

'The Pursuit of Profit Is an Innate Human Trait'

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In an interview with SPIEGEL, Werner Wenning, the CEO of German pharmaceutical giant Bayer, discusses the speculative excesses in the financial markets, the disastrous emphasis on short-term profit and the appropriateness of his multimillion-euro salary.

SPIEGEL: Mr. Wenning, speculative excesses have brought the financial markets to the brink of disaster. The industrialized countries are going into recession, and the reputation of executives is at an all-time low. Is capitalism in a crisis?

Werner Wenning: I'd say that's probably a bit exaggerated. In 1991, when I worked for the Treuhand agency (the government agency that privatized the former East German state-owned enterprises after the Wall came down) for a year, I realized just how inhuman socialism treated citizens. I am not familiar with any better model than the social market economy. It is the most effective system when it comes to meeting society's needs. Still, we should return to its principles.

SPIEGEL: What has been forgotten?

Wenning: We have to rediscover a balanced relationship between the interests of the capital markets and the interests of workers. The capital market seeks to achieve the highest possible return on invested assets. The worker, on the other hand, is interested in job security and fair compensation.

SPIEGEL: Can the two really be reconciled that easily?

Wenning: Those of us working in industry bear little of the blame. We have become more competitive and have done exceedingly well globally. Workers benefit from this; at least at Bayer, they share in the profits. In the financial sector, on the other hand, a number of things went wrong. For a long time, money was too cheap, and it was used irresponsibly. Banks used mathematical methods to develop products that bore no relation to the real economy. They established special-purpose entities that never appeared on any balance sheets. But what was lacking most of all was an agency tasked with supervising the market players.

SPIEGEL: You distinguish between the financial economy and the real economy. But isn't there a common cause behind the crisis -- namely, the fact that managers were too intent on maximizing short-term profits?

Wenning: As I see it, it's too simplistic to blame the current crisis on the supposed greed of executives. Look at the range of groups that invested in risky products: It starts with church organizations and ends with hedge funds. I believe that the pursuit of profit is an innate human

trait. In fact, a little bit of "healthy" greed might also be useful and natural. It goads us and forces us to advance.

SPIEGEL: But the financial crisis is about the fatal consequences of excessive greed and about the expectation of achieving higher and higher returns within shorter and shorter periods of time. Is it even possible for an executive to escape the requirements of a form of capitalism that has in recent years become ever more dependent on the financial markets?

Wenning: I represent a company that is about to turn 146 years old. We are used to looking beyond the present. We spend research money today for products that will enter the market 10 years down the road. That's why sustainability is our top priority and is clearly more important than maximizing our short-term profits.

SPIEGEL: But you have to submit quarterly figures, and you are dependent on the capital markets.

Wenning: But the question is the degree to which you allow yourself to become dependent. We spend €2.8 billion (\$3.6 billion) a year on research and development as well as €1.7 billion (\$2.2 billion) on tangible assets and investments. That makes a total of €4.5 billion (\$5.8 billion) in investments for the future. One could optimize a few things in the short term -- and destroy many things for the long term. That cannot be our business model.

SPIEGEL: In a sense, you embody sustainability yourself. You come from Leverkusen-Opladen (where Bayer is headquartered) and have worked at Bayer for 42 years. The new generation of managers, on the other hand, has studied at elite universities across the globe, are completely geared toward profit, and often only stay with a company for a few years. Do young high-level executives experience culture shock at Bayer?

Wenning: I hope not. But the integration of new employees is an ongoing issue for us. This was especially the case when we reorganized the group more than five years ago. Today, half of our employees have been with us for less than five years. We must make it clear to our new employees what makes Bayer what it is, namely, that the company can only be successful if it does not pay exclusive attention to short-term profit data and if it also pursues long-term goals.

SPIEGEL: Do you even have the freedom to act in a sustainable manner? These days, you aren't dealing with owners in the classic sense any more. Instead, one is faced with either hedge funds that invest in companies merely to break them apart or with gamblers out to make a quick buck.

Wenning: Of course, a hedge fund or two number among our shareholders. And, from quarter to quarter, we also have to prove that we create value. But all of that occurs as part of a long-term strategy, and it's my impression that the majority of our shareholders understand this. One has to come up with arguments to counteract the pressure for constant change that's coming from the capital market. For example, a few years ago, they were saying that farming had no future. But we continued to pursue this business sector, and now that strategy is paying off.

SPIEGEL: How would you feel if a state-run fund of a foreign country started showing an interest in Bayer?

Wenning: The German economy needs investment from abroad -- as long as it is not politically motivated. We welcome anyone who supports the long-term development of our company.

SPIEGEL: Is the stock price even the right measure of a company's success?

Wenning: It's just one measure among many. I am convinced that part of the success of a company is the extent to which its employees profit from its business. People must feel that they are being treated fairly and that their work is worthwhile. This year, the average Bayer employee has received roughly one month's salary in the form of an annual bonus.

SPIEGEL: But your salary is tied to the stock price, not to employee satisfaction.

Wenning: Wrong! My salary for 2007 was €3.3 million (\$4.2 million), of which €1.1 million (\$1.4 million) was fixed. The variable component is not tied to the stock price but, rather, to annual profits. It is computed based on the same criteria as for someone working on the assembly line. If Bayer does well, he or she earns more money -- and I do, too.

SPIEGEL: Are you worth €3.3 million?

Wenning: That's an assessment I will leave up to others -- to the supervisory board and the shareholders.

SPIEGEL: Do you think that the German president's appeal to business executives to exercise moderation is justified?

Wenning: I support the effort. We have to exercise moderation, too, as there have certainly been unacceptable excesses. However, I also believe that work must be worth the effort.

SPIEGEL: But what is the right proportion? You earn about 50 times more than the average employee whose wages are regulated by collective bargaining agreements. Is that fair?

Wenning: The key criterion for me is that we have a transparent salary structure with clear criteria that everyone can understand. Our compensation model is widely praised for this very reason. The issue is not whether I earn 50 times as much or whether I earn more or less than that. It's really irrelevant. At any rate, I have not heard any criticism of my compensation in meetings with shareholders or employees.

SPIEGEL: Perhaps they have just gotten used to the lunacy.

Wenning: Oh, come on! I don't see why this should be considered lunacy when everyone shares in the profits. The employees have their share, and management has its share.

SPIEGEL: Why has the reputation of executives suffered so much recently?

Wenning: There have been isolated cases...

SPIEGEL: ... like that of former Deutsche Post CEO Klaus Zumwinkel, who has been accused of tax evasion, and former Siemens CEO Heinrich von Pierer, who failed to put a stop to a bribery system.

Wenning: These are accusations that should not be levelled across the board. Still, I do think that we need to have a discussion about values. We have to put the focus back on people. And we have to explain what we do and why we do it. We have to be transparent; these are important requirements.

SPIEGEL: This certainly also applies to overcoming the global financial crisis that we're now in. Should the government play a significantly larger role in the process?

Wenning: We should be very careful about that. The government has the monopoly on imposing order. It sets the rules. It must find a suitable regulatory framework that builds on lessons learned over the last 12 months. For instance, it has to ensure that financial transactions take place in regulated markets rather than in the Cayman Islands. At the same time, we really shouldn't overestimate the abilities of government. It is certainly not capable of managing financial institutions more effectively. And it cannot succumb to the temptation to intervene in business models in a significant way by means of regulation.

SPIEGEL: Has the political establishment properly reacted to the financial crisis so far?

Wenning: What the chancellor and the finance minister did was important and fundamental. The political establishment has demonstrated that it is certainly capable of coping with crises.

SPIEGEL: Almost every day, the two are forced to answer questions in public. In the meantime, executives and business groups have been avoiding the limelight. Why are we hearing so little from them?

Wenning: Well, here I am talking to you. But I would also like to see business groups articulating themselves in a stronger way.

SPIEGEL: Would you expect some bankers to apologize or even admit to having made mistakes?

Wenning: I don't want to judge the behavior of others. It certainly wouldn't be a bad idea for everyone to think about how this situation came about and where improvements could be made. That would be good for everyone.

SPIEGEL: What lessons should we draw from the crisis?

Wenning: We need different incentive systems that are tied to substantive success. We also need stronger regulations because global markets need global regulation. And we should be careful not to use the protective shield over the banking sector to preserve structures like the state-owned Landesbank sector. Instead, we should take advantage of the opportunity to break it up.

Interview conducted by Alexander Jung and Armin Mahler

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