

## Berry's City Blues

At first sight the sorry saga of Blue Arrow and the County NatWest merchant bank looks like yet another cautionary tale of an over-ambitious industrialist and corruption in the City of London. But the repercussions of the Blue Arrow affair reverberate beyond the narrow boundaries of London's financial markets. For it illustrates the damage that a weak and increasingly corrupt stock market can do to British industry.

Before the Department of Trade and Industry (DTI) investigation into Blue Arrow's takeover of Manpower, the US employment agency, the story of the company and its founder, Tony Berry, read like a Thatcherite fairy tale come true.

Berry is the sort of industrialist that Mrs Thatcher likes best. He founded Blue Arrow in the 1970s with a redundancy pay-off and turned it into the biggest employment agency in Britain. And, like George Davies the architect of Next and another fallen idol, he charmed the City with his barrow-boy banter, lavish lunches and fat fees from his numerous financial deals. Blue Arrow became one of the fastest-growing members of the fast growing service sector. It was the sort of business which is important to an economy where high unemployment and a declining trade union movement have enhanced a need for casual labour.

For a while everything went well. In the days when the stock market was buoyant Blue Arrow expanded rapidly by buying a series of businesses. By the summer of 1987, only three years after going public, its stock market value had risen from £3m to £400m and Norman Tebbit had joined its board. When Berry saw an opportunity in August 1987 to take over Manpower, probably the world's biggest employ-



A bullish mood in the city. But can they bear to get their fingers burned?

ment agency, he jumped at it.

The only hitch was that the City was no longer quite so keen to pay for his deals by buying Blue Arrow's shares. The deal was too ambitious and the mood of the City was becoming less confident. The share issue flopped. So did the subsequent issue which County NatWest organised as an emergency measure. The second flop was enormously embarrassing for County NatWest. The City had become increasingly competitive since the Big Bang in 1986. County needed a successful issue to impress the other 'Blue Arrows' that might provide future deals. County and its cohorts tried to cover up the flop by buying the unsold shares. When the stock market crashed in October 1987, Blue Arrow's share price halved and the shares were virtually unsaleable. Enter the DTI investigators.

So far so messy. The Thatcherite fairy tale came unstuck. Tony Berry lost his job. But what of Blue Arrow itself?

The company's share price is so weak and its reputation so muddled that it has no

hope, in the foreseeable future, of raising money for further expansion from the City. Moreover, Blue Arrow's management has been so preoccupied by its City traumas that it has, on its own admission, been distracted from running the business. Manpower in the US is in such disarray that its franchisees have staged a revolt.

It can be argued that Blue Arrow has blundered into a mess of its own making. Yet there are dozens of other companies stuck in the same trap of weak share prices in a depressed stock market: unable to expand and too preoccupied by terror of a takeover to concentrate on developing their businesses. The Blue Arrow debacle illustrates the danger of a deregulated financial system where deals are done simply because they are financially feasible rather than on the basis of wider economic or social concerns. There are numerous other companies that have expanded too far and too fast, although British industry has been spared the horrors that leveraged buy-outs (or

LBOs, where groups of investors borrow huge sums of money to buy businesses) have caused in the US.

The US industrial landscape is littered with the carcasses of companies that have sold off subsidiaries and scrapped research projects for no reason other than to pay off the interest on their LBO debts. The social cost is incalculable. Jobs have been lost and communities destroyed. Yet Wall Street's appetite for LBOs is unabated. So much so that last autumn KKR, a New York investment firm with only 50 full-time employees, became the fifth-biggest US industrial corporation through a \$25billion LBO for the Nabisco food group. Wall Street pocketed about \$1billion in banking fees.

The bidding and counter-bidding over GEC, combined with Mrs Thatcher's *laissez-faire* attitude to the City and industry, suggests that the first British LBO may not be far away. And if the City of London does plummet to the depths of Wall Street then the sorry saga of Blue Arrow may seem somewhat tame. •  
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