Merger of Deutsche Bank and Dresdner Bank fails

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Barely one month after announcing their agreement to form the largest bank in the world, negotiations for a merger between the Deutsche Bank and the Dresdner Bank failed on April 5.

In economic and political circles, the planned merger had been celebrated as Germany's advance into the premier league of the international financial markets. There was great concern and malice when the failure of the merger became known. "A disaster for Germany as a financial centre," read the headlines, or as the tabloid *Bild* put it, "the whole world is laughing". The resignation of Rolf-Ernst Breuer, chairman of the Deutsche Bank board, was accused of being a "dilettante and a failure". He had not succeeded in using the singular opportunity to place Germany at the pinnacle of the world's financial markets.

Both banks are now much weakened. They suffered "image damage" in the very area in which they were striving to become world leaders: the consultancy business in mergers, acquisitions and floatations. Customers and employees are all disconcerted and have in part turned their backs on the two banks. Bernhard Walter, chairman of the Dresdner Bank board, and a member of the Deutsche Bank board both resigned.

One month ago, Breuer and Walter had announced a "merger of equals": the union of the two previous competitors should be carried out "by agreement"; areas that overlapped should not be shut down or broken up but merged and integrated. Although they intended a reduction of 16,000 jobs, this was to proceed by "socially acceptable" means. This was insisted upon by both the union representatives on the supervisory board as well as Chancellor Gerhard Schroeder, who had been promptly informed of the planned merger. Schroeder did not want to lose his image as a jobs' saviour, which he had acquired during the bankruptcy of the building company Holzmann.

From the outset, the international investors rejected this concept of a socially acceptable merger. After a short initial rise, the share values of the two institutions slumped by almost 30 percent. Banking analysts, on whose assessments large investors rely, stated that this type of merger would "set free too little synergy". One banking analyst explained that in order to obtain the "large reduction of costs necessary", the Dresdner Bank would have had to go down. The reduction of 16,000 jobs announced could only have been the start.

Only the shares of the insurance company Allianz AG increased, rising over 20 percent on the first day after news of the agreement to merge. The Allianz had contrived the merger plans and was regarded as the actual winner. It owns a 21.7 percent share in the Dresdner Bank and has wanted to dispose of this for some time in order to concentrate on its own business.

The Allianz is also interested in the retail banking business, which has become unattractive to the banks, in order to utilise these structures to sell their insurance. In the merger plan, it was intended that the Allianz would take a majority holding in the new Bank 24, which would retain the majority of the two banks' smaller customers. A third point concerned asset management. In return for its share of the Dresdner Bank, the Allianz was to receive DWS, the asset management arm of the Deutsche Bank, Germany's market leader with investments of 175 billion marks.

Shareholders of the two banks did not look kindly on the fact that the Allianz was to receive the golden egg without requiring any effort of its own. Right from the start, Breuer came under pressure for the DWS "gift" and could only counter that the operation of Bank 24 would bring "substantial money” back to the institute.

The more negotiations over the merger—which at first had only been roughly discussed in a small circle—turned to the details, the more open the contradictions and differences became. Breuer, who had taken over the direction of the negotiations, increasingly fell between the fronts of the conflicting interests, which were less and less reconcilable.

On the one hand, the pressure from the workforce increased. There were several demonstrations by bank staff as it became increasingly clear that it was mainly Dresdner Bank employees from the branches and central administration who were on the blacklist. The Dresdner Bank's member of the executive committee responsible for personnel questions made clear to Breuer that there could be no further progress in this direction, and that demonstrations in the banking district should be avoided because of the feared image damage.

The boards of directors also lost control concerning the distribution of highly paid jobs in middle management. Many started to look around for new employers offering safer prospects. The dependency of their salary levels on the banks' share value (now sinking) also played a role.

There was a nation-wide outcry by customers after a member of the Dresdner board announced that the merged bank was only interested in customers with over 200,000 marks. Those with less would be transferred to the new Bank 24. Many customers consequently moved their accounts over to the competition.

The main point at issue became the fate of the bank's investment arm, DKB (Dresdner Kleinwort Benson), which the executive committee of the Dresdner Bank did not want to relinquish under any circumstances.

Apart from asset management, investment banking-i.e., the trade with securities and the consultancy business concerning mergers, acquisitions and floatations—forms part of the most profitable business of the financial markets, with high profits arising from the stock market boom and the rapidly increasing wave of mergers. Over 50 percent of bank profits are made within this area. Breuer wanted to position the new bank at the highest place internationally in this sector.

In the preliminary negotiations it had been agreed that DKB would be integrated into the new major bank. But from the outset these considerations encountered resistance in the leading echelons of Deutsche Asset Management, the Deutsche Bank's investment arm, also situated in London.

Deutsche Asset Management had only just integrated London's Morgan Grenfell and the American Bankers Trust, aggressively headhunting whole teams of investment bankers with top salaries. Meanwhile, this division alone now contributed over 60 percent of Deutsche Bank's profits, which in the past year amounted to about 2.6 billion euro. In this area, Deutsche Bank was among the top 10 in the world.

The top people at Deutsche Asset Management were not ready to undertake a new process of integration with DKB. The investment business is driven by expert teams, which concentrate on certain industries or countries. Only in this way is it possible to grow or even survive in this hotly contested market, which serves internationally mobile investors. International comparisons are constantly drawn in this market, so that only those succeed who score above the average, the so-called benchmark.

Moreover, the administration and controlling departments would have almost completely overlapped with the structures of Deutsche Bank, so that almost nobody from DKB could have been taken over into Deutsche Asset Management, which had already developed to be a global player, without losing profits. Among the leading staff, nobody was prepared for a new round of haggling for positions with the people from DKB. There would only have been jobs for some of the expert teams.

"Either Dresdner Kleinwort Benson is completely sold off, or at the most a few hundreds of its 7,500 workforce will be taken over. Another version is out of the question. We will not let our business be ruined," were widespread opinions.

The Deutsche Bank's London investment bankers were not prepared to compromise and used the weight of the share they contributed to the profits to pressure Breuer. After the merger was announced, they immediately dispatched a message via the *Financial Times* that either the DKB was smashed up or sold off. Walter from the Dresdner Bank was not prepared for this, since DKB was considered his "pearl". At a press conference on March 9, Breuer had to publicly assure the distrustful Walter that statements about the sale of DKB were "absolute nonsense" and that this company was a "jewel".

However, Breuer did not succeed in getting the investment bankers onto his side. Their division head Edson Mitchell, one of the most successful investment bankers with an annual salary of over 10 million marks, continued to exert enormous pressure on Breuer via Joseph Ackermann, the division's chief executive. Finally, Breuer capitulated to the pressure of his subordinates. At the last joint session of the two boards of directors on April 5, he placed himself completely on the side of Ackermann, which led to the withdrawal of the Dresdner Bank from the merger negotiations. Made to look foolish by his own staff, the otherwise independent and self-assured Breuer stepped forward with trembling voice to publicly explain the failure of the merger.

The *Financial Times* hit the nail on the head concerning the failed merger when it remarked that Breuer got a bloody nose in the attempt to combine American behaviour with German culture. The conclusion is that those who wish to become "global players" on the international financial markets must adhere to their rules.

It is not possible to force "German culture"—i.e., the traditions of mutually acceptable decisions and social equilibrium, which characterised Germany after the Second World War—onto global capitalism. Global competition leaves no more room for deviations from the profit yardstick.

If some Dresdner Bank staff popped the champagne corks on hearing news that the merger had failed (because they believed to have avoided losing their jobs), they are deluding themselves. The failure of *this* fusion does not mean an end to the wave of mergers, but only that in future they will be carried out more ruthlessly and more brutally.

The pressure of the international financial markets continues to intensify and a whole wave of hostile take-overs will follow. The entire German banking system will be turned upside-down and a previously unknown degree of aggressiveness will feature in the merger and take-over of banks. A member of the Deutsche Bank board of directors said afterwards that following the experiences of the past weeks he would never again agree to a "merger of equals". And a Deutsche Bank investment banker put forward the view that "such a fusion can only be hard and brutal".

Following the failure, rumours immediately began to circulate that different international banks wanted to take over Dresdner Bank, such as Citibank, Chase Manhattan or the Dutch ABN Amro. Despite its recent record profits, announced almost at the same time as the merger failure, the Dresdner Bank remains a candidate for take-over. International analysts assess its yield is too weak, and say that it has no clear strategy and is set up badly. A slice by slice "filleting" of the third biggest German private bank, with only the most profitable parts of the bank being taken over, is now under discussion.

Even the Deutsche Bank was designated a take-over candidate, although in somewhat more restrained language. Gerhard Renner, the union delegate on the Deutsche Bank supervisory board, said: "The game of roulette continues. But nobody knows where the ball will stay.... The wave of mergers in banking continues apace." An expert commented: "Too many finance houses in Germany are sharing too little market.... Anyway, we are only at the start. And after the private banks, the savings banks will soon follow. Also the credit cooperatives face a wave of mergers."

According to trade union information, a third of the 770,000 jobs in German banking are in danger in the immediate future. Former Deutsche Bank director Ulrich Catellieri's famous saying of a decade ago now threatens to come true: "The banks are the steel industry of the 90s."