

Deutsche Telekom to outsource 55,000 jobs

Increased working hours and wage cuts

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According to media reports, the German economy is “humming along” and the number of unemployed sinking. However, such news reports cannot conceal what is behind this “upswing.” At almost the same time as Airbus announced its plans to slash 10,000 jobs, Deutsche Telekom presented its own restructuring measures.

On February 28, Telekom announced it would outsource around 55,000 jobs in a newly formed service organisation. The company, under the name of “T-Service,” is to be a wholly owned subsidiary of Deutsche Telekom and draw its workforce mainly from the Internet operations of the company. Deutsche Telekom simultaneously announced plans to bring budget-price services to the market.

For Telekom employees, this manoeuvre will mean a drastic attack on their working conditions. Working hours will be increased from the current 34.5 hours to 40 or 40.5 hours per week. According to the company, wages will however remain “constant,” meaning a reduction in the hourly wage.

The exact number of employees affected by the scheme is not clear. Various sources, including unnamed company representatives, business figures and the media, have stated a further 25,000 workers will be moved to the new organisation. Those who are not outsourced face restructuring within their existing departments.

On the evening immediately after the announcement, the company’s supervisory board, which includes representatives from the trade unions, approved the plans of company chairman René Obermann in the face of opposition by union and workers’ council representatives. The deciding vote was cast by the supervisory board’s chairman, Klaus Zumwinkel. Within large German companies, this event was highly unusual, as opposing parties usually seek to arrange some sort of compromise.

Thousands of workers reacted to the plan by repeatedly taking to the streets. The service sector union Verdi, in its customary fashion, reacted to the cost-savings plan by

announcing resistance measures and strikes. However, the union’s announcement made abundantly clear that it had no fundamental opposition to the plan and that in the end it was all about both sides making concessions.

The outsourcing is connected to the efforts of the government-controlled but partly privatised company to reassure the market. It is only one part of a wide-ranging plan to reorganise the entire company—that is, to provide the highest rate of return for investors through lower costs.

In 1995, during the wave of privatisations in the 1990s, various parts of the former German Federal Post were converted into public limited companies. One of them was Deutsche Telekom, which remained under the sole ownership of the federal government until its initial public offering on the stock market in the autumn of 1996.

The German government, however, retained strong control over the organisation, holding 32 percent of shares. The government is now thoroughly involved in the restructuring plans. The *Süddeutsche Zeitung* quoted an anonymous source from “government circles” who stated, in no uncertain terms: “We want a national champion in this sector that, as a global player, has all options available to it.” CEO Obermann’s plan has “convinced the supervisory board. He has so far done a good job. It’s good that he is stirring up the organisation.”

Since the privatisation, Deutsche Telekom has been at the mercy of international competition. For all companies listed on the stock exchange, this means enormous pressures from two sides: On the one hand, they must continually offer the lowest prices in order to attract and retain customers, and on the other, they must satisfy the interests of investors to maintain high profits and share prices.

On both these fronts, Deutsche Telekom was hardly successful. Profits fell from €5.6 billion in 2005 to €3.2 billion in 2006. In the final quarter of last year, the company actually recorded a loss. This resulted in

massive pressure from investors.

In particular, the Blackstone Group investment firm, which last year took a 4.5 percent stake in Deutsche Telekom through the government-owned Reconstruction Credit Institute (KfW), and thereby a seat on the supervisory board, heavily campaigned for a restructuring of the company.

The very sale of shares to Blackstone was an attempt by the government to use Blackstone—a company exclusively oriented towards making profit—as a means to speed up reorganisation efforts. Previously, there were repeated demonstrations in political circles warning of Deutsche Telekom falling into the hands of foreign telecommunication companies. The market, however, reacted positively to the sale to Blackstone, with share prices climbing 4 percent.

Shortly after the purchase, Blackstone was the main player behind the removal of former Telekom chief Kai Uwe Ricke. His successor, René Obermann, was regarded as someone who could “stir the organisation up.”

It is worth taking a closer look at Blackstone. Its senior managers include company advisor Roland Berger, whose name is synonymous with radical cost-cutting programs and the ruthless slashing of jobs. Ron Sommer, a former chief of Deutsche Telekom itself, also works for Blackstone.

Sommer’s tenure as chairman saw the ruin of thousands of small shareholders, who had bought a stake in Deutsche Telekom under the impression of it being a “share in the future,” as it was then marketed. After a series of unprofitable transactions and the correction of consciously overvalued real estate holdings, shares of the company fell far below their issue price.

In spite of government guarantees to the contrary, most people in market circles anticipate Blackstone gaining further shares in Telekom and playing a larger role in its operations. Chris-Oliver Schickentanz, a Telekom expert from Deutsche Bank, said that Blackstone is famous for aspiring to long-term control over companies and that the “overtaking fantasy” regarding Telekom could become reality.

For Blackstone, the implications of its efforts to own a controlling majority is made clear by the example of the American chemical company Celanese. Through its controlling majority, Blackstone organised a radical devaluation of the company’s core businesses, notably its American operations, and Blackstone subsequently purchased the company at a knock-down price. Soon after, Blackstone received a US\$500 million payout from

the company, financed via debt. It then immediately sold off its purchases, and small shareholders lost out as a result. The German Organisation for the Protection of Investors summarised the actions of Blackstone in its 2006 edition of the *Black Book of the Stock Exchange* thus: “A company can be squeezed dry using many methods. This was one of them.”

However, the German finance department, headed by the German Social Democratic Party (SPD), did not share this assessment. Last year, approximately 12 months after SPD chairman Franz Müntefering launched his infamous “locusts” polemic against hedge funds, with Blackstone as one of his key targets, the finance department nevertheless approved the sale of Telekom shares to precisely this group.

Peer Steinbrück (SPD), finance minister at the time, said: “I’m glad that an organisation like Blackstone, a strategic investor that concerns itself with increasing the value of companies and in value creation, has now joined Telekom.” He went on: “It’s a good day for Telekom and a good day for many shareholders.” It is assumed that further foreign investors will also be sold shares in Telekom. Despite the SPD’s official denunciation of these organisations as “locusts,” they receive the most careful and protective treatment from the very same party.

Last year Deutsche Telekom lost 2 million telephone connections to its competitors. Its products are considered too expensive and its service miserable.

The pressure from finance capital, through its direct participation in companies, to extract as much from them as possible and as quickly as possible, can only mean that, under conditions of global capitalism, it is the workforces that have to shoulder the burden.



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