Since the US company Kraft Foods acquired Cadbury earlier this year, there has been much debate about whether foreign takeovers of this kind are good or bad for the British economy. A new book by **Geoffrey Owen** sheds light on this debate by looking at what happened after the acquisition of Courtaulds over a decade ago.

Foreign takeovers of British companies: the experience of Courtaulds

In the months following the acquisition of Cadbury by Kraft, trade unions, business lobby groups and even the business secretary Vince Cable have called for tougher rules on foreign takeovers of British companies. Part of the argument centres on whether multinational corporations like Kraft are less likely than British owners to invest in the UK and to preserve British jobs.

Leaving aside the question of whether Cadbury can accurately be described as British (80% of its sales were outside the UK and around half its shares were owned by North American investors), it is hard to see why Kraft should not have as strong an incentive as any other owner to make the best possible use of the assets it was buying, including the British plants and the Cadbury brand. Kraft may or may not make a success of the takeover, but does its foreignness make any difference to the outcome?

Some light can be shed on this issue by looking at a foreign takeover that took place 12 years ago – a long enough period for the consequences, in terms of jobs and investment, to be assessed with some degree of accuracy. This was the purchase of Courtaulds – like Cadbury, a long-established British company with a distinguished history – by Akzo Nobel of the Netherlands in 1998.

At the time of the takeover, Courtaulds had two main businesses: man-made fibres, which had been the core of the company for nearly 100 years; and paints, which had been built up by a series of acquisitions since the 1960s. For Akzo Nobel, the main attraction of Courtaulds was its paints division. Thanks largely to the investment that Courtaulds had made in Asia, it had geographical and product strengths that the Dutch company lacked. The acquisition would consolidate Akzo Nobel's position as one of the world's leading paint manufacturers.

Akzo Nobel also had a man-made fibres business, but it was performing poorly and CEO Cees van Lede had been trying to sell it. Van Lede believed that if the two companies' fibres divisions were put together, the enlarged business would be easier to sell, perhaps through a public flotation or to a trade buyer. Not long after the takeover, van Lede did find a buyer in the form of CVC, a private equity firm that specialised in taking over mature businesses, improving them and selling them on.

There is no reason to suppose that a foreign takeover will put British factories and British jobs at risk

So what has happened to Courtaulds' British plants and the British jobs they provided? In paints, there is not much doubt that Courtaulds' main production and development facility, at Felling near Gateshead in the north east of England, has benefited from being part of Akzo Nobel.

Courtaulds had been a diversified group, and the paints division had to compete for new investment against other unrelated subsidiaries. Akzo Nobel now derives two thirds of its sales from paints (the other third is in speciality chemicals) and is totally committed to world leadership in this industry. The ex-Courtaulds paints business, mainly marine and industrial coatings, forms an integral part of the group, and investment in Felling has increased.

urtaulds

The fibres side is a more complicated story, since CVC chose not to keep the combined Akzo/Courtaulds fibres business as a single entity, as had been Akzo Nobel's original intention, but to sell the component parts piecemeal. In a disposal process that lasted from 2000 to 2008, most of the viable fibre plants went to trade buyers that had a strong commercial interest in the businesses they were acquiring and, for the most part, have continued to invest in them.

This is particularly true of the new cellulosic fibre, known as Tencel, which was seen at the time of the Akzo Nobel takeover as the jewel in Courtaulds' fibres portfolio. Tencel was bought by the Austrian company Lenzing, which is now Europe's largest man-made fibres producer. Lenzing has continued to invest in the ex-Courtaulds Tencel plants at Grimsby in the UK and Mobile in Alabama, and the fibre is now well established in the market.

Would these outcomes have been different if Courtaulds had remained a British company? Here, there is an important difference with the case of Cadbury. By the end of 1997, it had become clear that Courtaulds was probably not viable in its existing form, and that the paints subsidiary would do better on its own. That was the rationale for the decision by the Courtaulds board, announced in February 1998, to break up the group and demerge Courtaulds Coatings as a separate company.

As it turned out, the demerger did not go through because it was overtaken by the bid from Akzo Nobel. But even if Courtaulds Coatings had been listed on the London stock market, it would probably not have stayed independent for long. The world paints industry was going through a period of consolidation, and the relatively small British company would have been an attractive takeover target for one of the big European or US manufacturers.

The takeover of Courtaulds was described by one commentator as an industrial tragedy. But over the preceding 30 years Courtaulds had made mistakes and become an unwieldy conglomerate. Under the British financial system – widely dispersed share ownership and an active market for corporate control – companies that make mistakes and lose the confidence of their shareholders become vulnerable to takeover.

What matters for the health of the economy is not that any particular company, however large and distinguished, should be preserved intact, but that its assets should get into the hands of people who are likely to manage them well. In global industries such as man-made fibres and paints, the appropriate owners may well be international rather than British companies. In such cases, there is no reason to suppose that a foreign takeover will put British factories and British jobs at risk; they may well be more secure under a foreign owner than under a British one.

This article draws on *The Rise and Fall of Great Companies: Courtaulds and the Reshaping of the Man-made Fibres Industry* by Geoffrey Owen, published by Pasold Research Fund/Oxford University Press in September 2010.

Sir **Geoffrey Owen** is a senior fellow in LSE's department of management.

The assets of companies like Cadbury and Courtaulds should be in the hands of people who are most likely to manage them well