evidencebriefing

ESRC Economic & Social Research Council

Foreign ownership and consequences for British business

This evidence briefing is aimed at those concerned with business sector regulation and guidelines for foreign ownership. The research indicates targeted policy measures to optimise economic growth and innovation benefits from foreign-owned businesses.

Key findings

- Research findings about foreign ownership suggest that there are positive overall effects for the nation when it comes to competitiveness, although individual communities experience both positive and negative consequences of foreign ownership.

- For British businesses that are acquired by foreign owners there are several trends across all industry sectors. On average productivity and profitability tend to increase after take-over – but so do plant closures and redundancies. Most studies argue that the knock-on effect for other British businesses is positive, in terms of improving performance and competitiveness. However, individual company and community experience is extremely varied, depending on the industry sector, the intentions of the acquirer and the nature of the take-over. The effects on local employees and communities will reflect the style adopted by the acquirer.

- Although foreign take-overs tend to lead to redundancies in the acquired firm, inward foreign direct investment has an overall positive effect in UK employment figures - adding 78,000 jobs in 2008/09 according to UK Trade & Investment - because it includes Greenfield investment and the setting up of new businesses in addition to the acquisition itself. In contrast to declining employment in UK-owned manufacturing, employment in foreign-owned manufacturing has remained stable while output has doubled.

- Although foreign buyers occasionally are accused of ruthless management strategies, studies show that British-owned firms themselves generally tend towards a shareholder rather than stakeholder perspective in their management – where performance and competitiveness dominate over goals related to the wellbeing of stakeholders.

Policy relevance and implications

While individual regions experience both the positive and negative consequences of foreign ownership, Britain appears to benefit nationally from the openness of the economy - at least in terms of competitiveness. Particular measures could maximise local benefits, ensure pro-active policy implementation and encourage better understanding of global economic interdependencies.

Potential policy measures include:

- More precise targeting of particular kinds of FDI (foreign direct investment) and regulatory intervention, at the central or regional levels, would help maximise local multiplier effects, encourage positive technology spillovers and minimise the displacement of local businesses. Targeting and intervention should also encompass a stakeholder dimension.

- Policymakers should be better informed about the corporate objectives, management style and track-record of specific (large, multinational) corporations. By anticipating foreign buyer behaviour appropriate policy and PR responses can be implemented early.

- A number of clear trends are observable in UK patterns of inward and outward FDI. These will have a significant impact on the shape of the UK economy and its evolving global interdependencies. These trends need to be better understood as an input into co-ordinated FDI policies of central and regional government.

Brief description of the project

The impact of foreign ownership on British business, British economy and the wider society has been examined by Professor Simon Collinson of Warwick Business School and the Advanced Institute for Management Research (AIM), co-funded by the ESRC.

The research shows a largely positive impact on British business from foreign ownership, and suggests possible policy measures to further enhance benefits to the economy.

Further information

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