

## The regional impact of the „hostile“ takeover of Mannesmann by Vodafone on the Rhine-Ruhr Region – a new paradigm for stakeholders in/ from traditional industrial regions in Germany?

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### Abstract

About 30,000 of 130,000 Mannesmann jobs are located in the Rhine-Ruhr Area, a ten million metropolis in Germany. This region is divided into two parts: the very prosperous Rhine Region with Düsseldorf and Cologne as the main cities, and the Ruhr Area to the east side. Düsseldorf is the capital of the *land* North-Rhine Westfalia (NRW) and the location of some very important headquarters of Ruhr companies like Mannesmann, Thyssen, Krupp and VEBA-VIAG as well as the site of the most important international airport in NRW. The Ruhr area is both: a crisis-hit region which is home to five million people and which had an official unemployment rate of 14% in 1999 (10% in West Germany), but also a region which has had some successes over the last 40 years in bringing about a fundamental economic and social structural change.

This has meant a loss of more than half a million jobs in the coalmining and steel industries, but also the publically financed foundation of many large universities and the creation of new science based industries like the software-complex in Dortmund (1999: 12,000 jobs). In addition business orientated services are located in Essen, the most important city within the Ruhr Area where is the home to the headquarters of the other important Ruhr companies: RWE-VEW, RAG and Ruhrgas.

The hostile takeover of the most successful company in this area (Mannesmann) seems to have an important impact on both the Rhine and the Ruhr Area in terms of

- job creation and job losses
- tax income of the *land* NRW and the local authorities
- forms and contents of co-determination of trade unions and shop stewards etc.

With respect to this takeover many observer speak of the real end of the “Rheinischer Kapitalismus”, a social-economic model of capitalism that was rather successful from the fifties until the end of the eighties. This model was the basis of a more or less socially controlled regional and structural transformation of the largest industrial region in western Europe.

This paper tries to outline the consequences of transforming this model into a more Anglo-Saxonian model of shareholder-capitalism with respect to the Ruhr Area, its stakeholders and the general risks of the speculative way of transforming the telecommunication branch.

## **The regional impact of the „hostile“ take-over of Mannesmann by Vodafone on the Rhine-Ruhr Region – a new paradigm for stakeholders in/ of old industrial regions in Germany?**

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### **1. Shareholder-value-capitalism against „Rheinischer Kapitalismus“ – what are the differences?**

There is a broad discussion about different variants or types of modern post-war capitalism. The types differ between the classic model of the Swedish welfare state, the German model of corporatism (Deutschland AG) and federalism, the French system of a powerful central state, the Thatcherite transformation of the traditional British welfare state in the 80<sup>s</sup>, the American and the Japanese types which seemed to be a “closed shop” with a very powerful central state, and the MITI as a core-planning and coordinating centre (Lipietz, 1991; Streek, 1999; Jung, 1978; Schmid, 2000; Schneider, 2000). This differentiation between shareholder-value-management and stakeholder-management in the field of corporate governance does not include all the aspects of the various types of capitalist post-war systems but is, of course, a key element which at the end of the day is able to bring pressure on many other elements of the continental European society and their politics thus forcing them to move in the direction of the US-system.

Roland Schneider (2000) refers to the results of an OECD-study on corporate governance (OECD, 1999) and explains the characteristics of the shareholder-governance of firms as an outsider-control system. The shares have dispersed owners, although pension funds are important players in these games. The stock exchange’s turn around is high. The shareholders

are heavily protected, especially the small ones. They receive better information. These financial markets serve to finance the firms, including supplying more venture capital for start ups. The agents of the financial markets play the most important role in influencing corporate decisionmaking. Institutional investors control more than 40% of the shares in the USA and more than 60% in GB (Schneider, 2000, 37). Nevertheless a single funds-manager controls only small parts of the corporate shares.

In contrast the so-called stakeholder governance of firms is characterised by an insider-control system, which means a high degree of control of the shares and of the voting power at the shareholders' meetings (Aktionärsversammlungen). Pension funds are of less importance in comparison with banks and insurance companies. Capital and financial markets do not play a dominant role. Although this may produce some difficulties in supplying cheap capital and venture capital, these disadvantages can be compensated by stable and long-term relations between the banks and corporations. This type of interrelation motivates long-term investments, research and development and therefore also the growth rates of productivity. The stakeholder system is able to play a more important role in re-empowering firms in crisis and in long-term redevelopments. Because of the normally stable relations to the trade unions and the shop stewards, this system is also able to invest more in the qualifications of the workers.

Optimistic people like R. Schneider argue that the shareholder approach must not gain ascendancy over the stakeholder system, because even in those countries which are dominated by the hegemony of shareholder interests people are looking for more social security, higher minimum wages and so on. But I do not really believe that this is true. The high GDP growth rates in the USA in comparison with Europe and Japan in the last decade suggest that this is mainly the result of the shareholder management and the flexibility of the labour markets instead of –as I see it – a clever macroeconomic policy (low interest rates and high deficit spending in the beginning of the nineties). One precondition of transforming the continental European system into a more shareholder-orientated one is that a partial transformation of the pension system from a distribution system to a private insurance one must take place. This will just be set up in Germany in the next years. The very low state-financed pension in Britain has long forced the people to also contribute to private pension schemes, which are the basis for the power of the fund managers and the community of analysts.

## **2. External control of regions, shareholder-value-management and regional economic development**

Export-based sectors are the cores of regional economies. Enforcing the existing export industries and services and generating new ones depend on many factors, especially on the number, productivity and creativity of the innovative people (employers and employees) who statistically are found in the categories of research & development, company planning, marketing etc (look at figures 1 and 2). These people traditionally are located where the large multi-plant companies have their headquarters, in the centres of the metropolitan areas. Because these functions are gaining importance at a time production and supply services and marketing have become more scientific, the demand for such functions is growing in the centres where the headquarters are located. One specific characteristic of the Ruhr economy is that this area (look at the appendix map 1 and 2) is externally controlled. It mainly has been a production area ("Ausführungsregion"), not a management and r&d area. (For several reasons (mainly sub- and de-urbanisation and also de-industrialisation of large parts of the "old economy") it is no longer a really important production area, especially if it is measured in terms of the number of jobs available in the processing industries in relation to the number of inhabitants (see Blotevogel, 1998)). As the German saying goes Düsseldorf has been and still

is the writing desk of the Ruhr region (“Schreibtisch des Ruhrgebiets”). The headquarters of Mannesmann, Thyssen, VEBA and other large companies have been and often still are today located in Düsseldorf, the capital of the *Land* of Northrhine-Westfalia. Also most of the large shareholders regulate and manage their interests from outside, especially the private banks (Deutsche Bank, Dresdener Bank, Commerzbank) from Frankfurt and the state-owned bank WestLB from Düsseldorf. The large private banks will probably sell their shares in the next years, if new tax legislation cuts the taxes on profits for selling shares which include former so-called “stille Reserven” (hidden reserves).

The second wave of industrialisation hit the Ruhr region in the 1960s, when companies like GM made large investments in Bochum (Opel in 1962) or Siemens in Galdbeck (Blaupunkt) or Witten. The problems of external control reoccurred. The third wave of investments, like the CentrO in Oberhausen (Mr. Healy’s large shopping-mall), the Movie Park in Bottrop or the totally anonymous estate agents for office blocks, entertainment industries and so on. is mainly managed by the national and international financial centres (Häußermann, 1999), although it has to be added that even today the financial markets are very strictly organised along the lines of large national economies like USA, Britain, Germany, Japan or France (see Huffschmid, 1999). One result of doubling the external control is that there are less chances to prevent the losses of jobs in the business-orientated services in comparison to national average. The following figures, especially figure 2, demonstrate this relation very clearly.

The transformation of the German model of capitalism, which has had more the character of a stakeholder orientated one than the Anglo-American type of market economy, and the development of markets for companies represent a fundamental change to the system that adds a new dimension to the importance of external control. If large private banks are the main owners of the companies of your region, you know where the decision making centres are. The German model of co-determination (Mitbestimmung) in large companies and especially in the coalmining and steel industry makes it possible for the leaders of the trade unions and the top shop-stewards of the large companies to be personally known by those persons who decide on strategic investments, mergers, takeovers, locations and so on. In a shareholder-economy the managers of pension funds and asset-departments of banks all over the world and their “analysts” make very impersonal decisions looking for the more short-term value maximization. The external control of the Ruhr economy (and of any other area) is doubled, if, for example, hostile or friendly takeovers transform the headquarters in Düsseldorf into sites dependent on Vodafone and Siemens/Bosch. Even activities with very traditional regional links like the large housing companies that used to be owned by Thyssen, Krupp, Hoesch, the Ruhrkohle AG and so on, are increasingly controlled by the rules of the stock exchange (for example Viterra, the largest private housing company with more than 130,000 flats, formerly VEBA-owned, now in the portfolio of e.on,) and have to produce very high minimum profit-rates for the shareholders.

### **Concentration on key competencies**

It is no accident that the empowerment of the shareholder position is simultaneously accompanied by the management rule of concentration on the main activities and competencies (Kernkompetenzen) instead of a philosophy of diversification. **Concentrating on key competencies** means that the management has the opportunity to concentrate their capacities on a few branches, products and services. The process of mergers and takeovers reinforces the branch approach instead of the regional cluster approach. The relative index of concentration in the branches will increase. And some will try to achieve monopolistic or oligopolistic market positions to win control on prices. In markets of homogenous products

like steel and other materials, energy (electricity, gas, oil), it is possible to control these positions by public anti-cartel institutions. This differs in markets for motorcars and other advanced products which are closely connected to different life-styles, large design and marketing costs etc.

The first step in organizing this shareholder-transformation is to create holdings which regulate the branches as profit-centres. The second step is to divide the holdings into different joint-stock companies. If the market prices are high this measure will have different functions: firstly the suppliers of new share-papers gain the so-called “Gründergewinn” (founders gain in the sense of Rudolf Hilferding (1910/1968)). Secondly this enables the acceleration of the merger process because it is much easier for the consultants and the investment-banks to find out the value of a firm. Thirdly this division of companies is a method of maximising the market prices, which possibly makes it more difficult for another firm to initiate a hostile takeover. Fourthly firms create their own “money” which enables them to buy other firms without paying cash.

### **Regional consequences**

The regional consequences of this transformation are very complex and contradictory. On the one hand new large potentials for rationalization can be identified which will reduce the number of jobs, if there is no efficient policy for creating new jobs in other sectors in the same regions. On the other hand it may be possible that subsidiaries of large companies which were formerly not involved in key activities – this was the case with many parts of the mechanical engineering subsidiaries of the coal and steel-companies - will get new chances to gain new markets und create new jobs.

### **Intra-regional control-differences in the Ruhr region**

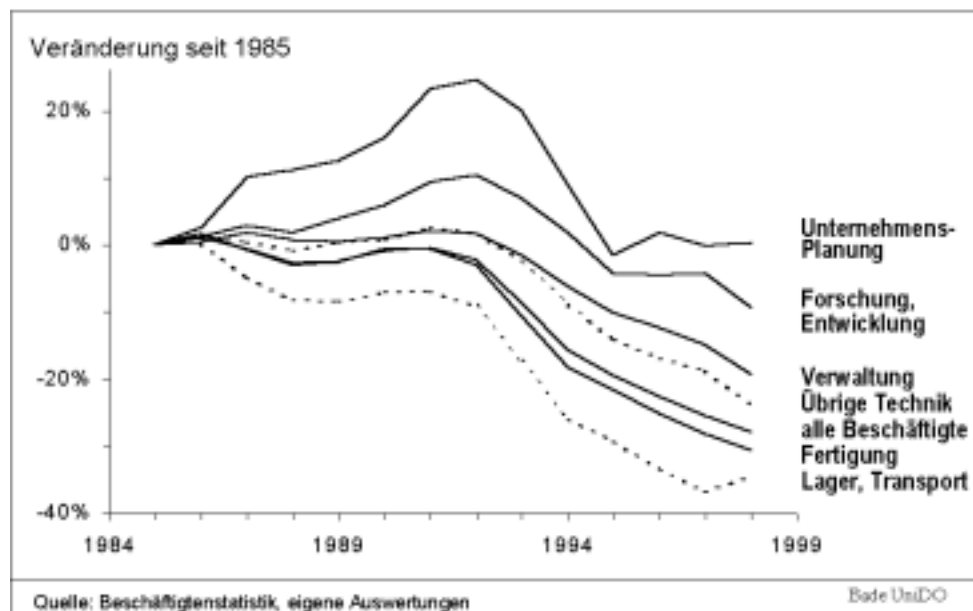
The difference between controlling areas and controlled regions is again reproduced within the Ruhr area. The city of **Essen** (600,000 inhabitants) is the main location of company headquarters within the Ruhr area (RWE, Krupp, RAG, Ruhrgas), whereas **Dortmund** (600,000 inhabitants) has gradually lost this function in the last 10 years. The steel company Hoesch, which had about 24,000 workers in 1979, was taken over by Krupp in 1993. Krupp itself merged with Thyssen in 1997. In the year 2001 the last black furnace, the steelworks and the hot strip mill will be closed. Only one cold strip mill will continue to run, with less than 1,500 workers. Another example is the takeover of the public utility suppliers VEW by RWE in the year 2000. Also the brewery Union-Schultheiss, which was in the portfolio of the Bavarian Hypobank, will be sold to the Schörghuber brewery group in Munich. So Dortmund will also lose the headquarters of these companies.

Today from the regional point of view, of course, it is very important to look for the second tier of management and their locations. But even if the local or regional stakeholders are able to secure guarantees that the headquarters of operating branches of a holding will be located in their cities, there is no guarantee that the next round of mergers will uphold these decisions.

Although it is very important to promote the creation of new firms in all sectors, especially in the business orientated services sector, it is essential that large regions like the Ruhr or the Rhine-Ruhr (which is seen by the government of Northrhine-Westfalia as the *European Metropolitan Rhine-Ruhr Region* (Blotevogel, 1998)) are the locations of headquarters of large companies and multinationals. The experiences of East Germany demonstrate very clearly that it is not possible to develop large crisis-hit regions without the existence of an important proportion of self-control instead of external control.

Figure 1 Development in employment in the processing industries according to functions in the metropolitan Ruhr area 1985-1998

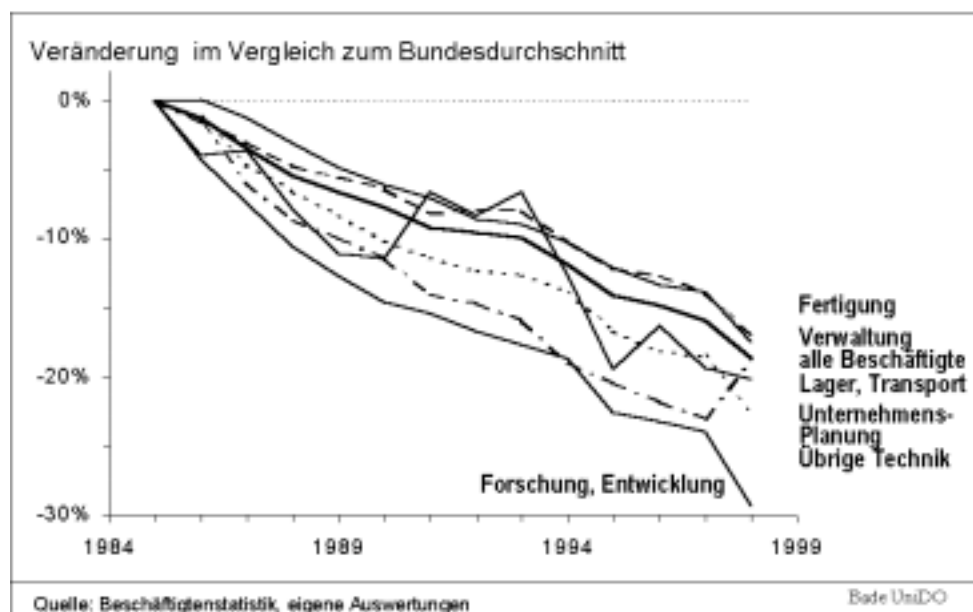
**Abb. 1: Die Beschäftigungsentwicklung des Verarbeitenden Gewerbes nach Funktionen im Verdichtungsraum Ruhr 1985-1998**



Legend from top to bottom: company planning, research & development; administration; other technic; all employees; processing workers; warehouse and transport; Source: Bade, University of Dortmund, 2000

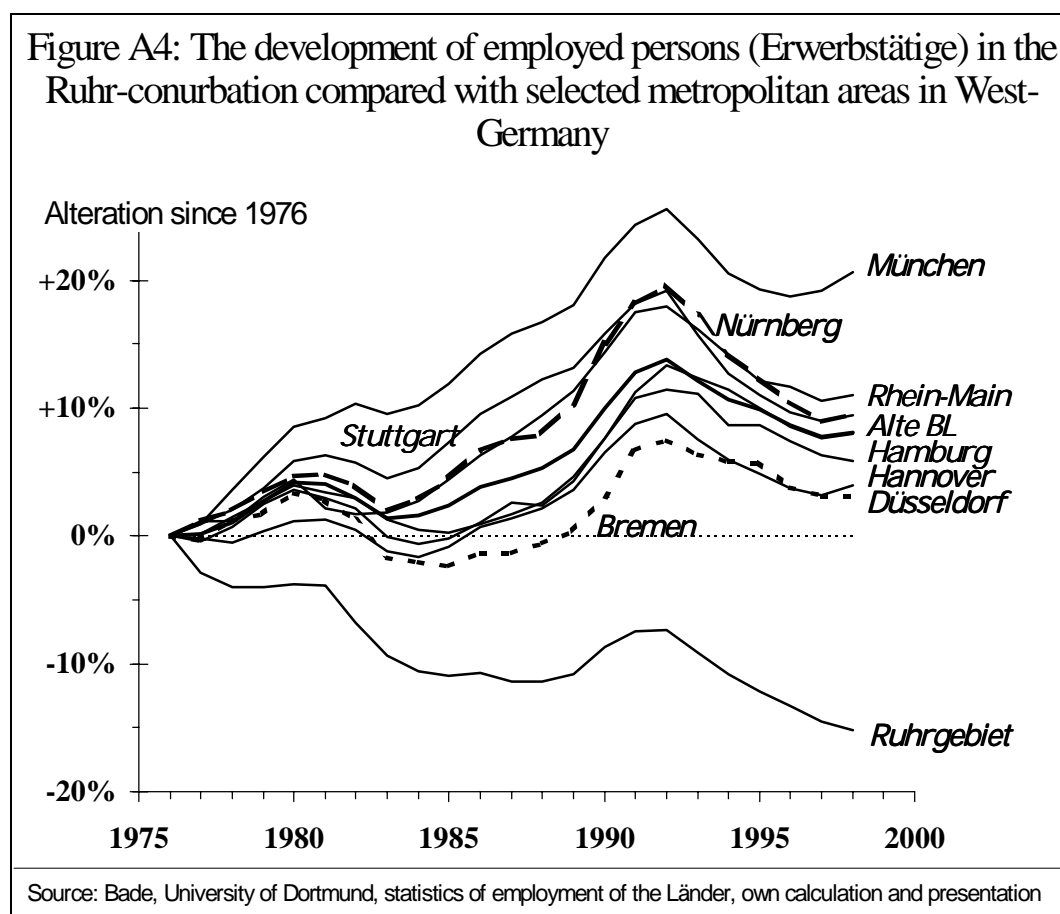
Figure 2 Development in employment in the processing industries 1985-1998 according to functions in comparison with the old FRG

**Abb. 2: Die relative Beschäftigungsentwickl. des verarbeitenden Gewerbes nach Funktionen im Verdichtungsraum Ruhr 1985-1998**



Legend from top to bottom: processing; administration; all employees; warehouse and transport; company planning; other technic; Source: Bade, University of Dortmund, 2000

Figure 3 The development in employed persons in the metropolitan Ruhr area in comparison to selected West-German metropolitan areas 1976-1998



Source: Bade, University of Dortmund, 2000

Figures 1-3 demonstrate the development in employment in the processing industries according to functions in the metropolitan Ruhr area 1985-1998, the development in employment in the processing industries 1985-1998 according to functions in comparison with the old FRG and the development in employed persons (employees, employers and all other registered working people) in the metropolitan Ruhr area in comparison to selected German metropolitan areas 1976-1998. These figures show that the Ruhr area loses continuously, especially in comparison with the other West German metropolitan regions. The transformation of the German system – this is my suspicion – in a more shareholder dominated one will accelerate this process of uncoupling in the future.

### 3. The takeover battle between Mannesmann and Vodafone – a model for mergers in the shareholder value society and a factor of acceleration of external control and uncoupling from the other German agglomerations

#### 3.1. Key-indicators for Mannesmann

Mannesmann was a brilliant example of an innovative transformation of a corporation with an iron and steel history that was a synonym for “old industries”. Table 1 shows that nevertheless

most of the employees worked in the “traditional” sectors, which, of course, are very modern and have great potentials. The proportion of workers employed abroad was 34% in 1998. The proportion of the Rhine-Ruhr-area of Atecs workers which includes branches of engineering (Rexroth, DEMAG, Krauss-Maffei and Dematic) and the automotive industry (VDO, Sachs) was estimated to be about 23,000 employees in the winter of 1999/2000. Another 6,500 people worked in the telecommunication sector (D2, ARCOR, O.tel.o) and 1,050 in the e-commerce sector (SZ, 5./6.2.2000, p.25). Additionally about 6,000 of the 10,000 Mannesmann-Röhrenwerke workers (MRW) (tubes) are located in plants in the Rhine-Ruhr area (author’s estimation; see Table 3). MRW was sold to the German steel corporation Salzgitter AG in May 2000, whereas Atecs, the former engineering and automotive-branches of Mannesmann, were bought by a Siemens-Bosch joint venture which bid more money (about 19 bill. DM) than the expected partner Thyssen Krupp AG, who offered 17 bill. DM.

**Tab. 1: Key-indicators for Mannesmann AG 1998**

	<i>Turnover in bill. Euro</i>	<i>Profits (Mrd. Euro)</i>	<i>Employees</i>
Corporation	19,1	1,4	116.000
Engineering	6,1	0,229	46.000
Automotive	5,5	0,216	43.000
Tubes	2,3	0,026	12.000
Telecommunications	4,7	0,982	14.000

Source: SZ, 20./21.11. 1999, S. 29

**Tab. 2.. Key-indicators for Atecs-Mannesmann 1999**

	Turnover in bill.. €	Investments in Mio.€	Employees (31.12. 1999)
Rexroth	2,584	125	20,835
Dematic	2,230	166	14,987
Demag Krauss-Maffei	1,910	204	10,232
VDO	3,495	224	23,825
Sachs	2,170	163	19,953
<i>Total</i>	12,389	882	89,832

Source: <http://www.atecs.de> vom 20.6.2000, author’s own calculations

**Tab. 3: Mannesmann employees in the Rhine Ruhr-area (estimation in May 2000)**

Firm		Workers at Rhine-Ruhr	Main locations
Rexroth, DEMAG, Krauss-Maffei and Dematic	Engineering, hydraulics, military equipment (tanks)	23,000	<b>Wetter/Ruhr</b> (Dematic), <b>Duisburg</b> (Demag)
VDO, Sachs	Automobile electronics, shock absorbers, clutches		<b>Dortmund</b> (VDO: 2,200)
MRW Mannesmann-	Tubes	6,000	<b>Mülheim/Ruhr</b>

Röhrenwerke AG (consolidated: 10,200)			(Europipe et al.2,500) <b>Hamm</b> (MHP*: 900) <b>Düsseldorf-Rath</b> (Vall.-MM**):1,800) <b>Remscheid</b> (MHP* 400)
Mannesmann D2, ARCOR, O.TEL.O	Telecommunication	6,500	<b>Düsseldorf</b>
	E-Commerce	1,050	<b>Düsseldorf</b>
HKM Hüttenwerke Krupp-Mannesmann (50% share, now Salzgitter)	Iron&Steel	1,800 of 3,600	<b>Duisburg-Huckingen</b> (HKM: 1,800)
Mannesmann AG	Headquarter		<b>Düsseldorf</b>
<i>Total</i>		38,330	

\* Mannesmann-Hoesch-Präzisionsrohr; \*\*Vallourec

Source: Süddeutsche Zeitung, 5./6.2.2000 (Ministry for Economic Affairs, NRW), p.25, author's estimation; shop stewards' information

It seems to be obvious that the drama of the battle between Mannesmann and Vodafone, which ended with a victory for Vodafone, first has to be discussed from the perspective of the future of a very important sector of the regional economy in the Rhine-Ruhr area, and secondly under the aspect of the future of the German model of "Soziale Marktwirtschaft" or the "Rheinischer Kapitalismus". In order to be able to discuss these problems it is useful to present a short review of this battle and the main interventions of the stakeholders such as the government of Northrhine-Westfalia.

### 3.2. The takeover battle in the years 1999/2000– a short overview

The years 1999 and 2000, and especially the second half of 1999 and the first half of 2000, have obviously seen the most important changes in which the corporate structures and power relations in the telecommunication industries (stationary network, mobile networks, internet and e-commerce) have been reorganized in a revolutionary way, and probably fixed (again) for the years to come. In the summer of 1999 Deutsche Telekom AG (DTAG) purchased the British One2one mobile telecommunication corporation. The price was 21 bill. DM, about 5,000 Dollars for each customer, an extremely high price in terms of future profits. Indeed the profits of the DTAG fell radically in 1999, which resulted in many workers being made redundant. This corporation One2one did not appear on the list of the twelve largest companies, which was published in November of 1999 by Salomon Smith Barney (see Table 4). This demonstrated, in my view, that the race for winning over customers in this branch had become a very *speculative business*. The chairman of the DTAG R. Sommer believed that he had to show the stock exchange and the analysts that German Telecom was still able to "act dynamically" after the failed takeover of Telecom Italia in the summer of 1999. The price of 5,000 Dollars for each customer was topped by 8,000 Dollars when the US firm *Worldcom* bought *Sprint* in the autumn of 1999. Even **Mannesmann** – until then known as a dynamic, successful, but serious firm – began to play this game and bought the British corporation *Orange* for about 60 bill. DM, or about 20,000 DM (about 10,000) Dollars per customer, of which 24 bill. DM had to be paid in cash. **Vodafone AirTouch**'s answer was to put in a hostile bid for Mannesmann, firstly 43.7 Vodafone-shares for one Mannesmann-share (market price about 200 bill. DM), later 53,7 Vodafone-shares for one Mannesmann-share (market price 242 bill. DM). One of Mr Gent's main argument was that the merger Vodafone-

Mannesmann would prevent an hostile takeover of Mannesmann by an American firm like Worldcom or AT&T (Mr. Gent as an European stakeholder!) and that the price for Orange was too high for Mannesmann.

**Tab. 4: The twelve largest European mobile telephone companies (customers in Mill.. Dec. 1998, June 1999 and 2001)**

	<i>Dec. 1998</i>	<i>June 1999</i>	<i>2001 (estimation)</i>
Telecom Italia Mobile	14.3	16.0	21.1
Omnitel	6.2	7.9	13.0
D2 Mannesmann Mob.	6.1	7.3	12.9
T-Mobil	5.8	7.1	12.4
France Telecom	5.5	7.0	12.4
Telefonica Moviles	4.9	6.7	11.4
Vodafone	4.9	6.1	10.7
SFR	4.2	5.1	10.0
Cellnet	4.0	5.0	8.5
Orange	2.2	3.0	6.7
Airtel	2.0	3.0	6.3
E-Plus	2.2	2.6	6.2
<b>Total</b>	<b>62.3</b>	<b>76.8</b>	<b>131.6</b>
Growth since Dec.	-	23,3%	94%

Quelle: Salomon Smith Barney, cited in SZ, 16.11.1999, S. 28, author's calculation

### Overpricing and overspeculation

In my view nobody is able to demonstrate seriously that such prices will make it possible to earn money in the future, even if it is recognised that they partly financed the takeovers with their own money, their shares. One reason is that the prices for phoning have become very low, that the products of telecommunication services are very homogenous and that in such markets even an oligopolistic market structure does not guarantee over-proportional profits. The share rate–profit ratio (Kurs-Gewinn-Verhältnis (KGV)) has become extremely high in the “new economy”. Satiated markets will be seen even in the mobile telephone market in the next two or three years, although the next generation of mobile telephones based on the UMTS-standard will expand the turnover of this sector – but in a very unknown dimension (see Table 5) – whereas the costs of obtaining a licence and investing in the new infrastructure are extremely high (see below). But if you ignore these basic issues and only follow the internal logic of the game of a stock exchange boom in combination with a classical founder's boom which was theoretically described and analysed by Rudolf Hilferding in 1910 (Hilferding, 1910/1968), you may also find some of the present arguments for playing this game.

**Tab. 5: The West-European market of telecommunication (turnover in bill. €)**

Year	1997	1998	1999	2000	2001
Turnover	197	221	250	277	300
Annual		12.2	14.2	11.0	8.3

growth in%					
-Germany				58.6	
-Greatbritain				43.6	
-Italy				39.9	
-France				39.7	
-Spain				25.6	
-The Netherlands				12.8	
-Switzerland				8.8	
-Sweden				7.7	

Source: EITO, Globus, Westfälische Rundschau, 4th of July 2000; author's calculation

The logic of the process of centralising this market requires the bosses of these firms to make their own corporations more valuable (schwerer) in terms of total stock market prices. Nevertheless the takeover of Orange by Mannesmann was an act of aggression against Vodafone, because this company owned 34 percent of Mannesmann D2 (mobile telephones). **It is a case of dog eat dog or the survival of the fittest.** (Fressen, um nicht gefressen zu werden, lautet die Devise. Man muß mit den Wölfen heulen, wenn man überleben will).

The share price-profit ratio of Mannesmann was 347.99 on 23rd December 1999 in comparison to about 11 for Volkswagen and other classical blue chips! One explanation is that in *exploding new markets* not turnovers and profits determine the exchange rates but the **EBITDA, the Earnings Before Interest, Taxes, Deterioration and (Goodwill-) Amortisation**. Indeed this key figure has risen dramatically in the last years. **Corporate daring is rewarded and is reflected in this indicator.** (Honoriert wird dann unternehmerisches "Draufgängertum"). But at the end of the day the share price – profit ratio will once again dominate the share prices at the stock exchanges. (For the general explanation of the asset inflation see I. Schmidt, 2000). And no one can be really sure whether corporations like Vodafone will be able to earn money in the future, because they have high debts (see below) which have been accumulated in the last year and will increase by 2001, and because the market potentials of the new UMTS based WAP handies are very unclear<sup>1</sup>.

### 3.3. The reaction of the politicians

In the first phase some German people, such as like Chancellor Gerhard Schröder, became nationalistic. But they very quickly became more rational, arguing that a friendly merger would be much better. If Mr. Esser, chairman of the board of directors of Mannesmann, had not agreed to the bid at the end of the day, Vodafone would have taken out some enormous loans to pay part of the policy in cash. And these debts would have reduced the profits radically because of high interest rates on the payment. One result would have been that the Federal and *Länder* governments and also the local authorities would not have been able to collect taxes from these companies for many years.

This problem of taxes was also the most important argument for the government of NRW when Krupp AG tried a hostile takeover of the larger steel and engineering company, Thyssen AG, in 1997. The City of London would have given about 15 bill. DM to help this deal go through, with the effect that NRW would not have received any taxes for many years. The merger between Krupp and Thyssen prevented this result, but created other issues:

<sup>1</sup> Look at the basic analysis of the market potentials and the procedure of UMTS auctions in Europe: DIW (2000[1]): Die UMTS-Lizenzvergabe in Deutschland – Auktionsverfahren unbefriedigend. In: DIW Wochenbericht 30/2000., p. 490-498

The example of Thyssen-Krupp-Hoesch once again shows very clearly that at the end of the day the loss of majorities leads to the loss of control and functions of the locations where the former headquarters were sited. This, in turn, means the loss of jobs and future activities. Whereas the takeover of Hoesch by Krupp in 1993 (as a result of strong action in the past by the workers and local politicians) could be controlled on a regional level by stipulating that some operating centres had to be located in Dortmund, the next round of mergers (Krupp-Thyssen) revoked these guarantees. As a result the steelworks in Dortmund will close down nearly completely in 2001.

So the control-centre of the telecommunication sector of Mannesmann went to England. Whether Düsseldorf gets the centre for the European branch of Vodafone is still open to speculation.

### **3.4. The break up of the Mannesmann company by Vodafone**

Because of Vodafone's high debts Mr. Gent very quickly sold Atecs-Mannesmann (see table 2) to a joint venture of Siemens and Bosch (price: 19 bill. DM), whose headquarters are in Munich and Stuttgart. Mannesmann-Röhrenwerke (MRW) has been bought by Salzgitter AG which has its headquarters in Salzgitter near Wolfsburg. The price was 1 DM. But before this deal Mannesmann paid about 750 mill. DM to increase for the enlargement of MRW's capital and reserves. In July 2000 Mannesmann sold the last company in its portfolio, the luxury watch producer LMH, for 3.5 bill. DM to the Swiss tobacco and luxury commodities company Richemont.

Although the new owners of Atecs "guaranteed" that Atecs would stay together for a minimum of three years (I never believed it, see below!), the first negative consequences of this transfer appeared immediately. Thyssen Krupp AG who put in an unsuccessful bid for Atecs with 17 bill. DM, immediately began to sell companies from its own engineering branch (for example the sector of synthetic materials engineering) because this sector was not large enough without the analogous Atecs' firms that would have been generated in the merger. Later on Thyssen Krupp AG was faced by a more fundamental conceptual crisis<sup>2</sup>.

My suspicions that the Siemens/Bosch "guarantee" of a three year moratorium on the Atecs break-up was worthless were confirmed two months later. Siemens and Bosch are preparing an agreement that will integrate VDO into the automotive electronic department of Siemens, thus realising the final dispersion of Mannesmann Atecs.

### **3.5. Postscript: a liquidity problem at Vodafone (and other telecom companies)?**

Vodafone bought Mannesmann, while Siemens and Bosch purchased Mannesmann-Atecs for about 19 bill. DM. The steelmaker Salzgitter AG acquired Mannesmann-Röhrenwerke, which had made high losses in the past and therefore received an about 750 Mio. DM cash injection from Mannesmann AG before it was transferred to Salzgitter. On 30<sup>th</sup> May 2000 **France**

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<sup>2</sup> After failing to purchase Atecs from Mannesmann Thyssen Krupp tried to sell 30 percent of its steel company Thyssen Krupp Steel on the stock exchange for about 3 bill. DM with the view to expanding the core activities of the non-steel branches of the company. Because of the low share prices this emission project was cancelled in the second half of August 2000. The French steel company Usinor was thought to be interested in acquiring getting a substantial share of Thyssen Krupp Steel. But I can not understand that the top managers of the largest industrial company of the Rhine-Ruhr area want to sell this company. Of course it may be too complicated for the simple thinking of the analyst community that profit making in the steel branch needs to be calculated in the dimension of a business cycle of say five or six years. But it should be possible to present the image of a well performed steel company as a firm that is profitable in the average of a cycle time, but with high profits in the boom phases and lower ones (ore some losses) in the crisis phases.

**Telecom** (FT) purchased the British corporation Orange – formerly owned by Mannesmann - for net 25.1 bill. pounds sterling. This made FT the second largest mobile telephone corporation in Europe after Vodafone. 11.3 bill. pounds will be paid in shares and 13.8 bill. in cash. FT also takes over Orange's debts (1.8 bill. pounds) as well as the costs of for the UMTS-licence in Britain (4.1 bill. pounds). FT pays more than 15,000 DM per customer. Vodafone wanted to get as much cash as possible, because this company is bidding for UMTS-licences all over Europe. Mannesmann D2, for example, has to pay about 16.5 bill DM for one of six UMTS licences which were brought under the hammer on 17<sup>th</sup> August 2000 in Germany: The total value of these licences was 98.8 bill DM (SZ, 18.8.2000). A spokesmanpress speaker of Deutsche Telekom DTAG called it “absolutely ridiculous”.

Vodafone's (and others competitor's) main problem is the growth in debts and interest payments. Of course it is true that they paid 113 bill. pounds for Mannesmann *from their own shares*. But they have some outstanding debts, such as the Mannesmann debts from the Orange deal. The Financial Times estimates these debts as up to 20 bill. pounds. Most of the West European states are also selling the licences for cash. The operative profits of Vodafone are estimated to be up to 2.64 bill. pounds in the year 1999/2000, “less than twice the likely annual interest rate” (Financial Times, 26-5-2000, p. 26). Vodafone's share prices fell by about one third from March to May 2000. This means that it is extremely difficult to issue further Vodafone shares to generate new capital. Possibly they are looking at a liquidity problem.

For the UMTS-licence in Britain alone Vodafone paid 6 bill. pounds, another two bill. will be necessary for the new infrastructure investments in Britain. Analysts estimated that Vodafone needs between 50 and 58 bill. pounds (most of them in cash) to obtain the UMTS-licences and to invest in infrastructure all over Europe in the near future, although nobody knows whether this third generation of telephones will be as successful as the previous ones (DIW, 2000 (1))<sup>3</sup>. This huge sum has to be financed in advance. Vodafone has expanded greatly since 1999 (about 400%). But every business scientist and macro-economist realises how risky such an expansion is.

### Sharing the burden

Although the Vodafone-France Telecom deal transferred parts of this risk to FT, nevertheless a problem exists of how to make enough profit in the future to pay back the debts and accumulating interest. Deutsche Telekom will also be faced with this problem, because this player has decided to buy the US-company VoiceStream (instead of Sprint) for 50,7 bill. \$, VoiceStream only had 2.3 mill. customers at the end of the first quarter of 2000. So the price per customer was about \$ 20.000 !!!<sup>4</sup>.

### Bond emissions

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<sup>3</sup> Remember that systems like **Iridium**, the worldwide satellite based telephone system of Motorola, failed and that Motorola had to depreciate about 5 bill \$. Probably the same will happen to **Globalstar** (DWI, 2000[1], p.495).

<sup>4</sup> The shareholders of VoiceStream will each get 3,2 Telekom shares plus \$ 30 per VoiceStream share. Optionally they have \$ 200 in cash per share unit. Although Telekom may pay a great part of this deal with their own papers, it is possible that the cash sum will be exorbitant high. The *Süddeutsche Zeitung* estimated this sum at 26 bill DM (!) (SZ, 25.8.00), p. 25). Another eventually volatile piece of information was that this company had a total turnover in 1999 of 475,5 mill.\$ and a nett loss of 454,7 mill. \$ (SZ, 25.7.2000, p.25). The only argument of Telekom-boss R. Sommer was that VoiceStream is using the GSM standard, which is usual in Europe, but more advanced than the US-standards.

The main strategy for refinancing these sums is now changing in the direction of loans emissions, because the market rates of the telecom companies fell significantly in the first half of the year 2000. Deutsche Telecom began with a \$ 13.5 bill. bonds emission in June 2000. Spain Telefonica, France Telecom and British Telecom are preparing emissions of about \$ 25 bill. in the summer of 2000 (SZ, 11.8.2000, p.26). This means that these companies will have to earn a great deal of money in the future and that they will probably make losses and therefore will not have to pay taxes on profit.

### **Tax losses**

Although the finance ministers are happy to receive so much money from selling the licences by auction, they will lose taxes on profits, occupation tax (Gewerbesteuer) etc. It is estimated that the Land Northrhine Westfalia (without the cities) will have 300 mill. DM less tax income every year in the deterioration period of twenty years. In Germany the local authorities will lose about 17 bill. DM of occupation tax and the Länder about 10 bill. DM of the shared tax income on corporations (SZ, 26./27.8.2000). Because of this there has been a call to allocate parts of the licence profits (in Germany about 100 bill. DM in the year 2000) to the Länder and the local authorities is growing.

Although the DIW-estimation of the realised auction sum in Germany was completely wrong (about 20 bill DM instead of the realised 98.8 bill DM) (see DIW 2000[1]), the arguments which these economists used (high market risks, uncontrollable oligopolistic structures, parallels to Iridium and Globalstar) are still very serious. So the happiness of the German financial minister has to be seen in a more rational manner.

## **4. Stakeholder politics in a globalised shareholder-economy – some recommendations**

### **4.1. Some legal rules for takeovers (Putzhammer/Köstler, 2000)**

Voluntary agreements and self-bindings for fair takeovers (Selbstverpflichtungen) of the (multinational) companies have not been very successful in the past. Britain and Germany, for example, have had bad experiences in the more recent past (BMW-Rover and Vodafone-Mannesmann). Since 1989 the EU-Commission's draft of the 13<sup>th</sup> guideline on company law (gesellschaftsrechtliche Richtlinie) on takeovers has been discussed. In this debate the European Parliament not only awarded more rights and security to minority and small shareholders but also to the employees and their representatives. This initiative, which is still far from perfect (see below), nevertheless failed again in December 1999 because Spain and Great Britain used some disagreements over Gibraltar as an excuse to oppose the European attempt to exclude the crudest methods of hostile takeovers. Therefore the German government decided to formulate a national legal framework to regulate friendly and hostile takeovers.

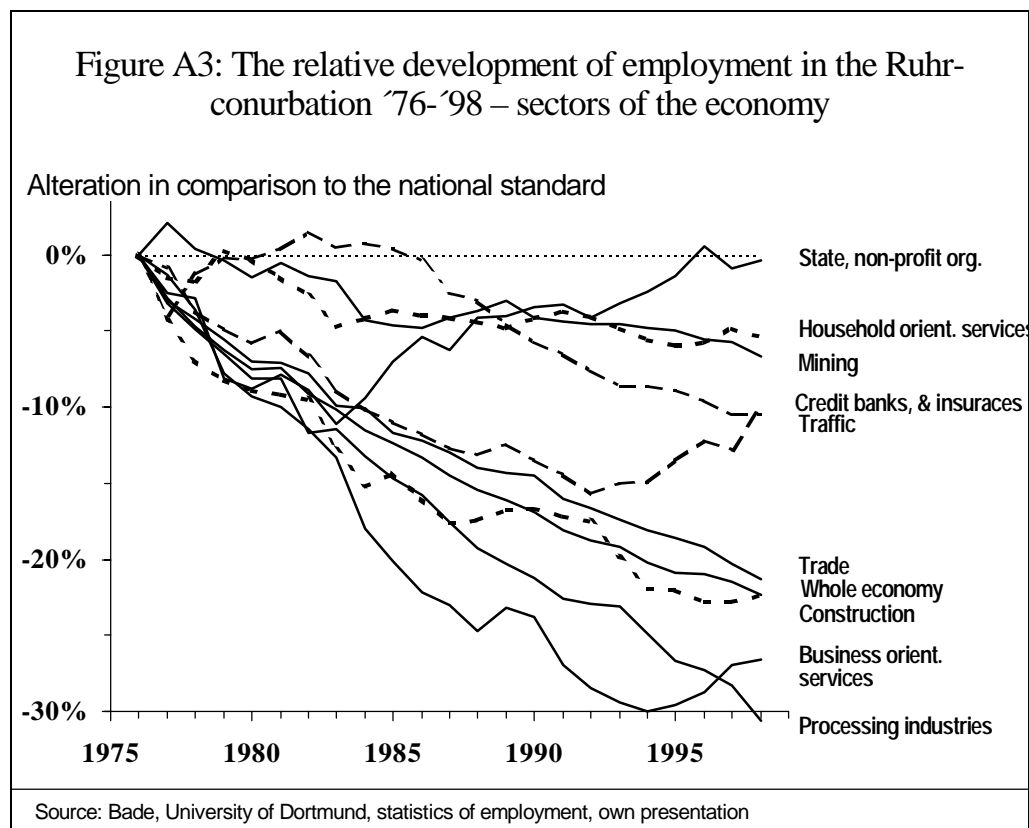
- **Threshold value for a legal bid** (Schwelle für ein Pflichtgebot). The German trade unions propose a 30 percent minimum mark (Putzhammer, Köstler, 2000, p.22).
- **Obligation to pay cash?** (Barzahlungspflicht des Bieters?) The proposal states that payments should be a mixture of shares and cash. The real security of small shareholders becomes more important because an increasing number of employees owns shares in their companies.

- **Co-determination and participation of the workers' representatives.** Although the opponents of a legal framework for takeovers speak of a *law for preventing takeovers* (Übernahmeverhinderungsgesetz), the DGB, as the umbrella organization of the German trade unions, is arguing that it is necessary to create information rights and to prolong the existing rights for co-determination. For example the board of directors of the target company is obliged to consult the workers' representatives *before* making a statement on the offer of the bidding company etc.
- **Neutrality of the board of directors of the target company?** The draft of guideline No. 13 on company law proposes that the board of directors of the target company has to be neutral. But this is not logical. Even the American companies have the right to defend their interests. Secondly the proposal of the EU-Commission transforms the share company into a pure shareholders' organization. The DGB (Putzhammer/Köstler, 2000) argues against this approach and wishes to see the whole company interest as a mixture of the interests of shareholders, employees, the general public, the creditors *and the region* (authors' addition).

#### 4.2. Regional cooperation, infrastructure and qualification policies

Regions and cities without strong positions as a site of headquarters (like the Ruhr region or Dortmund) do not have any chance of developing successfully without a carefully coordinating their own and the *Land* Northrhine-Westfalia's potential of r&d, qualification, training and infrastructure. If there is enough potential for innovation in the area ((state-financed) universities, public research institutes, r&d-centres of larger companies and a good public-private institutional frameworks for generating new clusters like the software and logistic clusters in Dortmund and even in Duisburg), perhaps they may have a chance *to prevent the gap growing* to those regions that are performing well. Look, for example, at figure 4. The graph "business-orientated services" has been recovering from its deepest point in 1994, the transport sector graph since 1992. The state sector and non-profit organizations also stabilize the Ruhr region in terms of offering jobs in proportion to the average numbers offered by the old FRG. But I would argue that it is not possible for this region to close the gap on the leading agglomerations significantly simply by mobilizing its endogenous potential.

Figure 4 The relative development of sectors in the metropolitan area of the Ruhr region 1876-1998; changes in comparison to the old Federal Republic of Germany (West Germany)



Source: Bade, University of Dortmund, 2000

### 4.3. National and European regional policy

Because the endogenous activities will not be able to prevent the gap growing to regions that are performing well greater emphasis will have to be placed on the regional funds, made available at national and European level, to support the crisis-hit regions. (look at the declaration of European Economists for an Alternative Economic Policy in Europe, 1997 and 2000 (draft); see also Bömer, 2000).

### 4.4. UMTS-licence prices; tax-policies and general financial crisis

The governments have to decide whether it is really wise to maximise the prices of UMTS-licences, like the British government did in the spring of 2000 and the German in August (DIW, 2000[1]). Although this seems to be a contradictory and untypical concept: maximise profits for the public collectors and give a maximum of risks to private companies (and, of course, to the private customers), in the long run this will also be a risk for the public financial institutions. The reason is that lower profits or high losses in the telecommunication companies will reduce their tax payments for many years. Hostile takeovers are at the end of the day only very profitable for the financial sector (investment banks). And there exists a real

risk of a general financial crash, if the global players of the telecommunication industries become heavily indebted (see chapter 3).

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## **Appendix**

Map 1: The Ruhr Region in Northrhine-Westfalia

