A Pandemic as the Starting Point of a Corporate Crisis Using the Example of Tönnies
Abstrakt


Freie Schlagwörter:
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Abstract

In this paper we want to show how the Corona crisis has affected the German meat industry using the example of Tönnies. The paper aims at illustrating how the turnaround management of the company has reacted to the conditions caused by the crisis. Thereby, the type of the company crisis shall be determined. Finally, the study will clarify whether the Corona crisis has only damaged the Tönnies meat company's public image or whether it has also caused lasting economic damage to the company. Thereby, the decisive factors in creating the company's crisis are being highlighted. The methodological framework for this study is based on classical literature research with a strong focus on secondary literature such as newspapers. Research databases such as Nexis Uni or WISO were used.

JEL classification: G34, H12, J53, J28, J38, K22
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1 Introduction and Problem Definition

Crises are natural, but mostly only a sporadically occurring state of human civilization. In contrast to the world of natural laws and other natural situations and control loops, endogenous entrepreneurial and human situations tend to be fundamentally unstable rather than balanced due to changes of the surroundings or the environment by other, independently acting external actors or exogenous factors.\footnote{Hoffmann et al. 30.03.2016.} The so-called “Corona crisis” of 2020 has not only put many companies in serious distress but has also placed supply chains in turmoil. Some well-known companies such as Vapiano, Esprit, Galeria Kaufhof, Karstadt, Virgin Australia Airlines, the mobile supplier Veritas, Mister Minit or the steakhouse chain Maredo had to file for insolvency. 10 million Germans found themselves on short-time work.\footnote{Jerzy 2020.} German Chancellor Angela Merkel spoke of the Corona crisis as “the greatest challenge since the Second World War”.\footnote{Der Spiegel 2020.} Many an observer of the economic situation was inclined to question responsible institutions such as the United Nations, the World Health Organization or even the capitalist system as a whole.\footnote{Shibli 2020.} In addition to headlines about the coronavirus itself and reports of racism and police violence in the U.S., reports of the coronavirus outbreak at the Tönnies slaughterhouse in Gütersloh dominated the coverage in June of this year.\footnote{GöfaK Medienforschung GmbH.} The corona outbreak at the Tönnies meat company was to date Germany’s largest singular infection event and even the largest in Europe.\footnote{By 1 September 2020 all respective Tönnies’ employees who had tested positive have recovered completely. Schmude 2020.} In the course of the forced closure of one of its slaughterhouses, company boss Clemens Tönnies saw himself “facing an existential crisis” and others even faced the “most serious crisis in the history of the billion-euro company”.\footnote{Eberl 2020; Horst 2020a.} The complexity of the corporate crisis and the sheer unpredictability of the pandemic make Tönnies’ example an exciting case study. In the following, the theoretical principles of “pandemic” and “corporate crisis” will be presented. Furthermore, it will be shown how the Tönnies company was able to get into a corporate crisis and what effects it had on the region and

\footnote{By 1 September 2020 all respective Tönnies’ employees who had tested positive have recovered completely. Schmude 2020.}
the supply chain. It will be shown what kind of crisis Tönnies was actually facing and what measures the company has taken to emerge from it stronger than before.

2 Theoretical principles
In this chapter, we introduce a scientific definition of a “pandemic” and of a “corporate crisis”. For the latter, we provide models that give a theoretical foundation for the matter discussed.

2.1 Pandemic
A pandemic is the worldwide spread of a new disease. A pandemic occurs when a new pathogen (or virus) appears and spreads worldwide, affecting people without prior immunity. Viruses that have caused past pandemics are usually derived from animal influenza viruses. The corona pandemic of 2020 is reportedly caused by a novel coronavirus. Coronaviruses are a virus family that also includes the currently globally rampant virus Sars-CoV-2 (“Severe Acute Respiratory Syndrome”-Coronavirus-2). The term refers to the virus that can cause symptoms but does not have to. The respiratory disease caused by Sars-CoV-2 was called “Covid-19” (Coronavirus-Disease-2019). Accordingly, Covid-19 patients are people who carry the Sars-CoV-2 virus and show symptoms.

2.2 Corporate crisis
In the public eye, company crises are usually only noticed when an acute threat to the existence of a company has arisen. Corporate crises are understood to be various phenomena: from disruptions in the respective operating procedures of a company, through conflicts, to the destruction of the company itself, which can be described as a catastrophe, at least from the point of view of the affected company. In recent literature, corporate crises are understood as unintentional and unplanned, temporarily limited processes that substantially endanger the continued existence of the company or even make it impossible. This is done by impairing certain goals, the endangerment or even non-achievement of which is tantamount to threatening or destroying the existence of the company. The “chance for a positive turnaround” contained in the term “corporate crisis”,

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8 WHO 2010.
9 Der Spiegel 2020.
possibly even in the case of insolvency, is a defining characteristic of the term and makes the ambivalence of development possibilities (decline or restructuring) clear.\textsuperscript{11} The course of corporate crises is not uniform. A distinction is made between four phases (fig. 1). The spectrum of the crisis ranges from “controllable” or avoidable to an acute and uncontrollable corporate crisis (catastrophe).

![Fig. 1: Course of corporate crises. Source: Own presentation according to Gabler (2018).](image)

The most common endogenous causes of crises include management errors or operational mismanagement and an insufficient equity base of the company. The most frequent exogenous causes of crises are erroneous economic developments and structural changes in the overall economic environment. It also happens that endogenous and exogenous factors come together to cause a crisis (see fig. 2.).

![Fig. 2: Quantitative and qualitative causes of corporate crisis: Source: Own presentation according to Gabler (2018).](image)

In the DACH region, 220-260 crises were recorded in 2008. Only a quarter of these critical situations were present in the national and international media. Corporate crises

\textsuperscript{11} Gabler 2018.
often have a negative impact on the “image” of the respective company or managers, especially at the beginning of the crisis (see fig. 3).  

![Crisis development - three-phase model. Source: Own representation according to Bundesamt für Bevölkerungsschutz und Katastrophenhilfe (2005).]

**Fig. 3: Crisis development - three-phase model. Source: Own representation according to Bundesamt für Bevölkerungsschutz und Katastrophenhilfe (2005).**

3 The Corona Crisis and Tönnies
The following chapter aims at highlighting the events that have led to Tönnies’ corporate crisis. The facets and forms of the crisis are being presented. We provide an overview of Tönnies’ reactions to battle the crisis.

3.1 Company Structure of Tönnies
The company Tönnies has been producing meat products since 1971. The company has 18,734 employees, half of them are contract workers, who have been working through subcontractors until now.  

The company operates 29 production sites in six countries, 19 of them in Germany. Between 2011 and 2014, Clemens Tönnies, co-owner of the Tönnies Holding Group, took over the Zur-Mühlen Group as the sole owner (see Fig. 7). The Zur Mühlen Group is the market leader in the production and trade of sausage products in Germany (see fig. 4).

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12 Roselieb und Dreher 2008, p. 5.
13 Horst 2020b.
Among the brands belonging to Tönnies are Böklunder, Gutfried, Zimbo, Hareico, Marten, Lutz, Weimarer, Dölling, Astro, Redlefsen, Schulte, Könecke, Jensen’s, Heine’s, Zerbster Original, Plumrose, Naumburger, Wilx and Vevia (see fig. 6).

Fig. 5: Corporate structure of Tönnies Holding ApS & Co KG. Source: Own representation according to Tönnies (2020).
In 2017, Tönnies held the 35th place among the richest German family-owned companies with annual sales of 6.3 billion euros. The following year Tönnies made it to the 33rd place. Today, the company with a turnover of over 7 billion euros probably ranks even higher.

In 2019 a total of 20.8 million pigs and 440,000 cattle were slaughtered in the Tönnies meat plants. In Rheda-Wiedenbrück (which is also the company’s headquarters) an average of 20,000 to 25,000 pigs are slaughtered daily. It is Germany's largest slaughterhouse. The export share in terms of volume was recently 52 percent. China is considered one of the most important foreign markets. Together with a local partner, the group is planning a 500 million euro joint venture there, which will involve the construction of fattening facilities, a slaughterhouse and a dismantling plant.

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15 Institut für Familienunternehmen e.V. 09.07.2018.
16 Horst 2020b.
3.2 Factory Closure and Lockdown

As early as February 2020, Tönnies set up its own pandemic crisis team. Multilingual information posters on the company’s premises provided information on how to deal with the coronavirus. A multilingual corona-app was also made available to employees at all locations. In April 2020, Clemens Tönnies announced that he wanted to have corona tests carried out in his company laboratory in the future and also offered his support to the German Soccer League (DFL). By late March, Tönnies’ laboratories were capable of performing 180,000 to 200,000 tests per month. Official measurements at the Tönnies plant in Rheda-Wiedenbrück in mid-May 2020 showed eight corona positives. With 6400 employees tested that was considered “a good rate”. As a result, the planned corona test center was put into operation in cooperation with an accredited laboratory on May 18th 2020. All employees who had not been in operation for a longer period of time were tested. By 13 June, the company had carried out 1375 of its own tests. There were 42 positive results. On 17 June, 400 tests at the Rheda site were positive out of 500 tests in total. Together with the district of Gütersloh, Tönnies decided to temporarily shut down the slaughter area at the Rheda site. The district of Gütersloh also ordered the complete shutdown of the other production facilities at the site. All 6500 employees at the Rheda-Wiedenbrück site were ordered to undergo domestic quarantine. On June 18th, the district of Gütersloh announced that all schools and daycare centers in the district would remain closed until the summer vacations. In total, more than 1400 employees tested positive. About 15,000 people were quarantined. 640,000 citizens and countless businesses in the districts of Gütersloh and Warendorf were affected by the lockdown. The politically determined limit for the lockdown was 50 new corona infections per 100,000 inhabitants. In the district of Gütersloh it was 263 at times and thus far above the permitted maximum.

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17 “Every morning at seven o’clock the ten-member Corona crisis staff meets. It is headed by Gereon Schulze Althoff, who is responsible for quality and veterinary matters at Tönnies. Terpitz 2020.
18 Tönnies 2020a.
20 Horst 2020b.
21 Horst 2020b.
22 Tönnies 2020a.
23 Horst 2020a.
24 Tagesschau.de 2020a.
3.3 Impact on the Supply Chain

The Tönnies plant in Rheda-Wiedenbrück normally slaughters between 20,000 and 25,000 pigs per day (depending on the market situation). According to the North Rhine-Westphalian Ministry of Agriculture, the shutdown at Tönnies has led to a weekly “pig jam“ (Schweinestau) of about 70,000 animals in the fattening farms of the suppliers in North Rhine-Westphalia alone. A similar backlog has formed with the piglet producers. However, many animals could have been diverted to other locations throughout Germany. The contract suppliers, around 20 percent, were able to switch to other Tönnies sites in Emsland (Sögel), Schleswig-Holstein (Kellinghusen) and Saxony-Anhalt (Weißenfels). The other fatteners had to look for new slaughterhouses on the free market.2526

China had stopped importing meat products from slaughterhouses or cold stores of the Tönnies Group since June 18th. However, since a further decline in Chinese pig fattening is expected in 2020, this slump could be compensated for this year.27

3.4 Image Crisis

Even greater than the production crisis is the enormous loss of reputation for the company. Thus advertising partners of Tönnies reacted with a demonstrative non-extension of closed contracts.28 Greenpeace activists fastened a seven by 14 meter banner on the outside wall of Tönnies' main building in Rheda-Wiedenbrück next to the company logo with the inscription “Stop the pig system”.29 The public prosecutor’s office in Bielefeld had received around 50 criminal charges since the corona outbreak at the Tönnies main plant. The authorities had initially investigated unknown persons on the initial suspicion of negligent bodily injury and violation of the Infection Protection Act. The Bielefeld police set up an investigation commission EK “Carne“ (meat).30 In the press, company boss Clemens Tönnies was described as a “shitlist butcher”31 and his company policy as “brutal business with cheap meat”.32 The company’s practice of employing temporary workers from subcontractors was particularly criticized. Some of the workers were

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25 Manager Magazin 2020b.
26 Serif 2020.
28 Serif 2020.
29 Serif 2020.
30 Manager Magazin 2020a.
32 Neßhöver und Student 2020.
allegedly housed in “dilapidated accommodations” and had therefore been infected with the coronavirus thanks to the “Tönnies system”.33

3.5 Product Harm Crisis
Meat consumption was criticized in the media debate primarily because of the Tönnies scandal. The uncertainty in the population is shown in a survey regarding the reactions to the scandal. In a YouGov survey, 27% of those questioned said they were afraid of becoming infected with the coronavirus through the consumption of meat. Even 56% said that meat products from meat processing companies affected by COVID-19 should be removed from supermarket assortments as a precaution.34 There was also criticism that meat production does not meet environmentally friendly standards and thus creates negative externalities. SPD (Social Democratic Party) leader Norbert Walter-Borjans therefore demanded higher meat prices (a kind of Pigou tax). Meat is a product that is produced with a high input of energy and other raw materials. Value and price were therefore in a glaring disproportion.35

3.6 Prohibition of Works Contracts
For many years, there has been the possibility of employing workers from Central and Eastern Europe in Germany. Between 1988 and 1995 the German government and the governments of 12 countries from Central and Eastern Europe and Turkey concluded bilateral agreements on the posting of workers on the basis of contracts for work. The reason for most companies to hire via contract work has less been a savings but rather a recruitment problem.36 The Federal Cabinet has passed a bill in response to the Tönnies scandal. According to the bill, large slaughterhouses will no longer be allowed to use foreign workers for slaughtering, cutting and meat processing. To this end, contracts for work and temporary work will be banned as of 2021. Companies with less than 50 employees will be exempt. More controls by the states and a digital recording of working hours are also planned so that the companies do not undercut the minimum wage.37 New regulations for the meat industry were already introduced in May 2020.38 According to

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33 Cf. Donath 2020.
34 Sonnenberg 2020.
35 Tagesschau.de 2020b.
36 Belle et al. 2007.
37 Plaß 2020.
38 Frankfurter Allgemeine Zeitung 2020.
the assessment of the Scientific Service (WD 6: Labor and Social Affairs) of the Bundestag, the new law will hardly contribute to pandemic protection, as not all existing work contracts are likely to expire before the law comes into force and therefore will not have any “significant effect” before the hoped-for date of availability of a vaccine.39

3.7 Tönnies’ Reaction

In response to the plant closure, Tönnies expanded its ventilation system. Hepa filters were installed in the slaughterhouses and UV radiation systems were installed to further minimize the risk of infection in the production halls. A measure whose effectiveness was doubted.4041 Every employee should also be tested for the novel coronavirus twice a week. Additionally, partitions made of plexiglass were installed.42 The company has promised to work for a higher minimum wage with collective bargaining, better accommodation and animal welfare. By the end of 2020, Tönnies wants to employ all contract workers in the core areas on a permanent basis. To this end, the company plans to build around 1,500 apartments for a maximum of 3,000 people.43 As a contribution to the digitalization of the company, Tönnies wants to use digital time recording for the plant employees in the future, also due to media criticism of the previous practice.44

In response to the federal government’s draft law, by the end of 2020, all workers in slaughtering, cutting and packaging will be employed on direct contracts. In mid-July 2020, Tönnies registered 15 subcontractors “Tönnies Production” with Roman numerals I-XV). The trade union NGG fears that the company will continue the previous system under a different name after the ban of the work contract system.45 Tönnies’ managing director Clemens Tönnies stated that his company is one of the best meat companies in the world, which “will emerge strengthened from the crisis”.46

40 Horst 2020b.
41 Der Standard 2020.
42 Horst 2020b.
43 Kühlcke et al. 2020.
44 Toennies 23.06.2020.
45 Verfürden 2020.
46 Kühlcke et al. 2020.
4 Conclusion

Tönnies' corporate crisis is unique in many ways. On the one hand, it has shown how unpredictable events such as a pandemic can put companies in serious trouble. On the other hand, Tönnies provides an example of how such crises are often little more than “image crises”. These often follow the hype cycle. They pick up speed very quickly, but also flatten out again rapidly (see fig. 3). Since no official and current company figures are available, the financial dimension of Tönnies' corporate crisis is very difficult to estimate. Favorable forecasts, however, allow the conclusion to be drawn that the company should recover quickly and even, as the company boss says, “emerge stronger from the crisis”. Professor Franz-Rudolf Esch's assessment may therefore serve as a suitable closing statement: “Many other corporate crises show that time often heals all wounds and misconduct is quickly forgotten. Especially when customers want to buy kilograms of meat at a reasonable price again. For many, the shirt is closer than the trousers.”47

47 Haller Kreisblatt 2020.
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