The Politics of Privatization and Restructuring in Germany

Lufthansa and Deutsche Telekom

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The privatization of public service companies offers an excellent case for assessing pressures for institutional convergence versus the staying power of distinctive national economic institutions in the advanced industrial countries. This paper examines the privatization of Lufthansa and Deutsche Telekom in order to see whether changes in enterprise ownership reflect a process of convergence in the rules of corporate governance. While the outward form of privatization in Germany looks quite similar to privatization in Britain and the United States, these two cases show little evidence that the change in ownership is driving any formal changes in corporate governance. If anything, German financial institutions and trade unions continue to exercise distinctive roles that rest on their historical positions in the German economy.

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Introduction

Recent changes in the world economy have prompted scholars and practitioners to ask whether all countries are converging on a single most efficient set of institutions for economic management. Some observers argue that the three processes driving worldwide competition -- globalization, liberalization, and deregulation -- and selecting for the most efficient institutions around the world. Others insist that national institutions will remain distinct for a range of reasons: domestic interest groups may protect their preferred institutional arrangements in each country; existing institutional differences may give countries distinctive national competitive advantages that, in turn, perpetuate particular growth trajectories; or existing institutional features may alter demand characteristics in ways that support persisting differences in national markets.[1]

The debate is, however, difficult to resolve at the level of cross-national comparisons. Those who focus on international dynamics can almost always find signs of convergence while those who focus on the nation-state are rarely at a loss for evidence of continued diversity in national institutions. This paper argues that the politics of convergence are most clearly evident when public-service companies become suddenly exposed to the international competition. Since firms are the organizations most directly subject to international competition, their responses to specific cases of economic internationalization illustrate the specific mechanisms by which pressures for institutional convergence or divergence take effect.

This paper examines such mechanisms by analyzing the privatization of two of Germany's largest public service companies, Lufthansa and Deutsche Telekom. In the 1980s Germany was often considered the best example of a country where the institutions of social partnership had beneficial economic effects. In contrast to other advanced capitalist countries, Germany benefited from a number of institutional constraints that made it rational for firms and individuals to contribute to a broad range of public goods, including a qualified workforce, a stable currency, strong financial linkages or "patient capital," well developed institutions for negotiating technical standards, a stable currency, legal restrictions that moderated price competition, and an economic culture based on reliability, predictability and trust.[2]

In the 1990s, however, the same institutional characteristics that had helped German firms compete in high-value-added niche markets appeared to be reducing the ability of German firms to respond to changing market conditions. Firm-level demands for greater flexibility in employment conditions, particularly compensation practices, began to undermine long unquestioned norms of industrial relations, such as industry-wide wage bargaining and even wage parity within single firms.[3]

This paper examines these changes, and their roots, by comparing the privatization experiences of Lufthansa and Deutsche Telekom. The main questions that guide the comparison are the following. 1) What changes in employment relations were brought about by privatization and do these changes point toward a new model of industrial relations in Germany? 2) What changes in organizational structure accompanied the changes in ownership experienced by these two companies? 3) What are the larger implications of these cases of privatization for the viability of Germany's distinctive version of organized capitalism?

The privatization process for each of these enterprises was characterized by highly visible political maneuvering. Each case was motivated by examples of deregulation in the United States and the United Kingdom. Together the two privatizations were expected not only to make Lufthansa and Deutsche Telekom more competitive but also to help develop German capital markets (Finanzplatz Frankfurt) and to introduce broader segment of the German public to the "culture" of holding equities. In light of the high political stakes involved, the discussion reviews the motivations and methods for privatization before laying out the changes in employment relations and organizational structure that privatization entailed.

Lufthansa

Lufthansa's partial privatization in 1994 was preceded by a ten-year process of political and managerial preparation. When Chancellor Helmut Kohl's government first tried to reduce its stake in the national airline, its motivation was not a doctrinal commitment to the free market, as in the case of British Airways in Britain, but rather the need to raise revenue. In 1984, Gerhard Stoltenberg, the Finance Minister for the Christian Democratic Union (CDU), presented a program of selling off eleven nationalized enterprises in order to raise revenue for the national treasury.

Stoltenberg's plan met vehement political resistance from the chief of the Christian Socialist Union (CSU), Franz Josef Strauss. As Minister President of Bavaria, Strauss feared that private management of the airline could weaken its commitment to purchasing aircraft from the Airbus consortium, whose German participant, Messerschmidt Bolkow-Blöhm, was a major employer in Bavaria. In a letter leaked to the press, Strauss claimed that Lufthansa's procurement policy was a government responsibility because airline sales "had virtually nothing any longer to do with fair competition."[4] In 1987, when Lufthansa's management wanted to raise capital through a rights issue, the federal government refrained from participating, thereby diluting its stake from approximately 79% to 70%. At the same time, two regionally-owned banks in Bavaria, the Bayerische Landesbank Girozentrale and the Bayerische Landesansalt für Aufbaufinanzierung, picked up five per cent of the airline's equity, thereby increasing Strauss's control.

The movement toward privatization gained momentum in 1989, a year after Strauss's death, when a further share offering of DM 313.5 million diluted the federal government's stake to 51.6%. The new Finance Minister Theo Waigel was anxious to move forward with privatization, but faced a number of additional obstacles.[5] In anticipation of the single European market in 1992, Lufthansa had purchased 120 new planes in the 1980s. The weak dollar subsequently forced Lufthansa to reduce transatlantic fares by as much as 36% to compete with U.S. carriers. Although the federal government was eager to sell its stake, the company's financial condition prevented divestment.

Even with improved performance, however, the company's pension obligations prevented the government from reducing its stake below 50 percent. As public employees, Lufthansa personnel had their pensions guaranteed through a fund for federal and state employees (the Versorgungsanstalt des Bundes und der Länder, the VBL). If the government's stake fell below 50%, the VBL could demand payment in full for all pension liabilities (estimated at DM 4 billion), an amount that the federal government could not afford, or justify if it were no longer the majority shareholder.[6]

The financial and performance problems facing the airline prompted the appointment of a new chairman, Jürgen Weber, in 1991. By making privatization one of his major priorities, Weber added a set of managerial motivations to the government's fiscal motivations for the change in ownership. In a comprehensive strategy statement, "called Program '93," Weber outlined a series of steps to achieve cost reductions, privatization, and reorganization of the managerial hierarchy. While all three aspects of Weber's strategy sought to give management greater discretion and flexibility in running the company, union participation was essential to the strategy's successful implementation.

The central part of Lufthansa's effort at cost reduction entailed intensive negotiation with the carrier's two unions: ÖTV (Gewerkschaft Öffentliche Dienste, Transport und Verkehr, or the public transport workers), which represented most of Lufthansa's blue collar workers; and DAG (Deutsche Angestellten Gewerkschaft, or the German union of salaried employees), which represented approximately 5,000 white-collar workers including pilots and crew members. In the wage agreement of 1992, the unions made a number of compromises that reflected Lufthansa's financial difficulties. The agreement froze wages for all employees and provided for lower starting salaries for new employees. Pilots agreed to a 7% increase in working hours. In a supplemental agreement in 1993, employees were granted a one-time payment equal to 2.3% of annual wages, while wage levels were increased by a modest increment of 2.7% in 1994.[7]

The 1992 agreement also provided for workforce reductions and the creation of a new low-cost airline, Lufthansa Express, to take over many of Lufthansa's higher cost domestic routes. Workforce reductions were to be effected through early retirement or other voluntary means, with a range of severance packages. The new low-cost airline posed a more difficult issue for the unions, which were deeply opposed to the creation of a fully independent company that would undermine their bargaining power at the firm level. Instead of establishing Lufthansa Express as an independent company (GmbH) within a new holding company structure, Lufthansa compromised with the unions by establishing the lower-cost line as a division within the Lufthansa group.[8] Further cost-cutting through consolidation of its fleet and partial sale of its stake in the Kempinski and Penta hotel chains put Lufthansa on a course toward showing a profit for the first time since 1990.

With the company's financial condition improving, the question of pension liabilities remained the only serious obstacle to privatization. The Versorgungsanstalt des Bundes und der Länder (VBL), which provided pensions to Lufthansa employees, was not willing to continue its program if the state's share fell below 50% for fear of setting a precedent for other companies to be privatized. The unions were not willing to countenance privatization if it meant that employee pension could no longer be secured. And the federal government was not able to finance a full takeover of Lufthansa's pension obligations. The central undetermined question was whether Lufthansa or the federal government as majority shareholder had responsbility for employee pensions if the VBL dropped Lufthansa in the absence of any agreement among the parties.

In May 1994, after several months of negotiation, an agreement was reached. Pension claims for Lufthansa's existing retirees remained with the VBL and were funded through payments by the federal government of DM 1.1 billion over 15 years. Lufthansa was responsible for designing and funding its own pension plan with benefits for future retirees identical to those provided by the VBL's plan. The new in-house plan was expected to cost DM 1.6 billion, with DM 1.1 billion to be paid by Lufthansa and the remaining DM 500 million to be paid by the federal government. The government's total share of DM 1.6 billion was to be paid in annual installments of DM 154 million for ten years and DM 80 million for an additional five years.[9]

With the pension issue resolved, the way to privatization was clear. In its effort to promote Frankfurt's position as Europe's leading financial center, the federal government selected Dresdner Bank to assemble a consortium of twenty leading investment banks including Morgan Stanley, S.G. Warburg, and Paribas. Rather than identifying a few institutional investors beforehand (the French approach), the banks used an approach to the share flotation known as bookbuilding, in which the bankers guaged investor interest before setting a price for the initial public offering. The federal government was planning to dilute its share of Lufthansa below 50% by selling its rights to any of the new shares. The offering was so successful, however, that the government was able to sell the first tranche of shares that it already owned as well as its rights to any new shares. As a result, the government's share was reduced to 35% and Jürgen Weber's goal of discarding the "state-owned" designation was achieved.[10]

Once privatization made the managing board (Vorstand) accountable to a broad range of shareholders, the third step in Jürgen Weber's "Program '93" was to reorganize the operating divisions and the managerial hierarchies that staffed them. Toward this end, Lufthansa added three new subsidiaries for freight delivery (Lufthansa Cargo AG), for freight for information services (Lufthansa Systems GmbH) and for maintenance (Lufthansa Technik, AG) to its existing divisions for passenger service, flight operations, charter flights, and other operations. Within the group, Weber created a smaller managing board to break the vertical lines of communication and added advisory boards for the group as a whole as well as all subordinate divisions.[11]

The centrality of employment relations became clear again in 1996 with a new round of wage negotiations. This time, however, it was more difficult for Lufthansa's two unions to adopt a common strategy and the historical frictions between ÖTV and DAG reappeared. As an industry union, ÖTV placed higher priority on combatting wage differentials among different groups of workers. As an occupational union, the DAG placed more priority on raising compensation with less regard to differentials between employees. In the autumn of 1996, these differences came to the fore as Jürgen Weber took a tough opening stance on wage costs. The ÖTV agreed to another wage freeze until 1998, but with an interesting variation on the 1992 agreement. Employees could receive an immediate one-time payment of DM 500 or could join an employee stock ownership plan with an initial payout of DM 650 in Lufthansa stock. In addition, employees were allowed to take interest-free loans up to DM 2500 to purchase Lufthansa stock. The DAG refused to accept the wage freeze, demanded a 4% wage increase on behalf of pilots and flight crews, and risked angering the flying public when it called for warning strikes in November 1996. Indeed, one of Germany's more moderate newspapers described the DAG's position as "grotesque."[12] Except for the pilots' resistance to the agreement, however, the general press viewed Lufthansa's arrangements as a model for service firms in troubled sectors.

Deutsche Telekom

As in the case of Lufthansa, privatization of Deutsche Telekom also required considerable preparation. If the plan to privatize Lufthansa was initially motivated by fiscal concerns, however, the reasons for privatizing Deutsche Telekom were primarily organizational from the beginning. There were two specific motivations. First, large business users in the Federal Republic began complaining about the high rates charged by Deutsche Telekom's predecessor, the Deutsche Bundespost. Second, as part of its plan for a unified single market, the Commission of the European Community began discussing a series of directives in the mid

1980s that would call for stepwise liberalization of national telecommunications markets, culminating in competition in basic voice service by 1998.[13]

In response to both of these developments, the Christian-Liberal government of Helmut Kohl began discussions to alter the traditional organization of the Bundespost by appointing a high-level commission (the Witte Commission) to consider the issue in 1984. In important respects, however, the reform and privatization of the Bundespost was more complex than that of Lufthansa. Unlike Lufthansa, which had always been a stock corporation, although one largely owned by the federal government, the Bundespost was part of the state itself. As a public administration, the Bundespost reported directly to the Post Ministry and its employment practices fell under the administrative regulations that applied to all public employees. In addition, the Bundespost's monopoly on communications was protected by West Germany's postwar constitution and could only be changed by constitutional amendment. Perhaps most important, approximately half of the Bundespost's employees were civil servants (Beamten).

In accordance with these conditions, the government had to reorganize the Bundespost before it could even consider privatization. Support for the recommendations of the Witte Commission came from the governing coalition of center-right Christian Democrats, liberal Free Democrats, and right-wing Christian Social Unionists. As the strongest proponents of liberalization, the Free Democrats used the Ministry of Economics as a stronghold to pressure the Bundespost for opening equipment service markets. The anti-liberalization coalition included the Postal Union (Deutsche Postgewerkschaft, or DPG) which feared changes that would weaken its role in the Bundespost's governance structure or split the more profitable telephone division from the postal service; the Bundespost's traditional equipment manufacturers, who initially opposed any change in the status quo; and the center-left Social Democrats, who favored employment security and the public provision of services.

The first change effected by the pro-liberalization coalition was the Postal Reform Act (Poststrukturgesetz) passed June 8, 1989, which divided the Bundespost into three separate entities for postal services (Postdienst), the postal bank (Postbank), and telecommunications (Telekom). Each enterprise had a managing board and was expected to focus on financial results, while regulatory responsibilities were reserved for the Ministry. In addition Telekom was expected to follow European Commission directives by allowing competition in a growing number of segments -- terminal equipment and new mobile voice services in 1990, private business networks in 1993, and mobile data communications in 1994.

These changes quickly became known as Postreform I. They left substantial political control in the hands of the Ministry for Post and Telecommunications. In particular, each enterprise had a supervisory board whose chair belonged to a Directorate. Since the Directorate was authorized to cross-subsidize operations of one enterprise from the profits of the others, significant insulation from market pressures remained in place.

As the governing coalition, pushed for further changes to expose Telekom to market forces, the possibility of privatization on the model of British Telecom, became more openly discussed. The DPG opposed privatization on the grounds that telecommunications represented a public infrastructure that should be publicly owned.[14] Prior to the general elections of autumn 1994, the Social Democratic Party (SPD) began to diverge more openly from the DPG's position by countenancing some type of reform.

In June and July of 1994, the SPD agreed to constitutional amendments that paved the way for further reorganization of the postal service and telecommunications. This vote signified a noticeable shift in the balance of electoral politics. Most of the parties, including the SPD, said that some adjustment of the old telecommunications system was required in order to make Deutsche Telekom viable in a changing competitive environment. The Postgewerkschaft disagreed and called the SPD's agreement to cooperate with the reform efforts a "disastrous decision."[15]

The amendments dismantled the Bundespost, made it legal for private companies to provide postal and telecommunications services, and laid the foundation for a series of further changes that became known as Postreform II.[16] According to the new arrangements, all three incorporated enterprises of the former Bundespost became stock corporations (Aktiengesellschaften, or AG), called Deutsche Post AG, Deutsche Postbank AG, and Deutsche Telekom AG, as of January 1, 1995. Partial privatization for Deutsche Telekom was planned for the middle of 1996, with the other two enterprises to follow later.

For the reform coalition, these structural changes did not suffice to establish market principles in the communications sector. As the Neue Zürcher Zeitung, one of Europe's prominent market-oriented papers, wrote, the Second Postal Reform signified "only a first, timid, mini-step into the area of competition." The Anti-Cartel Commission also released a report pointing out that the Second Postal Reform changed the structure of Deutsche Telekom, but did little to speed the opening of the market beyond what the European Commission in Brussels had already done.[17] By early 1995, the advisory committee of the Economics Ministry released a set of recommendations on a possible Third Postal Reform -- to resolve the regulatory question and set guidelines by which new competitors could enter the market for basic voice telephony.[18]

As it turned out, the reform coalition only managed to impose its recommendations in 1996 with the assistance of a powerful external ally, the Federal Communications Commission (FCC) of the United States. The FCC became a critical actor because Deutsche Telekom's international business strategy depended on access to the U.S. market. Along with France Telecom, Deutsche Telekom had concluded an alliance with the U.S. long-distance carrier Sprint a few years beforehand. Known first as the Phoenix Project, and later renamed Global One, this alliance aimed at providing worldwide service to large buisiness customers in Europe as well as the United States. For potential investors in Deutsche Telekom, the firm's access to the U.S. market through Global One was an important determinant of the share value. Not surprisingly, Sprint's American competitors such as ATT lobbied the FCC vehemently to make regulatory approval for European carriers contingent on reciprocal opening of the European markets. In effect, Deutsche Telekom's need for acceptance by the international investing community meant that German governmental authorities needed to provide a regulatory authority for the German market that was similar to the FCC role in the United States. The result was a substantially independent German regulatory authority, established through the Telecommunications Act of July 1996.[19]

Well before the passage of Postreform II, Deutsche Telekom had begun a series of internal changes to prepare for privatization. With over 220,000 employees, Telekom's tasks were heavily dominated by employee relations. The organization's workforce included three legally distinct categories of employees: civil servants, accounting for roughly 51% of the workforce; salaried employees, making up a further 20%; and wage laborers, comprising the remaining 29% share. Personnel from these different categories often worked side by side on the same tasks, but civil servants followed different recruitment paths and had different labor rights than their co-workers. Although they enjoyed their status for life, they had no co-determination rights. According to the Federal Remunerations Act, civil servants received relatively lower wages supplemented with generous pension guarantees. By contrast, salaried employees and wage laborers did have co-determination rights and the right to strike, and the Minister of the Interior approved their compensation and working conditions.[20]

In accordance with the Federal Staff Representation Act (Bundespersonal-vertretungsgesetz) for worker participation in the public sector, the Bundespost had a highly centralized, three-tiered system of representation. Each of the three categories of personnel elected representatives to the central, the 23 regional, and the 123 local personnel councils (Personalräte) -- which were similar in function to the works councils (Betriebsräte) that existed in other German companies. Each employee category also participated in the Deutsche Postgewerkschaft (DPG), a single-company union.[21] Roughly 80% of the work force in the Bundespost's telecommunications operations and nearly 90% of the members of the Bundespost's personnel councils belonged to the DPG. Relations between the personnel councils and the DPG were close. Two other labor organizations, the Deutsche Postverband and the Christliche Gewerkschaft Post, represented 10% of the Bundespost's telecommunications personnel, but had limited influence on their own.[22]

One of the most illuminating changes entailed by Telekom's anticipated privatization concerned the treatment of civil servants (Beamte). Not only did civil servants enjoy guaranteed job security as part of their commitment to neutral service on behalf of the state. They were also legally required to report to a Minister or a State Secretary (<u>Oberster Dienstherr</u>) -- something that was no longer possible after January 1, 1995, when Deutsche Telekom was given managerial autonomy subject only to a supervisory board. The solution was a legal provision saying that the Postal Minister's authority would be transferred to the board of Telekom, insofar as the civil servants were concerned. This change carried remarkable significance for the concept of the civil servant in Germany. It implied that civil servants were being loaned from the state to a private enterprise.[23] While this arrangement maintained the legal fiction that civil servants answered only to the public interest, the reality showed that Germans were quite willing to shift a major activity from the public sphere to a competitive organization.

Besides the problem of their legal status, civil servants had substantial financial claims. First, their generous pensions, previously paid by the state, had to be transferred. For this purpose, Deutsche Telekom was required to set aside 2.9 billion DM per year for five years for the pension liabilities owed those civil servants in its employ.[24] In addition, civil servants were paid on the basis of rank and seniority -- criteria that directly contradicted the compensation-based pay policies that Deutsche Telekom wanted to introduce for its other employees. Here, Deutsche Telekom introduced the possibility that civil servants would put themselves on extended leave from their civil service status (<u>in sich Beurlaubung</u>) and thereby gain the chance to earn the same incentive bonuses available to other employees, while also ameliorating the one-time transfer of pension liabilities from the state.[25]

Deutsche Telekom also devised new policies for salaried employees (Angestellte) and wage laborers (Arbeiter). Both groups were made eligible for performance bonuses, and both were affected by the change in structure of worker representation. Prior to becoming a joint stock company in 1995, Deutsche Telekom (and the Bundespost before it) fell under the Federal Staff Representation Act (Bundespersonalvertretungsgesetz), which established a somewhat unusual three-tiered structure of Personnel Councils. After January 1, 1995, however, the company came under the better-known Works Constitutions Act, which entailed a different two-level structure with one general works council and numerous plant works councils.[26]

The reorganization of worker representation was part of a larger change in Deutsche Telekom's relationship with the Postgewerkschaft. On several important questions, Deutsche Telekom welcomed more pluralism in its labor relations and appeared happy to see the DPG's position eroded. Several other large unions represented workers in firms that were entering the telecommunications sector. For example, IG Metall represented workers at Mannesmann, including at the Mannesmann subsidiary that competed with Deutsche Telekom in cellular communications. Similarly, the public transport union (ÖTV) represented one of the utilities, RWE, that was entering the sector. Finally the miners union (IG Bergbau) represented the other large utility, VEBA, with investments in telecommunications. Deutsche Telekom had for its part recognized the Postgewerkschaft as its collective bargaining partner, but was happy to note the growing interest of other unions in some of its own subsidiaries.[27]

Since the timing of privatization for Deutsche Telekom hinged as much on legal changes as on improved financial results, the enterprise did not hesitate to begin internal organizational changes in the early 1990s. Much like Lufthansa, Deutsche Telekom concentrated on two types of changes. First, it spun off non-network activities into new subsidiaries, such as Deutsche Mobilphone AG (DeTeMobil) for mobile telephony and DeTeConsult, an in-house consulting group. Second, the company inaugurated an ambitious reorganization plan known as Telekom Kontakt for redefining the mission of its 123 branch offices (Niederlassungen) according to each of its three main business divisions. Previously each of the branch offices had dealt with all problems and product lines within their geographic area. In 1993, after a major outside study, Telekom's headquarters made each of the branch offices responsible for only one primary business line through one of the new 39 regions. In each region, one branch office was to specialize in residential customers (Privatkunden), another was to specialize in business customers (Grosskunden) and a third would be assigned the support function of network services (Netze und Technologie).[28]

With legal prerequisites accomplished and organizational changes underway, the government and the investment community seemed prepared for the initial offering of shares by 1996. Since this first offering included only 20% of Deutsche Telekom's equity, officials were anxious to see it proceed well enough to justify further privatization before 1998. The government took particular efforts to interest individuals in the share offering. It retained three investment banks, Deutsche Bank, Dresdner Bank, and Goldman Sachs, to lead a consortium of 80 underwriting institutions, and spent as much as $US 150 million on saturation advertising for the flotation. Employees of Deutsche Telekom were eligible for employee ownership plan under which Union Bank of Switzerland would insure initial purchases against any decline in price for up to six years. The lead investment banks again used the bookbuilding method to guage investor interest before the offering in November 1996. This approach led to some disagreement between Deutsche Telekom's top management and the U.S. bank, Goldman Sachs over the share price.[29] When the shares were issued on November 18, they were oversubscribed and rose nearly 20% during their first trading day. Reflecting the general sense of a successful new issue, the Financial Times declared in its front-page story that the Germans were ready to "dive into the equity culture."[30]

Conclusion

Although no conclusions can be established firmly on the basis of two cases, the centrality to these two firms to the German economy strongly suggest a number of findings. Both cases show three main forces driving changes in the institutional underpinnings of German capitalism.

First there is no question that the decisions to privatize Lufthansa and Deutsche Telekom were political responses to deregulatory policies in the United States and the United Kingdom whose effects were in turn amplified by directives of the European Union. The similarity of the political response in both cases suggests that pressures for institutional convergence are strong. The motivation to privatize Lufthansa was initially fiscal, while the motivation to privatize Deutsche Telekom rested from the outset on the belief that a privatized enterprise would be better able to compete in more open markets. Despite the intial differences in motivation, the privatization process in both cases quickly came to include the goals of raising money for the national treasury as well as making the companies more acceptable to international capital markets by giving management more flexibility in personnel matters and organizational change.

Second, however, these privatization experiences were not shaped entirely by forces in the international economy. In both cases, privatization required persistent and energetic planning by political actors as well as managers at the enterprise level. The highly political nature of these privatizations indicates that the German system of industrial relations is indeed changing. For both Lufthansa and Deutsche Telekom, international competition imposed pressures that the trade unions accepted as grounds for cooperation wth management's restructuring policies. To this extent, the traditional German emphasis on country-wide collective bargaining was tempered with labor's cooperative response to employer-specific strategies for change. Yet, labor's response was not dictated entirely external forces. All three of the major unions in these two cases -- the ÖTV, the DAG, and the DPG -- made concessions on wages and on workplace flexibility in exchange for maintaining job security and a voice in implementing plans for enterprise reorganization. To this extent, both cases of privatization indicate that organized labor in Germany continues to play the role of a key strategic partner in privatization as well as post-privatization restructuring.

Third, these cases illuminated the central role played by international investment banks in balancing pressures for institutional convergence and continued diversity. As the gatekeepers to world capital markets, investment banks provide the organizational mechanisms by which competitive pressures in any industry lead to changes in firm-level ownership. As such, investment banks have a pivotal role in setting the framework for the claims of shareholders, employees, customers, and the public at large. Key questions include the following: Should the state play some continuing role in company ownership after privatization and, if so, how should it be structured? How important are employee pension claims in privatization, and in post-privatization restructuring? What other interest groups have important claims on privatized firms? Are these claimants different in different countries? Are they different for particular firms within a single country?

Notes

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3. Official concern over these problems was articulated in the federal government's report, Standort Deutschland (roughly translatable as "Germany as an Investment Site"), issued by Economics Minister Gunther Rexrodt in 1993. Explanations for the new limits of the so-called German Model are provided in Horst Kern and Charles Sabel, "Verblaßte Tugenden: zur Krise des deutschen Produktionsmodells," in Umbrüche Gesellschaftlicher Arbeit, special issue of Soziale Welt (1993) and Wolfgang Streeck, "German Capitalism: Does It Exist? Can It Survive?" Max-Planck-Institut für Gesellschaftsforschung Discussion Paper, 95/5, November 1995.

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5. "Bonn may consider sale of its holding in Lufthansa," Financial Times, November 29, 1990.

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7. This discussion relies on Mark Hutchinson, unpublished course paper, MIT, December 12, 1994, and Mark Hutchinson, "Privatization in Germany: The Case of Lufthansa," Masters Thesis, Department of Political Science, MIT, 1995), 31-34.

8. Ibid.

9. Hutchinson, "Privatization in Germany"; "Lösung des Pensionsproblems macht Weg für Privatisierung der Lufthansa frei," Süddeutsche Zeitung, May 5, 1994.

10. Lufthansa AG, "International Offering Circular," discussed in Hutchinson, "Privatization in Germany"; "Ready for Take-off: The Share Issue by Germany's Lufthansa," Financial Times, September 20, 1994; "Lufthansa and Telekom to Go Private," New York Times, July 22, 1992.

11. More detail on these organizational changes is provided in "Lufthansa: The Challenge of Globalisation," Teaching Case, London Business School, April 1996, and Mark Lehrer paper, Insead 1996.

12. "Lufthansa erreicht mit ÖTV einen zukunftsweisenden Tarifabschluß, aber Iloten gefährden durch ihr Nein zur Null-Runde das Sanierungskonzept," Süddeutsche Zeitung, October 26, 1996; "Lufthansa-Piloten wollen eine Extrawurst; Mit Streiks versuchen sie sich besser zu stellen als die übrige Belegschaft," Süddeutsche Zeitung, November 12, 1996.

13. For details, see Edgar Grande, Vom Monopol zum Wettbewerb? Die neokonservative Reform der Telecommunikation in Großbritannien under der Bundesrepublik Deutschland (Wiesbaden: Deutscher Universitäts Verlag, 1989); Susanne K. Schmidt, "Taking the Long Road to Liberalization: Telecommunications Reform in the Federal Repbulic of Germany," Telecommunications Policy 15, no. 3 (June 1991): 209-222.

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15. Süddeutsche Zeitung (hereafter SZ), 29 June 1994.

16. Neue Zürcher Zeitung (hereafter NZZ), 9 July 1994; NZZ, 30 June 1994; SZ, 29 June 1994.

17. NZZ, 9 July 1994.

18. "Orientierung für eine Postreform III." Gutachten des Wissenschaftlichen Beirats beim Bundesministerium für Wirtschaft. Studienreihe, Nr. 85, February 1995.

19. Roland Doll and Lorenz Nett, "The Future Regulatory Framework of the Telecommunications Market in Germany," Center for Tele-Information, Technical university of Denmark, Working Paper No. 15, May 1996; Telekommunikationsgesetz (TKG) off July

25. 1996. Bundesgesetzblatt, 1996. Part 1. No. 39, issued in Bonn, July 31, 1996; Author interviews.

20. Owen Darbishire, "Restructuring Strategy and Work Organization: Deutsche Telekom." Paper for the International Telecommunications Research Network, Cornell University, April 1995. Page 19.

21. Even though civil service employees did not enjoy co-determination rights, the DPG had long evolved a strategy of protecting civil servants' interests, thus creating a set of overlapping loyalties unique to civil servants in the Bundespost's employ.

22. This paragraph is based on Owen Darbishire, "Switching Systems: Technological Change, Competition, and Privatisation," Industrielle Bezeihungen, 2:3 (1995): 156-179, especially 170 ff, and on Author interviews at Deutsche Telekom, Bonn, November 1995. See also Susanne K. Schmidt. " Taking the Long Road to Liberalization: Telecommunications Reform in the Federal Republic of Germany," Telecommunications Policy (June 1991): 209-222.

23. Research memorandum by Christopher Delbrueck, June 10, 1995, and author interviews, Deutsche Telekom, Bonn, November 1995.

24. German Reuters News Service, 28 June 1994.

25. Author interviews, Deutsche Telekom, Bonn, and Deutsche Postgewerkschaft, Frankfurt, November 1995.

26. Further detail an incentive-based compensation provisions and on the change from Personalräte to Betriebsräte are contained in Owen Darbishire, "Switching Systems...," Industrielle Beziehungen.

27. Author interviews, Deutsche Telekom, Bonn, November 1995.

28. Author interviews, Bonn, November 1995.

29. "Deutsche Telekom tempts employees," Financial Times, December 14, 1995; "Deutsche Telekom in row with investment bank," Financial Times, November 4, 1996.

30. "Germans dive into the equity culture," Financial Times, November 19, 1996