

# Political stability is key to development

Group Chairman of Nestlé SA Helmut Maucher tells Mahfuz Anam

RECENTLY, Helmut Oswald Maucher, the Group Chairman of global food giant Nestlé SA, was in the capital on a very brief visit, 22 hours to be precise. Still, he squeezed some time out of his hectic schedule for an exclusive interview with The Daily Star. During the short conversation, Maucher talked about the challenge for a developing country like Bangladesh in the globalised context, putting accent on political stability and education that gives 'knowledge, skills and understanding of international markets.' Excerpts:

**The Daily Star (DS): There is a view that all the Asian tigers grew in a global situation when there was no globalisation. Like South Korea for example. Do you think we would have had Asian tigers in a globalised situation? Would it be possible for small countries to grow when the economy is totally global?**

**Helmut Oswald Maucher (HOM):** I don't think it would be so simple as that because if you look at Korea, there was a lot of investment from European and American countries to use cheap labour and to produce a lot of things, and to send it back. In transition period, they were benefited.

Some people have not understood that if you introduce a free market system, you must at the same time introduce a lot of other things. You liberalise the market. At the same time you make sure that private and foreign investment is there. Or if you liberalise and say you want a less regulated labour market without introducing social litigation, it doesn't work. If you are more liberal, people can be dismissed. You must have a social protection system for unemployment, for sick people. This is part of the thing. You need to take care of these things. Some people have not understood it. Other people did not understand. So it is a balance. It's a process.

**DS: A group which has not**

**understood this is the IMF which pushes countries to liberalise without these social measures which you very correctly mentioned. So let us look at a country like Bangladesh. We have liberalised very much. And our domestic industries are now shutting down one after another, because we are not ready. We can't compete and the market is flooding with foreign goods. So what do you think a country like Bangladesh should do?**

**HOM:** First of all, IMF has intelligent economists, but they are also learning now. Of course, if you open the market, some people will suffer if they are not competitive. You cannot hold on to old processes just by saying I want to protect these people. You have to take additional measures. One thing is if you tend to keep out foreign productions, you will never be competitive. Foreign input is pushing competition into the market, offering technology. The local industry will become more competitive. So it's a process, but it has to go in the right direction.

**DS: How do you see the future of South Asia, India, Pakistan...**

**HOM:** One thing that you have developed is SAARC. They made a similar thing in East Europe. But it doesn't work without co-operation. Everybody has to share. It needs a responsible attitude. It is a good preparation for globalisation. This will already put you in a more competitive situation of the global market. If you are not able to do this, it is not good.

**DS: I read one of your interviews where you were saying the moral voice of the business world and the louder voice of the business world. Do you think the international business community can do something to stop the nuclearisation of South Asia? They are now going into nuclear weapons.**

**HOM:** I don't think we can. We do not have the power. Of course you can talk to politi-

cians. I do it. As president of ICC, I managed to take ICC for the first time really to a position where it is now acknowledged as the only world-wide business voice which is an important voice. We can say, we are in favour of more stability. We are in favour of free market with social measures and a lot of other things. If you need globalisation, you need more political co-operation.

If you open the market, you need a guarantee trust law that competition remains open and at the same time you allow this kind of thing. You need protection of private investment, property rights. You need certain rules, of course not too many.

**DS: You mentioned about mergers. We now see some mega-mergers going on and there is no global trust law or legislation. So as a man committed to competitiveness, do you think that mega-mergers without these laws may lead to lack of competitiveness in the future?**

**HOM:** No, if you really look at it, it is much easier to fight against 300 small than against three big. I don't see this as an important danger, but it could come.

**DS: Some critics say that we saw the world being dominated by a few countries and in the future we will see the world dominated by a few companies. Do you see such a bad scenario?**

**HOM:** That's simplifying things. There are two different things. You know there were certain problems after Russia went down. But now it is balancing out.

**DS: You have just come from a visit to China. What is your impression about the current situation there?**

**HOM:** Well, I had the chance to see the Prime Minister who is an old friend of mine and generally does not meet so many people. But he always wants to see me. I think they are on the way to a very good situation. They are going step by step. But there are problems. More and more people from rural areas are coming into town for jobs. This is a huge problem. They are trying to resolve these reasonably.

**DS: Bangladesh is a country where capitalism is just growing in its infancy. So how can a country like ours really be part of the globalised world? What sort of advice do you have for us, the government, business people?**

**HOM:** Well, you know, it

starts best if you have a stable democracy. Stability is always a good beginning. Secondly, more and more people should be educated to understand the market economy system and have some international understanding of the benefits of international trade. It is a process and if you achieve co-operation, if SAARC finally get efficient, it will help to move on. There is no magic solution, but stability is important.

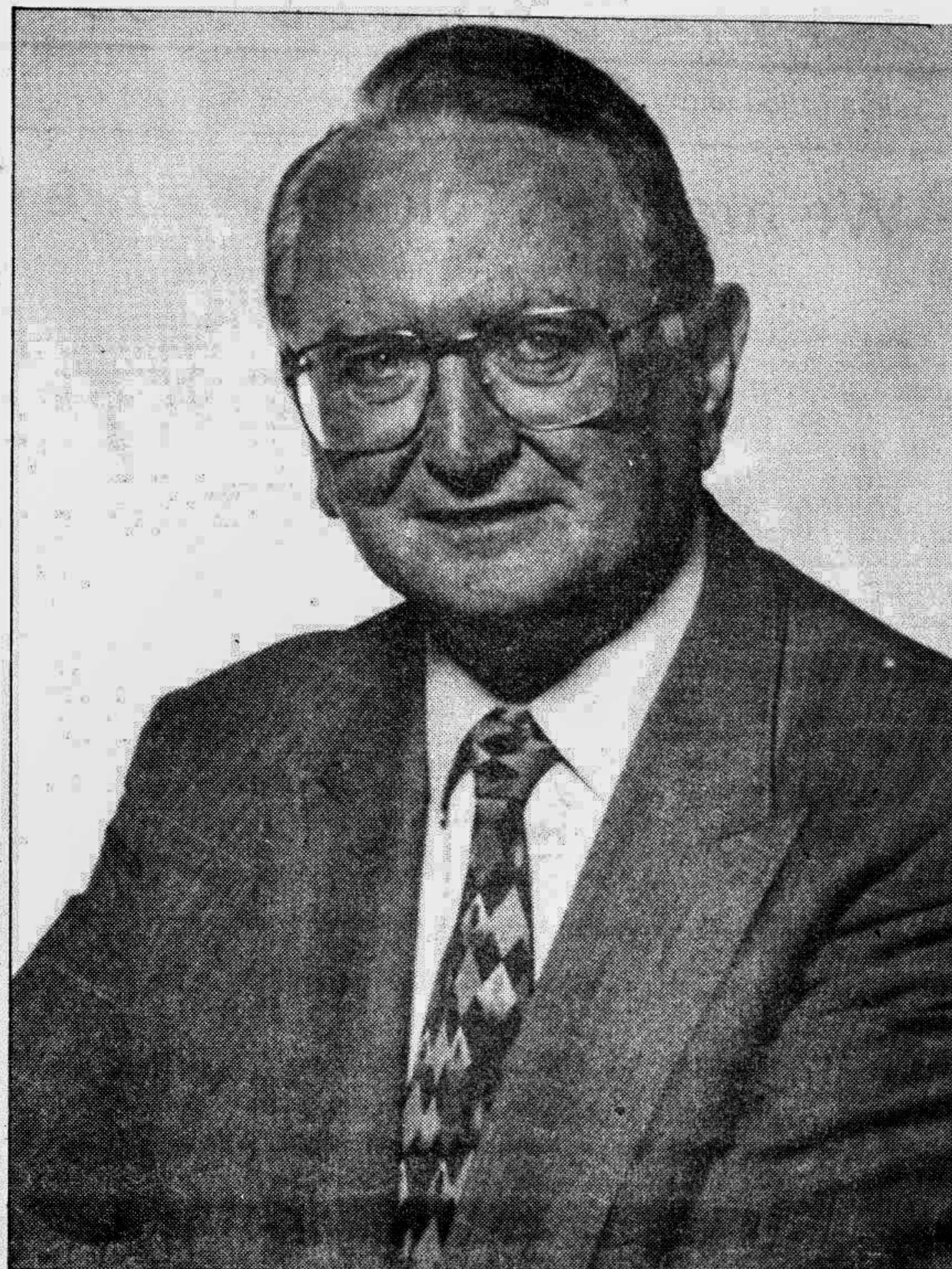
**DS: Political stability, education and hard work.**

**HOM:** And some mindset which is more open to co-operate.

**DS: One of the problems we are having is the huge strength of Indian economy and the very small strength of Bangladesh or Nepal or Sri Lanka. So that's a special case.**

**HOM:** You are right. Normally, economic co-operation offers a lot of opportunity, equality and if you have one big power with satellites to the big power, the big power has a responsibility. The liberalisation shouldn't be only to the benefit of the big power. The more you have power, the more you have responsibility.

**DS: Thank you very much for your time.**



## The Maucher profile

BORN on December 9, 1927 in Eisenharz (Allgau), Germany, Helmut Oswald Maucher completed a commercial apprenticeship at the Nestlé Factory in his home town before being transferred to Frankfurt. Parallel to holding different positions within the company, he completed studies in business administration and economics, and graduated from Frankfurt University.

Germany, with a BA (Diplomkaufmann).

From 1964 until 1980, Maucher held different management positions within the Nestlé Company in Germany and from 1975 as president and chief executive officer of Nestlé Gruppe Deutschland GmbH, Frankfurt. On October 1, 1980, he was transferred to Nestlé in Switzerland as executive vice

president of Nestlé SA, Vevey and member of the executive committee.

In November, 1981, Maucher was nominated as the chief executive officer of Nestlé SA. From June 1990 to June 1997, he simultaneously held position of the chairman of the board and the CEO. On June 6, 1997, he relinquished his position as the CEO and is continuing the chairman till date.

# Founders of market economy didn't foresee that

**The recent economic crises have given the critics of globalisation fresh ammunition. How does it feel to be representing a global company in this situation?**

As a result of globalisation, hidden structures and traditions that do not fit into an open society have come to light faster. That's why it is no surprise that things started in Asia. A free market economy, in which almost anything was possible. Certainly prevailed to some degree over there. But at the same time, various countries lacked a couple of elements that — from our point of view — belong to a democratic society and a free economy.

**Was there a lack of democracy? Were there too few control mechanisms?**

I think that was less the reason than some would perhaps suppose. Everyone knows that initially at least things were set off by "hot money" — that is to say, capital flow focusing on the short term. That's why we have to think about ways of getting this kind of capital under control without stifling the market economy. That's the first thing — strictly a question of financial techniques. Then, the second is that these countries lack flexibility and adaptability. The financial turbulence has shown that these countries have not opened up enough, that hidden protectionism prevails and that there are still feudal relationships below the surface. Such structures are never as flexible as an open competitive environment, which reacts instantly to upheavals. It doesn't necessarily — and I am being deliberately cautious here — have anything to do with democracy.

**You would like to bring "hot money" under control without stifling the free-market economy. How do you propose to do that?**

That's a tricky area. Elec-

tronic trading, network connections spanning the globe and digitalisation are leading to situations that the founders of the market economy did not foresee. We have to think carefully about how we deal with these phenomena without resorting to restrictive measures. I don't have any solutions myself, but the countries themselves definitely have to build up confidence again. If a country uses short-term capital to finance long-term investments, that will not work. However, if these countries stick to the rules of sensible financing to some degree, then there will be trust. Over and beyond that, there is certainly a need for international co-ordination. I'm thinking of the creation of transparency and a monitoring system. Such measures will lead to a situation where certain people will no longer do certain things and where risks can be recognised early on. It seems to me that the World Bank has come the furthest in the search for solutions, and it has done so without falling back on restrictive measures in the process.

**Competitiveness on a Global Basis**

**The IMF in particular has not had a good track record.**

That's why I deliberately mentioned the World Bank and not the IMF. I don't want to condemn the IMF out of hand, but it did make two mistakes. First, relying too heavily on a couple of macroeconomic key figures, the IMF came to its conclusions about the world without really understanding the underlying micro-economic factors and the mentality in these countries. That paved the way for belated or even wrong decisions. Second, the IMF thought you could solve problems by throwing good money after bad. Long before the Asian crisis, I had been criticising this kind of attitude. Further-

more, over time, there was certain arrogance. In contrast, the World Bank — especially since Wolfensohn — has gone mainly in the right direction.

At the moment, intellectuals in the west take pleasure in shaking their finger and saying: "You have always praised the Asian culture, and now look what's happened." I maintain that these things have happened because they deviated

Translation of an interview with Nestlé SA Chairman Helmut Oswald Maucher published in the Neue Zürcher Zeitung on November 28, 1998

from Confucius, and not because they turned to Confucius. Of course, Confucius is only a symbol.

Greed — this attitude of "who cares about society as long as I get to line my own pocket" is not an intrinsic element of Asian cultures. I once said that sense of community goes beyond simply looking after common interests. Of course, some people immediately branded me as a fascist. But do you see what I mean? There should be equilibrium between community — the sense of being part of a family, a country or a company — and individualism. It is this sense of equilibrium that some people have lost.

**But this is exactly the charge being levelled at globalisation: that it has led to selfishness beyond all bounds.**

Globalisation shows that blatant selfishness, favouritism and corruption do not pay. That's why some people have fallen flat on their face.

**But isn't there a need for some kind of rules?**

As President of the International Chamber of Commerce (ICC) and as a businessman, I have always maintained that the process of globalisation must follow certain rules. For individual countries, this has been expressed by the German economic philosophy of "Ordoliberalism", which says that a free economy must operate within a competitive framework. Now, when the world is the market we have to think carefully how rules can be set at this level so that the market provides for the benefit of humankind and the benefit of the individuals who make a contribution to the market.

**But most people are not going to seriously believe business people who say there should be more rules.**

We must make clear what we mean by "rules." I'm talking about rules that will make the market mechanism perform at its best. As part of this, there must be, first of all, anti-trust regulations. When the relevant markets are spread out over larger areas — which some anti-trust lawyers in Europe still can't comprehend — then the policies concerning competition must be adapted accordingly and they must keep the competition on these markets open. Secondly, there must also be some degree of certainty that some corrupt official cannot bring a company to court on flimsy grounds. Thirdly, there must be protection for proprietary rights. These should not be circumvented by bureaucratic procedures to protect local industry. The laws must be applied in the same way for both foreign direct investors and for local investors.

When I say "rules," I'm not talking about social or environmental standards. If we make these a prerequisite for membership in the WTO, then we would not be encouraging free trade. Moreover, we would be making a serious political mistake. The countries of the developing world, which also want a share of the pie, would be up in arms if we kept them out of the WTO on these bases. And we will be accused — with some degree of justification — of protectionism. Don't get me wrong — I believe in environmental responsibility and social safety nets, and I'm against child labour. (By the way, I worked as a child, too). These improvements must come through other ways, but not through world-wide standards for the WTO. For example, I believe the media should go after misconduct.

**Are you thinking of a sort of**

**world government?**

In theory, we are dealing with the same problems that a country would face, only at another level. That's why we must act in a similar way. Certainly, when the authorities go too far, then I have a problem like the one I have with the German anti-trust office. But there's still hope. It's the same with all of the institutions: sometimes they do things that are more a hindrance than help. But I assume the policy is to encourage competition, not limit it.

**What would such a body look like?**

Somehow, the UN is the institution that sets the rules on the global level. I think that such a body with responsibility for competition could be established there. It would be a distinct and independent body with economists who are independent. The WTO is another good possibility. Perhaps it would be even more appropriate to establish such a commission there, because they are already used to a market-oriented way of thinking.

**Without the authority to sanction, such a body would be toothless.**

I like to quote Pascal: "Justice without power is ineffective; power without justice is tyranny." If I were to create such an institution, then I must be prepared to give it the means to be effective. That's the weakness of many world bodies. If the Americans don't agree, then laws that have been mutually agreed on are difficult to implement. The world is simply not perfect. The fact that institutions have been set up at all has led to many changes. And I'm fighting for such international agreements to be implemented otherwise globalisation will lead to excesses time and again.

**What are your motives for championing global rules?**

I think that this is the only way to a free market economy. Besides, I want to prevent excesses. We must do things that people will accept because otherwise the political support of the majority will be lost. That is a tricky course.

**Someone in favour of a free market sometimes gets the impression that businesspeople conduct themselves in a very clumsy way and act as if they want to drive the nails into the coffin of the market economy.**

You don't need to preach to the converted. I have often criticised that kind of behaviour. For example, I can't push through a mega-merger just because it would bring us huge earnings in five or ten years' time, along with lines of "So there will be job cuts, but so what?" You simply can't do something like that. A company's communications policies should not be determined solely by financial analysts and short-term gains. The financial media have always had more of this kind of short-sighted perspective, and companies have given their "bean counters" too much power. That also begs the question of top manager's salaries. The Americans have already realised that they simply can't keep on like that: raking in a few hundred millions here while giving ten thousand people the chop there. There will always be excesses of one sort or another. But they will be limited by openly talking about it, because that will put companies that allow such things to happen under pressure.

**Does results-based pay at Nestlé have a long-term focus?**

First, it's driven by the long term. And second, it can never lead to something that is unacceptable to us. When the com-

pany's performance is good, our managers should be able to build a nest egg. But you shouldn't overdo things. Among other incentives, the company offers a stock-option plan, and a bonus system, which at Nestlé is 30 to 35 per cent at the most. And this applies only if the company has achieved its goals for the year, and not at the expense of the future.

**Protective Measures for the Losers**

**Some people say that globalisation leads to greater disparities at home. How do we deal with that?**

If we believe in competition and want to give similar opportunities to the people in the developing world — where some 500 to 600 million people have risen above the poverty level because of globalisation — then you have to deal with the question of competitiveness. I think we can be competitive. A lot of things are running smoothly. And if we introduce greater wage flexibility, give less protection to rigid structures, and reduce excessive social spending without denying the sick, the old and the weak the help they are entitled to, then we can save quite a lot and become more competitive. We're talking about minor adjustments. If we were to bring wage and income levels back to those of 1989 for those affected by globalisation, then we would have solved the problems. Everyone was happy back then.

In any case, I think that wage level is not the biggest issue. Certainly, wage levels need to be spread more widely and be applied more flexibly. But social contributions are far more important. I can't start to work at 35 and retire at 60. Who's going to pay for that? Whether we want to or not, our working life has to be longer. The Americans are already going in this direction. Only then will social costs go down in the middle term, so more jobs can be created.

**But that is not very good news.**

Look, the world is changing faster, and every change also

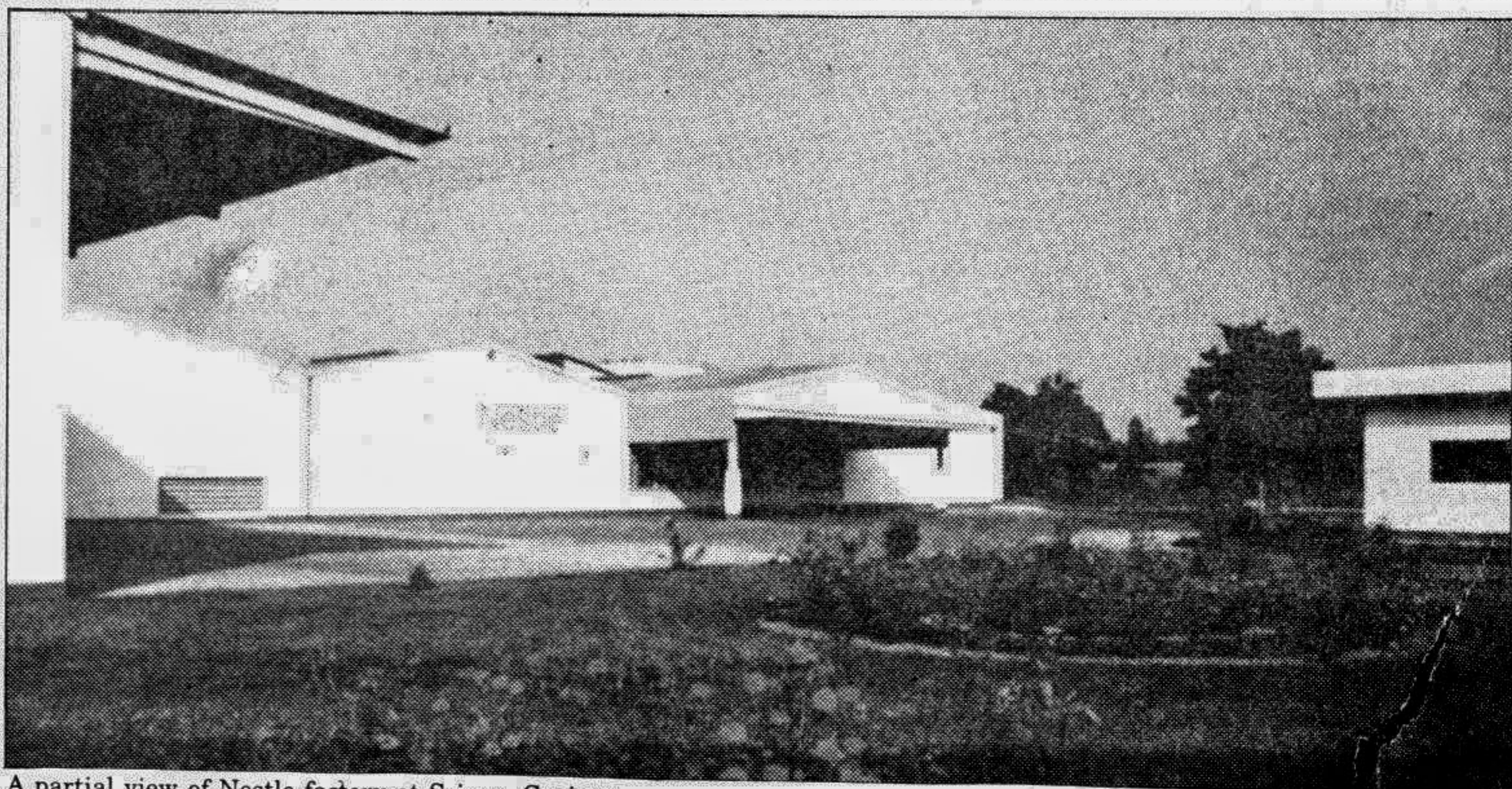
produces difficulties. It would be wrong to hinder this process. On the other hand, I believe that the change should come with selective social support. A market economy implies a whole lot of things. Protective measures are part of that. In a feudal system, I don't need that. In our system, however, you need protective measures in case of dismissal, you need old age security, in other words, things that will absorb part of the benefits of globalisation — or very simply of a market economy. That's why I support Ordoliberalism, so that we will have a market economy with a social element. That is necessary, even if you can claim in theory that there is nothing more socially minded than a market economy.

**Some charge that big business has too much power compared to the government.**

We have to look at concrete examples. Are we talking about subsidies, tax breaks or building permits? Certainly, governments and companies today feel the heat of competition. If the US is less expensive then people will build their plants in the US. If tax breaks are granted, then others will follow suit. Otherwise, they will no longer be in the running. I find that perfectly normal. And if some countries decide not to follow certain principles, then companies should be allowed to act as the market dictates and go elsewhere. That doesn't mean that certain ethical principles don't have to be respected. At Nestlé, we simply can't afford to violate ethical and social standards. Otherwise, our image will suffer and we will come under pressure.

**Another bone of contention is that globalisation results in a cultural uniformity.**

I don't understand what the problem is. People are free to decide as consumers. They are free to buy whatever they want. If everyone in the world wants Coca-Cola or McDonald's, then I have asked what's wrong with that? As long as they are not forced...



A partial view of Nestlé factory at Sripur, Gazipur

## Nestlé, the world food company

Nestlé can trace its origins back to 1866, when the first European condensed milk factory was opened in Cham, Switzerland. The founder of this factory Anglo-Swiss-Condensed Milk Company, was merged in 1905 with Farine Lactée Henri Nestlé. The latter company had made itself known in Switzerland in 1867 when it introduced the first infant food. At the same time Henri Nestlé created the symbol of the Nest, which is universally understood, simultaneously evokes security, maternity and affection, nature and nourishment, family and tradition.

Today it is the central element in Nestlé's corporate identity. While the original business was based on milk and dietetic foods for children, numerous other food products have been added to the range over the years: chocolate, instant beverages, culinary, refrigerated and frozen products, ice cream,

mineral water and pet foods. Nestlé is still primarily concerned with the field of nutrition, but it has also acquired interests in pharmaceutical specialties, with Alcon, and in the cosmetics industry, and through its substantial participation in L'Oréal. From 15 factories in 1900 to 435 today, Nestlé employs more than 225,000 people and has an annual turnover of 70 billion Swiss francs. As for distribution, the Nestlé brands have long been known on all five continents.

### Chronology

1866 Company's foundation  
1905 Merger between Nestlé and Anglo-Swiss Condensed Milk Company  
1929 Merger with Peter-Callier-Köhler  
1938 First production of Nescafé

1947 Merger with Alimentana S.A. - Maggi  
1962 Findus, Entry into frozen foods  
1971 Merger with Ursina-Franck (Switzerland)  
1974 Entry in the cosmetics area through a significant minority shareholding in the L'Oréal Group  
1977 Entry in the pharmaceuticals area, through Alcon's ophthalmological products  
1978 Acquisition of Cham-bourcy - Yogurts and frozen foods  
1985 Acquisition of Carnation (USA)  
1988 Acquisition of Buitoni-Perugina (Italy)  
1988 Acquisition of Rowantree (GB)  
1992 Acquisition of Ferrer (France)  
1998 Acquisition of Spillers (GB)

### Nestlé Bangladesh Limited

IN Bangladesh, Nestlé started its operation under a joint venture agreement with Transcom in 1992. The factory is located at Sripur which is 55 kilometres away from Dhaka. The commercial production started at the beginning of 1994. Nestlé SA acquired all of the Nestlé Bangladesh Limited's shares owned by Transcom Limited in June 1998. The company produces instant noodles, chocolate beverages and repacks infant nutrition products in Bangladesh. Since 1992, Nestlé has invested Tk. 110 crore in business in Bangladesh. Latifur Rahman is the Chairman of the Board of Directors of Nestlé Bangladesh Limited and Aldo Siegrist is the Managing Director of the company.