down, especially after work.

Is it a burnout epidemic or burns out the meritocracy? So, what does mean for the future?

Today the competitive position requires that our productivity improves with approximately five to ten per cent per year. With consideration of the following aspects: global development, shortening of innovation time, shortening of product life cycle, short-term performance, etc. All these aspects show that humans have to perform more and more in shorter time interval and sometimes in parallel projects.

But as long as products are developed by humans under time pressure during ever shorter development periods and maybe in processes which are not completely defined, you must anticipate product errors, which inevitably cause a product recall and cost impacts.

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