

# Leadership

## COVID-19 An Industrial Evolution?

CEO Interview with  
Arndt G. Kirchhoff

By  
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**Amrop**

Leaders For What's Next

# COVID-19 | An Industrial Evolution?

## CEO Interview with Arndt G. Kirchhoff

In a new world marked by COVID-19, industry is facing unprecedented pressure from all sides to maintain production, job stability and wealth creation. Politically and socially that pressure often takes on a protectionist, national focus. But for some leaders this is the moment to reinforce the progress made by globalization in recent decades.

KIRCHHOFF is a family-owned multinational founded in 18th century Germany, whose business, with 13 000 employees, is spread across 60 production plants and facilities in 5 continents and 21 countries. KIRCHHOFF Automotive, its largest business unit, is a world-leading supplier of the vehicle manufacturing industries.

Amrop spoke with CEO Arndt G. Kirchhoff about his practical and optimistic perspective on productive life during and after lockdown.

After studying industrial engineering and mechanical engineering at TU Darmstadt, Arndt Günter Kirchhoff headed central order processing at Deutsche Babcock Werke AG, before becoming Managing Partner of the KIRCHHOFF Group in 1990.



Mr. Kirchhoff is President of the State Association of Business Associations North Rhine-Westphalia (entrepreneurs nrw), the leading organization of the state's economy, and President and Negotiator of the region's Association of the Metal and Electrical Industry (METALL NRW).

He represents these two associations at federal level, as Vice-President of the Federal Association of German Employers' Associations (BDA), as a member of the Executive Committee of the Federal Association of German Industry (BDI) and as Vice-President of Gesamtmetall.

Arndt G. Kirchhoff is also President of the Cologne Institute of Economics and Vice-President of the Association of the German Automotive Industry (VDA).



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## Key Messages

1

### Don't lose sight of pre-Covid agendas

The Lisbon treaty, with its emphasis on sustained growth and jobs, as well as important sustainability and digital agendas, were all in intensive development pre-crisis. As fundamentals for a strong future, it is essential to pursue these agendas, post-Covid.

2

### Maintain your business philosophy and values at all costs

KIRCHHOFF is a strongly values-driven organization with global standards for employees and management systems. Whilst respecting local cultures, these enduring values will continue to apply across all of the organization's global locations, sown and cultivated via discussion and training. As a global player, Kirchhoff's value system also dictates its health and safety standards in its operating locations. Divergencies, such as child labor, do not fit in the frame.

3

### Given its socio-economic benefits, globalization will intensify

KIRCHHOFF was founded in 1785, and as an active participant in globalization has witnessed the positive effects first hand. The first and second globalization phases (from 1880 to 1910, and over the past 30 years, respectively) were instrumental in lifting hundreds of millions of people out of hunger and into education. Given the impact on buying power and an expanding middle class, globalization, (with the exception of some large outliers), is firmly set to continue.

4

### The German automotive engine is still (softly) humming

Supply chains have been kept open during the crisis — essential for an industrialized nation such as Germany, that imports around 70% of its components and raw materials from other European countries. Should one border close, the whole supply chain is compromised. Even if supply chains have been kept running, it may well be a challenge to restore capacity after a dramatic drop.



**5**

### **A diverse portfolio and customer base support business immunity**

Despite a dramatic drop in production levels, KIRCHHOFF has continued to supply component divisions for a variety of manufacturing types, in a wide spectrum of countries including China. It is in part thanks to this diversity that demand and supply has been maintained throughout the pandemic.

**6**

### **Post-Covid production scenarios differ dramatically**

In one scenario, consumer caution may keep demand at 50% pre-pandemic levels. In a diametrically opposed scenario, a release of pent-up demand due to underspend may swing the pendulum in exactly the opposite direction. It will be necessary to plan — and budget - for both.

**7**

### **Virtual technology will intensify, but not replace the face-to-face**

The next phase of industrial life will involve an increase in virtual technology — however face-to-face meetings have distinct social benefits and will need to be part of the mix.

**8**

### **The pandemic will only confirm the drive to re-organize supply chains**

Sustainability and climate change were already top of mind pre-Covid. Europe, a region with few raw materials, may need to re-think the current levels of transportation. Global cooperation is, however, the way forward in terms of job and wealth creation. Opportunities exist for the EU to invest in weaker economies, and increase its competitiveness with the US and Asia.

**9**

### **Some companies are quietly well-positioned to ride out the storm**

The favorable economic weather over the past years has allowed forward looking companies to build up high liquidity in preparation for a downturn. KIRCHHOFF is one example. Its resultant financial strength is even enabling it to support more vulnerable suppliers at the current time.

**10**

### **Globalization will continue to drive a talent strategy without borders**

The company's strategy to operate in multiple geographical locations will be reinforced by intensifying globalization. And it will translate into an ever more international workforce. Key executive roles can easily be occupied in markets at the other side of the world.

**Read on for the full interview**

# COVID-19 | An Industrial Evolution?

## Full Interview with Arndt D. Kirchhoff

Since the beginning of March we have seen the COVID19 pandemic have a huge impact on industry. As an Executive Committee Member of the Federal Association of German Industry, how do you see industry standing now?

Of course we are all in the same difficult situation, everyone is affected by the coronavirus. The problem is the same for all of us: we don't have enough knowledge to predict the future. How we can all get back to work is something we discuss daily with national and local governments. Of course, priority number one is that we protect our healthcare system, but priority number two is to get various business sectors working again because people also become sick if they fear for their jobs.

Industry in Germany — and Europe - runs on frameworks like the Lisbon Treaty which says we must do everything we can to create growth and jobs. Over time, we developed individual agendas for companies and societies to align themselves within those goals. What we did before the coronavirus period was develop sustainability strategies, which was partly connected to the climate debate and a CO<sub>2</sub> emission strategy, and partly to do with sustaining the health of the company in the longer term. But we also had in mind changes that were happening in the population — nowadays if you want to attract good people, and be an attractive employer, you need to have a good long-term sustainable outlook. If not then you will not be as an attractive employer as your competitors.

In recent years we've been in a good place in terms of transformation, with our digital agenda and digitization. And so I think we had a good basis for running our company into the future. And of course we believe everything depends on the people you have with you at the company.

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## How have things been organized differently since the start of coronavirus?

Of course the pandemic will now be reflected in our sustainability strategies and in our supply chain strategies. We don't have many models to work from at the moment, outside of South Korea and China. In those countries the shutdown of 6 to 8 weeks was effective, up until now, for bringing the spread of the virus under control. We hope that something similar in Germany will work too.

It's important to bear in mind that many industries here in Germany have not stopped — our company has never stopped. Of course we produced only a very low level because our customers are in the automotive industry, and they shut down all of their car plants in Europe as well as in America. But we kept on working because our customers are running component divisions for a variety of different types of manufacturing, so we kept on producing for them, and for customers in China.

As China starts to open up again we're still able to supply them. So we kept our production alive while of course introducing all the new protocols necessary to protect our workforce, in terms of social distancing and hygiene. And up to now we've had a good experience of introducing these new health and safety measures in multilingual environments in our many production facilities around the world. We have been so efficient and clinical introducing these new measures that our plants in Turin in Italy, in Portugal, and other parts of the world, have already reopened and are producing again.

So that's production, but another thing we've been discussing with national leaders and the European commission are the new conditions necessary for our supply chains, because we import around 70% of our components and raw materials from other European countries. We are very much connected to all the other parts of Europe so we need to open all of our borders.

It only takes the border between two European countries to be closed and the supply chain will not work anymore. And from many parts of our industry we have a single source supplier, meaning that the supplier cannot be replaced. So it's essential for the smoothest continuation of our supply chain that the borders stay open. Admittedly things can get complicated if an aircraft pilot or a truck driver has to be quarantined, but so far we've kept our supply chains flowing. Yes we are working at quite a low-level of capacity at the moment, 15 - 20%, so things could be more of a challenge in the future as we increase capacity again.

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### **When can you see production returning to some kind of normality?**

You can only work with scenarios. One scenario is that the consumer in the next period will be very shy, and demand will be at merely 50% of what it was before the pandemic. There's also the scenario of a consumer feeling that they have surplus cash, since he hasn't really spent any recently, and this could produce a boost to spending. There are many possible scenarios, and we're working on a best guess.

### **You are Vice-president of the Federal Association of German Employers' Associations, so I know you are mindful of the impact lockdown measures have had on employees. As the lockdown is eased, do you imagine that some of the restrictions currently in place may have to be extended?**

Hopefully not. Because that would be a disaster. It's not a problem that we have social distancing at the moment. When you see people coming back to work they have a smile on their faces, they're excited to be getting back to a more normal level of production. Everyone is being supportive of the measures because everybody is aware that the Covid-19 situation is not yet under control. As the schools start to reopen, and closer social activity starts again we have to wait and see whether there is a resurgence of the virus. We know from all the steps that we take with the workforce, taking people's temperatures etc., that you don't see immediate effects on the health of people of social distancing measures — there's a time lag of 10 days to several weeks.

### **Which organizations do you think are strong enough to emerge strongly from this period — I imagine you think yours will?**

So far the only thing that has completely stopped is the travel industry. Of course much of what we do is continuing as normal because we are doing meetings remotely and virtually. Personally I think we need to get back to face-to-face meetings as soon as possible for the social benefits of that. But I can imagine the next phase of industrial life using a lot more virtual technology than was the case before the pandemic. And as we are all becoming accustomed to communicating in these new digital ways, it will I think help to speed up processes.

We will not change our basic business philosophies. Our organization is value-driven throughout the world and that will not change. We have a single basic standard for all our employees around the world, and we will not change it. And I think that's widely appreciated. We're not going to change any of our management systems. We will of course now revisit our budgets.

We will not change our basic business philosophies. Our organization is value-driven throughout the world and that will not change.



## Do you see any big changes coming in the way executive jobs are structured in the future?

No. We will continue with our sustainability agenda, and we will push for even greater globalization, because everybody knows even better now how important open borders are for industry and for growth and jobs. Coming back to the Lisbon Treaty, the focus that we work on with politicians is deeper globalization — we had a first phase of this between 1880 and 1910, which our company being quite old participated in, including my great grandfather who was head of the company at that time. Now in the second phase of globalization, over the last 30 years, hundreds of millions of people got themselves out of hunger and became educated. These people get jobs, buy goods and expand the middle-class.

It's true that lately, we've seen a rise in protectionist policies, especially coming from the United States, China and Turkey, making it more difficult to achieve free trade agreements. But globalization will not stop. I think the pandemic period will help us to bring into even better focus the advantages of globalization. (Arndt G. Kirchhoff is President of the Cologne Institute of Economics)

## What advice would your great-grandfather give you now for getting through this period?

To be patient. There are more than enough people around who tend to panic. And to make the best of the situation.

## In one of your several leadership roles you are Vice-President of the Association of the German Automotive Industry. What do you see being different in the business world after the pandemic?

The pandemic will induce us to rearrange our supply chains. But there are other reasons to do this, of course:

Reason number one is sustainability and climate change, and here we come to the issue of raw materials. Here in Europe we have very little in the way of raw materials, so in the post Covid-19 world, with pressure on everyone to produce less and less CO<sub>2</sub>, we will revisit the way we do everything from the logistics point of view — is it necessary that we transport everything around the world or is there a better setup? We're studying this, but we know that when we work together globally on an issue like this, it's better for jobs and building up wealth.

We have a new European Commission that's having to adapt its policies to the new conditions and I think the EU is pulling together well, with schemes like the stability mechanism. This is an opportunity for Europe to invest in helping weaker economies to catch up, and for Europe to restructure and make itself more competitive with the US and Asia.

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### **Is your company in a comfortable position to ride out this storm?**

We are quite stable, and we have high liquidity, which is something we organized three or four years ago because we could see that the boom we were in then would one day come to an end. So it turns out we didn't need it for the downturn but we can use it now. Sometimes our suppliers come to us and ask for our support, sometimes we can help them or take over that supplier if necessary.

There is an old strategy that we also look to — seeing how our competitors are doing, these could be in materials, processes, horizontal, vertical, watching all of these and seeing how we can improve the basis of our business.

### **Do you think the pandemic experience will lead to a reinforcement of the values that make countries and peoples feel closer to each other, or do you think suspicion and nationalism could result?**

We are really in favor of creating a better world, so what you could call "sameness". But of course in business circles we discuss our values, and it is extremely important that we have common values. We have production plants in more than 60 countries, but across all of those we have common values, and everybody who joins us gets a special training in these. They are the western standard. We accept different cultures of course, but we want to have the same values. This is basic for business. We experience that all our actions are value driven — we do not buy materials from companies where we know there are children working; we also applied these high standards to health and safety in our plants around the world, and I think this is helping to make a better world. And we will not stop trying to convince the American president that it would be better for the world and for Americans as well to keep the borders open.

### **Some companies will be seriously weakened by the drop in business activity during the pandemic — how do you think it should be decided which companies should get support and which should be allowed to fail?**

We as business owners in Germany are not in favor of the state taking a stake in companies. We don't believe that the state is a better entrepreneur.

But what about the people? With continuing globalization we avoid putting all our eggs in one basket, and you need people who are more and more international. For example our HR executive is in Toronto, not in Germany, and he's very well able to drive our HR organization, with recruitment and development, and all the standards that you know about. This can all be very well handled out of Toronto. This is important to harmonize the workforce and common understanding of values, of necessities, and of the business. We already have a long tradition in the metal industries in Germany of having a colorful workforce, inviting people from around the world to come here and help us — more than 50% of our workforce is non-German. We have values which help the development of the individual and help profitability.

This is how we generate fun, and fun is a main driver for us. That's true whether there's the coronavirus around or not.

*Interview facilitated with the support of Ulrich Beckendorff,  
Managing Partner of Amrop in Germany.*



## About Amrop

With over 70 offices in all world regions, Amrop is a trusted advisor in Executive Search, Board and Leadership Services.

Amrop advises the world's most dynamic organizations on finding and positioning Leaders For What's Next: top talent, adept at working across borders in markets around the world.

Amrop's mission: shaping sustainable success through inspiring leaders.

## The Amrop global Industrial Practice

Amrop's Industrial Practice is configured to anticipate and respond to the talent acquisition needs of globalizing organizations in the following sub-sectors:

**Automotive:** OEM (Manufacturers), OES (1st and 2nd tier suppliers, specialists), Distribution (importers, wholesale, retail, OEM and independent) Services (consulting, engineering, IT, marketing etc.).

**Industrial basic materials:** (steel and aluminum, plastics) to agricultural machines, machine tools, packaging, plant and engineering, aerospace, marine and power generation and beyond.

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## About KIRCHHOFF Automotive

KIRCHHOFF Automotive, a family-owned company, was established in 1785 in Germany.

It is the largest business unit in the KIRCHHOFF Group, which has 60 production plants and facilities in 5 continents and 21 countries.

As a global player, the company offers complex body components to the automotive industry on the continents of Europe, Asia, and North America, in a cost-optimal logistics chain.

The company's global production network includes the core technologies of forming, CNC wing bending, joining, lightweight design, and surface treatment, ensuring uniform manufacturing and production standards around the world.

It operates a logistical chain optimized for cost means; products such as crash management systems, front-end frames, and cross members are assembled into complete components at JIT plants located in the immediate vicinity of its customers.

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