The battle for Mannesmann: the background to Germany's first hostile take-over

Peter Schwarz
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The attempt by the British mobile telephone company Vodafone AirTouch to take over the Düsseldorf-based Mannesmann concern against the wishes of the company executive has provoked a big reaction in Germany.

Leading SPD politicians, including German Chancellor Schröder and the Minister President of the state of North Rhine Westphalia, Wolfgang Clement, spoke against the hostile take-over. Schröder stated that he was “very disturbed” by the methods employed by Vodafone. With identifiable German nationalist undertones, Clement declared that Mannesmann should not become the “filial of a London company”.

Similar statements came from politicians on the opposition bank. For the liberal Free Democratic Party (FDP), Wolfgang Gerhardt warned against a “dangerous concentration of power” at the expense of the consumer and competitiveness. Jürgen Rüttgers, Clements CDU rival in forthcoming state elections in North Rhine Westphalia, stated that it could not be tolerated that "a company is broken up and thousands of jobs destroyed merely to ensure short-term profits for international investors”.

Even Hans Peter Stihl, the president of the German Chamber for Trade and Industry, demanded a law to prevent "thoroughly fit, competitively successful enterprises from being misappropriated with parts of the company being disposed of to those who offer most”.

Employees of Mannesmann demonstrated against the take-over on Monday. On Tuesday over 1,000 union representatives from the concern in Düsseldorf met to discuss further action. Klaus Zwickel, the chairman of the IG Metall trade union who personally sits on the executive of Mannesmann, angrily declared, “European business culture, characterised by joint consultation [with the unions], must not be destroyed by hostile take-overs.”

In Britain the German protests were seen as an expression of “nationalism, populism and plain intimidation”, according to the *Times*. On the fringes of a meeting in Florence, British Prime Minister Tony Blair reportedly called upon his German colleague Schröder to tone down his comments.

In fact, the public statements of anger on the part of politicians and trade unionists contain a substantial dose of hypocrisy. The battle over Mannesmann is not a struggle over “European business culture” and certainly not about the defence of jobs. It is purely and simply a conflict over which company will play the leading role in the European telephone market.

While Vodafone's attack on Mannesmannn is the biggest take-over battle in industrial history, it is nevertheless part of a development which has been actively supported and promoted by the very same politicians who are now protesting so loudly. In this respect the behaviour of Vodafone in Germany is no different from that of German companies abroad.

The deregulation of spheres of the economy, which up until now fell strictly under either state control or constituted a state monopoly—such as telecommunications, energy supply, etc.—has resulted in a veritable boom in international take-overs and mergers. Since 1992 the volume of world-wide mergers has increased almost six-fold. Alone in the third quarter of this year the sum involved in company mergers amounted to $780 billion, nearly 50 percent more than at the beginning of the year.

In light of these figures the 242 billion DM ($129 billion) offered by Vodafone for Mannesmann is a gigantic sum, but by no means out of the ordinary. Last year the American telecommunications company MCI Worldcom swallowed its competitor Sprint for nearly the same sum—$127 billion. The offer by Vodafone is purely in the form of share compensation for shareholders, no cash is on offer.

Because of its enormous rate of growth, telecommunications are regarded as a particularly attractive option for take-overs. New technology—such as the Internet and mobile telephones—have developed out of nothing into industries with profits in the billions, and there appears to be no end in sight. In this case the old adage seems especially applicable: size means power. The bigger the company the greater the cost advantages.

Vodafone head Chris Gent, former chairman of the British Young Conservatives, is striving to dominate the market in mobile communications. In January, Vodafone bought AirTouch, the biggest mobile telephone supplier in the United States, for $65 billion. This meant that the new company possessed over 30 million customers in 23 countries. Following a successful take-over of Mannesmann this figure will rise to 42 million customers. This, according to chairman Gent, would be “a unique chance for Europe to take over the leading role world-wide in a high technology branch of industry”.

Mannesmann head Klaus Esser is pursuing the same aim, albeit with a different strategy. That is why the nationalist undertones of politicians and trade unionists are an embarrassment for him. “At the moment national pathos is no help to us," he told the *Spiegel* magazine. “This does not correspond to the strategy of Mannesmann. We are building a pan-European company with the focus on European customers and markets—and we are battling at present for the trust of international investors."

This year Mannesmann bought up the third biggest British mobile phone supplier, Orange, and—as Esser declared with a degree of satisfaction in his *Spiegel* interview—thereby "disrupted Vodafone's extensive plans to acquire market leadership in Europe." From the standpoint of Vodafone it is now logical that the company go on the offensive against Mannesmann.

In his campaign against the take-over Esser is banking on being able to offer the shareholders better prospects for growth and profits: "There is only one conclusion for the Mannesmann shareholders: give the company a little time and it will assume an unconquerable leading place in Europe."

Originally Mannesmann was a concern concentrating on steel production and was known above all for its seamless tubing. Today just 12,000 of the company's total workforce of 116,000 are employed in the production of steel tubing, and this branch makes barely any profit. Employment in the telecommunications branch is just a little higher, at 14,000, but telecommunications accounts for a quarter of the company's turnover and 70 percent of company profits. The rest of the workforce, around 45,000, is employed in machine and auto production.

Should the take-over succeed Vodafone intends to get rid of the subsidiary branches and use the resulting proceeds to recover some of the buy-out expenditures. There can be no doubt that the process would result in the loss of thousands of jobs.

But Mannesmann chief Esser has the same plan to retain the lucrative telecommunications segment and sell the rest. The company's executive committee has already given approval for such a division of the concern. As part of the plan to rebuff the Vodafone bid, this plan is now to be prioritised and concluded by the middle of next year. "The small turbo mechanism of splitting the company," Esser revealed in his *Spiegel* interview, will "bring a substantial increase in the value of the enterprise."

Contrary to Vodafone, which seeks to concentrate on mobile telephones, Esser favours an integrated strategy for telecommunications. Together with mobiles he wants to develop operations in traditional cable communication, as well as Internet and broadband communication, in the long term integrating the different components. Because it is reckoned that the market for mobile phones will soon reach its limit, Esser promises greater possibilities of growth in the long term with his strategy.

In the struggle against Vodafone Esser can rely on the full support of the IG Metall trade union. The union is acting to divert the justified concerns of employees over the threat to jobs into a campaign in favour of the German board of directors. Following a meeting in Frankfurt, the chairman of the company's shop stewards committee, Jürgen Ladberg, and the chairman of IG Metall, Klaus Zwickel, praised Esser's company plan and called upon the executive to "quickly develop the changes in structure that are already under way".

In other words, the union favours an accelerated division of the company, although this would undoubtedly lead to the closure of unprofitable parts of the concern. In fact, Zwickel's stand comes as no big surprise—as deputy chairman of the Mannesmann executive board he has for years supported the destruction of steel jobs by the company.

Objections on the part of politicians to the Vodafone take-over bid are equally deceitful.

On the one hand, what emerges is the fear that foreign concerns will increase their influence in the German economy. While in the past German companies were especially active in the purchase of foreign firms, the reverse has not applied. German banks, with their intricate mesh of company shares and executive mandates, have also ensured that the parent company in Germany retained overall control of the enterprise, even when the majority of shares were in foreign hands (as is the case with Mannesmann). In addition, German corporate law gives small shareholders proportionally extensive rights—thus making take-overs by foreign companies especially difficult. Should Vodafone be successful it would be the first hostile take-over of a German company.

On the other hand, the SPD-Green government fears it could lose any remaining credibility in the wake of the billion-dollar poker game involved in the take-over. The government has always maintained that adaptation to the economic demands of globalisation were compatible with social fairness; this was the significance of its own slogan "Initiative and Fairness".

The electorate, however, has experienced quite the opposite. The brutal battle for Mannesmann—together with the bankruptcy of the Phillip-Holzmann Building company—serves to deliver a further blow to illusions in a capitalism compatible with collaboration between diverse social interests. In Germany this worker-management co-operation has been termed "Rhine consensus politics". Now the *Spiegel* magazine comments: "Rhine consensus politics has collided with the brutal mores of the US market economy."

In the meantime there are indications that a deal is being worked out which would allow everybody to save face: a voluntary merger, a so-called *merger of equals*, instead of a hostile take-over. Mannesmann and Vodafone would then unite their operations in a joint, newly founded company. According to a report in the *Süddeutschen Zeitung*, Mannesmann head Esser and Vodafone chief Gent are prepared to consider this option. For the company employees, however, the result would remain the same.