German firms: Open borders, closed boardrooms

With the impending exit of Great Britain from the European Union in 2019, German firms will likely assume an even greater position within the trading block. Given its reputation as the largest exporter in Europe, accounting for over a quarter of EU exports, Germany is a driving force for free trade and open borders. Firms such as Siemens and BMW depend on open borders to serve a European and global market from an industrial complex largely based at home. Germany's largest firms, in line with their EU counterparts, export roughly two thirds of their production abroad.

This openness to Europe and the world, however, can be challenged when one looks at the people side of German firms. Using the Fortune Global 500 list of the world's largest firms, we assess how "open" German firms really are when it comes to management. Whereas firms from the EU (excluding Germany) have more than one third, 34 per cent to be exact, of their board of directors coming from foreign countries, the corresponding figure for German firms is a mere 15 per cent.

The results are similar if one looks at top management team composition. 35 per cent of EU (excluding Germany) top management teams are comprised of foreigners, while only 19 per cent of top managers in German firms are non-German. As such, in both cases, German firms are well below their European counterparts when it comes to the internationalisation of their executives.

The sharpest distinction, however, is left for the position of CEO. Only 7 per cent of the CEOs of Germany's largest firms are foreign-born. The corresponding figure for the rest of Europe is 30 per cent, a difference of more than four-fold.

What does all of this mean for German industry? German firms depend on openness to foreign markets in terms of sales. However, the same politics do not seem to be advocated with respect to recruiting foreign talent. While one of the rallying cries for Brexit was the claim that foreigners were taking British jobs, this is clearly not the case for Germany, at least when it comes to executive positions.

This apparent contradiction poses a number of challenges for Germany. On the one hand, it begs the question, why are there so few foreigners in Germany's leading firms? Is it a reflection of naturally occurring filters in the recruitment process or something less appetizing? While there is no formal border when it comes to the movement of top managerial talent, there does appear to be an informal one. Whereas some might look to language as the culprit, the reality is that other countries whose languages are spoken even less, such as the Netherlands, do not exhibit the same trends.

From a political point of view, can Germany have its cake and eat it, by keeping the doors open for the exports of products but not the imports of talent? For the last 20 years, London has served as the beacon for foreign talent within Europe. With the pending exit of Great Britain from the EU, will German firms feel greater pressure to open up and provide more managerial opportunities to foreigners?

From a more practical point of view, how does a lack of diversity in the top management of Germany's largest firms affect their ability to be responsive to the foreign needs upon which they are increasingly dependent? Continued expansion, particularly when it comes to markets outside of Europe, combined with increased pressures to provide locally tailored solutions, will make the need for more diverse perspectives that much more important.

One does indeed see this in the start-up scene in German cities such as Berlin, where entrepreneurs from all over the world have chosen to establish themselves in part because of the international diversity of the workforce. While this bodes well for the future of new firms starting off in Germany, we have yet to see this trend when it comes to Germany's largest and most powerful companies. Only time will tell whether big business goes the way of start-ups or the latter adopt the behaviours of the former as they grow.

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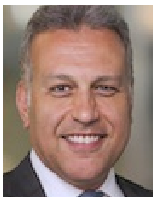

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