

Emergence into Europe? The Estel failure and Hoesch's changing concept of corporate culture in the 1970s and 1980s

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When Dortmund's Hoesch Plc took over its weakened competitor Dortmund-Hörder Hüttenunion (DHHU) in 1966, the 43% share in the former Phoenix group DHHU which had been held by the Dutch Hoogovens steel group since the 1920s¹ was converted into a 14% share in Hoesch Plc. Then, after Willy Ochel's retirement, Friedrich Harders, new chairman of the Hoesch board of directors, worked with Deutsche Bank chairman Hermann Josef Abs to implement an ambitious takeover project which he had first presented to experts at the German Iron and Steel Industry Conference in 1969 and about which preliminary talks had been held by Hoesch and Hoogovens representatives as early as 1964. The 1966 takeover was accompanied by an outline agreement which codified close future cooperation between the two companies, including the reciprocal coordination of investment activities, namely the extension of both the Ijmuiden raw steel base and Dortmund's processing facilities. The stage was set for Estel, Europe's first international combine, which was founded in 1972. Estel's headquarters was set up in Nijmegen in the Netherlands, which, symbolically, is situated halfway between Dortmund and Ijmuiden. Producing 11 m tons of raw steel a year and employing almost 80.000 workers, the new multinational combine ranked third within Europe and seventh internationally.

The following talk will work from the assumption that the Estel failure was not only due to a misinterpretation of the structural development of the steel market but also to communication problems within the company and the neglect of a strategic personnel policy. The ensuing loss of corporate identity was ultimately responsible for the breaking-up of Estel. Just how significant these "soft factors" were is effectively demonstrated by the successful restructuring and revitalizing process undergone by Hoesch in the 1980s, at the heart of which lay a carefully planned new concept of corporate culture.

¹ This was basically an unwelcome assumption of power in which Willem van Vloten, longstanding board member in Hörde, and Cologne industrialist Otto Wolff played a decisive role.

But first, let us look at the economic centrepiece. Strategically reliant on continuous growth based on increasing financial strength and market leadership, Estel pursued the following goals:

- optimization of both sites
- coordination of product ranges
- joint big investments
- enhanced international market presence
- realization of synergetic effects

Occurring at the same time as the energy crisis of 1973², the structural crisis in the iron and steel sector³ was due to a palpable slump in demand amongst traditional steel purchasers like the car, construction and shipbuilding industries. The underlying factors responsible for this crisis, however, were not limited to the economic trends of the time but included developments of structural nature, with specific steel consumption plummeting in the traditional industrial countries, where substitute materials like aluminium, plastic, glass and ceramics have come to replace steel in many areas. By comparison, per capita increases in steel consumption are only likely long-term in developing countries, take-off countries and industrialized countries which are currently going through the first stage of industrial growth – a phenomenon that we currently observe in China.⁴

At this stage, however, we also observe major structural shifts on the supply end, which include Japan's forging-ahead (120 m tons in 1980) as well as an increase in the steel production in certain developing countries, in such countries that are on the threshold of industrialization and in Eastern Europe. On the whole, the global production of raw steel soared from 200 m tons in 1950 to 700 m tons in the 1980s, with the number of steel-producing countries rising from 48 to 90. One consequence

² The costs for energy rose dramatically and, in the steel industry, made up about 25% of the total cost.

³ In economics, the term 'structural crisis' refers to a situation where all enterprises within a certain industrial sector are unable to use their plants to full capacity over prolonged periods of time and are forced to throttle down their production significantly, which leads to losses, typically leaving little optimism for substantial medium-term improvement; cf. A. Heitmann: *Das Strukturkrisenkartell*, Frankfurt/M. 1990, p. 25.

⁴ Between 1973 and 1982, per-capita steel consumption decreased by 33% in the Federal Republic of Germany, by 42% in Great Britain and by as much as 49% in the USA; cf. also W. Reichelt: *Die Entwicklung neuer Strukturen in der Stahlindustrie vor dem Hintergrund der 3. industriellen Revolution*, in: *Stahl und Eisen* 105,12 (1985), pp. 33-36; Helmut Wienert: *Perspektiven der Stahlindustrie in hochentwickelten Ländern*, Bochum 1995.

of this new competitive atmosphere was that many companies made considerable investments and purchased cheap large-scale units which, however, could only be used profitably when run at more than 80% of their capacity. The slump in demand and the extension of capacities led to prices dropping 35% and production going down 20%. The facilities were merely being used to 68% of their capacity and a financial catastrophe was looming in the near future. We will have to do without going into the subsidy issue and with giving an in-depth analysis of the EGKS's unsuccessful policy at this point, but it is clear that Estel had made some wrong strategic decisions.

Estel's books show profits of 170 m florins for 1973 and 323 m florins for 1974. Given this favourable profit situation, the company was clearly on an expansion course. The Ijmuiden site especially was desperately searching for qualified workers, who often had to be recruited abroad. In 1974, 11.7 % of Estel's employees were immigrant workers. At 15%, this rate was even higher in Ijmuiden. Altogether, Estel employed 77,600 staff, two thirds of whom worked in the Hoesch section. Estel's corporate policy, which promised a stronger synergetic effect through increasing production, seemed to be successful. During the first three business years, the company's turnover increased by over 25% and reached 10.2 m bn florins in 1974.

Simultaneously, the steel production had risen from 8.3 m tons to 12.1 m tons. These developments were made possible by enormous investments which totalled 2.7 bn florins between 1972 and 1975 and 841 m florins in 1976 – the latter investments had been agreed before the crisis broke out.

Then from 1975, Estel made staggering losses which amounted to 2.335 bn florins. The company tried to make up for these losses by carrying out radical staff cuts. At the same time, several new companies were consolidated into the Estel group. The number of employees having been adjusted accordingly, 8,300 jobs were cut between 1974 and 1981, over 5,500 of which in Dortmund. These figures do not yet include the reduction of overtime, which equals another 2,900 full jobs. Annual investments were halved and reduced to just over 400 m florins. While severance pay programmes and early retirement policies from 59 years had been offered as early as 1977, workers could already retire at the age of 55 in 1980, for which EGKS funds were available if plant closures became necessary due to a difficult market situation.

However, EGKS did not order for the production of various steel products, e.g. band steel, raw sheet metal and heavy and light steel profiles, to be reduced until the last quarter of the business year of 1980.

On 1 January 1979 Detlev Rohwedder, who had formerly worked under Karl Schiller and, later, Otto Graf Lambsdorff, as minister of state in the federal economics ministry, entered the Hoesch Plc board to help the company get back on its own feet again. He worked to speed up the separation from Estel, which was eventually agreed to by a large majority on the Hoesch general meeting of 16 November 1982.

So why did Estel break up? This question essentially takes us back to the thesis that I introduced at the start. The first post-Estel business report contains the board of director's answer to this question: "As regards the policy of the company, Hoesch is now free from Estel and in future will be able to shape its future independently. It is the conviction of the board that Estel would no doubt have survived the devastation caused by the crisis if the company had had the benefit of several years' successful cooperation prior to the crisis in order to really grow together."

In other words, Hoesch and Hoogovens had not grown together and had failed to form a unit. It would have been up to corporate communication to speed up this very process. A critical look at the company magazine and the business reports, which are known to be the traditional instruments of corporate communication, clearly reveals the absence of a comprehensive communication strategy:

1. Right from the start, the merger of Hoesch and Hoogovens was subject to widespread criticism, not only within Hoesch's individual companies but also regionally.⁵ In the face of criticism, however, little was done to use corporate communication strategies as a tool to change the atmosphere.
2. The business report merely provided *ex post* arguments for previous decisions affecting the company. The shareholders, who factually owned the company, were neither addressed directly nor informed comprehensively about any future steps and thus excluded from all strategic deliberations. This ultimately

⁵ The regional press, for instance, was under the impression that "big" Hoesch was being dominated by "small" Hoogovens; cf. "Schluckt der Kleine den Großen? In: Ruhr Nachrichten, 27 June 1970; Dividende kontra Menschen, in: Ruhr Nachrichten, 27 June 1970.

illustrates the self-image of Estel's management: all the right and necessary decisions were made by a more or less autonomous institution. The doubts and critical objections expressed by the shareholders, the majority of whom were active or former Hoesch employees, were purely and simply ignored.⁶

3. The business reports were predominated by an extremely impersonal "Estel brand" (one-sided, functional economic information; indirect and distanced language; "sterile" cover typography), which superseded the traditional Hoesch identity (textual predominance right from the beginning; graphical predominance from 1974). As regards the company's printed annual statement of accounts, the report on Hoesch no longer contained any pictures, graphs or tables and was neglected in style and extent – unlike the section that contained Estel's figures, which was well-structured and contained numerous non-verbal features. From 1975 onwards, the statement was only available with the upper right corner of the Hoesch report already cut off, which encouraged readers to skip the Hoesch section and to move on directly to the Estel statement.
4. The number of pages of the company magazine was reduced by one quarter, to only 28 pages. A detailed analysis of the topics covered in the new editions shows that the "employees" column (-10%), which had formerly been topic number one, now took a backseat to certain topics, especially those related to the image cultivation of the new Estel group (+15%), which were given more space, e. g. "marketing" (+9%) and "production" (+7%). Naturally, the employees had important questions about many an aspect of the entirely new situation that their company was in, not least because they feared shutdowns and considerable staff cuts, but their questions widely remained unanswered. As a consequence, the employees' concerns were not remedied and the relationship between the workforce and the new company started to cool.
5. In addition to the employees' worries, the regional environment, too, saw a growing feeling of uncertainty, especially with the city of Dortmund and the Chamber of Industry and Commerce, because negative repercussions of the expected scaling-down of the biggest local employer and investor were feared to affect the structures of the local economy and communal structural politics.

⁶ According to a 1989 survey, most Hoesch stocks belonged to small shareholders, with about 46,000 employees, workers, pensioners and housewives holding about 60% of the share capital; cf. *Werk und Wir* 6 (1989), p. 195.

It's true that "social communication" was enhanced, which essentially meant the intensification of contacts with political decision-makers in the region, the federal state and within the federal government, but this was to no great effect. On the whole, topics related to this situation were not given more room than 3% of the total number of topics within the publication.

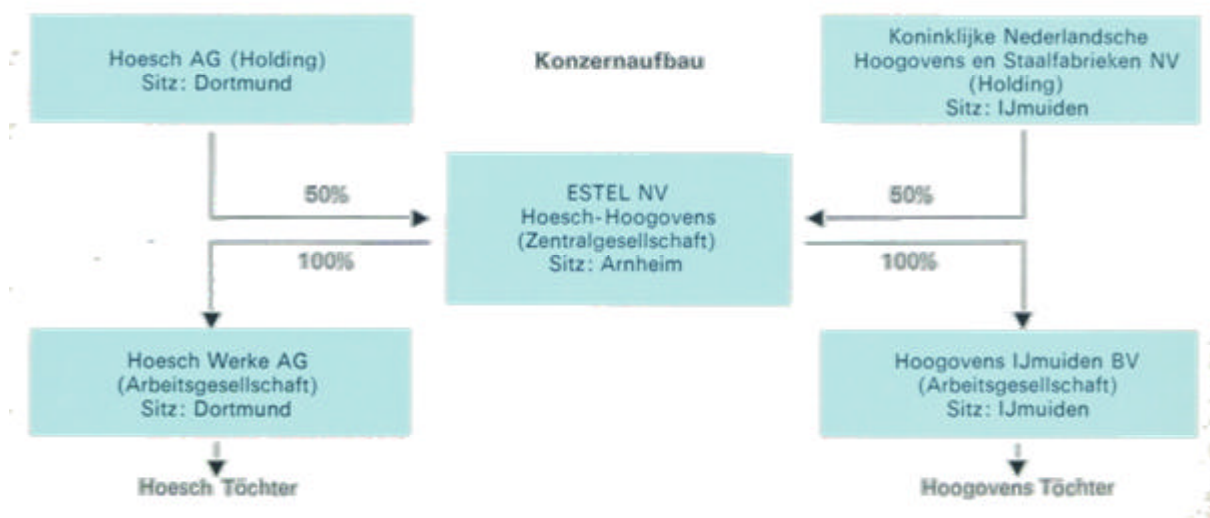


6. During the phase of crisis after 1975, the selection of topics presented by the company magazine underwent some striking changes. Firstly, the maxim of cost reduction, including such topics as technological rationalization, industrial safety and internal award schemes for suggestions for improvement, came into focus. Secondly, there were more reports about trends regarding the number of employees and also about topics relating to labour disputes such as the interaction between the union and its institutions. The fact that worker issues were now given more room is a positive development in itself because the reports eased the tension inside the company and had a somewhat calming effect on the workers. However, a second consequence was that they

prevented the creation of a common “Estel identity”. It is worth pointing out in this context that Hoesch’s company magazine contained no recognizable “Estel features” (name, logo) whatsoever. Similarly, Hoesch’s affiliation with Estel was not made visible when Hoesch’s companies presented themselves on the occasion of trade fairs.

7. To put it in slightly drastic terms, the firm’s management developed a policy of “maintaining living standards”, which was accompanied by a distribution battle between Hoesch and Hoogovens and the priority of national interest. A good example of this is the fact that a major investment, namely the construction of a modern oxygen steelworks in Dortmund, was cancelled in 1981. The investment had been promised in 1979 in reaction to numerous shutdowns and reductions in manpower which cost 4,200 workers their jobs.
8. The negative Estel example clearly corroborates the assumption that the intensity of communication has an impact on how successful measures to revitalize a company are.⁷ The absence of a communication offensive at a time of crisis essentially shows that there were no conceptual plans for the future after the strategy that aimed for growth had failed.

One of the main communication problems was that Estel itself did not produce any goods but was merely a body responsible for the operating companies. In fact, the group’s complex make-up impeded integration.

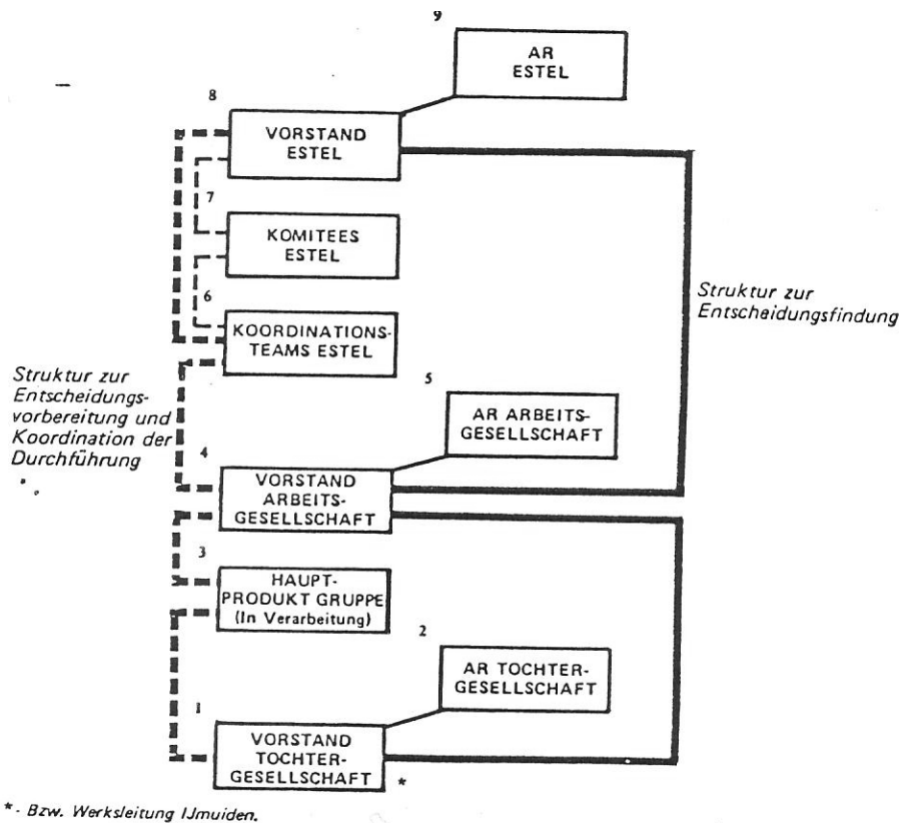


⁷ “Successful but shrinking companies begin to adapt to the new situation by analyzing all the areas which are likely to be affected by the changes to come; this first phase of adaptation is a phase of intense communication,” Cf. Martin K. Welge, Hans Hermann Hüttemann: Erfolgreiche Unternehmensführung in schrumpfenden Branchen, Stuttgart 1993, p. 98.

Apart from the failure of corporate communication systems it is to be noted at this point that Hoesch pioneered in training its own executive personnel long before the merger, after which this know-how was no longer used. Estel's organizational philosophy which was based on the "Copenhagen Model" failed: decision-making that necessitated the installation of committees and coordinating groups was too complicated.⁸

In addition, the fact that the members of all decision-making bodies had an equal say also proved to be an obstacle, as Rohwedder pointed out after Estel's disintegration: "Votes were cast in accordance with people's nationality, and it was then that I understood that we were not an association that was willing to take on responsibility for joint decisions in an atmosphere of solidarity." The efficiency of the decision-making processes was also affected by frequent changes in the distribution of responsibility on the management level which were due to unforeseeable changes on the board.

⁸ A detailed description of the procedure can be found in a report by Christoph Knapp, former general manager with Hoesch, cf. Estel NV (7. Juli 1972 – 4. Oktober 1982). Ein Abschnitt in der Unternehmensgeschichte der 1871 gegründeten Hoesch AG (um 1989), pp. 44-56; WWA F 5180.



This was completely different in the post-Estel era, when Hoesch Plc was successfully restructured and revitalized, a process which was founded on a new sense of corporate identity. Economically speaking, most of the profile steel section shut down while the much more profitable sheet metal section (Contiglühe, zinc plant) was extended.

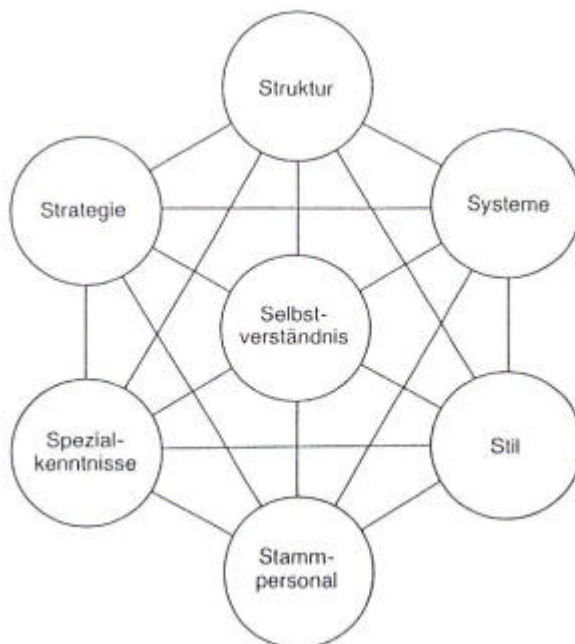
The other side of the coin was that the number of workers employed by Hoesch Steel Plc was more than halved from 30,000 in 1979 to 14,300 in 1991. By acquiring companies and shares, especially in areas like processing, automation, industrial and systemic technology, Hoesch became a highly developed group for industrial goods and reduced the production of steel to as little as 25% of its total turnover.

Rohwedder's corporate strategy, which he himself referred to as "Hoesch II", was soon successful economically: in 1984, the company's profits amounted to 182 m marks, setting the trend for the years to come. The 1989 profit of 558 m marks made company history. Between 1982 and 1990⁹, the turnover rose from 9.8 bn marks to 16.1 bn marks, with capital resources rising from 643 m marks to 2 bn marks over the

⁹ 1991, the last business year of Hoesch Plc, was not chosen here because the sphere of consolidation had changed, which would have made a comparison with previous years more difficult.

same period of time, whereas debts could be lowered from formerly 2.4 bn m to 1.8 bn marks. In 1990, the group employed 52,200 workers.

The first step towards a systematic effort to create a basis of corporate culture for “Hoesch II” was a book presented to Hoesch’s executive personnel by the management at Christmas 1983, the German translation of “In Search of Excellence” by the two American directors of McKinsey, Thomas Peters and Robert Waterman.¹⁰ One of the key statements was: “All the organizational elements that have thus far been dismissed as irrational, intuitive or informal elements that could in no way be influenced do leave some potential for control and influence by managers after all. And these factors certainly have at least as much of an impact on the success (or the failure) of your company as the formal structures and strategies.”¹¹ The following diagram, which was designed to look like an atom, emphasizes the system of all seven factors (“7 S model”):



It would go too far to test this entire model as illustrated by the Hoesch revitalization, but allow me to pick out the fundamental developments in corporate culture as I see them, which in this model would correspond to the factor “self-image”:¹²

¹⁰ German: Auf der Suche nach Spitzenleistungen, Landsberg/Lech 1986; the first edition: In Search of Excellence. Lessons from America’s best run companies, was published in New York in 1984.

¹¹ Ibidem, p. 33.

¹² We must do without going into the “style” factor here although this factor is quite closely related to the sphere of corporate culture. In the case of Hoesch, there had been an ongoing discussion about

All norms, values and attitudes that form the actions of all members of a company are shown in the personal profiles of the company's executive personnel, in the quality of communication, the central themes and guiding principles as well as in the so-called "softer factors" such as the circulation of anecdotes, myths, legends and figures of speech. The potential strength of corporate culture lies in the fact that it can act as a multiplier for any steps taken by the management, which is of particular significance at times of crisis. Companies that want to survive need to have at their disposal a solid foundation of principles and values which can help to avoid a depressed atmosphere and, by giving everyone involved a sense of security, this foundation can also encourage employees to achieve more. Moreover, visions like the ones propagated by Rohwedder as "Hoesch II" are required for such measures of reorganization to be successful. It was certainly helpful that Rohwedder was voted "manager of the year" in 1983, a powerful signal that things were looking up for Hoesch which had an effect both inside Dortmund and far beyond.

In 1985, Hoesch instructed Hill and Knowlton to assess the quality of the company's structures of internal communication. The study confirmed Hoesch's nondescript public image and also noted that Hoesch's management personnel had difficulties "in standing up for Hoesch and in putting everything they have got into our enterprise."¹³ The study thus shows just how difficult it is to make such goals a reality, especially those related to corporate culture. Hoesch reacted to this by launching a communication offensive. In 1986 and 1987, systematic campaigns were carried out, especially with the help of the national press and the big business magazines, to polish up its public image. What followed in 1988 was the introduction of a standardized corporate design across the group, with which the old Gothic 'H' disappeared as the corporate logo. The company was given a new look in an effort to draw the public's attention to the fact that Hoesch was active in many areas and that the company's activities were not limited to the production of steel. Not only was this

modern leadership since 1963, which, in the 1950s, was influenced by the early cooperation with Dortmund's institute for social studies, headed by Otto Neuloh (cf. "crew system") and which was then commonly referred to as "cooperative leadership"; cf. Karl-Peter Ellerbrock: Signatur der Zeit. Visuelle Unternehmenskultur bei Hoesch in den „langen 1950er Jahren“, in: Clemens Wischermann, Peter Borscheid, Karl-Peter Ellerbrock (ed.): Unternehmenskommunikation im 19. und 20. Jahrhundert, Neue Wege der Unternehmensgeschichte, Dortmund 2000, pp. 131-166.

¹³ Quote: Detlev Rohwedder in a "Werk und Wir" interview on Hoesch's new guiding principles; cf. Werk und Wir 1 (1988), pp. 16-17.

new appearance was omnipresent now, with brochures, adverts, letterheads and vehicle and building labels all following the same layout.

On the occasion of an executive conference held in 1987, Rohwedder also pointed out, "This new Hoesch world also requires a new mentality, a new way of thinking and hence a new culture. An open-minded, cosmopolitan outlook, an orientation towards our customers, high quality standards and excellent service, professionalism with which we want to run our enterprise are the constituting elements of this new corporate culture, just like a greater degree of partnership between our management, executive personnel and all other employees."¹⁴ This was the starting point of a discussion of Hoesch's guiding principles that were introduced one year later as "Hoesch's corporate principles". Apart from growth, innovation, an international orientation, social responsibility and orientation towards customers, which were regarded as indispensable ingredients in the company's recipe for success, the declaration emphasized that the employees especially were going to play a decisive role when it came to shaping the company's future in a positive way. By publishing these corporate principles, Hoesch continued a development that had already begun in 1966, when Hoesch had formulated "general principles of management", a refined version of which was published in 1970 and which had withered in the course of the Estel era.¹⁵ Hoesch now had strategic communication targets, on which Rohwedder commented as follows: "Many states write down a constitution, parties and unions publish policy statements in order to enable people to focus on common goals. Similarly, enterprises should also have certain guidelines that make educate all employees on the company's underlying values and on the meaning and the purpose of the work done by the individual."¹⁶

The first series of international corporate conferences, the new "Hoesch International" magazine, the 1989 opening of the Hoesch museum and the modern info centre which was opened at about the same time are to be understood as expressions of Hoesch's new corporate identity that the company had been living without for many years. Hoesch Plc was also one of the founding members of the "Ruhrgebiet

¹⁴ Cf., Neue Hoesch-Kultur durch Unternehmensgrundsätze, in: *Werk und Wir* 3 (1987), p. 92.

¹⁵ Cf. also footnote no. 12.

¹⁶ Hoesch-Unternehmensgrundsätze, in: *Werk und Wir* 1 (1988), p. 16.

Initiative” association¹⁷ and, in 1989, joined the “Venture Capital Fund” an initiative of representatives of Dortmund’s economy, providing 10 m marks in order to help create a more innovation-friendly atmosphere in the Dortmund area. All these publicity measures were doubtless responsible for the fact that Hoesch was often looked upon as an enterprise that had successfully faced structural change, both in Dortmund and nationwide. Michail Gorbatschow visit on 15 June 1989 certainly marked a climax in the history of Hoesch’s corporate communication, because for a short moment Hoesch was very much the focus of global attention. After the difficult Estel years, when Hoesch’s survival itself had often been under threat, the company had finally left behind the crisis of identity, and many workers had reason to be proud of their status of “Hoeschianer”. Naturally, Hoesch’s corporate principles did not neglect the company’s own history. The first and second sections, for instance, say, “We are proud of our history, which goes back over a hundred years” and “It is our long tradition that gives us the strength to persist on future markets.”¹⁸

¹⁷ “Ruhrgebiet Initiative” is an association of about 40 renowned companies whose goal is to promote structural change in the Ruhr area.

¹⁸ Cf. Hoesch-Unternehmensgrundsätze, in: *Werk und Wir* 1 (1988), p. 16.