



*Reinhard Mohn*

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Reinhard Mohn was born in Gütersloh, Germany, on June 29, 1921. After his release in 1946 by the Americans as a prisoner of war, he returned home to take over management of the family-owned printing and publishing house. He led the business, one of the leading international media enterprises, for over 40 years. The business structure is characterized by the principles of fairness, partnership, and justice. These are expressions of his idea of business culture.

In 1977, Reinhard Mohn founded the Bertelsmann Stiftung, which carries on the tradition of cultural, social, and socio-political involvement while ensuring the enterprise's continuity. Reinhard Mohn transferred the majority of Bertelsmann AG's share capital to the foundation in 1993. This act reflects his conviction that wealth and prosperity should also be coupled with a commitment to social engagement.

Reinhard Mohn died on October 3, 2009.



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# Are entrepreneurs still needed?<sup>1</sup>

Currently, there are varying opinions regarding the entrepreneur's importance to the economy. Most of our fellow citizens do not actively dislike businessmen, but they do feel queasy on learning of misconduct by certain individuals. I'm thinking of issues like abuse of power, personality cult, or extravagant lifestyles. Objections fall even thicker when private decision-making rights over capital are bequeathed to heirs who lack the skills and character necessary to exercise such rights effectively. Such cases clearly demonstrate to all that the capitalist system suffers from considerable leadership risks in addition to its acknowledged inequity. In former times, such misgivings went unnoticed thanks to the spectacular successes that

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individual capitalists achieved during the industrialization boom of the period between 1840 and 1870. However, today's market conditions, as well as the constraints imposed by society as it is presently structured, seldom allow attainment of such universally recognizable success. Consequently, it is quite understandable that a corporation's renown and prestige fade with time.

Another aspect that must be considered is that the democratic self-image that we have assumed over the last century or so demands a just and humane society in which the individual is capable of self-realization. New standards have evolved. Patterns of behavior that fail to match the new standards are duly disparaged. As a matter of fact, liberal capitalism was never considered to be humane. If the Western democracies nonetheless decided in favor of a competitive economy based on private property, it is because no other economic system has been able to rival it as a means to supply the market bountifully. This background is not always as well understood by the masses as it should be. Accordingly, we should react with tolerance when people criticize the system.

On the other hand, criticism from left-wing reformists should be regarded in a completely different light. Although such people claim to employ scientifically recognized methods, we must note that their advocacy of a state-planned economy has proved, in practice, to be a dismal failure, and even the theory of central planning has not been thought through. The decisive blunders of socialist economic doctrine consist, firstly, in underestimating the challenge faced by managers and, secondly, in its misconception of human nature. The attempt to re-

press the individual's natural drive to self-realization has not only impaired the population's willingness to work in those places but, first and foremost, has undermined their creative spirit. Not grasping and admitting this fact today takes the wind out of the left wing's critique of entrepreneurs.

The people with the most favorable opinion of businessmen are those who know businessmen personally and have personal knowledge of the effects their efforts have on the community at large. As a rule, businessmen's attitude and performance earn them an astonishing degree of respect from their employees. No wonder, since the latter are well able to assess how important a contribution their boss makes to their own well-being in the form of the leadership he provides.—A weighty argument indeed!

I would like to round off my assessment of the businessman's role in our day and age with a narrative of how entrepreneurial leadership in economic life arose and developed. I believe in the soundness of the distinction I draw between the labors of craftsmen, merchants, and peasants of yore, on the one hand, and the modern businessman's daily routine, on the other. The latter did not arise until the 19th century. Only the social and economic changes that took place after the French Revolution were capable of providing the conditions that eventually fostered the development of the present-day businessman. Developments in science and engineering laid the groundwork for the subsequent growth of mass-production manufactures. Improvements in communications took place at the same time as barriers to trade

were removed. This enabled markets to grow to unprecedented size. At first competition was feeble and the tax burden negligible. Such conditions encouraged broad profit margins and thus encouraged the accumulation of equity capital. Even at that time, governments welcomed and fostered this economic surge. However, they were incapable of taking any action to mollify the social conflicts that promptly ensued. Few epochs have offered such fabulous opportunities for the growth of businesses and the enrichment of businessmen. This process began to falter when democratic ideology started hemming in the businessman's freedom of action by fashioning multifarious new social and economic constraints for him, notably, the rise of labor unions. Even today, transformation of economic life has not ceased. Seen from the standpoint of the individual, life has improved in many ways. The social market economy in its current dispensation can be regarded as a social contract. Nonetheless, the process of social development that brought us to this point will doubtless continue. Now that the social question has been satisfactorily resolved, we must—for the sake of both preserving humane values and safeguarding economic efficiency—ascertain how the conflicting goals of self-realization, distributive justice, and social responsibility, on the one hand, can be rendered compatible with the ability to evolve and efficiency that are required of us, on the other. I suspect that this is a task that requires the efforts of several generations.

The initial period of German industrialization saw the rise of energetic and resourceful men who were capable of exploiting the opportunities offered by the social cir-

cumstances of the time. They were the model on which our contemporary concept of “businessman” is based. Those men adroitly combined the surging demand in arising markets with recently developed manufacturing technologies and innovative products. Their shining achievement was to deploy the human and material resources available to the manufacturing and mercantile process in such proportions and in such a fashion as to optimize outcomes. Such a task demanded both sound judgment and an extraordinarily creative drive. Such attributes are in scarce supply and, moreover, difficult to learn. In proportion to the armies of wage earners, the elite of entrepreneurs whose creative talents set the course for future development comprised a mere handful of people. I find it truly remarkable how little acknowledgement is currently accorded to the crucial role that businessmen play, despite the multitude of reform proposals that gush forth. More than one theorist believes that any task, when accomplished with method and industry, is automatically destined for success. But do not be deceived: Without the crucial ingredient of entrepreneurial spirit, the German economy would be condemned to stagnation.

Below, in order to facilitate the reader’s insight, I shall describe the distinctive traits that characterize a businessman’s working methods and his unique viewpoint. I have the impression that businessmen constitute the human type in which the desire for self-realization, the drive to prove one’s worth, and the thirst for success are most prominently displayed. Such men decide their objectives independently of others. They harbor great reserves of

courage and commitment and, accordingly, chafe at any constraint on their freedom. They skeptically assess conventional wisdom and traditional methods. They are sensitive to new developments and potentials. They are willing to undertake any burden in order to impose their will. Such burdens weigh heavily when one treads on virgin soil. Consequently a businessman must possess such qualities as courage, vigor, and endurance in extraordinary abundance. He must be prepared to patiently bide his time until his day of triumph dawns. The mockery and derision of his contemporaries do not discourage him.

His principal functions as head of a commercial enterprise is to judge, inspire, and lead. Such abilities require more than the usual measure of sensitivity. Of all the spheres that constitute a businessman's daily chores, the management of human resources is perhaps the most crucial. The businessman must possess clear personal goals or a suitable philosophy of life that determines his attitude and places his work in a positive relationship to his fellow humans. The antiquated definition of his goal as merely maximizing profit no longer does justice to today's businessman. Indeed, such notions are dangerous. Within the constraints imposed by our socioeconomic system, the entrepreneur must conceive of his work, despite the many rights that it bestows, as a duty toward society. Despite the right to property enshrined in our constitution, he is well-advised to take note of the precept likewise contained therein, "Possession of wealth entails obligations toward society." This is the reason why German entrepreneurs' compliance with their duty of announcing their goals to the public and reporting the head-

way made by their companies is so spotty. If today's entrepreneurs are misunderstood and often unfairly judged, it is largely the result of inadequate fulfillment of their duty to inform the public of their affairs.

In addition to all his wisdom and cleverness, an entrepreneur must possess a sense of the feasible and, consequently, also fantasy and a clairvoyant intuition of conjectural combinations. These characteristics must be accompanied by creative power and sound judgment. Another important factor for an entrepreneur's creative performance is his pertinacity. The brainwave, the conceptual breakthrough, cannot take place without much prior effort. Often intensive and single-minded efforts are not the correct approach to problem-solving. That is because the optimal solution often does not appear until after a period of unconstrained, playful rumination, when out of the blue a constellation of elements materializes that eventually leads to a solution. I grant that the entrepreneur is inspired and invigorated by the conviction that he is on the right path. Nonetheless, he is well-aware that each new step on the way will entail additional risks and demand yet more audacity. Such perils, as well as frequent spells of loneliness, should not discourage the entrepreneur. They are all part of his job and his world—like the pleasure of creating and the exultation he experiences when vindicated by success. When attempting to characterize the entrepreneurial type as he toiled in the socio-economic conditions of the 19th and 20th centuries, I find the following propositions warranted:

The market economy, with its hallmark traits of individual freedom and reliance on economic success as the

measure of a man's character, fostered a rigorous selection and thorough training of prestigious businessmen. To date, no other socioeconomic system has been able to weed out the incompetent than the market has through its harsh ordeals. This assertion is equally applicable to an entrepreneur's social ascent and his decline. A comparison with the corresponding human-resources work in the civil service is instructive. The ineffectual, inflexible, and unfruitful operation of the public sector provides a dramatic lesson of what not to do. Entrepreneurs are not entitled to any security or welfare payments: They either succeed or abandon their ventures. Such are the rules of the economic system that has proved its worth planet-wide. No centrally planned economy, no matter how finely nuanced, has been able to guide its managing élite so effectively—or to sate the market with such bounty. The ubiquitous demand for indulgence of the weaker members of society does not benefit the entrepreneur. The entrepreneur, for his part, neither demands nor expects such indulgence. For him, the opportunity of proving his worth and the freedom to create loom larger than such perquisites. However, we must bear in mind that, in large corporations, the entrepreneur in his personal capacity does not incur entrepreneurial risk alone. Accordingly it is necessary to achieve a balance between an environment allowing untrammelled development of the entrepreneur's personality and the need to hedge the risk incurred by society at large. A compromise of this sort involves a slight curtailment of the entrepreneur's freedom but falls short of undermining the system. In the end, we should not lose sight of the fact that the contemporary

world market promises the entrepreneur much greater rewards than he could dream of in former times.

One of the principal grounds for the efficacy of the market system is the close fit between the task to be performed, on the one hand, and the personal motivation of the entrepreneur, on the other. The market demanded success. The entrepreneur, for his part, sought success as an expression of his striving toward fulfillment. The market beckoned to him with wealth, power, and prestige—prizes that attract the great majority of people. The entrepreneur's goals within the market economy rewarded him with independence and freedom—conditions sought, for the most part, by rugged individualists. When so describing the entrepreneur, we cannot neglect to mention the social and ethical commitment that is often encountered in great industrialists. Formerly, this was no indispensable precondition for success. Nonetheless, its presence often proved a decisive factor in maintaining the company's stability.—Congruence of the existing working conditions with the entrepreneur's personal aspirations becomes especially apparent when comparing it to the tasks of top officials in the public sector. There, a fine-meshed web of statutes and regulations places tight restrictions on any desire for self-realization. If we acknowledge that leadership is the decisive factor for success, it becomes understandable that the public sector shows such poor performance.—The market system, whose representative is the entrepreneur, is in any case entitled to boast that it has sated human needs better than any planned economy. It is especially important to stress that the competitive market system is superior to



central planning thanks to its evolutionary bent—a crucial factor in assuring our standard of living. Likewise, this advantage, based principally on the creative toil of independent entrepreneurs, must doubtless be deemed an essential component of the market system.

It would be misleading and dishonest to praise the market system's virtues without also contrasting them to its drawbacks.—The market system is oriented toward performance and success. It requires liberal working conditions and constantly seeks to remove or circumvent obstacles. Among the objects that it perceives as obstacles are indispensable state policies, even when they serve to bolster its own position, as does antitrust law, for example. Other social strictures that manifest themselves in the form of social-welfare legislation or the tax code are only grudgingly tolerated. As a matter of fact, we have ourselves been witnesses to the fact that drawing the boundary between society's needs and the entrepreneur's legitimate right to autonomy is an exceedingly difficult task that is unlikely ever to be definitively accomplished. We can be sure that a long road lies ahead of us in this regard. Business must understand that in the long run, it depends on social stability in order to be assured of its profits. On the other hand, society at large must also understand that the freedom that business enjoys is necessary for its efficient operation.

It is most encouraging to see that our historical period is characterized by a certain convergence of views regarding this issue. It seems likely that, after two centuries dominated by social welfare policies addressing the needs of the worker, future policies will be inspired by the convic-

tion that effort and productive activity are essential for people to achieve a sense of fulfillment. Such policies would tend to expand the sphere of personal freedom and demand a greater sense of personal responsibility at the workplace. An example of this is the increasing commitment on the part of many employees in response to being entrusted with responsibility and as a consequence of the German institution of workers' participation in management decisions [the so-called *Mitbestimmung*]. Continuing this line of thought, I can well imagine that the social market economy in its current dispensation will begin a transition to more liberalism and a greater commitment on the part of all working people. In any case, such an evolution from free-market capitalism through the social market economy to more humane and effective styles of work is easier to imagine than the prospect that any of the presently proposed reform initiatives in the economies of the socialist countries will ever succeed. Capitalism is capable of being rendered consistent with social goals without any loss of substance. Any prospect of the Soviet bloc economies even approaching the efficiency of the market system seems exceedingly unlikely. My main reason for this pessimistic assessment is the observation that the Soviet bloc economies are incapable of creating the right conditions for motivating the population to put in a good day's work.

The reciprocal action between social system and economic system should not be underrated. In order to understand the currently prevailing conditions constraining our nevertheless extremely productive economy, we must look backward in time. In the course of the 19th

century, government assumed democratic practices and, in the process, radically altered the way people thought about themselves. Loyal subjects became citizens who had their own ideas about how to arrange their lives and what their relationship to the state should be. Labor unions assisted in this process by performing their roles of spokesmen for manual laborers and clerks and by pressing for enactment of social welfare legislation to afford the masses protection against want, overwork, and illness. In parallel fashion, the rights of capital owners were substantially curtailed and entrepreneurs' capital accumulation reduced. This process constituted a transformation of capitalism that has not yet run its course.— In the name of justice, we must urge a more evenly distributed ownership of capital. Nonetheless, we should not overlook the fact that, in so doing, we would effect a major change in the business environment and in businessmen's motivation to perform. These reflections do not warrant the conclusion that everything must remain as it is. We must strive to establish new attitudes and arrangements that anticipate the future that looms before us. Such efforts to impel further development of the capitalist system seem to me far more important than filling the gaps in the safety net provided by our social-welfare institutions.

I consider it not a conjecture but a certainty that solutions will eventually be found that will assist us in reforming the economy and society in general. Still, the erection of new economic structures will trigger bitter resistance and will be time-consuming. I hope that we shall be able to consummate this process without undermining

the conditions that enable entrepreneurial creativity to become effective.

The transformation of capitalism is, however, not the result only of alterations in the structure of society. The economy itself was confronted with completely new demands. Technical innovations flowing from science and technology dramatically augmented the variety and quality of goods. International competition hastened this trend, inducing a pace of development of unprecedented speed. Many industries were composed exclusively of mammoth factories constituting huge sums in sunk capital, since only they were capable of competing on the market. Conventional management practices were no longer able to keep pace with such changes, just as the owner-entrepreneur was no longer wealthy enough to finance the necessary investment from his own pocket. These parallel processes made management work much more challenging than before while, on the other hand, the existing incentives no longer furnished sufficient motivation for managers to perform well. That is why currently aspersions are often cast on the entrepreneur's role. I concede that owner-managers of medium-sized businesses have been able to preserve their former roles. But they, too, are increasingly confronted by difficulties in finding well-qualified staff and raising capital. The formerly predominant family business can no longer be regarded as a satisfactory model for the economy as a whole. All companies are being overrun by experts and professional managers who relegate the traditional owner-manager to the sidelines. In Germany's large corporations, this process has already reached such an ad-

vanced stage that one is justified in speaking of a complete separation of ownership from management. Altered conditions have induced the creation of a completely different company organization. We must address the question of how this relentless evolution will affect the functionality of the capitalist economic system. I venture the following propositions as the basis for a discussion of this issue:

- The despotic leadership style that earlier generations of entrepreneurs considered their birthright no longer meets the demands of the times. The entrepreneur must learn to whittle down job descriptions to the requisite degree of specialization, to delegate power, and to play the role of coordinator of his staff. The proportion of his workday taken up by performing substantive tasks shrinks while more and more time is devoted to matching up the activities of others and tactically shifting emphasis among the various aspects of the company's operations. Nevertheless, his principal task remains that of setting company policy.
- Constant transformation has become an integral part of our lives. To cope with it, we must resort to our gifts for creativity and ability to shape his environment. The altered nature of the division of labor within the company generates a progressive trickle-down of such coordinating duties toward the lower reaches of management and supervisory staff.—To adjust to this situation, the entrepreneur must grasp the fundamental idea that creativeness and readiness to achieve high performance rely on the employee's commitment to the company's aims and standards of conduct. The en-

trepreneur's leadership style must mirror top executives' opinion of themselves in order to foster suitable opinions among, and elicit a cooperative attitude from, managers.

- The financing gap between the amount of new capital needed for investment and the entrepreneur's personal fortune grows from year to year. In view of the currently available financing choices, an entrepreneur is well-advised to find sources of capital whose attitude toward the company are as close to his own as possible. Equity ownership by managers and staff offers an additional financing source that has the advantage of making the role that capital plays in a company intuitively comprehensible to them and encouraging behavior in harmony with the company's aims. Specifically, this approach trains managers to think and act like entrepreneurs. Although delegating authority as well as transferring equity and, consequently, a share of the profits to managers is not an infallible means of inducing entrepreneurial behavior in management, attempting this method is well worth the effort. The closer we come to the optimal state—namely, a purely entrepreneurial conduct—the more effective the work performed by management will become. We should not forget that the division of entrepreneurial functions that has been consummated—namely, between management and the provision of equity capital—has had a negative impact on the capitalist system's efficiency. It is an everyday experience to observe how some managers prefer to pursue personal goals involving corporate pomp and circumstance in preference to

conducting prudent company policy. On the other hand, it becomes increasingly common to see capitalists who are only interested in their dividends and neglect the welfare of their companies.

- The growing gap between capital and management raises the question of whether the vital functions that this factor of production is supposed to fulfill according to capitalist playbook are being accomplished at all. I grant that shareholder meetings and boards of directors exert influence on management in accordance with the Corporation Act, but I question whether this practice has been sufficiently evaluated. As a rule, management—whose members normally hold no equity—plays a predominant role in corporate decision-making. Inclusion of equity in the decision-making process is only grudgingly accepted by managers and is often perceived as a disruptive factor. In this connection, I must remark that this development is slowly but surely undermining one of the pillars of capitalism, namely, the dominance of equity in the determination of corporate policy. It is true that this issue has been a matter of public debate for some time. Nonetheless, no statutes have been enacted concerning the issue, nor has corporate practice shifted in the least. This historical period must confront the task of countering this degenerative process of the capitalist system. In practice, that leads to the recommendation that equity interests be more effectively represented. Equity must be enabled to conduct a meaningful dialogue with management in real time. Attending to the duty of supervision is insufficient. The formation of