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Restrictions on human capital transfer: AKU versus Glanzstoff, 1929-69[1]

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Abstract

In 1929 Dutch (Enka) and German (VGF) artificial fibres companies merged and became part of a Dutch holding company AKU. Both sides had been multinationals before the merger, with affiliates in in the UK, Italy and the US. Ownership and management relations after the merger, however, were not always crystal-clear, and changed constantly during the turbulent years of the 1930s and 1940s. The paper addresses the tensions and conflicts within the Dutch-German group since the take-over of 1929 until the full merger into Akzo in 1969. The paper looks closely into the historical background of these tensions and conflicts that existed between the management of the Dutch parent company (AKU) and the management of its German subsidiary (VGF), and the long-term restrictive effects on human capital transfer and development of local entrepreneurial and managerial talent.

The manufacturing of artificial silk (later called rayon), based on wood pulp, started at the end of the nineteenth century. During the 1930s the industry advanced after DuPont had invented nylon in the United States.[2] The Nazi autarkic system, however, also gave a boost to the development of new fibres, for example the output of staple fibres, which were used in car tires, increased rapidly. The 1950-70s period can be marked as the golden years of the artificial fibres industry, which showed unprecedented growth rates at the time in Europe, the US and Japan. It was a period of extensive investments of new and existing chemical companies in the manufacturing of new fibres, like acryl, polyester, and lycra, which were based on coal and oil.[3]

In 1929 a conglomerate of Dutch and German artificial fibres companies – Enka (N.V. Nederlandsche Kunstzijdefabriek) and VGF (Vereinigte Glanzstoff Fabrieken A.G) – merged and

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[1] First version. Please do not quote without the author's permission.
[2] *G.Owen*, The Rise and the Fall of Great Companies. Courtaulds and the Reshaping of the Man-Made Fibres Industry, Oxford, p. 12.
[3] Ibid. p. 35.

became part of a Dutch holding company AKU (Algemeene Kunstzijde Unie). Both sides had been multinationals before the merger, with affiliates in in the UK, Italy and the US. Ownership and management relations after the merger, however, were not always crystal-clear, and changed constantly during the turbulent years of the 1930s and early 1940s. As a result, after the Second World War the British, and in particular the American occupation authorities questioned the national ownership of AKU and VGF, and whether they should be treated as Allied or as enemy companies. The Dutch government had eliminated enemy stockholders and transferred the stock held by German citizens and the priority shares to the State of the Netherlands after the war. Meanwhile, the Allies had appointed the former VGF chairman as custodian. AKU thereupon demanded a majority for the Dutch in the Advisory Board and an overriding influence in the Executive Board. A long lasting conflict between the Dutch and the German side started. It was not until 1969, when the two companies completely merged and shortly became part of Akzo (now AkzoNobel), that disagreement about management and ownership issues unraveled.

This paper addresses the tensions and conflicts within the Dutch-German multinational company since the take of 1929 until the full merger into Akzo in 1969. It looks into the effects these tensions and conflicts had on the transfer of human capital from the parent company towards the Germany subsidiary and development of local entrepreneurial and managerial talent.[4] The paper looks closely into the historical background of these tensions and conflicts that existed between the management of the Dutch parent company (AKU) and the management of its German subsidiary (VGF). How was VGF managed in these years, and what did the parent company do to influence the decisions of the German management? What role did nationality play and what was the role of the two national governments? To what extent was the decentralized structure of the Dutch multinational a result of the complicated and rather muddled property relations before, during, and after the war? Last, which general lessons can be learnt about the relationship between ownership and control – two closely related concepts, which have been confused frequently in Business History and Economics?

The Rise of Dutch Multinationals in Germany

[4] Defined by Nuria Puig (FILT project) as the stock of knowledge, skills and relationships embodied in the locally established managers of companies controlled by or with the participation of foreign capital, which facilitate economic action and the production of economic value.

Dutch direct investments in Germany originated in the context of integrated economic relations between the Netherlands and its large neighbour from the end of the nineteenth century onwards. Their geographical position, connected by the Rhine and several railways, led to cross-border economic co-operation. From the 1870s onwards, the Ruhr area developed into Europe's most important industrial centre, an expansion that would not have been possible without the Rhine. The same can be said of the development of Rotterdam's ports into Europe's most important deep sea port of Europe.[5] Transit traffic had become the source of extensive trade connections. At the same time mutual trade between Germany and the Netherlands was strongly stimulated. The Netherlands became an important market for German industrial products, whilst Germany became the principal buyer of Dutch agrarian produce.

As a consequence of the rapidly increasing economic relations between the two nations Dutch capital began to flow into German industry. At the same time, Dutch entrepreneurs in the rising industries often sought out opportunities to make contact with highly developed German concerns. Dutch industrialists were keen on German technology.[6] In addition, the German Reich's protectionist policy stimulated Dutch cross-border investments; in order to maintain their market position in Germany, Dutch companies had to establish subsidiaries in that country itself.[7] Direct investments of Unilever's forerunners in Germany, for instance, date back to the late nineteenth century. In 1888 Jurgens set up a margarine plant just across the border in Germany (Goch) after the Bismarck administration levied a tariff on margarine.[8] Demand for the cheap butter substitute had been great in the growing industrial regions of the country, such as the Ruhr district.[9] Van den Bergh, Jurgens' main competitor in the margarine business, quickly also set up a margarine plant in Germany (Cleves is also just across the Dutch border and near Goch). From this position both companies were able to build large empires in Germany.

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[5] *R. Laspeyres*, Rotterdam und das Ruhrgebiet, Marburg 1969; *P.Th. Van de Laar*, Port Traffic in Rotterdam: the Competitive Edge of a Rhine-Port (1880-1914), in: *R. Loyen/E. Buyst/G. Devos (Eds.)*, Struggling for Leadership: Antwerp-Rotterdam Port Competition between 1870 and 2000, Heidelberg 2003; *F.M.M. de Goey (Ed.)*, Comparative Port History of Rotterdam and Antwerp (1880-2000): Competition, Cargo and Costs, Amsterdam 2004; *H.A.M. Klemann/F. Wielenga*, Die Niederlande und Deutschland, oder verschwindet die nationale Ökonomie? Eine Einleitung, in: *H.A.M. Klemann/F. Wielenga (Eds.)*, Deutschland und die Niederlande Wirtschaftsbeziehungen im 19. und 20. Jahrhundert, Münster 2009, p. 13.
[6] See for example: *E. Homburg/A. van Rooij*, Die Vor- und Nachteile enger Nachbarschaft. Der Transfer deutscher chemischer Technologie in die Niederlande. in: *R. Petri (Ed.)*, Technologietransfer aus der deutschen Chemieindustrie (1925-1960), Berlin 2004, pp. 201-251.
[7] AkzoNobel Historical Archive (ANHA), 552, Participations Duitsland 1948, Netherlands Interests in Germany, p. 2.
[8] *Ch. Wilson*, The History of Unilever. A Study in Economic Growth and Social Change, London 1954, p. 190.
[9] *G. Busch*, Der Unilevertrust und seine Stellung in der deutschen Volkswirtschaft, Berlin 1937, p. 21.

After the First World War Dutch investments in Germany grew even more. Dutch companies had become increasingly dependent upon their relations with Germany and resumed their capital investments in Germany. Good financial results during and right after the war allowed big Dutch companies to expand internationally. In addition, at the beginning of the 1920s the strong Dutch guilder was at a great advantage, compared to the weak mark of the German rivals. The Dutch took over numerous German companies after the mark's depreciation.[10] Besides, the Dutch big companies had access to cheaper capital than their local rivals via the Amsterdam and London stock exchanges and the expansion of the Dutch banking system during the 1920s. German acquisitions were mostly financed through the Dutch capital market. Van den Bergh and Jurgens bought oil mills and other margarine factories, but also expanded in other directions of the production column in Germany in this period.[11] Philips was able to acquire an important X-ray equipment manufacturer and a radio valves factory, which technologically was a huge leap forward for the electronics firm.[12] Next to these acquisitions, Dutch firms also expanded in Germany by way of cross border mergers. An important example is the Dutch-German merger (or take-over) between Enka and Vereinigte Glanzstoff Fabriken (VGF).

Enka, Glanzstoff, and AKU

In 1911, chemist J.C. Hartogs set up the N.V. Nederlandsche Kunstzijdefabriek (Enka).[13] The second founder and major financier of Enka was coal merchant F.H. Fentener van Vlissingen, chairman of the Board of Steenkolenhandelsvereniging (SHV).[14] Another financier was his companion in the coal business the German citizen J. Balthazar, who had also been involved with the establishment of the Vereinigte Glanzstoff Fabrieken A.G (VGF).[15] Both had been interested in the manufacturing of artificial silk because its production process was based on large quantities of energy, i.e. coal. During the First World War Enka profited from a huge demand for artificial silk (later called rayon) and exported in particular to Germany. After the war Enka and VGF made an

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[10] *K. Sluyterman/B. Wubs,* Over Grenzen. Multinationals en de Nederlandse markteconomie, Amsterdam 2009, p. 94.
[11] *B. Wubs*, International Business and national war interests. Unilever between Reich and Empire, London/New York 2008*,* pp.37-40.
[12] *K. Boersma*, Tensions within an Industrial Research Laboratory: the Philips Laboratory's X-Ray Department between the Wars, in: Enterprise & Society 4, 2003, pp. 82-83.
[13] *B.P.A. Gales and K.E. Sluyterman*, 'Outward bound. The rise of Dutch multinationals' in: Jones, G. and Schröter, H.G.(eds.) The Rise of Multinationals In Continental Europe, Alderschot 1993, 65-98.
[14] *H.A. Van Wijnen,* D.G. van Beuningen, 1877-1955. Grootvorst aan de Maas, Amsterdam 2004.
[15] *Joh. de Vries*, 'Fentener van Vlissingen, Frederik Hendrik (1882-1962)' in Biografisch Woordenboek van Nederland, Den Haag: ING.

agreement on the exchange of patents and they set up a small holding company in the Netherlands. Next to the big players on the World market for rayon, the British Courtaulds, the German VGF and the American Viscose Company, the smaller Dutch Enka was able to increase its production, mainly for export, during the first half of the 1920s. Because of increasing tariffs in various export markets threatened Enka's position, it set up an international holding company called Maekubee (Society for the exploitation of artificial silk factories abroad).[16] This company took over two factories in Italy, and set up new factories in Britain and Germany.[17] The latter was a joint venture with VGF set up in Breslau (now Wroclow in Poland) in 1927.[18] In 1929, after the American patents of Viscose Company had expired, Enka also set up an important factory in the US, the American Enka Corporation.[19]

At the end of the 1920s Enka started negotiations with IG Farben about a merger. Director Hartogs, was in favour of a merger with the German chemical giant, Fentener van Vlissingen, Chairman of Enka's advisory board, on the other hand, favoured an amalgamation with VGF. Although VGF's strength in Germany had been interrupted by the implementation of the Treaty of Versailles, whereby it had lost foreign assets and its position in foreign markets, it had been able to regain its strong position on the German market and to rebuild its foreign relations and even to take over other foreign companies.[20] In 1925 VGF had formed a joint venture in Germany with the British Courtaulds, one of the strongest players on the world market for viscose, i.e. Glanzstoff-Courtaulds GmbH in Cologne. Courtaulds contributed 50 per cent of the capital.[21]

In 1929 VGF, nonetheless, one of the largest viscose manufacturers in the world, got into big financial troubles. The smaller but financially strong Enka, which lagged in technology, acquired all shares of the dynamic but highly indebted VGF. The Deutsche Bank played a major role in the establishment of a new holding company, i.e. Algemene Kunstzijde Unie (AKU). The joint German-Dutch company controlled both Enka and VGF, and was formed through an exchange of shares.

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[16] Maekubee means Maatschappij tot Exploitatie van Kunstzijdefabrieken in het Buitenland.
[17] *M. Dendermonde,* Nieuwe tijden. Nieuwe schakels. De eerste vijftig jaar van de A.K.U., Arnhem 1961, pp. 64-67.
[18] *Paul Heinz Boeddinghaus,* Die Konzentration in der Kunstseidenindustrie unter besonderer Berücksichtigung des Zusammenschlusses von „Glanzstoff" und „Enka" zur „Aku", Gummersbach 1931, p. 53.
[19] *K.E. Sluyterman and B. Wubs,* Over Grenzen. Multinationals en de Nederlandse Markteconomie*,* Amsterdam: Boom 2009, 105-107.
[20] *Christian Kleinschmidt,* 'An Americanised company in Germany. The Vereinigte Glanzstoff Fabriken AG in the 1950s' in: Matthias Kipping and Ove Bjarnar The Americanisation of European Business, London 1998, pp. 172-173.
[21] *Geoffrey Jones*, 'Courtaulds in Continental Europe, 1920-1945' in: Geoffrey Jones (ed.), British Multinationals: Origins, Management and Performance, Aldershot 1986, p. 122.

Moreover, the new holding company controlled about 27 percent of the world production.[22] The AKU Board consisted of four delegates of the Dutch group, four of the German group, and one neutral member. In addition, each group received 22 priority shares, and Courtaulds, which had a stake in the new merger as well, received four priority shares. During the 1930s, however, the German side of the company became highly indebted to the Dutch side, as a result, an ever greater part of the company came in Dutch hands.[23] Nevertheless, most of AKU's production was located in Germany. Before the Second World War the viscose industry was clearly part of the transnational Rhine economy. Not only Enka's main plants were in Arnhem next to the Rhine, but also VGF plants were located in the Rhine delta, near the rivers Rhine, Wupper or Main, as the energy intensive manufacturing of viscose heavily relied on cheap transport of coal. VGF's plants were located in Wuppertal-Elberfeld, Oberbruch all three in North Rhine Westfalia, and in Obernburg and Kelsterbach in Essen. Enka's internationalization strategy, however, depended not so much on spatial considerations, although the near-by factor must have played a role, but on Enka's financially sound position compared to VGF's, which had allowed for the take-over.

Currency restrictions imposed by the Brüning government from 1931 onwards, however, and reinforced by the Nazis in 1934 seriously affected the Dutch investors' position. The normal transfer of interest, profits and dividends was no longer allowed. There were far fewer facilities for transferring the capital itself. As a result, Dutch companies were in no sense free in their decisions to withdraw or retain their investments in Germany. It even became imperative to find new investments in that country in order to use their non-transferable accounts. During the 1930s the Nazi regime created immense difficulties and challenges for the major Dutch multinationals with its autarkic policy, currency restrictions, and increasing control over the economy. At the same time, the economic boom which had resulted from Germany's anti-cyclical economic policy and the ensuing war preparations created vast opportunities for new investments. As a result, Dutch FDI, like other international investments in Nazi Germany, increased during this period. Sometimes these investments were the result of German government pressure, sometimes they were the result of Dutch multinationals' autonomous business strategies; other times the interests merged. In all cases, however, the measures of exchange control were paramount.

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[22] *Wolfgang Wicht*, Glanzstoff. Zur Geschichte der Chemiefaser eines Unternehmens und seiner Arbeiterschaft, Neustadt/Aisch 1992, p.55.
[23] *Lothar Gall, Gerald D. Feldman, Harold James, Carl-Ludwig Holtfrerich and Hans E. Büschgen,* The Deutsche Bank, 1870-1995, London 1995, pp. 315-318.

Most of AKU's production was located in Germany. VGF had become a more important artificial fibre manufacturer than its competitor IG Farben. In 1930, its market share amounted to almost 64 per cent of Germany's total viscose sales. As a result of the crisis, autarkic policy of the Nazi regime, and monetary problems, production in the Dutch plants in Arnhem and Ede was cut back, and employment figures decreased dramatically. Total Enka staff in the Netherlands decreased from 8,000 in 1929 to only 2,000 in 1936, while at the same time employment in Germany increased spectacularly, from almost 12,000 in 1931 to 25,000 in 1938.[24] The National Fibre Programme of 1934 led to huge increase of German output of artificial fibre.[25] Between 1933 and 1941 total output, not only of rayon but also of tyre-corduroy, in the German factories increased sixfold. Synthetic fibre manufacturers benefited from the import restrictions on cotton and wool under Schacht's New Plan.[26] By 1939 Germany had become the leading world producer of staple fibre.[27]

As soon as the Nazis had come to power they began to ask questions about the multinational character of the company and the Dutch ownership construction. As a result, the Nazi regime showed a general distrust towards the company because of its foreign owners and tried to empower the German management of the company. Simultaneously, it endeavoured to increase AKU's investments in Germany to enlarge the manufacturing of artificial fibres as these fitted perfectly within the autarky plans of the regime.[28] Three months after the Nazis had come to power three out of four Glanzstoff managers were accused of fraud and self-enrichment by means of foreign transactions and were taken to court. Although the Nazis used these cases to vilify big business in general the allegations were not based on political motives. However, the party tried to use the replacement of Glanzstoff's management to maximise its influence on the company. On behalf of the Dutch parent company Fentener van Vlissingen complained in Berlin:

> I have to take measures to replace the management. Thereby I will try to choose those gentlemen who will manage the company in the spirit of the new attitude in Germany, but the choice should be ours.[29]

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[24] *T. Langenbruch*, Glanzstoff 1899-1949, Wuppertal 1985, pp.126-127.
[25] *Christoph Bucheim and Jonas Scherner*, 'The Role of Private Property in the Nazi Economy: The Case of Industry', in: The Journal of Economic History (2006) 66, p. 399.
[26] *Kleinschmidt*, 'The Vereinigte Glanzstoff Fabriken', pp. 172-174.
[27] *J. Harrop*, 'The Growth of the Rayon Industry in the Inter War Years' in: Bulletin of Economic Research, Volume 20, Issue 2, p.79.
[28] *Wicht*, Glanzstoff, pp.60-74.
[29] Quoted in: *Wicht*, Glanzstoff, pp.66-67.

In addition to the two political new appointments in Glanzstoff's advisory board the Nazi regime more and more controlled production and investment plans of German private companies, which gave it enormous potential leverage on Glanzstoff. However, the foreign influence on the company was still deemed unsatisfactory to the regime. In 1937 officials of Göring's Four Year Plan asked the Glanzstoff's board whether there existed plans to bring the company back in German hands. The German board members nonetheless answered that it would be tactically wrong to do so at the time. The firm had to appear as non-German owned with a majority Dutch participation to avoid retaliation against US subsidiaries. However, the Four Year Plan were not convinced and in 1939 it replaced all four German delegates, under protest of their Dutch colleagues, by four new more reliable supervisory board members, including Hermann Abs of the Deutsche Bank[30] and Ernst Helmutt Vits of the reichseigenen Treuhandgesellschaft Treuarbeit.[31] In this way the Reich had enlarged its influence upon the Germany's largest artificial manufacturer. In April 1940, one month before the German occupation of the Netherlands, Vits was appointed VGF's general director. A decision supported by the all-powerful chairman of AKU's supervisory board Fentener van Vlissingen. Simultaneously, the Dutch and German side signed a contract to diminish foreign influence in the German business. The German priority delegates in AKU's board would be responsible for the German firms, while Dutch delegates would focus rather on the subsidiaries outside Germany.[32]

After the outbreak of war in September 1939 the contract was suspended as long as the war would last, to avoid the risk of sequestration of assets on behalf of the Trading with Enemy regulation in the Allied countries. According to Fentener van Vlissingen:

> Therefore it is for the AKU of utmost importance, that as long as the war lasts, the neutral, i.e. Dutch character of the company, should be highlighted. The import of raw materials as well as the export of our products would be seriously damaged.[33]

[30] Gall, et all, *The Deutsche Bank,* pp. 317-318.
[31] *Langenbruch*, Glanzstoff, pp. 81-82.
[32] *Langenbruch,* Glanzstoff, p. 83.
[33] Fentener van Vlissingen in the meeting of Delegates, 29 September 1939. Langenbruch, Glanzstoff, p.83.

It was decided that during the war all German members of the Advisory and Executive Board of the AKU, and all Dutchmen in the VGF's Advisory Board would withdraw. Abs offered the Dutch to appoint a German trustee in the German boards to represent the Dutch. Thereupon, Stephan Karl Henkell, Van Vlissingen's son-in-law and Von Ribbentrop's brother-in-law, was appointed in Germany. After his death as an army officer in June 1940 he was succeeded by Werner Carp in VGF's advisory board.

As soon as the Germans had occupied the Netherlands in May 1940 the German members of AKU's advisory and executive board returned in their positions. During the whole war Ludwig Vaubel was appointed in Arnhem permanent deputy of the German AKU executive Schmekel.[34] As a result, the German Reich did not appoint a State supervisor ("Verwalter") in Arnhem, as it had done in the case of for example Philips or Royal Dutch. Actually, AKU continued manufacturing until 1944. It built two new factories in the Netherlands, one was to process straw to produce raw materials for rayon yarns, and the other was to make rayon fibre as a replacement for wool and cotton (Zellwolle). The 10 million guilders investment in German machines were paid by Dutch AKU shares, which were bought by the Deutsche Bank, who paid the bill in Germany.

It was just one of the means of the Reich to repatriate AKU shares back to Germany during the war. Directly after the merger in 1929, 60 percent of the AKU shares had been in the hands of Germans. However, after the currency restrictions under the Brüning government in 1931, and the tightening of these restrictions under Plan Schacht since 1934, German shareholders sold their AKU shares at the Berlin stock market. With permission of the Reichs Bank AKU had acquired its own shares with its German profits, which were in this way transferred to the Netherlands. Consequently, at the end of the 1930s the balance of ownership had completely shifted to the Dutch side, which owned now 70 percent of the AKU shares. During the German occupation the German Reich endeavoured to shift the balance of property back to the German side. Its main tool was the German Golddiscontobank which acquired a large amount of AKU shares on the Amsterdam stock exchange. At the end of the war around 60 percent of all issued shares had come in German hands. One means to incorporate the occupied economies was penetration (*Verflechtung*) of German (private) capital into large companies of the occupied countries. Penetration succeeded thus in the case of AKU.[35] However, the biggest Dutch multinationals like Unilever, Royal Dutch, and Philips

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[34] *Ludwig Vaubel*, Glanzstoff, Enka, Aku, Akzo. Unternehmungsleitung im nationalen Spannungsfeld 1929 bis 1978 (Wuppertal 1986).
[35] *L.Gall, et all,* The Deutsche Bank, pp. 315-318.

were able to frustrate the German plans for capital penetration.[36] During the war, they were controlled by either a *Verwalter* or a *Reichkommissar*, which eventually did not work out unfavourably for the Dutch companies as these German officials had to defend their interest against big German competitors. Moreover, the other Dutch multinationals had made complicated legal provisions in the UK, US and South Africa which made it impossible to acquire a significant stake of these companies.

AKU-Glanzstoff in the Postwar period

Compared to the other three Dutch multinationals the artificial fibre manufacturer AKU, and its German subsidiary Glanzstoff (VGF), probably faced the most complicated post-war situation. The company had lost control over three plants in the Soviet Zone, Elsterberg, Sydowsaue and Breslau. The former was nationalized and transformed into a VEB, the latter two were partly dismantled by the Soviets and then handed over to the Polish state. A plant in Lobositz was nationalized by the Czechoslovakian government without compensation.[37] Nevertheless, VGF's most important plants were located in the British and the American occupation zone. Obernburg and Kelsterbach started rayon production at the end of 1945; however, its biggest plant in Oberbruch near Aachen was only able to resume production in 1947.[38]

The Allies' deconcentration plans posed a serious threat to the company. In 1939, the VGF group, including its subsidiaries in Germany, Spinnfaser, Kuag, Glanzstoff-Courtaulds and Bemberg, had over 26,000 staff. Although they had lost their production capacity in the East, by 1949 VGF once again employed around 21,000.[39] This meant that VGF had to be examined as an excessive concentration and had to be deconcentrated. To the British and American occupation authorities, however, it was not crystal-clear whether AKU and VGF were either Dutch or German companies, and whether they should be treated as Allied companies or not. This also applied to AKU's and VGF's subsidiaries in Britain and the United States (North American Rayon Corp., American Bemberg Corp., and American Enka Corp.). If they were to be examined as German they would be treated as enemy property, if not they had to be returned to their Dutch owner, i.e. AKU.

[36] *A. Tooze,* The Wages of Destruction. The Making and Breaking of the Nazi Economy, London 2006, pp. 383-390.
[37] *Langenbruch,* Glanzstoff, pp. 88-93.
[38] *Chr. Kleinschmidt,* An Americanised company in Germany. The Vereinigte Glanzstoff Fabriken AG in the 1950s, in: *M. Kipping/ O. Bjarnar (Eds.)*, The Americanisation of European Business. The Marshall Plan and the Transfer of US Management Tools, London 1998, pp. 171-189, here p. 176.
[39] *Langenbruch* Glanzstoff, Appendix: Belegschaft der Glanzstoff-Gruppe.

From 1943 onwards the Dutch government had been in discussion with the US Alien Property Custodian and the State Department over the issue. The Dutch government contended that "at no time since 1934 had the German interest in the common stock of the A.K.U. exceeded thirty per cent" and "that for years the daily management of the corporation" had been exclusively in Dutch hands…"[40] In reality, however, property relations were much more complicated than that. During the 1930s, a changing minority of ordinary AKU stock, which had also been traded on the Berlin stock exchange, had been in the hands of German citizens. During the German occupation many more AKU stocks had been bought by Germans on the Amsterdam stock exchange. Moreover, according to 1929 and 1939 agreements German citizens representing the VGF group also held 50 percent of the priority shares, which gave them the right to nominate AKU's Board and Advisory Board members. Directly after the war, however, the Dutch government eliminated enemy stockholders on the basis of the Decree on Enemy Property and transferred the stock held by German citizens, ordinary as well as priority stocks, to the State of the Netherlands.[41]

Meanwhile, VGF in West Germany had been placed under Allied Control and its former chairman Vits had been appointed custodian. The Dutch thereupon sent a Wittert van Hoogland as resident manager from Arnhem to Wuppertal, who demanded a majority for the Dutch in the Advisory Board and an overriding influence on the Executive Board. A long lasting conflict between the Dutch and the German side started, both backed by their respective governments. The German side claimed that their own shareholders' legislation should be followed and that VGF had the right of an independent Board.[42] In 1947 AKU board member J. Meynen, who had been Defense Minister in the first postwar Dutch cabinet which had lasted only one year, and VGF's chairman Vits, had a meeting in which their different opinions regarding the VGF management clashed. The Dutch side proposed to let Wittert van Hoogland represent VGF, at least to the outside world, in particular to the Allies. Vits agreed that Wittert van Hoogland could pretend to be the Dutch director, but that nobody within VGF's board would take any orders from him.[43] Furthermore he told the Dutch side that:

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[40] *Netherlands Institute for War Documentation (NIOD)*, 212e, 179, Bregstein, Algemene Kunstzijde Unie N.V., Memorandum.
[41] *NIOD*, 212e, 179, Bregstein, Algemene Kunstzijde Unie N.V., Memorandum, p. 18-19.
[42] *Langenbruch,* Glanzstoff , pp. 106-107.
[43] *Ludwig Vaubel*, Glanzstoff, Enka, Aku, Akzo. Unternehmungsleitung im nationalen Spannungsfeld 1929 bis 1978, Wuppertal 1986, p. 84.

> We will accept only those measures, which work in favour of the continuation of the group, because we at Glanzstoff believe that survival of the group is in our own interest. We hope, in the future to gain the gateway to abroad again via the AKU.[44]

In conclusion, VGF did not want to destroy the unity of the group, but they did not accept Dutch management control in Germany. VGF had needed the Dutch side for its relations to the rest of the world during the 1930s, and it surely did not want to give up this advantage. The Dutch on the other hand thought they could control VGF once they owned the German subsidiary completely. This appeared, however, a grandiose miscalculation.

As a consequence, VGF pursued its own business strategy ever since. In the late 1940s the German company decided to develop fully synthetic fibres and to build a perlon plant in Oberbruch in 1950. In the immediate post-war years the German Board had taken this direction, which had been largely inspired by DuPont's successes with nylon in the US. In addition, IG Farben's dismantling offered VGF the opportunity to develop IG's patent further and bring it to the market. VGF's top managers and engineers travelled to the United States several times to study the large scale production of artificial fibres.[45] AKU's Board in Arnhem, however, were opposed to the German plans because they were deemed too risky financially. The market, however, proved that the German management had been right: already by 1955, 50 percent of VGF's profits were made from perlon. Notably, the perlon plant was financed by several German insurance companies, North Rhine Westphalia, and the FRG's Economics Ministry without any financial support from the Dutch parent company.[46]

In 1953, AKU and VGF reached some understanding. AKU offered DM 20 million VGF stocks via a German bank consortium to former AKU shareholders, who had lost their stocks after the war. These stocks were offered at DM 102, whilst they had a market value at the stock exchange of DM 160. As a result, AKU's participation in its German subsidiary fell from 99 to 76 percent. In addition, all former German shareholders received DM 300 in cash. According to the AKU Board this gesture was made to create "fruitful relations in the future."[47] In exchange, however, AKU received half of the seats on VGF's Advisory Board, one seat on the Executive Board, and a renewal

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[44] Ibid.
[45] *Kleinschmidt*, An Americanised company in Germany, pp.178-180.
[46] *Langenbruch* Glanzstoff, pp.109-113.
[47] *ANHA*, 318, Allied Enemy Property: Aufsichtsratssitzung VGF, 24th March 1953.

of all technical cooperation and licensing contracts. Their sales organization, however, which had been split up at the beginning of the war, remained separated. Before the war the corporate sales organization had been in the Netherlands, now VGF would serve the large German market itself and AKU would export to the rest of the world.[48]

In 1955, VGF decided to build a nylon-corduroy factory after observing the US car tyre market, where demand for nylon-corduroy had increased rapidly. German car manufactures had also begun to use tyres made with nylon fibre, which proved to be stronger than perlon or rayon fibres. Consequently, by the end of the 1950s VGF was the largest producer of tyre-corduroy in Germany. The company started the production of polyester fibres (diolen) in the same period, and also became number one in FRG with these synthetic fibres. Between 1953 and 1968 VGF's synthetic fibre production increased from 2,906 to 117,043 tons. Table 4 shows that VGF had become the largest manufacturer of synthetic fibres in the FRG by 1968.

Table 1: The five largest chemical fibres companies in FRG in 1968, ranked by production in thousand tons.

Company	**Production in Germany**	**Foreign participation**
1. Glanzstoff (VGF)	102 (28.2%)	(76%) AKU (Netherlands)
2. Hoechst	100 (27.7%)	
3. Bayer	90(24.9%)	
4. DuPont	45(12.5%)	E.I. du Pont de Nemoers&Company, Inc. (US)
5. ICI	25 (6.9%)	Imperial Chemical Industries (UK)
Total FRG	361	

Source: *W. Schmitz-Eser*, Auslandkapital in der deutsche Wirtschaft, Bonn 1969, pp. 50-95.

In the meanwhile, AKU in the Netherlands had also started the production of synthetic fibres like nylon (Enkalon) and polyester based fibres (Terlenka). Partly they were using the technical cooperation and licensing contracts with VGF, partly they were experimenting in their own research laboratory in Arnhem. Output expanded rapidly during the 1950s and employment figures rose spectacular. However, AKU faced severe competition. Production capacity of synthetic fibres skyrocketed during the 1950s and 1960s, many chemical firms in the world had entered the market.[49]

[48] *Langenbruch*, Glanzstoff, p. 113.
[49] *AkzoNobel*, Tomorrow's Answers Today. The history of AkzoNobel since 1646, Amsterdam 2008, pp.44-45.

Table 2: Break-down of manufacturing of synthetic fibres in the world, 1910-1970 (in 1,000 tons)

	West-Europe	USA	Japan	Rest	Total
1910	4	1	0	0	5
1920	10	4	1	0	15
1930	121	58	17	12	208
1940	607	214	228	83	1,132
1950	687	618	116	260	1,681
1960	1,223	823	551	770	3,367
1970	2,685	2,302	1,417	1,999	8,403

Ludwig Vaubel, Glanzstoff, Enka, Aku, Akzo. Unternehmungsleitung im nationalen Spannungsfeld 1929 bis 1978, Wuppertal 1986, p. 220.

Since January 1959 AKU and VGF were discussing in joint board meetings how they could collaborate more commercially and take advantage of the group's structure, without VGF losing its managerial independence. It was not only the growing competition from old and new competitors all over the world, but it was also the rise of an internal European market and EEC's endeavour to break down the tariff-walls, which forced both sides to rethink their former strategies. A break-down of the tariff-walls would mean that Germany and the Netherlands would come in the same tariff system, but it also would mean that Italy and France became contested markets for both companies. Simultaneously, according to the Treaty of Rome, and its cartel paragraphs it was not allowed to pursue a joint price policy. In addition, the home market conditions of AKU and VGF differed a great deal. AKU exported on average 65 percent of its output, while VGF exported only 15 to 20 percent of a larger output.[50]

While they were discussing closer collaboration, technology, and with it the industrial structure, changed rapidly. Chemical companies like DuPont, Monsanto, ICI, Bayer and Hoechst had entered the syntetic fibres market during the 1950s. During the 1960s new fibres were developed on a petrochemical basis, and big integrated chemical firms could use their own raw feedstock in their own fibres plants, while simultaneously selling their side products. It became more

[50] *ANHA*, First Joint Meeting of AKU and VGF, 9-1-1959. *Ludwig Vaubel*, Glanzstoff, Enka, Aku, Akzo. Unternehmungsleitung im nationalen Spannungsfeld 1929 bis 1978, Wuppertal 1986, pp. 116-19.

and more obvious that AKU and VGF had become too small and not integrated enough to be competitive on the world fibres market.[51]

In a memorandum of February 1966 VGF's board was discussing the issue of closer collaboration with AKU concerning raw materials, manufacturing and sales.

> The development of international competition in the field of chemical fibres, increasingly from the dominating position of the big chemical firms, like DuPont, ICI, Monsanto, as well as Bayer and Hoechst, is the inducement to explore once more the possibilities of a closer collaboration between AKU and Glanzstoff.[52]

A few months later, Meynen was pensioned of as AKU's chairman. This ended the personal rivalry between Meynen and Vits, which had played a role as well since 1945. His successor Klaas Soesbeek showed more tact towards the German side and was able to renew the 1953 contract for 5 more years, and at the same time to intensify the collaboration between the two sides. In the same year AKU and VGF presented for the first time a consolidated annual report. Before the presentation of the report Vits and Soesbeek met, and they agreed upon that:

> …the confinement towards chemical fibres production is difficult. Mr. Soesbeek also emphasized that in his view the AKU/Glanzstoff group has no attraction to capital. On the other hand from a broad perspective both AKU and Glanzstoff need an increase of capital. The question is therefore whether we should collaborate with a different and larger group.[53]

In this respect Soesbeek informed Vits that leading gentlemen from Bayer had visited AKU in Arnhem who had proposed him to collaborate. AKU had refused, however. Talks with Shell had failed as well.

In 1966 and 1967 the economic tide for the synthetic fibres industry completely turned. Rayon prices plummeted, as a result of an enormous overproduction in the sector. Collaboration and mergers were no longer theoretical issues, but almost became inevitable solutions. Clearly VGF

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[51] *Ludwig Vaubel*, Glanzstoff, Enka, Aku, Akzo. Unternehmungsleitung im nationalen Spannungsfeld 1929 bis 1978, Wuppertal 1986, p. 119.
[52] Ibid., 132.
[53] Ibid, 138-39.

and AKU had to rationalize the group structure, to coordinate and concentrate production, to cut raw materials costs, and to improve its marketing organization. Simultaneously, the group had to change its monoculture and had to diversify in other directions of the chemical sector. However, it was deemed too late to enter the raw materials sector, therefore it had to look for partners. On the VGF side Vaubel wanted to finish the merger process by the middle of 1969 before Vits would have retired as chairman of the board and Abs would have left the advisory board. The merger contact was signed in May 1969 and it included the following agreements. First, AKU N.V. was transformed into a holding company, which was responsible for the coordination in the group. Second, Enka NV was set up in Arnhem, which took over AKU's assets in the Netherlands, Belgium, Austria and Switzerland. Third, Glanzstoff and Enka merged into one company, with a joint Dutch and German management. Fourth, Enka International N.V. was setup to manage all foreign participation, particularly in South and North America.[54]

Diversification ambitions nonetheless were not satisfied yet. A merger with DSM, which would be a perfect partner, also to VGF, failed in March 1969 because DSM was a state owned company, which was not to be privatized within the left wing political climate in the Netherlands at the time. A solution was found rather shortly, in July 1969 a letter of intent was signed with Koninklijke Zout-Organon N.V. (KZO), which had been a merger of several smaller chemical firms a few years before. The AKU/VGF agreement which had just been concluded several months before continued to exist. However, the new holding company, AKU N.V. merged with KZO, into Akzo N.V. The executive board of Akzo consisted of eight KZO and seven AKU members. The new advisory board consisted of sixteen members. Abs returned as chairman of Glanzstoff's advisory board after Vits passed away in 1970. Glanzstoff operating companies had now become part of Akzo's new multidivisional structure.[55] It marked the end of a long deferred merger process in which both sides had gone their own way.

Conclusions

To explain the deep rooted conflict within the AKU-Glanzstoff conglomerate after the war one has to go back to the genesis of the Dutch-German merger, and its evolution during the extremely difficult years for international business in the Rhine economy in the 1930s and 1940s. The Dutch big multinationals followed a historical path in Germany which they had begun long before the

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[54] Ibid. 155-157.
[55] Ibid. 167-177.

Second World War. The strong economic position they had built had been the result of the close economic integration of the two neighbouring countries since the end of the nineteenth century, and locational advantages Germany offered to Dutch companies at the time. This was reinforced by the competitive advantages Germany offered them after the First World War. The so-called near-by factor – the Netherlands was very close to Germany geographically as well as culturally – therefore seems an attractive explanation for the massive Dutch presence in Germany. One should bear in mind, however, that the two countries diverged significantly politically and economically during the 1930s and the 1940s. In the late 1940s the Dutch, however, realized that they needed their big neighbour's market for their own recovery.

Compared to other Dutch multinationals in Germany the artificial fibres manufacturer AKU, and its German subsidiary Glanzstoff (VGF), probably faced a most complicated post-war situation. VGF's most important plants were located in West Germany near the Rhine in the British and the American occupation zone. To the British and American occupation authorities nonetheless it was not crystal-clear whether AKU and VGF were either Dutch or German companies, and whether they should be treated as Allied companies or not. During the 1930s, a changing minority of ordinary AKU stock, which had also been traded on the Berlin stock exchange, had been in the hands of German citizens. During the German occupation many more AKU stocks had been bought by Germans on the Amsterdam stock exchange. Moreover, according to agreements of 1929 and 1939 German citizens representing the VGF group, also held 50 percent of the priority shares, which gave them the right to nominate AKU's Board and Advisory Board members.

Directly after the war, however, the Dutch government on the basis of the Decree on Enemy Property eliminated enemy stockholders and transferred the stock held by German citizens, ordinary as well as priority stocks, to the State of the Netherlands. VGF did not recognize the sequestration of all German AKU stocks in Germany by the Dutch government. Moreover, the Western Allies doubted the complete Dutch ownership of VGF and sequestrated its American and British subsidiaries. Meanwhile, VGF in West Germany had been placed under Allied Control and its former chairman Vits had been appointed custodian. The Dutch thereupon sent a resident manager Wittert van Hoogland from Arnhem to Wuppertal which demanded a majority for the Dutch in the Advisory Board and an overriding influence in the Executive Board. The Germans accepted that a Dutch director might look favourable to the occupying forces, but they would never follow his orders. A long lasting conflict between the Dutch and the German side began, both supported by their respective governments. The German side claimed that their own shareholders legislation was due to be followed and that VGF had the right of an independent Board, as had agreed upon in 1929 and 1939. Obviously, national background mattered a great deal in these years.

As a consequence, during the 1950s VGF pursued its own strategy and, for example, set up a new synthetic fibres plants successfully, without any financial support of the Dutch parent company. In 1953, AKU had to make a compromise to get back some control over its profitable subsidiary in the Federal Republic. It returned part of its VGF shares to Germany and thereby reduced its stake in the German subsidiary from 99 to 76 percent. AKU received half of the seats in VGF's advisory board, but only one seat in the executive board. All technological cooperation and licensing contracts were renewed, but both sales organizations remained separated. The German company did not get back their priority shares, which would have given them the right to return in AKU's boards in Arnhem. As a result, during the 1950s both company operated practically speaking as two independent companies with some exchange of information.

At the end of the 1950s both sides were forced to rethink their positions. After the war numerous big integrated chemical companies had entered the market with newly developed synthetic fibres mainly based on petrochemicals. As a result, AKU and VGF became less competitive and needed to rethink and rationalize their group structure. Furthermore, during the 1960s they began to realize that diversification and a possible merger with different chemical firms, in particular active at the raw materials side, was the only solution in the highly competitive market. When rayon prices plummeted in 1966 these solutions became prerequisites for the group's survival. However, it was not until 1969, when the two companies completely merged and became part of Akzo, that disagreement about management issues completely unraveled.

The post-war AKU-VGF case clearly shows that property relations, in particular between parent company and subsidiary, do not always determine management control. If the subsidiary decides not to follow the headquarters' instructions, and thereby supported by the local government, foreign companies can do very little about it, in particular if they come from relative small countries, like the Netherlands. The transfer of human capital from the parent to the subsidiary was severely restricted during the greater part of AKU's history, while local entrepreneurial and managerial talent in Germany developed autonomously, often strongly supported by different German governments. Undeniably, the AKU-VGF case was to a certain extent an exceptional case in an exceptional era. Nevertheless, it clearly shows that property rights (FDI) not automatically leads to control and that resulting management relations between parent and subsidiaries can be at arms' length, and as a result, human capital transfer very restricted. The decentralization strategy pursued by AKU, and Dutch multinationals in general, after the Second World War was more a result of the institutional conditions created by national governments of larger states than a deliberate policy of AKU.