

## STAKEHOLDER GOVERNANCE AND THE MARKET FOR CORPORATE CONTROL

The hostile takeover of Cadbury by Kraft (discussed in box 6.1) prompted a lot of debate in the UK about overseas acquisitions of British companies and the status of pledges made by acquiring companies during the negotiation process. These issues have come to the fore once again, but this time in connection to the friendly deal, finalised in October 2011, in which HP bought Autonomy.

Autonomy was founded in 1996 By Mike Lynch. The company specialises in computer systems that manage unstructured data, the kind contained in tweets and transcripts of conversations at call centres. The proposed acquisition by HP was controversial for several reasons. When it was first announced Larry Ellison the CEO of Oracle, the well-known business hardware and software company, was incensed because he claimed that Mike Lynch had offered Autonomy to Oracle. Some HP shareholders were concerned about the huge premium (64 per cent over the closing price on the last day before the offer period) being offered for Autonomy. Although they were pleased that their share price rallied when the CEO, Léo Apotheker left the company during the bid period, the turnaround was short lived and the price fell again as the deal was finalised. Public opinion, at least in the form of opposition politicians and trade union leaders was against the deal on the grounds that it was another sale of a British company to an American business, with the attendant risk of loss of employment in the UK.

American businesses have certainly been very active in the UK acquisitions market recently. The City law firm Wedlake Bell reports that during the year 2010-11 26 per cent of all acquisitions in the UK were made by American companies. These deals made up 47 per cent of all overseas takeovers. Mike Lynch has defended the HP acquisition of Autonomy on the grounds that it is good for the UK economy. He argues that the fears expressed by trade union leaders over job losses are unfounded, because the R&D team is based in the UK and would not move abroad. Unlike John Denham, the shadow business secretary, he does not favour protection against foreign takeover bids, except in the case of American companies which have poison pills in place. Further, he believes that this type of deal encourages

entrepreneurs to start new businesses from which they can later exit through a profitable acquisition.

In many areas of governance shareholders express concern at their lack of power. Yet in the market for corporate control they reign supreme. 87 per cent of Autonomy's shares, rather more than the required 75 per cent, were voted in favour of the deal. The shareholders have made a rational decision in their own best interests; the stakeholders must wait and see if their interests are served as Autonomy becomes a subsidiary of HP.

1. Do you believe that overseas acquisitions are a greater threat to employment than domestic takeovers?
2. Should stakeholders be allowed to vote on acquisitions or other aspects of corporate strategy?
3. Do you agree that companies that protect themselves with poison pills should not be allowed to acquire other companies?