

Bertelsmann to overhaul management structure

By Bertrand Benoit in Frankfurt

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Bertelsmann, the German media group, will on Wednesday announce a new management structure and the appointment of a chief operating officer as part of its strategy to turn itself from a conglomerate into an integrated entertainment business.

The move is the latest effort by Thomas Middelhoff (left), Bertelsmann's chief executive, to overhaul the group's decentralised culture, where division heads have traditionally enjoyed a high degree of independence.

As part of the changes, to be approved by the supervisory board, the group will create a seven-member corporate executive council, which will advise and prepare decisions for the eight-strong Vorstand, or management board.

This mirrors recent changes at HypoVereinsbank and Deutsche Bank towards more streamlined decision-making structures and away from the traditional consensus-driven management of German companies.

The council will be chaired by Mr Middelhoff, and include Sigfried Luther, finance director, Arnold Bahlmann, head of Bertelsmann Capital, Manfred Harnischfeger, head of corporate communications, Joel Klein, head of the US region, and Detlef Hunsdiek, head of personnel.

Unlike the Vorstand, the collegial body that presides over both operational duties and strategy, the executive council will have no representative from the group's various divisions, including publishing, music, and direct-to-consumer services.

The appointment of Ewald Walgenbach, 42, formerly with television broadcaster RTL Group, as chief operating officer, also marks a departure from traditional German management practice. Mr Walgenbach will sit both on the Vorstand and executive council.

"As Bertelsmann is growing bigger and more complex, Thomas [Middelhoff] will delegate some of his responsibilities to concentrate on big-picture stuff, such as deal-making, portfolio management, and strategy," a Bertelsmann insider said.

Mr Walgenbach's official brief, modelled on the role of a US chief operating officer, will include synergy and integration, operative controlling and the steering of strategic alliances.

"The Bertelsmann model used to be hugely decentralised, with a great deal of untapped integration potential," said Bernard Tubeileh, analyst at Merrill Lynch.

"The division heads are important, but you cannot run a whole group just with them. The company may want to integrate operations from central management."

Mr Middelhoff hopes the focus on synergy and tighter management of the various businesses will help the group increase last year's 6.6 per cent margin - at the earnings

before tax, interest, and amortisation level - to 10 per cent, more in line with its peers.

Better integration should help it gain a valuation multiple comparable to that of AOL Time Warner of the US when it lists on the stock exchange in 2004 or 2005. A stronger central management will also be made necessary by the planned integration of RTL later this year.

Bertelsmann controls 89 per cent of RTL and has said it would make an offer from the remaining 11 per cent free float before the end of the month.