The demise of Deutschland AG: why Germany's once untouchable giants are gripped in scandal and crisis


With VW, Deutsche Bank and Lufthansa in crisis, what has gone wrong with Germany Inc?

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In the home of schadenfreude, misery loves companies. Germany's once seemingly untouchable national champions – from VW and Deutsche Bank to Bayer and Wirecard – have been gripped by scandal and crisis. Business rivals are asking each other how much worse it can get for Deutschland AG.

"This is not what 'Made in Germany' stands for,'" says one senior German business executive. "There is a sense of embarrassment that some of the country's few global champions seemed to act ruthlessly, bending the law and incurring legal fines for misbehaviour."

It has certainly been a rough period Europe's powerhouse. Frankfurt-based Deutsche Bank, once a symbol of German economic might, is now Europe's most troubled big bank despite repeated efforts to revive fortunes and move on from past misconduct.

Described by analysts as "the Punch and Judy clown that keeps getting up again," it is currently under scrutiny over its links with Donald Trump, is expected to unveil sweeping cuts next month and faces a US investigation for possible money-laundering lapses.

It is not facing challenges alone. Wolfsburg-based car maker Volkswagen is trying to move on from its 2015 diesel emissions scandalbut, alongside its German rivals BMW and Mercedes-Benz owner Daimler, it could be hit with further fines by EU regulators over claims they colluded to block the development of clean air technology.

Then there's Bavaria-based payments giant Wirecard, which has this year been hit with claims of fraud and accounting irregularities (the company has denied the allegations). And Leverkusen-based Bayer, the German chemical behemoth which acquired Monsanto for $63bn (£49.5bn) last year and now faces thousands of lawsuits over claims that Monsanto's weed killer Roundup causes cancer.

Bayer, which has seen its shares plunge since the deal, was the "poster child for consistent value creation by German corporates" and the volatility caused by the legal drama has rocked investors, says Berenberg analyst Sebastian Bray.

But it is not just scandal-hit firms that are being dragged down. Last month Thyssenkrupp, the German lift company, said it would slash 6,000 jobs after abandoning plans for a merger with Tata Steel. Last week Cologne-based Lufthansa, Europe's biggest airline, and Munich-based chipmaker Siltronic both issued profit warnings, the former squeezed by competition from low-cost rivals and rising fuel costs, and the latter hit by the US crackdown on exports to China, Germany's major export destination.

"The issue for German companies is the over-reliance on exports which is great when global trade works [but] nowadays trade is questioned, the currency doesn't offer incremental benefits and technological trends move away from German core skills," says Arndt Ellinghorst, an analyst at Evercore who used to work for Volkswagen. "This drives the need for transformation away from machinery and engineering into software and digital. German labour and education can manage that change but it will take time and likely involve a recession."

Others argue that the problem with these companies goes much deeper and reflect a wider problem with business culture in Germany. Michael Huenseler, a fund manager at Assenagon Asset Management in Munich, says the fact that firms in multiple sectors have faced issues shows that "corporate governance has been part of the problem" and the "power of the CEO" is where the difficulty lies.

One London-based restructuring boss, who asked not to be named, says his company avoids doing work in Germany because there has traditionally been a hierarchical structure where people don't tend to question management and investors keep quiet.

"In many classic companies in Germany, hierarchies are very pronounced and the management approaches are often power-oriented. Unfortunately, the management style is often too top-down," agrees Michael Wolff, a professor at the University of Gottingen.

"Traditionally, institutional investors have [also] played a subordinate role in assessing the corporate governance structures of German companies. Hardly any pressure was exerted on poorly performing companies and their supervisory boards. Due to the growing importance of institutional investors and their demand for professionalisation of supervisory board work, more systematic pressure is now being exerted."

Bayer acquired Monsanto last year and now faces thousands of lawsuits over claims that Monsanto's weed killer Roundup causes cancer CREDIT: JEFF ROBERSON

Recent shareholder meetings show that investors are finally starting to put their foot down. The 9,000 Frankfurter sausages, 9,000 pretzels and 13,000 slices of cake Deutsche Bank ordered for its nine-hour shareholder meeting last month failed to appease investors, with one shouting "we are faced with a pile of ----" and "if Pope Benedict XVI can resign, why not [Deutsche chairman] Paul Achleitner?".

BMW also faced criticism at its recent shareholder meeting, while last week Wirecard was criticised for being “managed like a start-up”. In April, investors delivered Bayer chief executive Werner Baumann and his team an unprecedented vote of no confidence during a marathon, 12-hour meeting.

“The acquisition of Monsanto was carried out without asking the shareholders. As a result, the majority of investors at the last [AGM] voted against the relief of the management board. This is unique in German economic history,” says Wolff.

“The loss of reputation is enormous and the pressure on the board has increased significantly.”

Deutsche Bank chief executive Christian Sewing is under pressure to revive the business

Sacha Sadan, who is in charge of corporate governance at Britain’s Legal & General Investment Management (LGIM), says he expects scrutiny to grow on German companies in future. LGIM, for example, opposed 36 German companies in 2018 compared to just 19 the year before.

Germany’s listed businesses are feeling the pressure as foreign investors such as LGIM, which manages around £1 trillion worth of assets, make their demands known.

The advisory arm of London-based Hermes Investment Management last year called on Deutsche Borse chairman Joachim Faber not to serve his full three-year term, to 2021, months after the German exchange giant faced allegations of insider trading. Faber is stepping down next year.

Meanwhile, in an eight-page letter published earlier this year, Sadan called on German corporates to hire an “independent counter-power” onto their board and to increase diversity at the top. He also warned that the common practice in Germany of asking a former member of the management board to be chairman of the supervisory board – the country operates a two-tier board structure – creates “an inherent conflict” of interest.

“You’re seeing an ever-increasing importance of foreign institutional investors in the German market which means that for the first time there’s a more fundamental reflection of where governance should go,” says Joerg Rocholl, president of the European School of Management and Technology in Berlin.

“It was unheard of in the past that there could be no approval of the advisory board [in Germany] – this is definitely something that is completely new. I would expect this trend to continue and for investors to take a more active stance than they have done in the past. It will certainly have an impact on management.”

Some think now is a good time to invest in German businesses. Frédéric Guignard, a fund manager at Aviva Investors which has holdings in German software group SAP and medical conglomerate Fresenius, says there are plenty of opportunities as companies are currently undervalued.

“Germany’s economy has historically been more reliant on exports than other European countries, and the country is highly exposed to the automotive, chemicals and industrials sectors. These sectors are currently suffering from the ongoing trade war between the US and China. We think this situation is creating opportunities for patient, long term investors," he adds.

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