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Economic Nationalism, Network-based Coordination, and the Market for Corporate Control
Motives for Political Resistance to Foreign Takeovers

Helen Callaghan

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Abstract

Why does political resistance to foreign takeovers vary across countries and over time? Rational choice accounts of economic nationalism fail to provide an answer. The present article proposes an institutionalist amendment in the "Varieties of Capitalism" tradition. While politicians everywhere face incentives to favor local stakeholders over anonymous shareholders, stakeholder opposition to foreign takeovers depends on how much of a threat foreign owners pose to network-based coordination. Networks are worth fighting for only where they are actually in use. In so-called outsider systems of corporate governance, including the UK, coordination takes place mainly through market-based mechanisms, and even domestic owners do not rely on networks. Political mobilization is weaker under these conditions. A comparison of Britain and France from the 1970s onward illustrates the argument.

Zusammenfassung

Warum unterscheidet sich politischer Widerstand gegen ausländische Übernahmen von Land zu Land und im zeitlichen Verlauf? Rational-Choice-Ansätze zum Thema Wirtschaftsnationalismus geben auf diese Frage keine Antwort. Das vorliegende Papier schlägt eine institutionalistische Ergänzung in der „Varieties-of-Capitalism"-Tradition vor. Während Politiker überall mit dem Anreiz konfrontiert sind, lokale Interessengruppen (Stakeholder) gegenüber anonymen Aktionären zu bevorzugen, hängt der Widerstand der Stakeholder gegen ausländische Übernahmen davon ab, in welchem Maß ausländische Eigentümer eine Gefahr für die netzwerkbasierte Koordination darstellen. Für Netzwerke zu kämpfen lohnt sich nur, wenn diese auch tatsächlich genutzt werden. In sogenannten Outsider-Systemen der Unternehmensführung – darunter Großbritannien – erfolgt die Koordination über marktbasierte Mechanismen und selbst inländische Eigentümer sind nicht auf Netzwerke angewiesen. Unter diesen Umständen fällt die politische Mobilisierung schwächer aus. Ein Vergleich zwischen Großbritannien und Frankreich seit den 1970ern veranschaulicht das Argument.

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Economic Nationalism, Network-based Coordination, and the Market for Corporate Control: Motives for Political Resistance to Foreign Takeovers

> "Every week, a bland announcement confirms the sale of another major British institution to a foreign predator and, bizarrely, no one is complaining."
> Tom Bower, *The Guardian,* February 9, 2007

1 Introduction

International market integration reduces the overlap between economic and political borders and thereby potentially undermines itself (cf. Clift/Woll 2012: 308). Politicians face temptations to engage in protectionism[1] on behalf of local constituents, because foreign trading partners have no vote. To prevent spirals of retaliation, they voluntarily tie their own hands by delegating the maintenance of free trade to non-elected bodies such as the European Commission or the World Trade Organization. However, despite such agreements, the spatial incongruence between open borders and territorially defined democratic mandates persists, forcing governments "to balance economic expansion with political priorities" (World Economic Forum 2007: 4).

The market for corporate control exemplifies the political difficulty of maintaining economic openness. While the vast majority of cross-national mergers and acquisitions pass without protest,[2] many governments still intervene in high-profile cases, either by blocking the takeover directly or by promoting "patriotic" mergers as an alternative to foreign acquisition (see Kim 2007; Hill 2010). Since 2005, several OECD countries – including France, Japan, Canada and the US – have even strengthened the legal instruments available for the defense of "strategic sectors" (see Brown/Kilby 2011; Hill 2010). Such trends led the Economist Intelligence Unit (2007) to register concern that the gradual lowering of barriers to foreign takeovers around the world might be going into reverse.

1 I use the terms "protectionism," "economic nationalism," and "economic patriotism" loosely and interchangeably to denote political intervention that privileges resident insiders over non-resident outsiders. No value judgment is intended. For a discussion of differences in the territorial scope, policy content, and normative connotations sometimes associated with these terms, see Clift and Woll (2012: 312–318).

2 Between 1986 and 2005, 3,386 British companies and 1,374 French companies were the target of cross-border mergers or acquisitions (Garita/van Marrewijk 2008). The number of unsolicited ("hostile") foreign bids between 1991 and 2005 amounts to 34 in Britain and 18 in France (Thomson Financial Platinum Database).

Puzzlingly, however, some governments are more willing than others to embrace cross-border trade of corporate control. Britain in particular is exceptionally open to foreign takeovers. In 2005/6, while the French government celebrated "economic patriotism" and passed new laws in response to mere rumors that PepsiCo might bid for Danone, Tony Blair endorsed the sale of Britain's defense industry and boasted that 10 Downing Street sourced its water and electricity from French and German suppliers.[3] With only minor variations, a welcoming attitude toward foreign-owned transnationals has characterized British industrial policy throughout much of the post-war period (see Jones 1990; Sugden 1990; Capie/Wood/Sensenbrenner 2005).

Long-standing research on the politics of open markets suggests variation in resource endowments as an obvious explanation (Gourevitch 1986; Rogowski 1989; Keohane/Milner 1996; Hiscox 2002). Although developed with regard to trade in goods, resource endowment theories easily travel to the market for corporate control. Europe's financial services industry, which earns its money by arranging and financing mergers and acquisitions, is heavily concentrated in the City of London. In 2007, financial services accounted for 4 percent of total UK employment, 15 percent of income tax and 26.5 percent of corporation tax (Morgan 2012: 379). It stands to reason that British governments should pay greater attention to the demands of financial sector interest groups than should governments in other countries, where financial services contribute less to overall economic performance.

However, these and other IPE explanations cannot account for a striking peculiarity in the structure of recent British political debate. The economic weight of the City may explain why British *governments* support open markets for corporate control, but it does not explain why backbenchers and opposition parties have ceased to speak up for the victims of cross-border takeovers. Surely, liberal economic ideas have not penetrated the British electorate to the point of converting everyone. Nor is it plausible that the workers and managers of target companies subjugate their own immediate interests to the greater good of a thriving financial sector. Why, then, is the bashing of "foreign raiders" no longer pursued as a vote-winning strategy in the UK? External political pressure associated with the European Commission's efforts to promote active markets for corporate control (see Callaghan/Höpner 2005) affects Britain no more than France. Suggestions that British voters and politicians are culturally less hostile toward foreign influences are belied by persistent British resistance to European political integration. Britain does have a weaker tradition of state intervention in industrial policy, but this observation merely shifts the burden of explanation. Why are British governments more reluctant than their French counterparts to pursue an activist industrial policy, including intervention in the market for corporate control?

3 *The Times*, March 24, 2006.

I argue that Britain's "outsider-oriented" system of corporate governance is key to resolving the puzzle. While politicians everywhere have incentives to serve local stakeholders, the interests of these stakeholders differ across corporate governance systems due to variation in the importance of network-based coordination. So-called outsider systems, including the British, rely mainly on market-based coordination. In such systems, foreign acquisitions cause less disruption to business-as-usual for workers, managers, and policy-makers, because even domestic owners do not rely on networks. Low reliance on network-based coordination thus reduces the political incentives to mobilize against foreign ownership.

In essence, the paper advances a "varieties of capitalism" perspective to highlight one of many gaps in simple rational choice accounts. Economic nationalism is a multifaceted phenomenon that does not lend itself to monocausal explanations. Rather than replace one oversimplified explanation with another, I merely identify one hitherto neglected institutional variable that helps account for some gaps in incentive-based explanations without recourse to constructivist perspectives that also offer valuable insights (e.g. Helleiner/Pickel 2005).

The article proceeds as follows: Section 2 reviews rational choice accounts of takeover patriotism and proposes an institutionalist amendment, by explaining how the degree of reliance on network-based coordination shapes political incentives to oppose foreign takeovers. Section 3 documents cross-national variation in political opposition by comparing French and British government action regarding foreign takeovers from the 1980s onwards. Section 4 provides quantitative measures of network-based coordination in Britain and France. Section 5 presents anecdotal qualitative evidence that supports a causal connection. The conclusion discusses political implications and offers suggestions for further research.

2 Theory

Rational choice accounts explain political hostility to takeover bids by pointing to the incentives associated with an imperfect overlap between shareholders and citizens. The argument is not limited to foreign bids but applies most forcefully to them. Coffee (1999: 656) explicitly suggests that political resistance to takeovers may grow as capital markets become more complete, because the incentives to support anti-takeover measures that protect local jobs grow as the costs of such action fall increasingly on *foreign* shareholders.

The general argument rests on two assertions. First, politicians are said to favor stakeholders over shareholders because the former vote in well-defined constituencies. Hellwig (2000: 124) argues that

> stakeholders are easier to identify and see as actual people because they tend to be concentrated in certain locations, with little intention to move if they can help it. Outside shareholders in contrast tend to be dispersed. Their identities and locations change with every stock market transaction.

Roe (1993: 332–333) draws on Mancur Olson to argue that "[o]ut-of-state raiders are less organized than in-state targets: they might sit back or do little. And out-of-state institutions are less influential in a state; politicians respond first to their constituents." For Romano (1987: 140), takeover regulation is a classic example of an externality-imposing statute because "non-residents, who cannot meaningfully interpose their views in the legislative process, bear the costs."

Second, the stakeholders supposedly favored by politicians are said to dislike outside owners because the latter disrupt network-based coordination. As Hellwig (2000: 130) explains, "outsiders are difficult to fit into informal mechanisms of give and take." Informal coordination is attractive because it saves transaction costs, but it requires repeated interaction in a context where everybody knows how to punish defectors. "Outsiders naturally generate mistrust – one does not know how to deal with them through informal mechanisms. This makes it tempting to exclude them from any significant influence" (Hellwig 2000: 129–130). In the market for corporate control, informal give and take can encourage companies to

> hold reserves to smooth over potential future difficulties and delay or sweeten needed adjustments. To the extent that layoffs affect not just the workers, but the entire community, shopkeepers, real estate owners, and the government itself, this interest is actually shared by all of "Main Street." (Hellwig 2000: 124)

A major problem with this parsimonious account is its failure to explain variation across countries and over time. As documented below, British political resistance to foreign takeovers has ceased almost entirely in recent decades, while French governments continue to intervene. The degree of overlap between shareholders and citizens does not vary sufficiently to account for the contrast.[4] Nor do British politicians have weaker incentives to serve local interests. On the contrary, in view of the British electoral system with its single member constituencies, one would expect the opposite (Rogowski 1987).

The present article addresses the puzzle by offering an institutionalist amendment to the simple rational choice account. While politicians everywhere have incentives to serve local stakeholders, the interests of these stakeholders differ across corporate governance systems due to variation in the importance of network-based coordination.

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4 Between 1977 and 2006, foreign ownership of domestic listed companies increased dramatically in both countries, from 12 percent to 32 percent in France and from 6 percent to 40 percent in the UK (Deutsches Aktieninstitut 2008: table 08.7).

Comparative research on corporate governance systems commonly distinguishes between insider and outsider systems (Vitols 2001). Both systems address the principal–agent problems that arise where companies are not managed by their owners, but they do so in different ways. In insider systems, large, stable blockholdings represent the dominant form of corporate ownership. Large blockholders have strong incentives to devote time to monitoring managerial decisions. They also control the necessary voting power to directly influence the composition of company boards if they are dissatisfied with managerial performance. Network-based monitoring devices such as interlocking directorships, corporate cross-shareholdings and personal ties among managerial and financial elites are widespread under these conditions. In outsider systems, by contrast, ownership is less stable and more dispersed. As a result, individual shareholders have weaker incentives and fewer instruments to directly control managerial decisions. Instead, they rely mainly on arms-length market mechanisms to monitor and punish. The share price serves as the main indicator of managerial performance. Perceived underperformance is punished by a drop in market value and increased threat of hostile takeover, as dissatisfied owners sell their shares.

Outsider systems are less conducive to informal, network-based coordination because their reliance on exit rather than voice reduces the likelihood of repeated interaction; channels for informal communication are less developed, and their lack of transparency is frowned upon as market-distorting; and, most importantly, managers are not free to build up reserves that could help protect jobs during temporary economic downturns, because they are under constant pressure to deliver short-term shareholder value.

As a result of these differences in the significance of network-based coordination, the political incentives for opposing foreign takeovers also vary across countries. In outsider systems, where, regardless of nationality, managers and owners cannot credibly commit to delivering their part of the bargain in informal arrangements of give and take, politicians, workers and other stakeholders have less reason to mobilize against foreign takeovers.

To assess this argument empirically, the following sections map British and French takeover patriotism against several indicators of outsider-oriented corporate governance from the 1970s onward.

3 Cross-national variation in takeover patriotism

Political intervention in the market for corporate control is difficult to measure, not least because it is often either covert or ambiguously cloaked. For example, the referral of a foreign bid to a commission charged with assessing the danger of monopolistic market domination may be motivated either by genuine competition concerns or by

Table 1 Examples of direct government attempts to prevent foreign takeovers

Year	Bidder (nationality)	Target	Sector	Means of intervention
France				
1976	American National Distillers (US)	Chateau Margeaux	Alcoholic drinks	?
1977	? (UK)	Rousselot	Gelatine	?
	? (Netherlands)	Gardinier	Fertilizers	?
1980	Thorn Electrical Industries (UK)	Locatel	Consumer electronics	Arrangement of a French counterbid
1986	?	n-2	Food processing	Arrangement of a French counterbid
1988	Pearson (UK)	Les Echos	Newspapers	Veto on public interest grounds
1988	Nestle (Switzerland)	French subsidiaries of Rowntree Mackintosh	Food	Veto on competition grounds
1988	Carlo de Benedetti (Italy)	Epeda	Automotive supplier	Arrangement of a French counterbid
1991	Nestle (Switzerland)	Perrier	Mineral water	? (intervention ineffective)
?	?	Groupe Bull	Consumer electronics (?)	? (intervention ineffective)
1999	Ente Nazionale Idrocarburi (ENI) (Italy)	Elf	Oil	Arrangement of a French counterbid
1999	Any foreign bidder	Crédit Lyonnais	Banking	Expression of opposition
1999	Any foreign bidder	Canal Plus	Broadcasting	?
1999	Any foreign bidder	Cegetel	Telecoms	?
2003	Novartis (Switzerland)	Aventis	Pharmaceuticals	Arrangement of a French counterbid
2005	PepsiCo (US)	Danone	Food	Expression of opposition; new legislation
2006	Mittal (India)	Arcelor	Steel	Expression of opposition (ineffective)
2007	Siemens (Germany)	Areva	Nuclear energy operator	Encouragement of a French counterbid
United Kingdom				
1981	Any foreign bidder	ICL	Computers	Expression of opposition
1982	Hong Kong and Shanghai Banking Corporation (HSBC)	Royal Bank of Scotland	Banking	Government veto
1988	Kuwait Investment Office	British Petroleum	Oil	Referral to Monopolies and Mergers Commission on public interest grounds
1988	Elders IXL (Australia)	Scottish & Newcastle Breweries	?	Referral to Monopolies and Mergers Commission, officially on competition grounds

? = Could not be determined by the author.

the desire to exclude foreigners, and even where competition concerns are subsequently dismissed, the delays associated with a referral can suffice to stall a bid. Moreover, the line between rhetoric and action is blurry, because the mere threat of intervention can serve as a deterrent. As a result, the number of bids that failed is a misleading indicator of government activism, and bids that never happened are impossible to count. Conversely, instances of non-intervention are as hard to pin down as dogs that do not bark, because there is no objective way of identifying cases that *should* have provoked a protectionist response.

Despite these difficulties, it is clear that French and British governments have long occupied opposite extremes on a spectrum of political action regarding foreign takeovers. The following examples of direct government intervention, summarized in Table 1, are drawn from an extensive Lexis Nexis search of English-language newspapers from 1975 onward. Earlier years are not covered by Lexis Nexis. Given that the names of the companies concerned were not known in advance, the initial search terms were inevitably vague (for example, "foreign takeover" AND [France OR Britain]). Subsequent searches within the results, using terms such as "government," "politic*," "national," and "protection*," may not have filtered out all the examples mentioned in Lexis Nexis newspapers, and these newspapers may not have reported all actual instances of intervention. Nevertheless, while far from complete, Table 1 contains the most comprehensive list available to date.

French governments took direct action against foreign takeovers at least 18 times since the mid-1970s. In 1976, under Giscard d'Estaing (president)/Chirac (prime minister), the government prevented the sale of Chateau Margaux, "one of the aristocrats of the Bordeaux vineyards," to the American National Distillers group, and announced measures to help the food processing industry resist foreign takeovers.[5] In 1977, Giscard d'Estaing/Barre stopped Rousselot, the world leader in gelatine, and Gardinier, a privately owned diversified fertilizer company, from being taken over by British and Dutch companies, respectively.[6]

British observers were already bored with the practice by 1980, when Giscard d'Estaing/Barre prevented Britain's Thorn Electrical Industries from buying Locatel, France's biggest TV rental company and instead prodded two French companies, Thomson group and Compagnie Générale d'Électricité, into coming up with an alternative bid.[7] *The Economist* wrote that "[t]he French government has dashed in to rescue a vital industry from a foreign takeover. Sounds familiar? It has been a common enough refrain in the past."[8] The mid-1980s possibly saw a temporary decline in French government intervention. One observer remarked that, in January 1988,

5 *The Economist*, August 21, 1976: 86.
6 *Business Week,* October 3, 1977: 56.
7 *The Economist*, March 1, 1980: 64.
8 *The Economist*, March 1, 1980: 64.

> [e]ven the sale to a Canadian group of Martell, a 273-year-old family-controlled cognac house which by any definition qualifies as part of the national heritage, was approved … with scarcely a hesitation. Finance ministry officials made it clear they would have been embarrassed to be seen blocking foreign takeovers while French firms were buying and bidding outside France.[9]

However, even during this supposedly more open period, Mitterrand/Chirac in 1986 asked large French agricultural concerns and banks to mobilize capital to prevent foreign takeover of the n-2 sugar company and other French agro-food groups.[10] In 1988, the observer cited above diagnosed a "strong return to the feeling that French groups need to be protected against outside predators," when Pierre Beregovoy, finance minister under Mitterrand/Rocard, proposed the creation of a fund to help managers defend their companies against hostile bidders.[11] The same year, under Mitterrand/Chirac, the government vetoed a takeover of *Les Echos*, a French financial daily, by the London-based publisher Pearson.[12] Concerns over foreign domination of the food industry led antitrust officials to prevent Swiss chocolate maker Nestlé from taking over French subsidiaries as part of its bid for British candy manufacturer Rowntree Mackintosh.[13] To prevent the Italian financier Carlo De Benedetti in October from buying Epeda, an automotive supplier, French bureaucrats lined up an offer from a group that included carmaker Peugeot.[14] Efforts by Mitterrand/Cresson to prevent a foreign takeover of Perrier and significant foreign holdings in Groupe Bull, France's state-owned computer company, did not fail for lack of trying,[15] but they exposed limits to French state interventionism. Whether the subsequent period of low political intervention owes more to a temporary drop in the number of cross-border mergers than to a new reluctance to intervene is impossible to discern. In any case, it did not endure. In 1999, the government led by Chirac/Jospin opposed a merger between Elf and Italy's dominant oil company, Ente Nazionale Idrocarburi (ENI), and discouraged Elf from looking for a foreign partner who could act as a "white knight" to stave off a hostile bid from its French rival Total. In 2002, Chirac/Raffarin signaled that only French bidders need apply to take over Crédit Lyonnais[16] and prevented the media conglomerate Vivendi Universal from selling its French film and television unit Canal Plus and French mobile telecom unit Cegetel abroad. In 2003, they discouraged Switzerland's Novartis from bidding for Aventis and instead arranged for Aventis to merge with the formerly state-owned French company Sanofi-Synthélabo.[17] In 2006, speculation that PepsiCo was preparing

9 *The Financial Post* (Toronto), April 12, 1988: 12.
10 *The Xinhua General Overseas News Service*, November 22, 1986.
11 *The Financial Post* (Toronto), April 12, 1988: 12.
12 *Sydney Morning Herald* (Australia), February 24, 1988: 46.
13 *Business Week*, November 21, 1988: 57.
14 *Business Week*, November 21, 1988: 57.
15 *The Economist*, June 1, 1991: 89; *The Jerusalem Post*, March 6, 1992.
16 *Daily Deal/The Deal*, July 14, 2003.
17 *The International Herald Tribune*, April 30, 2004: 13.

a bid for the food conglomerate Groupe Danone led Sarkozy/Villepin to issue a new decree granting the French government a right to veto or impose conditions on foreign takeovers of French firms in 11 sectors deemed strategic to the economy.[18]

In 2006, the hint of a bid for the Suez conglomerate from Italy's privatized electricity company, Enel, made Chirac/Villepin drop their opposition to a long-planned merger between privately owned Suez and nationalized Gaz de France.[19] The same year, they vainly opposed Anglo-Indian Mittal Steel's purchase of the partly French-owned steel maker Arcelor.[20] In 2007 newly-elected President Sarkozy tried to engineer a merger of nuclear operator Areva with engineering group Alstom to squeeze out Germany's Siemens.[21] Three counterexamples should not go unmentioned, but the first foreign takeover of a French bank – Credit Commercial de France – by the British HSBC Holdings in 2001, the takeover of French aluminum giant Pechiney by Canada's Alcan in 2003, and the 2006 merger between Euronext and the New York Stock Exchange are exceptions that prove the rule.[22]

British governments, by contrast, have shown remarkable openness toward foreign investment. The Lexis Nexis search produced only four reported instances of direct intervention, all during Margaret Thatcher's time in office. In 1981, the Industry Department indicated that it would "seek to oppose any predatory takeover by a foreign company for ICL," a large computer manufacturer.[23] In 1982, the government vetoed the takeover of The Royal Bank of Scotland by the Hong Kong and Shanghai Banking Corporation (HSBC) as contravening the public interest.[24] In 1988, it referred the Kuwait Investment Office's 22.5 percent stake in British Petroleum (BP) to the Monopolies and Mergers Commission (MMC) because of objections to BP coming under the influence of an OPEC (Organization of Petroleum Exporting Countries) member state.[25] Some commentators also suspected protectionist motives behind the 1988 MMC referral of a bid by Elders, the Australian brewer, for Scottish & Newcastle Breweries, even though the bid was officially referred on competition grounds.[26] Intervention seems to have ceased completely since 1989, when Nicholas Ridley, then Trade and Industry Secretary, announced that the government would henceforth refrain from blocking foreign bids for any privatized company that did not involve strategic defense interests.[27]

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18 *Daily Deal/The Deal*, January 9, 2006.
19 *The Economist*, February 10, 2007.
20 *The Economist*, July 1, 2006.
21 *The Guardian*, October 24, 2007.
22 See Callaghan/Lagneau-Ymonet (2011) for a detailed analysis of the political discourse regarding the NYSE-Euronext merger.
23 *Financial Times*, May 6, 1981: 7.
24 *The Guardian*, July 4, 2006, features: 10.
25 *The Toronto Star*, May 12, 1988: D28.
26 *The Times*, November 13, 1988.
27 *The Guardian*, December 14, 1989.

Recent British governments have even permitted foreign takeovers in the defense sectors, as well as in other areas heavily protected in other countries. Examples include the purchase of Racal's defense electronics business by the French group Thomson CSF in 2000,[28] the sale of a controlling stake in AugustaWestland, Britain's last helicopter maker, to the Italian defense and aerospace company Finmeccanica in 2004.[29] In the same year, the Office of Fair Trading also gave the green light to the takeover of Alvis, Britain's last remaining tank maker, by General Dynamics, the American defense contractor.[30] (Note, though, that the company ended up remaining British after a successful counterbid by British Aerospace Engineering [BAE]). The public utilities were equally fair game for foreign bidders. In 1999, the Blair administration approved Enron's bid for Wessex Water and Texas Utilities' bid for Energy group.[31] In 2008, Electricité de France acquired British Energy. Companies with strong symbolic value did not spark economic patriotism either. In 2002, Blair's government relaxed foreign ownership limits on BAE Systems and Rolls-Royce by removing the 49.5 percent limit on aggregate foreign holdings for the two companies.[32] In 2006, it endorsed the sale of the London Stock Exchange to America's Nasdaq exchange after more than 300 years of British ownership.[33] (Note, though, that LSE shareholders later rejected Nasdaq's offer as too low.)[34] In early 2010, despite an impending general election, it permitted Kraft's takeover of chocolate maker Cadbury.

Even more striking than the laissez-faire stance of British governments is the "lack of political hue and cry."[35] Except for the occasional exasperated commentator, "no one is complaining. … The opposition is mute."[36] John Monks, a former leader of the Trades Union Congress, complained in 2006 that the Conservatives and UKIP had "a lot to say when there is the merest hint of a little more shared sovereignty at European level. But on the unfettered sale of our key national assets, they are dumb." Conservative shadow chancellor George Osborne assured the 2006 CBI conference that a Conservative Government would never block foreign takeovers or shelter national champions,[37] and Vince Cable, his liberal counterpart, declared in 2007 that "[t]here is no room for nationalism and protectionism in a modern economy."[38] More notably, support extended to backbench Members of Parliament from constituencies that were affected by foreign takeovers. Upon news that TBI, owner of Cardiff airport and the second largest company in Wales, would be bought by French investors, Plaid Cymru, the Welsh nationalist party, professed "no objections to any company takeover as long as they invest

28 *The Economist*, July 20, 2002, survey: 6.
29 *Financial Times*, August 24, 2005: 7.
30 *Sunday Times*, May 30, 2004: 11.
31 *The Independent*, September 11, 1998: 6.
32 *Flight International*, April 2, 2002: 25.
33 *The Evening Standard*, December 12, 2006: 22.
34 *The Daily Telegraph*, February 14, 2007.
35 *Sunday Times*, May 30, 2004: 11.
36 *Guardian*, February 9, 2007: 37.
37 *The Daily Telegraph*, November 28, 2006: 44.
38 *The Guardian*, July 26, 2007: 32.

in our infrastructure and transport links."[39] The 2005 takeover of Pilkington by its Japanese competitor Nippon met with a similarly pragmatic response from Dave Watts and Shaun Woodward, the Labour MPs representing the constituency in which Pilkington was based. Watts explained that

> [t]he question of whether a foreign takeover of a British firm is a good thing or a bad thing depends on who is taking over and what the implications are … [T]there could actually be a positive impact in jobs if it meant extra investment coming in … Pilkington has been doing quite well in recent years … It could do even better under a new owner.[40]

In 2010, Senior Tory MP Bill Wiggin went even further to condemn protests against the takeover by Kraft of a Cadbury plant located in his Herefordshire constituency. He accused protesting workers of putting their own jobs at risk "by sending out such negative signals" and expressed doubts on whether anyone would want "to hire a whingeing workforce when you can have a positive upbeat one."[41] The Kraft-Cadbury takeover, in the run-up to a general election, did stir some protest, partly because Kraft announced a plant closure seven days after the bid had gone through, having previously promised to keep all plants open. Overall, however, the debate sparked off by the takeover centered around the problem of short-termism, rather than on the nationality of the bidders. As business minister Ian Lucas put it, "[t]he concern [was] not over who owns the company, but the nature of that ownership."[42]

As shown in the following section, the stark contrast in French and British attitudes toward foreign takeovers correlates with striking cross-national differences in the degree to which companies rely on network-based coordination.

4 Quantitative evidence: Reliance on network-based coordination in French and British corporate governance

To measure the degree of network-based coordination, the present paper relies on several different indicators, including ownership concentration, the proportion of shares held by long-term investors (families, the state, non-financial companies), managerial ties to the state apparatus, and intra-managerial networks (through interlocking directorships and old school ties). Ownership concentration matters because large blockholders are easier to coordinate with than are dispersed shareholders, not least because they often have direct access to government officials. Ownership stability matters because repeated interaction is essential for the credibility of commitments, allowing trust

39 *Financial Times*, August 15, 2001: 18.
40 *Daily Post* (Liverpool), November 16, 2005: 8, 9.
41 *Birmingham Evening Mail*, January 22, 2010: 5.
42 Ian Lucas, cited in *Birmingham Mail*, January 27, 2010.

Table 2 Proportion of listed companies where largest blockholder owns more than 50 [25] (20) percent of shares

	1976	1984	1990	1996	2000	2005[a]
UK	>10	5	6 [16]	(>40)	2 [10]	7.3
F	55	–	50 [80]	(86)	50 [70]	21.5

a 2005 data refer to the mean size of the largest blockholding in the 20 largest corporations.
Sources: 1990 data: Becht/Mayer (2001: 2); 2000 data: van der Elst (2004); 1976–1984 data: Berglöf (1990: 126); 2005 data: Alves (2010: 96).

Table 3 Percentage of shares owned by the public sector

	1975	1981	1989	1991	1993	1995	1997	1999	2001	2003	2006	2007
UK	3.6	3.1	2.1	1.3	1.3	–	0.1	0.1	0.0	0.1	0.1	–
F	–	–	–	–	–	4.2	6.9	9.1	4.7	5.8	12.5	10.3

Source: FESE (2008: 93,112).

to build up over time and facilitating punishment in case of defection. Managerial ties to the state apparatus affect the willingness of corporate executives to share their expertise with and implement industrial policy measures devised by public officials. All these institutional features affect politicians' incentives to oppose foreign takeovers, because network-based coordination with incumbent corporate elites is only worth preserving where it works. The strength of horizontal, intra-managerial networks (through interlocking directorships or old school ties), is less relevant to the functionality of vertical coordination between government officials and corporate elites. Nevertheless, it is included as a measure, because it affects managers' incentives to collectively mobilize against foreign takeovers, through their employer organizations.

Judging from the available data, cross-national variation in the importance of network-based coordination closely corresponds to the above-documented cross-national variation in political resistance to foreign takeovers. Systematic time series data are, unfortunately, not available for many of the indicators, but while data for individual years can be difficult to compare over time due to variation in sampling techniques, the stark contrast across countries is visible in all studies.

Ownership concentration of listed companies has been far lower in Britain than in France throughout the period under consideration (see Table 2). The proportion of British listed companies with a controlling blockholder at the 50 percent threshold (in other words, a single shareholder owning at least 50 percent of shares) was already below 10 percent in 1951 (Florence 1961: 69) and has remained so ever since (Becht/Mayer 2001: 2; Van der Elst 2004; Berglöf 1990: 126). In 1990, only 16 percent of British listed companies had a controlling blockholder at the 25 percent threshold, compared to 80 percent of French companies (Becht/Mayer 2001: 2). In 1996, less than 40 percent of British listed companies had a controlling blockholder at the 20 percent threshold, compared to 86 percent in France (Faccio/Lang 2002: 379). In 2005, the mean size of the largest block-

Table 4 Percentage of shares owned by private non-financial companies

	1975	1981	1989	1991	1993	1995	1997	1999	2001	2003	2006	2007
UK	5.3	7.3	6.1	5.7	3.1	–	3.1	3.5	2.0	1.9	2.7	–
F	–	–	–	–	–	31.2	23.8	18.1	19.1	20.7	12.0	13.1

Source: FESE (2008: 93,112).

Table 5 Percentage of top managers[a] with career experience in high level public administration

	1981	1983	1986	1993	1996	1998	2002	2004	2006
UK	–	5.3	–	–	–	1.7	–	–	–
F	[37]	12.2	[34]	16.7	[50]	16.6	[46]	[44]	[46]

a Data for 1983 and 1993 refer to the CEOs of the domestically-owned members of the 100 largest industrial firms; data for 1998 refer to the entire population of main board members holding executive role in top 100 French and UK companies. Data in brackets refer to the CEOs of the 40 largest firms.
Sources: 1983 and 1993 data: Whittington/Mayer (2000: 114); 1998 data: MacLean/Harvey/Press (2007: 542, 544); 1981–2006 data in brackets: Dudouet/Grémont (2007: 11).

holding (or: mean size of combined blockholdings [in other words, the mean sum of all shareblocks above the 5 percent threshold]) in the largest 20 British companies was 7.3 percent, compared to 21.5 percent in the 20 largest French companies (Alves 2010: 96).

The proportion of long-term investors (families, the state, private non-financial companies) is lower in Britain than in France. Regarding family ownership, Britain in 1996 had by far the lowest level of familial concentration in Europe, while France had the second-highest level (exceeded only by Portugal). The top 15 families controlled less than 7 percent of the total market value of common equity on the British stock market, compared to nearly 35 percent on the French stock market. Families held only 24 percent of controlling blocks (at the 20 percent threshold) in British listed companies, compared to 65 percent in French listed companies (Faccio/Lang 2002: 393).[43] Since then, French family ownership has remained fairly stable. In 2006, 11 companies in the CAC 40 still had a French family as the largest strategic shareholder, compared to 12 in 1997 (Auvray 2010). According to newspaper articles published in 2008 and 2009, more than half of all listed French companies, and one-third of CAC40 companies, are still predominantly family-owned (Guegneau 2009; Lachèvre 2008). Regarding state ownership: The percentage of shares owned by the British public sector (including by central and local government, and by other state-owned enterprises), barely exceeded 3 percent in 1981 and has been close to zero since the mid-1990s. In France, public sector ownership has actually increased since the mid-1990s, from 4.2 percent in 1995 to more than 10 percent since 2006 (see Table 3). In 1996, the state was a controlling blockholder (at the 20 percent threshold) in just 0.08 percent of British listed companies, compared

43 Moreover, 50.4 percent of UK family firms in 1996 were controlled by foreign rather than domestic families, compared to 12 percent in France (Franks et al. 2012: 5).

to 5 percent of French listed companies (Faccio/Lang 2002: 393). Some of the highest French performers continue to be partly state held. In 2006, 14 CAC 40 companies still had the state as largest strategic shareholder, up from 10 companies in 1997 (Auvray 2010). Regarding industrial cross-shareholdings: In Britain, the proportion of shares held by private non-financial companies accounted for just over 7 percent in 1981 and has declined further since then, to less than 3 percent since 2001. In France, industrial cross-shareholdings have also declined, from 24 percent in 1997 to 12 percent in 2006, but even after this decline, they remain significantly more widespread than in the UK (see Table 4).

Managerial ties to the state apparatus are also weaker in Britain than in France (see Table 5). In 1998, less than 2 percent of board members of the largest 100 companies had high level experience in public administration, compared to 16.7 percent in France (MacLean/Harvey/Press 2007: 542). Among CEOs of French CAC 40 companies, a career background in public administration is even more widespread, ranging between 34 percent in 1986 and 46 percent in 2006 (Dudouet/Grémont 2007: 11). In France, these ties are fostered and reinforced by a system of elite higher education in so-called Grands Ecoles, famously including the Ecole Nationale d'Administration (ENA), which is designed to train future civil servants. In 1998, 38 percent of CEOs in the 25 largest French companies had been trained at ENA (MacLean/Harvey/Press 2007: 542). A revolving door between private industry and public service operates both ways, and at the highest levels. Recent examples include Edmond Alphandéry, who served as Minister of the Economy (1993–1995) before becoming CEO of Electricité de France (EdF), and Francis Mer, who was CEO of the steel group Arcelor before serving as Minister of the Economy, Finance and Industry (2002–2004) (MacLean/Harvey/Press 2007: 542).

In sum, the data presented above are compatible with the argument that reliance on network-based coordination contributes to the difference in French and British attitudes toward foreign takeovers. Evidence that goes beyond demonstrating a correlation is necessarily more anecdotal. However, as shown in the following section, occasional comments by employers and worker representatives also suggest a causal connection.

5 Qualitative evidence: How the degree of network-based coordination affects stakeholder demand for government intervention

The Confederation of British Industry (CBI) is too heterogeneous for its members to agree on a joint stance towards foreign takeovers, not least because, unlike its German counterpart, it represents banks and financial institutions alongside manufacturing companies.

In the late 1980s, the organization was deeply divided over the matter. CBI president John Banham, broadly backed by the president's committee, advocated a six-point plan for resisting unwelcome overseas bids, while the CBI companies' committee, chaired by Ian Butler, resisted the proposal.[44] Fears that restrictions in the UK would provoke protectionist countermeasures by the US had led CBI member companies Hanson Trust, British Airways, Woolworth, Grand Metropolitan and Maxwell to voice opposition. Maxwell even threatened to leave the CBI.[45] Adjudication by the CBI council resulted in a compromise.[46] Two decades later, disagreement still abounded. Debates on protectionism featured prominently at the 2006 annual conference, with CBI chairman Sir John Sunderland, CBI director-general Richard Lambert and former CBI chief Sir Digby Jones repeatedly emphasizing the benefits of Britain's open market for corporate control and holding it up as an example for other countries.[47] However, when asked to vote, 70 percent of CBI members in the auditorium supported the proposition that "company ownership matters" and 84 percent believed that there is such a thing as "national champions" and "strategic assets."[48]

Significantly, however, even those CBI leaders who expressed dislike for foreign takeovers distrusted the government sufficiently to refrain from calling for direct intervention. In 1987, CBI president David Nickson expressed unease about "takeovers that were of no long-term benefit to British industry" and warned that bidders could increasingly be from overseas if competition policy ignored broader public interest considerations.[49] Nevertheless, he repeatedly complained about delays caused by referrals to the Monopolies and Mergers Commission and called for more detailed explanations of why some mergers were referred while others were not.[50] In 1988 and 1989, CBI director general John Banham advocated tougher takeover rules to protect British firms from foreign takeovers.[51] In passionate language, he warned that Britain would otherwise turn into a "screwdriver economy"[52] and that doing nothing would "amount to acting as pallbearers at our own funeral."[53] Still, Banham explicitly rejected calls for a strategic group of industries which the City and the Government would defend against foreign takeovers, professing "zero faith" in Whitehall's ability to spot strategic winners.[54]

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44 *The Times*, February 21, 1989.
45 *The Guardian*, November 9 and November 11, 1988.
46 *PR Newswire Europe*, February 22, 1989. The compromise solution proposed and adopted was to demand that foreign bids be referred to the Monopolies and Mergers Commission if and only if the predator was immune to a counterbid.
47 *The Daily Telegraph*, November 28, 2006: 2; *The Herald* (Glasgow), November 28, 2006: 22; *Evening Standard,* December 12, 2006: 22.
48 *The Daily Telegraph*, November 29, 2006: 4.
49 *Financial Times*, March 20, 1987: 10.
50 *Financial Times*, October 31, 1986: 10; January 14, 1987: 6.
51 *The Guardian*, November 11, 1988.
52 *The Times*, February 21, 1989.
53 *The Guardian*, November 9, 1988.
54 *The Times*, November 8, 1988.

By contrast, those French employers who disliked foreign takeovers did call for direct intervention. In 1988, "an atmosphere of panic in French boardrooms following the dramatic increase in takeover battles" provoked demands for better managerial defenses against hostile bids.[55] According to a 1989 survey reported by *Le Monde*, 56 percent of CEOs of listed companies also thought that the government should be allowed to intervene when French companies were attacked by non-European bidders, and 27 percent favored such intervention in the case of European raiders.[56] In February 1989, Mitterrand gave a passionate televised speech against "takeover mania" in which he claimed to "have received several CEOs from among the ten most important French companies, who have asked me – as a representative of the state – for help."[57] Since then, French business–government coordination on questions relating to takeovers has been aided by the close ties between employers and several recent ministers of finance. Dominique Strauss-Kahn, finance minister from 1997 to 2000,

> was well-known for his proximity to the heads of French large firms. In 1993 he had founded the Cercle de l'Industrie, a group that brought together CEOs from the largest thirty-five companies in France. … This cooperation with leaders of business did not come to an end when he was in government. (Culpepper 2011: 62)

Francis Mer, who led the finance ministry from 2002 to 2004, had more than thirty years in high corporate office behind him, including as CEO of Pont-a-Mousson and as president of the steel maker Usinor-Sacilor. Thierry Breton, finance minister from 2005 to 2007, had previously chaired Thomson RCA and France Telecom.

British unions, like British managers, did not unanimously endorse economic openness. As one might expect, journalists writing about job cuts or takeover waves typically find a union spokesman ready to condemn foreign raiders. Following plant closure threats in 1997, *The Times* quotes Roger Butler, executive councilor of the Amalgamated Engineering and Electrical Union, to back up the claim that "[t]rade unionists … are turning against inward investment after years of celebrating the creation of thousands of UK jobs by foreign companies."[58] Following a wave of foreign takeovers in 2006, *The Guardian* quotes Peter Booth of the Transport and General Workers' Union as saying that "[t]his country needs to support the principle of national champions – others have been doing it for years."[59] After the Cadbury takeover, *The Guardian* quotes Jack Dromey, the deputy general secretary of Unite, as calling for "a new Cadbury Law banning hostile takeovers of successful British companies by overseas multinationals."[60]

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55 *The Daily Telegraph* May 14, 1988: "L'Europe des OPA."
56 *Le Monde*, February 15, 1989: 46; *La Vie Francaise*, May 14, 1988: "L'Europe des OPA."
57 *Le Monde*, February 14, 1989: 9.
58 *The Times*, January 20, 1997.
59 *The Guardian*, March 7, 2006: 29.
60 *The Guardian*, April 7, 2010: 26.

Significantly, however, the Trades Union Congress (TUC) regularly asserted a welcoming attitude toward foreign takeovers. Press citations of discontented union members are typically qualified by the proviso that "the TUC would not go that far"[61] and that the organization was "in favour of all investments that create new jobs."[62] This pragmatic attitude has deeper roots than simple resignation, though the latter also played a role.[63] Some TUC officials expressed explicit appreciation of foreign takeovers. In 2006, Ian Brinkley, the TUC's chief economist, declared that "foreign deals are often better for British workers."[64] In 2009, Tim Page, the TUC's senior policy officer, said that "[f]oreign owners can be better than British ones, if they invest and expand the business."[65]

Reactions to two takeover bids for Pilkington, a sheet glass manufacturer from Lancashire, provide further anecdotal evidence. The first bid, in 1985, by the British-based conglomerate BRT, sparked massive protest. The second bid, in 2006, by Nippon Sheet Glass, a Japanese competitor, proceeded far more quietly. Asked about this, David Watts, the Labour MP for St. Helens North, explained that nowadays, "large companies like Pilkington are mainly controlled by London-based investors anyway and therefore the local link isn't as strong as it might have been in the past."[66]

These observations corroborate the hypothesis that British managers' lesser reliance on network-based coordination with government officials, and British investors' lesser reliance on network-based coordination with corporate stakeholders weaken the incentives of stakeholders and politicians to oppose foreign takeovers.

6 Conclusion

In sum, the paper suggests an institutionalist amendment to improve on simple rational choice explanations of political resistance to foreign takeovers. While politicians everywhere face electoral incentives to favor local stakeholders over anonymous shareholders, stakeholder opposition to foreign takeovers depends on how much of a threat foreign owners pose to existing structures of network-based coordination. In so-called outsider systems of corporate governance, including the UK, coordination takes place mainly through market-based mechanisms, and even domestic owners do not rely on networks. Political mobilization is weaker under these conditions, because networks

61 *The Guardian*, October 22, 2010: 31.
62 *The Times* January 20, 1997.
63 For example, faced with a French bid for TBI, owner of Cardiff airport and the second largest company in Wales, David Jenkins, general secretary of TUC Wales, merely noted that "[t]hese days, it is extremely difficult to keep big companies locally owned."
64 *The Daily Telegraph*, February 11, 2006: 33.
65 *The Observer*, September 20, 2009.
66 *Daily Post* (Liverpool), November 16, 2005: 8, 9.

are worth fighting for only where they are actually in use. To the extent that short-term shareholder-value-oriented investment strategies are associated with Anglo-American investors, British workers, unlike their French, German, or Japanese counterparts, even have a reason to prefer foreign ownership.

Despite emphasizing institutional variation among capitalist systems, the explanation advanced here challenges the optimistic assessment of international market integration implied by related "varieties of capitalism" arguments. Hall and Soskice (2001) influentially claim that globalization benefits both liberal and coordinated market economies (LMEs and CMEs). Different degrees of reliance on network-based coordination are associated with comparative institutional advantages regarding different production strategies. Economic openness is said to help countries realize mutual gains from trade, by allowing them to specialize on their respective strengths. I submit that this argument, while plausible for goods and services, does not apply to cross-border trade of corporate control. To the extent that takeovers disrupt network-based coordination, CMEs suffer asymmetrically from the removal of formal and informal barriers that still remain in that market. In other words, political resistance to further market integration is based at least partially on motives that are more rational than pride and prejudice.

By explaining variation across countries, the paper also suggests hypotheses regarding change within countries over time. The corporate ownership structures that support network-based coordination are not cast in stone. Even Britain, though always more market-coordinated than France, arrived at its present outsider-oriented system of corporate governance through a process of gradual change (see Scott 2003; Moran 2006). More recently, similar trends toward network dissolution have been noted in France and Germany (see Auvray 2010; Beyer/Höpner 2003). To the extent that the strength of networks affects attitudes to foreign investment, political resistance to foreign bids should decrease over time. Systematic testing is difficult because, as discussed further below, many other factors also influence the timing and intensity of calls for protectionist intervention. However, examination of British parliamentary debates since the 1950s does show a gradual decline in opposition, albeit not perfectly linear and clearly shaped by historical context (see Hees/Callaghan 2012).

By highlighting the connection between corporate ownership structures and policy preferences, the article also contributes to recent research on mechanisms of capitalist development (Streeck 2009; Callaghan 2012). To the extent that corporate takeovers undermine network-based coordination, the market for corporate control gradually eliminates its political opponents. Stable, long-term ownership relations have advantages, and when these relations first come under threat, stakeholders who benefit from them have strong incentives to complain. However, the incentives grow weaker as the market expands, because once a network is destroyed, it cannot get more destroyed. Employees of a company that is already owned by footloose outsiders care less if their company is taken over by another investor of the same type. Market expansion is thus self-reinforcing by gradually eroding political resistance (cf. Callaghan 2012: 3).

Apart from the institutional incentives emphasized above, economic nationalism also feeds on irrational sentiments that vary in intensity depending on the historical context and characteristics of the companies concerned. The following aspects of takeover patriotism deserve further exploration. First, variation within countries merits a closer look. Even in France, most cross-border mergers, including those in "strategic sectors," fail to provoke any political response. A case in point is the strikingly mute reaction to the takeover, in 2006, of Paris Euronext by the New York Stock Exchange (NYSE). The dissolution of relevant network ties prior to the takeover may be part of the explanation, but many other factors, including endorsement of the merger by the well-connected CEO of the French target, and weak emotional identification of French voters with a company that produces no tangible good and employs no blue-collar workers, also played a role (see Callaghan/Lagneau-Ymonet 2012). A systematic comparison of cases that did elicit intervention would help assess the relative significance of network-based coordination as an explanatory variable.

Second, the study should be extended to other countries. Germany and the US are obvious candidates because their respective structures of corporate ownership roughly resemble those of France and Britain. While the exceptionally low number of hostile bids for German companies precludes assertive statements, the public discourses surrounding Pirelli's unsuccessful bid for the German tire maker Conti in 1990 and Vodaphone's successful bid for Mannesmann in 2000 suggest that German politicians are more reluctant than their French counterparts to present themselves as "economic patriots." Instead of focusing on the nationality of the bidders, opponents of the takeovers took issue with the hostile nature of the bids (on Mannesmann, see Höpner/Jackson 2006). Passionate cross-party condemnation of the hostile takeover battle between the German steel giants Thyssen and Krupp in 1997 (see Callaghan 2006: 104-106) attests to the sincerity of the latter concern. The exact nature of network-based coordination also differs across countries. Government and managers are the main participants in France, whereas coordination in Germany also involves employees. This difference seems likely to contribute to determining who mobilizes against foreign takeovers, on behalf of which companies, and to what effect.

Third, the discursive dimension of takeover patriotism deserves further exploration. Even in Britain, martial rhetoric and flag-waving accompanied the public discourse on foreign takeovers until well into the 1990s. Sir Hector Laing, chairman of United Biscuits, warned the 1988 CBI conference against the danger of "selling some of our best weapons in the international trading war to the competitors we are doing battle with."[67] *The Independent* referred to the foreign takeover of Rover in 1994 as "Britain's industrial Dunkirk."[68] In protest against the bid by General Motors (GM) for British Leyland, a regiment of Land Rovers of every size, year, and condition paraded past the Houses

67 *Sydney Morning Herald* (Australia), November 9, 1988: 46.

68 *The Independent*, February 21, 1994: 17.

of Parliament with a Union Jack fluttering from each vehicle.[69] In response to BMW's bid for Rolls-Royce, a group of wealthy Rolls-Royce drivers sought to raise 680 million pounds to launch a formal counterbid. According to their spokesman, it was "unacceptable to every Roll-Royce and Bentley owner I have ever met for the company to pass into foreign ownership."[70] In the past decade, such overt manifestations of nationalism have become more rare – though, in 2006, Lord Sterling still felt that the sale of P&O to Dubai in 2006 amounted to selling the "fabric of the Empire,"[71] and the Daily Mail declared it "[t]ime to stand up to these invaders."[72] A systematic study of media commentary, political rhetoric and parliamentary debates would provide a fuller picture of how, and to what effect, attitudes to foreign takeovers vary across countries and over time.

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69 *The Toronto Star*, March 8, 1986: A10.

70 *Hamilton Spectator* (Ontario, Canada), January 9, 1998: D13.

71 *Daily Mail*, February 28, 2006: 12.

72 *Daily Mail*, December 13, 2006: 39.

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