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Winners and losers in the takeover game

Comment by Jane Simms

Kraft's bid for Cadbury signals acquisition fever, but too often such mega deals are fuelled by corporate greed and ego. Who suffers? Employees, customers and even shareholders

If anything heralded a return to business as usual, it was Kraft's takeover bid for Cadbury. But business as usual is the last thing we need if we are going to avoid another terrifying eyeballing with the four horsemen of the financial apocalypse. Most commentators greeted the news with surprising equanimity, probably due to a sense of relief that, after months of gloom and doom, things were going to be OK again.

But if the Kraft bid does open the floodgates for a rush of takeovers, as many predict, things will be fine only for a select bunch of people—the investment bankers, accountants, lawyers and PR folk who drive and feed on deals as though they were their very lifeblood.

Employees don't benefit: at best they get "rationalised", at worst they endure a period of sickening uncertainty about what the future holds. Customers don't prosper: they get reduced choice and, often, lower quality and higher prices. Directors may be rewarded in terms of success-related bonuses or big redundancy payments, but the stress involved in waging or defending a bid is usually a heavy price to pay.

Communities are not helped: lower employment means falling wealth, and the important social role played by many employers—not least the chocolate companies, with their Quaker ethics—is diluted or evaporates completely. And even shareholders, the group that such deals are designed to benefit, gain little from mergers and acquisitions. Surveys show that most takeovers fail to create shareholder value, and often destroy it.

Not all acquisitions are bad, of course. Where they are undertaken for sound strategic reasons and carefully handled, the value of the whole can be greater than the sum of its parts. What's more, an approach from a predator can prod a slow and sleepy business into action.

But too often these deals are driven by corporate greed and ego. It is said that Kraft's move on Cadbury was influenced by its desire to overtake Mars as the world's biggest confectionery



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company. Should we even be entertaining bids with such overtly self-seeking rationales?

Big is rarely better. Huge companies such as Microsoft and Google are aware of the dangers of size and strive hard to counter them by funding initiatives to drive engagement, innovation and corporate responsibility—things that occur more naturally in smaller organisations. Research from GoodCorporation has found that because small firms can often respond in a personalised way to different stakeholder groups, they outperform larger peers in terms of ethical business behaviour.

It's difficult to legislate for, but the question of what is an appropriate size for an organisation requires urgent attention. Allowing a handful of players to monopolise a sector is dangerous, as the recent banking crisis demonstrates. A few short months ago UK banks were judged "too big to fail". It rapidly became clear that they were in fact "too big to be allowed to fail", which is very different.

Diversity of size and function builds resilience against shocks. Variety of ownership is important, too. The listed sector bears a growing resemblance to a giant casino, where the advisers are croupiers, the shareholders the gamblers and the companies the chips.

More involved and committed owners, including the partners in co-operatives such as John Lewis, are less interested in making a fast buck than they are in the longer-term health of the "eco-system" in which they operate.

We need to revisit the stakeholder model of capitalism advocated by research charity Tomorrow's Company, whereby shareholders benefit as a result of the way the business treats its employees, customers, community, suppliers, environment and so on. French president Nicolas Sarkozy's ambition to get governments to take account of their citizens' wellbeing, instead of measuring success by GDP alone, is consistent with this notion.

With the deadline for any formal offer from Kraft for Cadbury fast approaching (November 9) it would be interesting to know what Sir Adrian Cadbury, the granddaddy of corporate governance, makes of the position in which his eponymous company finds itself. He once said that the two things he asked of retirement were a good pension and a society into which it is worth retiring. Perhaps he should go and live in France.

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