Vodafone's takeover of Mannesmann: A turning point for European takeovers?

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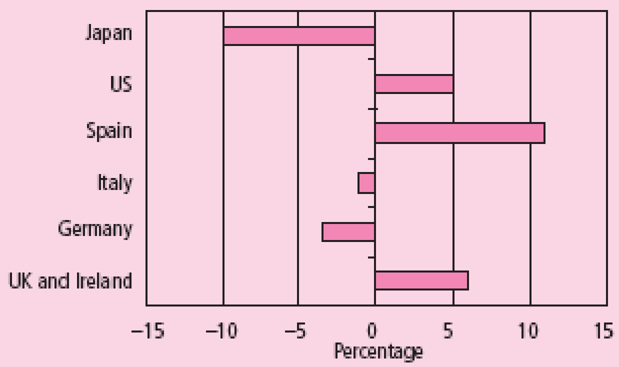
Vodafone, the UK mobile phone operator, has pursued a strategy of expansion by acquisition. Its 1999 acquisition of US mobile phone operator, AirTouch, was a notable success. But its hardest battle has been takeover of Mannesmann, the German engineering and mobile phone group, in 2000. The takeover, valued at just over a178bn. (£100bn.), came at a time when the mobile phone market was booming. For most of its 110-year history, Mannesmann had been essentially an engineering group. It entered the mobile phone business only ten years previously, greatly boosting its position by its acquisition of Orange, a major rival to Vodafone. The deal had to clear the EU competition authorities, which required Orange to be sold off (it was acquired by France Telecom). The new, enlarged Vodafone became Europe's largest publicly traded company and the world's largest telecommunications group.

Vodafone became the first foreign company to have succeeded in a hostile bid for a large German company. Pirelli, the Italian tyre maker, had failed in a bid for German tyre maker Continental in 1990. Germany is well known as a fortress against foreign takeovers. This may be attributed partly to the ways in which postwar German capitalism developed. Extensive cross-shareholdings between companies, often linking in banks, provided a bulwark against outsiders, as only a relatively small proportion of shares were 'free-floating'. Trade unions, who are represented on supervisory boards, ensure that any takeover proposal will be scrutinized for any potential loss of jobs. Vodafone's success came from winning over Mannesmann's shareholders. Unusually for a German company, 70 per cent of Mannesmann's shareholders were foreign, including some large US institutional investors, who were persuaded that the deal would be in shareholders' interests. To their voices were added Jurgen Schrempp, chairman of DaimlerChrysler, and Josef Ackermann, chief executive of Deutsche Bank. Opposed to the deal were the head of IG Metall, the powerful union, and Klaus Esser, Manessmann's chief executive. The German government was also opposed, arguing that the deal risked upsetting Germany's stakeholder culture, which valued employees before shareholders. However, the overwhelming pressure from investors resulted in approval of the deal by the supervisory board on 3 February 2000.

Vodafone's victory was seen as a turning point in the cross-border takeover market in Europe, as shareholder value and market considerations had triumphed over Germany's entrenched corporate structures. However, within Germany there remains ambivalence towards the Anglo-American style of capitalism. Reforms initiated by Schröder's government have encouraged market liberalization. First, the 58 per cent capital gains tax on corporate stakes held by banks and insurance companies has been abolished. Secondly, the reform of the state pension system has encouraged more active investors looking for better returns than the rather low levels typical of many German companies. Thirdly, Germany has a new code of corporate governance, which discourages the multiple directorships of corporate leaders on Germany's supervisory boards, and encourages greater transparency on the pay of executive and supervisory board members. A new takeover code, adopted in 2002, however, allows defence mechanisms, known as 'poison pills', to be invoked in the case of a hostile takeover, which are designed to discourage predators. They include, for example, a process whereby the supervisory board can impose conditions on acquirers which could prevent redundancies for up to five years.

In a bizarre final act of the Vodafone takeover, criminal proceedings were launched against six former directors of Mannesmann in 2004, including Klaus Esser and Josef Ackermann, alleging receipt of illegal bonuses, which were approved on 4 February 2000, the day following the takeover approval. Esser himself pocketed a15m. as an 'appreciation award', in a total of a60m. of executive bonuses, as well as pension enhancements for 18 former executives. If convicted, they could have faced 10-year jail sentences. Although the high-profile criminal trial, which lasted six months, ended in acquittals on the criminal charges of breach of fiduciary duty, the judge expressed concern that the bonuses were inadmissibly high in corporate law terms

(Jenkins, 23 July 2004). The case highlighted continuing unease over Germany's transition towards Anglo-American style markets for corporate control.



Vodafone's average revenue per user (April–September 2004)
Source: Budden, 17 November 2004.

Vodafone's investors are now looking to see the benefits in terms of cost and operational synergies that the global company has gained from its aggressive acquisition strategy. However, despite its unrivalled economies of scale, its success in global markets has been uneven (see figure). In Japan, where 3G is well advanced, it has lost market share to Japanese rivals. When the takeover boom subsided, Vodafone faced the long-term challenges of operating in highly competitive markets.

Sources: Plender, J., 'Whirlwinds of change', Financial Times, 4 February, 2000; Atkins, R. and Lewis, W., 'Triumph for Vodafone as Mannesmann gives in', Financial Times, 4 February 2000; Lorenz, A., 'Mobile mania', Sunday Times, 9 January 2000; Lorenz, A., 'V for victory', Sunday Times, 6 February 2000; Barber, T., 'Shareholder democracy gets a bigger say', Financial Times, 15 May 2002; Swann, C., 'The weak will become prey', Financial Times, 30 June 2000; Betts, P., 'Buyers beware', Financial Times, 20 December 2001; Benoit, B., 'Effects of hostile takeover still being felt in Germany', Financial Times, 6 November 2002; Jenkins, P. 'Germany on trial', Financial Times, 15 January 2004; Jenkins, P., 'Court clears bosses over bonuses', Financial Times, 23 July 2004; Budden, R., 'Healthy returns mask Vodafone's global challenges', Financial Times, 17 November 2004.

Case questions
What does the case study reveal about the market for corporate
control in Germany, and has it changed as a result of the Vodafone takeover of Mannesman?
How has the acquisition strategy benefited Vodafone?

@ The European Commission's Economic and Financial Affairs website provides information on M&A activity at http://ec.europa.eu/economy_finance/structural_reforms/product/mergers_acquisitions/