In protectionism, national interest must trump managers' cushy jobs

[Agenda]

BY IRWIN STELZER

Peter Mandelson has it right, but only almost, when he worries about the ease with which some mergers can be completed.

He says that most mergers fail to create value. True: The interests of a company's executives are not always coincident with those of its owners (shareholders). Sheer size adds to managers' prestige and clout at their clubs; it often does little for earnings per share. Unfortunately, governments are ill-placed to sort out the mere managerial aggrandizing deals from those that create true efficiency.

True, too, as Lord Mandelson points out, some mergers enrich only the investment bankers, who rarely meet a deal they don't love. As Warren Buffett points out, asking an investment banker whether a deal is a good idea is like asking a barber if you need a haircut.

And his Lordship is also right to worry that it might not be in the national interest to allow important domestic companies to be acquired by overseas companies. Foreign acquisitions that adversely affect national security are the obvious case in point. But denuding a country of any corporate headquarters has important consequences.

In America, for example, the departure of a company from a major city often deals a blow to local charities, as the executives concentrate charitable resources on their new hometown. Very often a condition of approval of a merger is an agreement by the selling company to continue its charitable giving in its old headquarters' town for a

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Lord Mandelson points out some mergers enrich only the investment bankers.

number of years.

But Lord Mandelson's justifiable concern about the consequences of foreign acquisitions in no way supports his plan to "throw grit into the system" by which all mergers are completed. For what Britain needs above all else is a dynamic corporate sector, one in which flaccid managers cannot hide behind higher voting thresholds to avoid displaying true grit in the market place.

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It is no secret that the system of corporate governance gives incumbent managers, backed by their handpicked chums on the boards of directors, job security that would be the envy of most civil servants. That's why compensation is often so out of line with performance—the production of shareholder value.

As often as not, options can be rejiggered so that bonuses flow even though performance targets aren't met, targets are set so low as to be easy to meet, and directors become the antagonists rather than the representatives of shareholders. True, some institutional investors have been roused from their historic lethargy by the impact of recent unsettled conditions on the companies in which they hold important positions. But by and large, scattered shareholders have little clout with the managers of their companies.

Which is why hostile takeovers play such an important role in a capitalist system. Over-perked, under-performing managers can be deposed by predators, sharks, who see a way to maximize a company's value by restructuring its balance sheet or sweating fat out of the company's costs. These hostile takeovers often involve the elimination of corporate jets, the replacement of Taj Mahal-style headquarters with more modest digs, the creation of compensation schemes not unduly affected by consultants seeking their next assignment from the executive whose salary they are setting.

Lord Mandelson would make these takeovers more difficult, thereby reducing one of the principal goads to efficiency and innovation. Not a good idea, especially at a time when Britain is struggling to find its way in an increasingly competitive world, one in which even the current devaluation of the pound cannot assure success.

Instead, the minister-for-just-about-everything should focus on his real concern: the denuding of Britain of its important companies. There is no reason why the threshold for an acquisition by an overseas company should not be higher than for a domestic merger, since a foreign acquisition might, only might, impose costs on society not imposed by a get-together of domestic companies.

That is the hard fact in most countries, although not always made explicit. America has such rules; try to do a major takeover in France, where a yogurt maker is considered an important infrastructure company; or in China, where the state has a clear view of its national interest.

A bit of Mandelsonian grit in the wheels of such acquisitions here might just be appropriate in the U.K.

If this be protectionism, so be it. So long as what is being protected is the national interest, rather than the cushy jobs of impregnable managers, Britain's interests might well be served by a two-tier system of merger approval. Even if it means having Lord Mandelson confess that free trade is a good idea, just not always.

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