Germany

Mergers, layoffs are destroying industry

by Rainer Apel

The German economy has a big internal problem: There has been a phase-change since the beginning of this decade, from managers who have a sound engineering or industrial background, to a new type of manager who has no other "qualification" for a top job in industry than an arsenal of tricks to make shareholders happy. These tricks bypass reality, pretending that the world of the money markets is the "real world that counts."

Fortunately, reality reasserts itself, and the more so in recent weeks, as top German managers seem to be infected with the virus of "millennium panic." There is not a single day without news in Germany about new plans for super-mergers, friendly or hostile takeover bids, restructuring of entire corporations, and the accompanying mass lay-offs. Reading the economic pages of the leading German dailies these days, is like reading the daily journal of a gambling casino.

The case of Mannesmann, one of the big German machine-building companies which has become involved in information technology in recent years, is illustrative of the new pattern. When the top management changed, a few months ago, a new corporate strategy was launched under Klaus Esser, a man who learned his "economics" at the Massachusetts Institute of Technology. Esser convinced the management to undertake a giant takeover drive in the international telecommunications branch, aimed at transforming Mannesmann into a global player in information and Internet technology. The traditional machine-building and related industrial branches of the company are going to be phased out.

Esser and his management worked on this strategy with three leading Wall Street investment consultant firms—Goldman Sachs, J.P. Morgan, and Merrill Lynch. Goldman Sachs convinced Esser that a takeover of the British telecommunications company Orange would be a good bet, instantly making Mannesmann one of Europe's biggest telecommunications operations. But, hardly had the takeover agreements been signed in October, than Esser was approached by Chris Gent, who told him that his own Anglo-American telecommunications giant, Vodafone-Airtouch, now planned to take over Mannesmann. In what was first presented as a friendly takeover bid by Vodafone, Gent kept increasing his offer, reaching the unprecedented level of 200 billion deutschemarks on Nov. 15. When Esser rejected the offer, Gent announced that he would pursue a hostile takeover strategy, which means that he will appeal to the private greed of Mannesmann shareholders, enticing them to desert Esser and sell their shares to him.

Experts see a close connection between Gent's strategy, insofar as he relies on the advice of the same Goldman Sachs experts who previously advised Esser, and Esser's policies. Like Esser, Gent has announced that he would sell off Mannesmann's traditional industrial assets and turn the company into an exclusive provider of telecommunications and Internet systems. Which of the two gamblers wins, is almost irrelevant to the workforce, which will be sacrificed under either plan.

The Philipp Holzmann case

The case of Philipp Holzmann, one of Germany's biggest traditional construction firms, is also illustrative. The company ran into a big crisis in 1996 and was forced to restructure, cutting the company's workforce from 48,000 to 28,000. The company had been driven into deep trouble in the early 1990s, when its managers got involved in speculative real estate development projects and lost DM 3 billion. However, the proper lesson from that foray into speculation was not drawn, and, just as Mannesmann's Esser was making headlines, Philipp Holzmann's management was reported to have lost DM 2.4 billion, in the same kind of deals that ran the company into trouble three years ago.

The company is now close to bankruptcy; the "consolidation" that is being mooted not only will sacrifice more of the workforce, but it will also hit the shareholders, whose shares will be devalued at 26 to 1.

The Philipp Holzmann case is illustrative also of the role of the banks, the big lenders that have their people seated on the boards of Germany's industrial firms. Deutsche Bank has been the main lender to Philipp Holzmann for many years, and it has a direct 15% share in the firm. Carl von Boehm-Bezing is Deutsche Bank's man on the board of Philipp Holzmann, and the question is posed, whether he was not paying enough attention to realize that speculative investments were being made, or whether that was his own policy as well.

On Nov. 9, Boehm-Bezing went on the record at the German *Mittelstand* (small and medium-sized firms) Congress on Berlin, saying that due to its ongoing restructuring, Deutsche Bank can no longer afford to give credits to anybody who asks. He said so in response to public charges that the bank no longer lends to smaller industrial companies, because their operations are "not a profitable investment." Only those firms which fit into the new field of Deutsche Bank financial products, Boehm-Bezing said, will receive credits from the bank in the future. The highly speculative real estate project developments that Philipp Holzmann undertook, certainly were more in tune with that new field of Deutsche Bank financial products.

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