

# OPINION

## Hostile Takeovers – Do They Hurt Employment?



The victory of British cellular phone operator Vodafone in the takeover battle against Mannesmann, a large German company rich in tradition, is unprecedented in German economic history. Valued at DM 400 billion, this coup is also the largest *de facto* hostile takeover in the world.

In the face of globalization, corporate takeovers are not at all unusual. In a hostile takeover, the corporate raider either buys shares of the target firm on the stock market (openly or secretly) or makes the firm's shareholders an attractive offer to purchase their shares. An alternative method to avoid cash transfers is the exchange of shares. In the short run, this whole process does not necessarily affect employees. Friendly mergers, however, generally offer greater opportunity for employees to influence the conditions of the takeover.

The shareholders' perspective depends on their motivation. A hostile takeover changes the power structure of the company and diminishes the shareholders' influence. Those who are

primarily profit-oriented might prefer a hostile takeover, as it drives up stock prices over those of a friendly merger. When shares are exchanged, the holder gains ownership but also carries the entrepreneurial risk.

Why should we accept hostile takeovers? They are, one might argue, not only an inevitable by-product of international economic integration, a necessary means for keeping pace with globalization, but at the same time they guarantee an optimal allocation of resources. International corporate takeovers are difficult to conduct in a friendly manner because they involve highly organized firms and fundamentally different cultures of corporate management.

There is still the danger that corporate raiders and shareholders are primarily looking for short-term profits. As the American experience shows, hostile takeovers often result in corporate cannibalization and disintegration of the target firm. Acquiring a company in order to take advantage of its production facilities, technological developments, or distribution networks does not necessarily lead to an optimal allocation of resources in the long run. While building a business is an extremely difficult task, its destruction is swift and not always creative. Not every corporate raider is a Schumpeterian entrepreneur.

The takeover battle itself (as in the case of Vodafone vs. Mannesmann) may bring about an absurd display of muscle-flexing and the use of vast sums of money for advertising campaigns – with questionable effects on the companies' performance. "Powerful corporate strategies" must be demonstrated in order to convince shareholders. These efforts seem to focus more on shifting the public mood than on helping shareholders to form a rational opinion.

The suggested perspectives may later turn out to be risky. Asymmetric information about the potentials of a merger poses a serious problem. Who protects all the small shareholders, including employee-shareholders?

Employees represent the long-term component of an enterprise. Effective employee protection can regulate this element adequately. The potential buyer should have to specify the short- and mid-term employment effects of the acquisition. This might adjust the costs of a "bad" takeover upwards. Prohibiting takeovers that are solely based on an exchange of shares would have the same result.

In what ways will the German economy change if it becomes a bigger target for hostile takeovers? A steadier integration in global competition would be the consequence – certainly a positive one. But frequent takeover campaigns also mean that creative managerial minds will be busy conquering and defending, instead of developing new ideas and markets – which is a negative effect. If a takeover has so many convincing advantages, then why doesn't it occur by full mutual agreement after examining all the tangible facts involved?

In the long run, we can expect hostile takeovers to lead to a less efficient allocation of resources on the national level. The likely result will be job losses rather than new jobs. In terms of employment, the speculative element inherent in hostile takeovers is not exactly promising. The proper response would be to regulate hostile takeovers. An appropriate anti-takeover law is definitely overdue.

*K. F. Zimmermann*



Institute for the  
Study of Labor

### IMPRESSUM:

Editor: Prof. Dr. Klaus Zimmermann  
Managing Editor: Holger Hinte  
IZA, P.O.Box 7240, 53072 Bonn, Germany  
Tel. +49-228-38 94 222, Fax +49-228-38 94 210  
e-mail: compact@iza.org  
Graphics/Photographs: IZA  
Layout/Printing: Verlag Erik Dynowski,  
Cologne, Germany