

BBC Covers Business School Debate

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The BBC and the Financial Times were both present at Birmingham Business School's high profile debate last week on whether maintaining a degree of national ownership of home-grown companies is important. Taking the Kraft take-over of Cadbury as the case-study, the debate, Chaired by [Birmingham Business School \(/schools/business/index.aspx\)](#) Dean Professor Simon Collinson, was witnessed by a packed audience of over 200 and drew in both the Financial Times and the BBC. The event subsequently contributed to a ten minute piece on the BBC News that questioned the pros and cons of increased foreign ownership in the UK. Both [Professor Simon Collinson \(/staff/profiles/business/collinson-simon.aspx\)](#) and Sir Dominic Cadbury – Chancellor of the University of Birmingham and former Chairman of Cadbury – were interviewed for the item, and Simon gave a further interview the following morning on BBC local radio.

Also present on the Panel was Jerry Blackett Chief Executive of Birmingham Chamber of Commerce, and Birmingham Business School academics Dr Ian Clark and [Dr Pamela Robinson \(/staff/profiles/business/robinson-pamela.aspx\)](#). The debate was wide ranging and garnered questions from audience members including former MP Roger King and Lord Digby Jones, in addition to participation from staff and students.

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Jerry Blackett, Chief Executive of Birmingham Chamber of Commerce discusses the debate at Birmingham Business School.

There was a general consensus that the benefits of the UK free market, which attracts and facilitates a high degree of foreign direct investment, should not be compromised. The point was also made that not all takeovers are contested in the way that Cadbury was; many are welcomed and encouraged, allowing home-grown companies to carry on trading when going into administration may otherwise have been on the cards. But the means by which contested takeovers can occur, and the unarguable fact that there is not a level playing field between countries on this matter, still sat uneasily with many of the audience. One of the questions posed was "Why – if having a totally open and free market is more important than maintaining a core of nationally-owned companies – don't other countries such as Switzerland, France, Japan, India etc., think or play that way?". Adding to that point, Sir Dominic Cadbury made mention that America, one of the great proponents of the free market, had made it impossible for Cadbury to buy Hershey's during his tenure as Chairman.

However, it was the role that Hedge Funds play in take-overs, that made for the fiercest questions, and the discussion continued into reception afterwards...

A possible solution to the power of Hedge Funds in UK contested takeovers?

The debate highlighted and reflected the large body of opinion within the business community that the use of hedge funds in contested take-overs, such as that of the Kraft-Cadbury takeover, should not be allowed.

The question arises as to how this is achievable with general approval and without involving complex issues.

One suggestion, conceived in the discussion that followed the debate, is to view it from the underlying principle of the London Stock Exchange Takeover Code rules in that the shareholders of the target company should be treated fairly. It is unfair that the majority vote of the existing shareholders can be overruled by the late purchase of shares through hedge funds.

The combination of the timing of the purchase, the singular purpose, and the appropriateness of a hedge fund shareholder in those circumstances should disallow a vote equal to that of an existing shareholder. The involvement of the hedge fund could be seen from a shareholder's viewpoint as akin to a consortium under the Code's rules, but it does not constitute a consortium at present.

It was discussed that a way of controlling the voting power in this situation could be achieved by amending the Code rules by a time restriction as to when the new shareholders are eligible to vote. This would apply to both contested overseas and UK bids, and contribute to creating a "level playing field" with other countries.

At present it is likely that the majority of countries would have blocked the bid for Cadbury by a variety of measures, and mainly because they see a long term downside to a dependence on foreign controlled companies. This would seem to be of less concern in the UK, but, regardless of who is right or wrong about that, the likely result of the current policy over time is that the UK will be overwhelmingly foreign owned with regard to multinationals and large companies; a situation other countries seem reluctant to allow.

What's your view on the role of Hedge Funds in contested takeovers? **Let us know at the [Birmingham Business School Twitter \(https://twitter.com/UoB_Business\)](https://twitter.com/UoB_Business) account using the hashtag #HFdebate**

Notes

- This event was part of [GRAB – the Great Read at Birmingham \(/welcome/grab/index.aspx\)](#) initiative - which this year centres around Deborah Cadbury's book *Chocolate Wars*, charting the history of Cadbury and its competitors from the 19th Century through to the Kraft take-over of Cadbury in 2010.