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Smart foreign firms get the better of British
They're relaxed about overseas owners, writes **John Gapper**

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BRITAIN is caught in an uncharacteristic bout of insecurity about foreign ownership of its industry. The prospect of defence company BAE Systems selling its 20 per cent stake in Airbus to EADS has led to fears for the security of 13,000 jobs - many skilled - at two British plants.

Government ministers want guarantees that the French and German-dominated Airbus will not move manufacturing of aircraft wings from Britain to continental Europe. There is talk of industrial assets and jobs being safer in British hands.

It is all reminiscent of French, German and Spanish reactions to domestic companies falling prey to foreigners. The more customary British response to a foreign takeover bid is in evidence at BAA, the airports group, which is resisting an pound stg. 8.75 billion ($20.95 billion) hostile bid from Ferrovial of Spain.

BAA's gripe is less a matter of principle than price. Unlike in the US, where DP World's takeover of P&O provoked hysteria about national security, nobody is worried as such about a Spanish company operating British airports.

Insouciance about ownership extends across the British economy. The City of London is dominated by foreign institutions - US, German and Swiss banks that acquired British merchant banks and brokers in the 1990s. Many industrial companies are in overseas hands: the building materials sector is the latest. Carry on, swallow us up, is the British view.

In continental Europe, governments worry more about foreign control of domestic industry. Spain, in spite of its companies' appetite for cross-border acquisitions, wants to block a bid by Eon of Germany for Endesa, the energy company. France has declared a swath of its industry off-limits, resisted Mittal Steel's bid for Arcelor and backed a defensive merger between Suez and Gaz de France.

No country minds foreign direct investment.

If a big multinational wants to build a production facility in France, Germany or Italy rather than acquiring a local rival, it will be warmly encouraged. Britain stands out in its openness to foreign acquisitions.

It is happy to see UK corporate assets transferred to a foreign company. Yet the British attitude is logical; foreign takeovers have been good for the country. They have brought investment and new jobs. And they have raised standards of management in British offices and manufacturing plants.

Given the choice of British-controlled or well-run companies, the UK takes the latter. The British have had too much experience of the alternative: bad labour relations and weak management led to a decline in British manufacturing from the 1950s. A study by McKinsey & Co and the London School of Economics of 700 medium-sized manufacturing companies in France, Germany, Britain and the US found that the British-owned ones were still worst managed on average.

In contrast, multinational companies - and particularly US multinationals - did the best. They were better at setting targets and ensuring they were met.

US companies were also more adept at implementing technology.

Multinational companies have obvious advantages. There is a selection effect at work: they often have the resources to expand overseas because they have already beaten rivals in their home markets. Moreover, international reach allows access to greater managerial experience and expertise than the companies they acquire.

Take last year's acquisition of RMC, the British building materials group, by Cemex, the rapidly growing Mexican cement company with operations in 50 countries. Cemex found that RMC's plant in Rugby was running at 70 per cent of capacity, partly because production glitches kept causing a kiln shut down. Cemex brought in an international team of specialists to grapple with the problem and increased production to 90 per cent of capacity.

Yes, a French or German company could reply, but we do not need an infusion of management talent as much as the British. There is something to this: the McKinsey/LSE study found French and German companies were even better than US ones at running shopfloor operations. Overall, however, multinationals were the best managed.

"The French seem to think foreign takeovers and Anglo-Saxon practices are bad but things that work in the UK work there, too," says Nick Bloom, an LSE professor. Employees of US-acquired European companies need not even worry about having to work longer hours or take fewer holidays. US companies tend to adopt local employment practices, with flexible hours and extended parental leave.

Governments, as the Airbus case shows, fear multinationals are footloose and think nothing of moving production capacity and jobs from one country to another. They have some cause: multinationals sometimes use this implied threat to secure tax breaks and other financial perks. But, in practice, they provide more job security than domestic companies.

So some humility about the outside world can bring benefits. Many workers prefer a foreign company as it gives them more satisfaction and better prospects. That has proved true, in different ways, for both investment bankers in the City and shopfloor workers in manufacturing plants.

It was easier for Britain to make this leap because the managerial gap between its own companies and foreign competitors was obvious. The calculation in France and Germany is more finely balanced. But openness to the world is the wisest choice.