Britain's Vodafone swallows Germany's Mannesmann

Telecom take-over has far reaching social consequences

Peter Schwarz
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"Fortress Germany falls", "the end of Rhenish capitalism" and "twilight of the gods for Germany Inc." read the headlines with which the German press commented on the take-over of Mannesmann by the British mobile telephone enterprise Vodafone.

Indeed, the take-over of this long-established German enterprise is not only the largest and probably most expensive merger in recent economic history, it also has major social consequences. It strikes a blow against a form of capitalism in which traditional structures have evolved over a long period of time: now social partnership and long-term strategies must yield to the short-term interests of the big shareholders.

"Rhenish capitalism becomes more Anglo-Saxon, and thus more unpleasant," was how the *Süddeutsche Zeitung* summed up the event. "Businesses will be less under the control of their supervisory boards and the banks, and more directly determined by the capital market; the voices of politicians and workers' delegates will be diminished, those of fund managers and analysts amplified. For company executives, hectic times have set in."

The take-over was confirmed February 4, when the board of directors and the supervisory board of Mannesmann capitulated after a two-month battle to fend off a hostile bid from Vodafone, advising shareholders to exchange their shares for those of the British-based firm. Vodafone is financing the take-over of Mannesmann by using its own shares to a total value of approximately $185 billion—an international record. The merged enterprise will have a total value of $350 billion and will be the fourth largest company in the world, behind US companies Microsoft, General Electric and Cisco.

These figures only refer to the company's value on the stock market, which can change very rapidly, as is well known. Based on the number of employees (some 27,000 when Mannesmann sheds its engineering and auto branches, as planned), on turnover ($10 billion) and on profits ($2 billion) there are many companies that are substantially larger. For example, the chemical conglomerate Bayer employs almost five times as many workers world-wide, has three times the turnover and one-and-a-half times the profits of the merged telecom company. But with a stock market valuation of $30 billion, it is worth not even a tenth of the share value of the newly merged firm.

During the take-over battle the stock quotations of both enterprises rose so that an investor would have to wait several hundred years to finance the purchase price of the shares from the present level of profits. The high stock valuation is exclusively based on expectations that the company's shares will continue to rise. That presupposes that the fused business will continue to expand. Experts assume that further take-overs will occur, and that Vodafone's competitors will also merge. It is anticipated that in few years the lucrative and rapidly expanding telecommunications market will be controlled by only five to ten enterprises world-wide.

Estimates are that Mannesmann and Vodafone together spent some $1 billion on advertisement and consultation fees during the take-over battle. This sum corresponds to what 280,000 people on social security in Berlin would receive in six months. The disputed $5 billion for the compensation fund for World War II forced labourers, which in any event is largely composed of tax proceeds, looks ridiculously small in view of this sum.

At first sight this enormous expenditure on advertising appears nonsensical, since it is the large investors—the investment funds, financial houses and pension fund managers—who decide on the take-over. They make their decisions based on economic data, not advertising slogans, pictures of yuppies, babies and naked bosoms, as appeared day after day in full-page ads in all German newspapers.

The fact that Mannesmann boss Klaus Esser and Vodafone boss Chris Gent (chairman of the Young Conservatives under Thatcher) nevertheless decided on this expensive campaign shows that they are quite aware of their role as political pioneers. It was a matter of overcoming the widespread resistance in German public opinion to American-style shareholder capitalism.

When Vodafone announced its intention of taking over Mannesmann last November, it aroused a large amount of political protest. Amongst others, Federal Chancellor Gerhard Schroeder and Wolfgang Clement (Prime Minister of North-Rhine Westphalia) expressed their unease over Vodafone's methods. These protests have since disappeared. Both Schroeder and Clement have now welcomed the agreement between the two erstwhile opponents.

The German federal government's tax policy is designed to smooth the way for more take-overs and mergers of this sort, which will ultimately lead to a transformation in Germany's industrial landscape. Tax exemptions on profits from the sale of holdings in joint-stock companies, announced recently by Finance Minister Hans Eichel, exceeded the expectations within business circles and unleashed wide rejoicing among Germany's economic elite.

Henning Schulte-Noelle, chief of the insurance giant Allianz and one of the most influential German managers, recently told the *Süddeutsche Zeitung* his company would now begin an "active restructuring" of its multibillion-mark holdings. For years, insurance companies and banks had kept their holdings because selling them would have incurred high taxes. With the tax exemption in place, this can now be decided "exclusively on the basis of business criteria".

The trade union IG Metall, which had initially organised demonstrations against the Mannesmann take-over, has quickly given way. They expressed their satisfaction with the assurances of Vodafone's boss Chris Gent that there would be no job losses at Mannesmann. In return, Gent said their response expressed a "constructive attitude".

Apart from nationalist-tinged slogans, the IG Metall does not have a response to the social consequences of globalisation. As long as Mannesmann endeavoured to repel the take-over by Vodafone, the union fully supported company head Klaus Esser and channelled the justified fears of the workforce behind the German company's executive board. Once Esser gave way, the union adapted to the new situation—as it always does. Globalisation pulls the rug from the methods of social partnership with which the unions previously upheld German capitalism's policy of social equilibrium.