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Organizing Expansion. Business Rationale, Networking and the Expansion of the Flick Concern into Occupied Territories During World War II

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Organization at first glance seems to be a field of interest restricted to the internal "economic core" of business companies, but it is also a helpful focus for analyzing relationships between business strategies and the company's environment. For a demonstration, my presentation uses the example of the Flick concern, one of Germany's largest combines in the sectors of soft and hard coal, iron and steel, and wagon building until 1945.

Friedrich Flick, the concern's owner, had developed an outstanding capability in dealing with the state and calculating with political circumstances already in World War I, and the Nazi economy – partly replacing intermediate institutions by personal authorities – created especially favorable conditions to make use of the respective know-how. In consequence, Flick's concern grew far above average during the 1930s by participating in rearmament and aryani-zation. Characteristic of the concern's organization was a specific interplay of its various lev-els. Although the extreme degree of decentralization communicated as Flick's secret of suc-cess in later decades was a myth constructed against his accusation as a major war criminal, the concern headquarter in Berlin indeed only consisted of a relatively small staff. But it was big enough to, firstly, control costs and balance sheets of the subsidiary production companies and, secondly, develop strategic concepts at least for the steel and wagon sectors in close co-operation with the various boards of management. An essential factor for the concern's effec-tive operation was Flick's personal authority; periodical control visits and meetings with the directors of production units guaranteed that the subsidiaries were managed in accordance with central demands. This division of labor allowed for a high flexibility and fit perfectly with Flick's tradition of acquiring new subsidiaries by carefully prepared, but quickly realized deals.

During World War II, the Third Reich's military expansion offered the chance to continue this business technique by overtaking industrial plants in the occupied territories. Flick captured three of these objects: the Rombach iron and steel works in Lorraine, the wagon plant Vairogs in Riga, and a complex of Ukrainian steel works that was administrated in a joint venture with Reichswerke Hermann Göring under the firm Dnjepr-Stahl. The efforts, methods and tactical

manoeuvres to acquire possession of these sites show an underlying strategy of expansion that was far from grabbing any bargain available. Instead, Flick and his leading staff were looking carefully for opportunities that seemed to fit into the structure and value-added chain of the concern; the higher the expectations for the long-term economic benefits from the integration of new plants, the more money the management was willing to invest. The following three brief case studies will illustrate negotiations about foreign industry plants in chronological order, but the succession also reflects their economic importance for the concern.

The first acquisition were the *Rombach* steel works. Immediately after the French-German armistice in June 1940, Friedrich Flick started collecting information about this plant in the formerly German part of Lorraine. The whole German steel industry was on the starting blocks to capture plants that partially had been German property until World War I. In contrast to other German concerns, Flick was not in the position to make demands on the basis of former properties; actually, he was not in a very good bargaining position. Nevertheless, Flick was highly interested in strengthening the coal-steel complex of Harpener Bergbau and Maxhütte: Harpen had mining capacities that could not be utilized within the existing Flick concern, which meant that a possible transfer of value added from the coal to the steel sector on the basis of syndicate rules was not realized; and Maxhütte's advantageous position on the South German steel market was threatened by the Ruhr concerns coming nearer via Lorraine and Luxemburg, thus reducing transport costs. Two leading managers of the subsidiaries, Ernst Buskühl from Harpener and Karl Raabe from Maxhütte, were instructed to collect information about Rombach, the only steel plant in occupied Lorraine to which no "historical claims" could be staked by other German concerns.

After Flick had decided to concentrate his efforts on the acquisition of Rombach, he took the lead and started negotiations with a central player of Nazi economic planning: Hermann von Hanneken, Göring's plenipotentiary for the iron and steel management and also head of the corresponding department of the ministry of economics. Flick and his Berlin management knew Hanneken well from negotiations about the concern's armament production before the war, and also from some talks about Polish iron and steel works in Upper Silesia that he finally had not overtaken because of their bad condition and lack of a coal basis. Flick now turned this renunciation into a "moral claim" for a French steel work seemingly in a much better state and, for the above named reasons, certainly fitting into his concern much better. It was one of the first steps towards Flick's success that Hanneken accepted this argument in general; another favorable instance was Harpen's excess capacity of hard coal which Flick

even promised to enlarge while the Ruhr combines suffered from a lack of coal. Also helpful was the flow of information from Hanneken's apparatus: An official named Carl Küttner, who was working on a preliminary plan for the distribution of the formerly French steel industry, advanced Flick's arguments and held a close contact with Hans Hahl, one of Flick's employees – and not much later, he would take over Hahl's position in the concern's headquarter. Although, according to Hahl and Küttner, Hanneken's administration already had decided to give him what he wanted, Flick decided not to take any risk and finally presented his claim to Göring and his secretary of state Paul Körner. This was probably one of the reasons why he achieved his objective in spite of another prominent German industrialist's intervention: Hermann Röchling in the last moment tried to persuade Hanneken to hand over Rombach to himself, but Flick knew better how and when to negotiate on the various levels of the Nazi economic system. In January 1941, Rombach was placed under a so called trusteeship of the Flick concern and henceforth run by an operating company established by Harpen and Maxhütte, recruiting the leading staff from the latter.

This brief sketch of the Rombach case indicates a characteristic pattern of expansion: Experts from the producing subsidiaries brought in their special knowledge to prepare information and operate plants, while Flick's headquarter remained responsible for final decisions and networking on the higher political levels. This division of labor between the holding company and the management of subsidiaries can also be observed in the second case study where the various levels of the concern even worked parallel at the same time. Expanding the concern's wagon building capacities was a reasonable strategy considering the transport demand in a "civilian", German ruled European economy after the war. The Latvian wagon plant *Vairogs* thus at least in the medium run seemed to fit into the concern's structure. Different from the Rombach case, the first initiative this time came from a subsidiary, the wagon building company Busch at Bautzen. In July 1941, the plenipotentiary for the concern's manufacturing sector Bernhard Weiss received a first exposé about the factory – tentatively optimistic about its potential, but primarily warning that competitors of the concern might attempt to take it over. Within weeks, Flick and his Berlin management activated various contacts to declare their preliminary interest and arrange for a visit of a concern representative to Riga. The visitor, however, was not Weiss, but Bautzen's chairman Johann Reichert.

Initiatives were suspended for some months until in June 1942 Flick was informed that the army's armament administration was planning to hand over the plant to his competitor Krupp in the very near future. Again, activities were started on different levels: While the Berlin top

management substantiated its claim to the military administration, Weiss and Reichert for the same reason traveled to Riga. Finally, Krupp was displaced shortly before an already negotiated contract could be concluded; instead, in September 1942 a trusteeship agreement could be signed by Bautzen. After Flick's wagon builder had taken over the trusteeship, a chief engineer was delegated from Bautzen to manage the plant. After Vairogs was under Bautzen's leadership, it soon became obvious that this was a project of much lower strategical significance than Rombach but more of an occasional character: Not much money was invested, but the Nazi state anyway was keeping the entrepreneurial risk and also covering the operational cost.

The same calculus applied to the third object of expansion, the limited liability company *Dnjepr-Stahl*. Dnjepr-Stahl was an operating company for a complex of Ukrainian iron, steel and pipe works that were to be rebuilt and operated by the Flick concern, or more precisely Mittelstahl, in cooperation with Reichswerke Hermann Göring. Immediately following the German attack on the Soviet Union, steel industrialists remained tentatively interested in the huge, but partly devastated Soviet areas of heavy industry. Odilo Burkart for example, Flick's plenipotentiary for the iron and steel sector, already in August 1941 discussed perspectives with Hannekens immediate subordinate. About one year later, so called "sponsorships" (comparable to the trusteeships in other occupied regions) were to be distributed. The Flick concern now again started activities on different levels at the same time: Friedrich Flick contacted his counterpart Paul Pleiger, head of Reichswerke and also Göring's appointee for the distribution of formerly Soviet plants and mines. On the lower level, one can meet again Carl Küttner, meanwhile working for the competent military authority, the Economic Staff East (Wirtschaftsstab Ost); and not much later to be engaged by Dnjepr Stahl GmbH. This "sponsorship" joint venture of Mittelstahl and Reichswerke could be founded in January 1943, after Küttner had forthrightly done his lobby work in favor of Flick – and against the claims of Krupp. Dnjepr Stahl finally administrated a much larger complex of devastated iron and pipe works than Flick's headquarter initially had hoped for. The rebuilding success of these plants was far from initial planning in the end as already in the summer of 1943 the territory had to be evacuated because of the military developments; but again, Flick's costs were minimal, and an entrepreneurial risk did not exist.

In summary, Flick and his leading staff during the war pursued the same growth strategy as in the 1930s, i.e. enlarging a complex of interdependent, vertically integrated production units while the risk of investment in only war-related capacities was shifted on to the state. Expan-

sion beyond the borders thus played an important, although in the three cases different role for the mid-term strategy of concern growth. Dnjepr-Stahl's perspectives were completely unclear; this adventure started when the Third Reich had already begun to loose the war in the East, and no ideas were developed about the integration with other producing subsidiaries. Vairogs was obviously regarded as a reasonable enlargement for the concern's wagon sector in the medium term, whereas Rombach seemed to fit perfectly into an existing combination of coal and steel between Harpen and Maxhütte – a clear indication was Flick's willingness to invest large sums of own money for the modernization of the works.

In all of the three cases, Flick managed to outrival competitors as influential as Krupp and Röchling; the "hard facts" of the concern's economic importance for military purposes thus are not a sufficient explanation of his success. To succeed in competition, the concern could rely on its peculiar organization, i.e. a specific interaction between the managements of the holding company and its production units. All three cases illustrate the advantages of a characteristic division of labor between Flick's Berlin headquarter and the producing subsidiaries. Negotiations with central political and military authorities lay in the hands of Friedrich Flick and the two experts for steel and wagon building among his plenipotentiaries, Odilo Burkart and Bernhard Weiss; Flick himself was a kind of "negotiator of last resort", reserving his presence to important exponents of the regime like Pleiger, Hanneken or Göring. The tasks of collecting information and operating plants were not only delegated to the management of production companies – Maxhütte and Harpen, Busch-Bautzen and Mittelstahl –, the concern leadership could also count on their own initiative.

This organization of expansion in turn facilitated the speed and flexibility of enlarging the concern's network of contact persons in political, bureaucratic and military institutions. Taking into account political circumstances, cultivating political contacts and exploiting them in tactical negotiations had always been some of Flick's prominent skills; it was thus no wonder that parallel lobbying on the different levels of the concern hierarchy became an important strength in the competition for foreign objects of expansion. Especially the case of Vairogs demonstrates the efficient utilization of a flexible political-military network. To sum up the Flick experience, flexible organization of a company can, especially in case of a diversified concern, obviously be a helpful tool for networking – although one should be cautious to generalize this finding as long as we don't have comparable studies analyzing the interplay of the various hierarchy levels of other concerns.