
Roland Berger: Rating Europe



By Peter Dolle

The founder of one of the world's top consultancies reflects on German unification, the European economy and the need for a European rating agency.

Roland Berger can call this his baby, although he's quick to point out that his consultancy merely inspired the creation of the European Rating Agency. After a year of hard work, he and his staff at Roland Berger Strategy Consultants succeeded in rallying financial support for their idea of "a global rating agency of European origin".

"As an intellectual contribution to the debate of this ratings situation worldwide and of the oligopoly or the monopoly of the three American rating agencies, there was the political debate whether the competition in the rating agency market shouldn't be more intense," Berger told INSEAD Knowledge in Berlin recently. "And we agreed to this, first of all." The agency will have the legal form of an independent foundation.

Selling the idea to European investors may have received tacit support from U.S. agencies themselves: Over the past four months, Standard & Poor's, Moody's and Fitch have downgraded nearly a dozen Eurozone countries despite the introduction of bigger EU/IMF rescue packages, guarantees and

austerity measures. The U.S. agencies are painted as ruinous in the national press of many EU countries.

Berger and most EU leaders are critical of the credit rating model practised by the U.S. agencies. The new European approach says Berger, “avoids the necessary conflict of interest – if you rate a product and are paid by the manufacturer.” He adds, “Our proposal is a different business model where the customer pays the ratings because he has an interest in an objective judgment. So I think the model is good. It has a future.”

Euro crisis continues to divide Europe

Berger is a born-tactician and has spent the last half-century guiding top executives and government leaders through numerous recessions and the global transition to the information age. He has heard the inside stories – the deal making, the hefty promises to shareholders and constituents. Former German chancellor Gerhard Schröder is his personal friend. (Editor’s note: press reports say the Spanish government has hired Roland Berger Strategy Consultants and the U.S. strategists Oliver Wyman to conduct independent stress tests of the country’s banking system. Berger Strategy Consultants did not deny the report.)

Berger also senses the fear, frustration and helplessness now plaguing European businesses. He’s also concerned about the direction of the EU. He believes closer German-French relations are crucial for European integration and would like to see consistency in economic policy. “I think it would be a mess if the new French president would question all the agreements which were found until now among all the euro member states and among the new member states,” he says. “So I hope that the new French president will stick to the commitments – particularly the commitments for the Fiscal Compact...”

The Fiscal Compact was signed by most EU members in March 2012 and requires signatories to adopt a balanced budget law. Countries in violation of the Fiscal Compact would face fines; and only countries that adopt such a law can seek rescue funds from the European Stability Mechanism. The goal is closer fiscal union.

But a growing number of EU leaders – including the new French Socialist president, Francois Hollande – now want more economic stimulus and less

austerity. In essence, they want a softer Fiscal Compact than the agreement promoted by the Conservative German chancellor Angela Merkel and former French president Nicolas Sarkozy.

Economic growth in the 27 nation EU is forecast to shrink to zero this year, and contract slightly in the 17 member Eurozone, according to Eurostat. Berger is honest about the bleak outlook: "I think we have to accept slower growth in Europe for the next five to seven years," says Berger. "It will be a bumpy road, also due to the sovereign debt crisis - due to the uncertainties around the euro." On the upside, however, Berger believes Europe will emerge from the crisis stronger and more united politically.

The euro crisis has been a poison pill for the EU. It has divided the continent and created an air of uncertainty. Small and medium-sized businesses find it difficult to secure credit - a negative development that makes them less competitive globally. Despite this, Berger gives German managers high marks: "I think German managers are very international. They're very innovative; they know how to deal with people issues, which is important nowadays. They're very much customer-focused and service-focused. They are a pretty good mix between strategic thinking and operation competence, which is not the case in other countries."

Global consulting from a German base

Berger founded Roland Berger Strategy Consultants in Munich 45 years ago and currently serves as honorary chairman. He is 74, quick witted, and youthful. He picks throughout the day from a large plate of sliced fruit on his desk.

Roland Berger Strategy Consultants focuses on restructuring, marketing and strategy, and also prepares independent economic reports on specific countries and industries. It is the world's 5th largest consultancy, with 47 offices in 35 countries, 2,500 workers and 200 partners. Berger credits his success to hard work, good analysis and "crazy, innovative ideas", as he describes them. In analysing his global operation, he says: "I've shown as an entrepreneur to be capable not only to invent things but to implement things and to make things happen. This, of course, has created over time trust with our clients - vis-à-vis Roland Berger Strategy Consultants, myself and my partners - and this has helped to develop the firm to the status where we are now."

Berger does not believe the financial crisis has affected his business much. “The business model is still to create value for our clients and to get paid by time fee or project fee basis and not on success fee basis because I think success fee basis is against the objectivity which is required for a consultant.”

Berger’s office in Berlin is lined with photos of the opening of the Wall and German unification – two events which have accelerated European integration. Asked whether German unification has lived up to its promises, Berger said: “I would say politically yes, because it has brought freedom, democracy, free-market economy not only to the ex-GDR but also to the rest of the ex-Soviet empire – Poland, Romania and other countries. ...On the other hand, there are still some bumpy roads to go to achieve the same level of wealth and economic well-being in the eastern part of Germany and more so in the ex-members of the COMECON. But we have seen during the last crisis that Poland is doing quite well. So I think altogether it was a very, very positive event.”

Roland Berger is a member of INSEAD’s Advisory Council. The Roland Berger Strategy Consultants sponsors an endowed chair at INSEAD: The Roland Berger Chair of Business and Technology.

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