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The Reform of Corporate Governance in France

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THE REFORM OF CORPORATE GOVERNANCE IN FRANCE

Contents

Introduction: A Dirigiste State in Transition?	2
A Changing Role for the Paris Bourse	12
Flexible Fordism in a Symmetrical Relationship	20
Radical Taylorism by the Regulation Theory	28
The Foundations of Entrepreneurial Culture	34
Expansion of the Multinational Corporations	42
The Architecture of Portfolio Management	50
Bringing Innovation to the Privatized Firms	61
The Way Forward to Shareholder Value	70
A Golden Age of Equity Ownership	77
The Latin Variety in Comparison	87
Conclusions	93
References	99

Introduction: A Dirigiste State in Transition?

In this chapter, I suggest that, although characteristically liberal market economies like the United Kingdom have shifted to more individualistic and contractual relations, typically coordinated market economies like Germany have shifted from mutually reinforcing relationships, and distinctively dirigiste economies like France have changed from state mediated to state-enhanced. Owing to the fact that the academic literature of corporate governance is comprehensive about the dissimilarities between liberalism and corporatism, here I make mention of Britain and Germany simply to direct attention to the more substantial debate on France as another alternative. I concentrate on France inasmuch as it is representative of economic dirigisme in Europe, but also speak of other previously centralized governments as necessary to illustrate that the present situation in France is not unparalleled. I start with a description of France's interventionist administration in comparison with the two other variants of corporate governance and the current trends for further internationalization and European federalization. I subsequently make an effort to describe the transformation over the last twenty years in the French political economy, and the part of the government, in French public enterprises and money management, and in industrial relations and organizational operations. I also draw a few conclusions on the prospective capital structures in modern Europe.

Economic strategies were at variance between European states after the war. The Anglo-Saxon financial capitalism or spectator government of Britain was not deeply involved in corporate governance (Grant, 1995). It attempted to diminish its responsibility to deciding by arbitration and delegated the application of the regulations

to sovereign groups, although this did not prevent it from making provisions to businesses for a particular purpose and occasionally coming in as an extraneous factor, with the help of state sponsored organizations (Hall, 1986). The Rhenish network-oriented capitalism or enabling government of Germany was centred on sustaining companies by way of money granted to keep down the price of commodities, encouragement for work directed towards the innovation, introduction, and improvement of products and services, and assigned the administering of the regulations to social partners (Katzenstein, 1989). The state-led capitalism or dirigiste government of France, in comparison, made an effort to manage the economy by means of nationalized firms, and employment programmes e.g. youth employment schemes for out-of-employment and low-skilled young adults, on-the-job training schemes, payroll tax subsidies for minimum wage workers, as well as all the methods the other countries used to provide for enterprises, and handed over the application of the guidelines and regulations to government officials (Fougère et al. 2000; Hayward, 1973).

Table 1: Characteristics of the Post-War Varieties of Capitalism by the end of the Eighties

	Market capitalism (Britain)	Managed capitalism (Germany)	State capitalism (France)
Policies toward business	Liberal Arbitrator	Enabling Facilitator	Interventionist Director
Policies toward labour	Bystander	Bystander	Organizer
Inter-firm relations	Competitive Contractual	Co-operative Mutually reinforcing	State led State mediated
Investment sources	Capital markets	Banks	State
Time horizons	Short-term view	Long-term view	Medium-term view
Goals	Profits	Firm value	National political economic priorities
Management-labour relations	Adversarial	Co-operative	Adversarial
Wage Bargaining	Fragmented	Co-ordinated	State controlled

Source: Schmidt, 2003.

The management-labour relationship in Europe was correspondingly heterogeneous. In neo-liberal Britain, the relationship between management and workers involved conflict or opposition and the organization of negotiations was mostly disintegrated. This subsequently gave rise to a large amount of dispute and controversy on remuneration. As a result, though the spectator government perceived its part as unitarist or voluntarist on the arbitration of settlements, this did not prevent it from occasionally interfering in payment systems when the national currency was devalued or from reaching economic agreements and adopting income policies in an unsuccessful effort to harmonize remuneration (Edwards, 1995). In neo-corporatist Germany, on the contrary, the relationship between employers and employees was collaborative and negotiating was integrated with powerful, organized social partners. This eliminated contention and encouraged cooperative attitudes. The enabling government, what is more, continued to be in great measure a facilitator to such an affair not only because, as opposed to Britain, it was not necessary to interfere, considering payment systems, but also for the reason that its common law was quite dissimilar not just from Britain but also from other coordinated market economies like Holland or Belgium, where officials negotiated with executives and unionists as equals (Thelen, 2001). In state-led France, in comparison, the relationship between management and workers was as oppositional as in Britain, but managers' organizations and labour institutions, were well organized. However, instead of functioning as a spectator, the dirigiste government made provisions for negotiations and enforced arrangements on remuneration when employers and employees were not able to strike a deal, therefore directed payment systems and handled controversy more efficiently than Britain but not as readily as Germany (Howell, 1992).

The dissimilarities in the three versions of corporate governance may well be attributed not only to organizational inherent characteristics which stem from inconsistencies in the industrialized economies since World War II but also to national trajectories. The circumstances contributing to these results comprise the diversity of susceptibility to worldwide and European financial trends, the parliaments' ability to introduce amendments in coordinated market economies, with institutions based on general agreement like Germany, or to enforce them, in unitarist societies with organizations founded on collective opinion like Britain or France, and the incremental adjustments that augmented parliaments' capability to introduce emendations by convincing the people not just of the indispensability of transformation but also of its relevance with regard to nationwide standards (Scharpf and Schmidt, 2000). The table demonstrates the organizational change that took place in the three countries as a result of national trajectories.

Table 2: Changes in Varieties of Capitalism by the end of the Nineties

	Market capitalism (Britain)	Managed capitalism (Germany)	State capitalism (France)
Policies toward business	More liberal More arbitrator	Still enabling Still facilitator	Newly enhancing More liberal
Policies toward labour	More of a bystander	Still bystander	Newly bystander, moralizer
Inter-firm relations	More Competitive, contractual	Still co-operative but loosening of networks	Competitive, end of state mediation
Investment sources	Capital markets	Firm, Banks, Capital markets	Firm, capital markets
Time horizons	Shorter-term view	Less longer-term view	Less medium-term view
Goals	Shareholder values	Stakeholder values	Firm autonomy
Management-labour relations	Neutral	Still co-operative	Neutral
Wage bargaining	Radically decentralized	Still co-ordinated	Radically decentralized

Source: Schmidt, 2003.

Early in the eighties the Mitterrand regime attempted to strengthen financial contest by reinforcing the dirigiste administrative centralism via a comprehensive plan of takeovers and reforms, prior to organizing the partial withdrawal of the state from the management of organizations and the guidance of trade unions, by the late eighties. Governments following one after another performed this duty by way of economic emancipation, removing restrictions from companies and denationalization, and industrial relations reorganization. The good results were on account of their ability to enforce amendments in the absence of strong opposition, and they were assisted by strategies to win over the most afflicted sectors during the eighties and a conversion that addressed the inevitability of renovation surfaced by a financial emergency and its suitability with reference to countrywide principles (Schmidt, 2002). With incremental adjustments, they metamorphosed the government, which shifted from a mediating part to an enhancing character. In this manner, although the state aimed at the formation and safeguarding of fiscal organizations and the increase in the authority of firms, just like Britain, it sustained the interventionist policies in an effort to protect the workers from the risk of the Stock Exchange, and also made an effort to move closer to the German model of managed capitalism.

Deregulation, denationalization, and industrial relations delegation, thoroughly transformed the nature of the French government, by diminishing its mediating strategy mechanisms that coincided with the enfranchisement of fiscal institutions which extended the autonomy of firms by making provisions for extra money resources. Furthermore, European Union directives that held in check governmental subsidies to enterprises also restrained the parliament. In spite of less centralization, the government did not

completely stop to exercise power on companies or employees, when it was deemed necessary.

There are three fields in particular where the government has taken an important part as an employer, France spent 9.5% of Gross Domestic Product for the National Health Service, and spent another 7.1% of GDP for education and government (INSEE, 2001). There are also three determinants which can provide for an interpretation of the continuity of its effect, the large national revenue, its part in the appointment of general managers in most of the state owned enterprises in which it remains a major shareholder, and the more than five million workers either employed by the government or whose salaries are paid by the state. Even though it depends on the way we measure it the government was the employer of between twenty per cent and twenty five per cent of more than twenty five million working people in France at the turn of the century (Jefferys, 2003). Such a large figure demonstrates clearly that it is an influential power which makes it hard to disregard.

Regardless of the discrepancies and irregularities between the three large European nations, the argument is that like in other parts of the continent during the post war years an explicit model emerged which was a hybrid of democratic liberalism and developed capitalism also combined with state intervention in political and socioeconomic affairs (Carpenter and Jefferys, 2000). It was a more restrained variety of capitalism in comparison with the United States of America, operating in a political landscape where economic and social policies varied from pure non intervention, self interested liberalization and government interference to absolute dirigisme (Whiteside and Salais,

1998). This political and socioeconomic environment in the post war era was to become known as the Western European variety of capitalism.

Of great significance are the dissimilarities in shareholding. In Britain, shareholders are scattered, and are composed predominantly of smaller buyers and families, at fifty percent and thirty percent of all holdings in the Stock Exchange for each separately in the late nineties. In Germany, contrastingly, shareholders are more consolidated with most of the holdings controlled by large blocks instead of small buyers, fifty-seven percent to thirty-five percent at the turn of the century (Vitols, 2001). France has almost identical rates and proportions, and a slightly larger congregation of institutional investors in manufacturing industries and other enterprises than Germany not to mention Britain, fifty-eight percent as opposed to forty-two percent correspondingly in the late nineties (Jurgens et al. 2000). Though this consolidation in shareholding has been on the downgrade in both nations, it still persists as important.

The main reason for mergers and acquisitions has not naturally been to satisfy the shareholders, that becomes clear by evidence which demonstrates that a number of successful enterprises are still owned and controlled by the government, for instance, France Télécom, or owned by institutional investors, such as, Axa, Cap Gemini, and Moët Hennessy Luis Vuitton (O'Sullivan, 2001). By contrast, one of the determining factors of mergers and acquisitions is competition strains for higher productivity, which is usually incorporated in the general objectives of enterprises and is given priority over shareholder value (Hancké, 2001).

That is not to say, nevertheless, that the discussion on shareholder value is simply cheap talk. Shareholder value is definitely a determinant of chief executives' policies, but

not the most important one. Chief executives often have to attach special prominence on direct investment. When their firms are quoted on the Paris Bourse, they are actually exposed to up and downs in stock valuations, which can be confirmed by the difficulties of Alcatel and Vivendi recently. And they are also susceptible to unwanted mergers and acquisitions as French shareholders are not as dependable as German shareholders, that is endorsed by the effort of BNP to acquire Paribas and Société Générale, that eventually captured only Paribas. This clarifies not only the debate on shareholder value but also the necessity to build up reliability.

The dissimilarities in production systems are explained by the disparity of workplace relations. Germany has the largest number of jobs in manufacturing and the smallest in servicing among the three nations, Britain the reverse, with France nearest to Britain on manufacturing and servicing jobs (OECD, 2000). What is more, Germany steadily ranks high, France at a halfway point and Britain low with regard to contractual or constitutional job security, duration of agreements and settlements, and standards of occupational practicing (IMD, 2000). It is only in numbers of jobs that Britain does better than Germany or France. During the eighties and the nineties Britain halted the relative declines in GDP per capita and labour productivity that had characterized earlier decades, and partially closed the gap in income per capita with France and Germany, these gains were mainly attributable to relative rises in employment and hours, unlike its EU competitors, Britain was to able to achieve high employment-population rates with rising real wages for workers (Card and Freeman, 2002).

In France, in particular, the large degree of job security, strengthened by long term contracts and money invested in research and development, supports a capital structure of

adjusted productivity, or flexible Fordism, founded on high skillfulness, remuneration and efficiency. France's employment relationship, as a result, is distinct from that of British financial capitalism and German co-ordinated capitalism with respect to the character of employees, the versatility of managers or the part of the government in providing for regulation (Schmidt, 2003).

Productivity, nevertheless, increased not just as a consequence of retraining but also of downscaling, with several big companies making good use of state-sponsored voluntary redundancy schemes to regenerate their staff. Enterprises also reduced the size of their workforce and extended their versatility by an expansion in secondary contracts via the export of manufactured commodities. Furthermore, companies also made good use of the mid eighties legislation on collective bargaining to advance the employment relationship and union incorporation into entrepreneurial functions by means of communication mechanisms, where France is first in Europe, and utilized the thirty-five hours work time to facilitate versatility (Scharpf and Schmidt, 2000).

France has fared very well in customarily state-controlled industries like phone companies, energy sources, railways, and airlines, where structural modernization has come as a result of state-sponsored, grand projects in which there is coordination of chief executives and the government concentrated on technological innovation (Amable and Hancké, 2001). In other sectors, nevertheless, such as medicines, organizational change has come from abroad, in particular from American multinational corporations (Cantwell and Kotecha, 1997). The statistical data on the allocation of US franchises speaks for itself. While France's portion of American franchises related to technological development in the United States has become three times as large since the eighties and

the nineties, from about 9% to around 33%, in Germany they expanded to a small extent, from about 14% to around 20%, far less than in France. The United Kingdom, compared to the other two countries, was at about 47% in the eighties and the nineties, and has gone up to around 55%. (Schmidt, 2003). But, to whatever manner French companies may have advanced against the British and the Germans, according to the evidence presented above, they cannot be a match for the Americans who are the pioneers of this technological innovation (Amable et al. 1997).

French enterprises are nowadays more independent than either the network-oriented German or market-oriented British companies, not to mention the state-mediated French enterprises of the recent past, but the French privatizations process did not entail a sharp departure of the previous model as they generated a cross-shareholding system in which the state still exerted an influence, therefore, the French industrial system knows a lot of restructuring that will induce numerous changes (Bancel, 1999; Schmidt, 2003). French enterprises are more open to the Stock Exchange than German companies, because of the number of stockholders from overseas, and more integrated than British enterprises due to a management aristocracy. In spite of the partial withdrawal of the government, France continues to have a more powerful administration than Britain where the government works basically to safeguard the financial institutions, or Germany, where the administration attempts to defend non-profit organizations. In France, the government persists in interference, although in a more restricted manner, with low taxation policies, by way of rules and regulations designed for making the market more competitive and seeks to moralize companies and industrial relations, notwithstanding that, many times its mediation has helped to liberalize the socioeconomic environment. What is more, France

in comparison with Germany and Britain is defined by organizational operations founded on relatively high expertise, earnings, and service range, with a larger productivity and efficiency than the Germans and better skillfulness than the British, and with a greater ability than Germany for technological development, especially in previously state-controlled industries, and than Britain for structural modernization.

A Changing Role for the Paris Bourse

Current discussion on business management mostly derives from the acknowledgement of the importance of large firms for the prosperity of a society. In many countries big companies have a significant part in formulating political developments because of deciding on issues like spending, industrial relations and commerce. In other words, the procedure followed in the allocation of resources has a great impact on the prosperousness of a society in general. Corporate management relates to the practices which affect the allocation of revenues and resources by organizations. In particular, the network of business management determines who decides in investing in corporations, what is the amount of spending, and how these revenues are allocated (O'Sullivan, 2000).

Although current debate has originated a number of distinct powerful theories on the determinants of structures of corporate management, the connection between those doctrines and available facts is very unclear. It turns out that, these viewpoints are supported without any proof other than what skeptics define as bald assertion (Branson, 2001). In some occasions, only the most imprecise points are asserted to back up those

doctrines. Illustrating this general rule is the assertion of the supremacy of shareholder value networks of business management which is founded upon contentions for large scale economic factors like production per unit in the late part of the nineties. To the degree that comprehensive statistical data is displayed, it is usually to clarify well-defined nationwide trajectories of transformation in structures of corporate management like the trend for companies in Europe to be quoted on stock exchanges in the United States.

The substantial participation of the French state in the proprietorship and administration of firms is commonly perceived as one of the major characteristics in the economy of France. The state's full engagement with the management of companies which were most important for the French society started out after the war when several firms were made national. A variety of companies were selected by this programme. Firms making provisions for the structural foundations of entrepreneurship, were considered as essential for the restoration, and progress of the French society, and were nationalized. Companies owned by groups actively opposing, or hostile to the cause, and by the Vichy administration, also had to pass to the management of new employers.

The Second World War had a significant part in the formation of the French variety of capitalism and government intervention. The Vichy Government via its chief administrative officers directed the levels of wages, and demanded that all workers take part in the corporatist organizational structure related to their sector. The Work Charter that was enacted during the war required that in all places with more than one hundred employees a Works Social Committee should be founded with the manager to be in a position of authority as the chairperson, but was formed of delegates of both employers and employees (Frémy and Frémy, 2000; Jefferys, 2003).

It is possible that the main incentive for the government's part as a proprietor of equity in France was to a certain extent the conviction that the families directing the economic activity of the French society in the past were impeding progress. Nevertheless, French upper classes were convinced that a change in business proprietorship would not be enough for socioeconomic recovery. Additional measures had to be taken, it was contended, to improve France's mechanical arts and applied sciences for the economy and the society to recover. In an effort to accomplish this task, the French state adopted a wide range of courses of action for the renovation and advance of the country. One of the most significant means of exerting influence was its participation in French money resources. The government also proposed a broad spectrum of principles of action for the refurbishment of France's research and development foundations and, in revising what is defined as the national system of innovation (Amable, et al. 1997).

An important outcome of this interference in the economic affairs was not only secure fiscal management of the distribution of revenues but also a strong reliance by French corporations on loans for subsidizing their activities. Scholars gave an account of the circumstances in a review of the interrelationship of the transactions of banks, the public money, and the assets of organizations in France.

Until the mid-1980s, the capital structure of French firms, compared to other countries, was heavily biased towards bank financing. Moreover, the banking system was at the core of the financial economy, operating, taken as a whole, as the agent of monetary, credit, and industrial policies and forming a cohesive unit under the direction of the Banque de France. (Bertero, 1994)

The most remarkable characteristic of governmental engagement in France with money management immediately after the war was the degree to which it was

accomplished with the collaboration of the powerful or influential persons. As commentators observed, one of the most effective instruments of this near symbiosis between a State apparatus receptive to the arguments of oligopolistic industry and large firms marked by the reflex of turning to the State for support has been the system of elite production through the grandes écoles (Chesnais, 1993). As a consequence, French big companies, firms which were made national, and other organizations have been administered by managers with comparable expertise. In the nineties, fifty per cent of the Présidents Directeurs Généraux of the one hundred biggest corporations in France obtained qualifications from distinguished French universities, the École Polytechnique and the École National d'Administration, in comparison with thirty-five per cent in the eighties. Most of France's chief executives arrived at the highest point of private companies after spells in public firms. Because of denationalizations, the significance of the State as the origin of Présidents Directeurs Généraux enhanced and, in the mid nineties forty-five per cent in the two hundred biggest organizations of the private sector as opposed to forty per cent in the mid eighties were former government officials (Bauer and Bertin-Mourot, 1995).

When the Socialists came to power, worried about the absence of works councillors from the decision making in French corporations, made an effort to reform the French employment relationship, with the enactment of the Auroux Laws. This legislation, applied to every firm with more than two hundred workers, reinforced the communication and conference power of comités d'entreprise, and also instructed that chief executives and trade unionists bargain in a certain way. The Auroux Laws were a significant driving force for the transfer of authority from the central to the company

level on the basis of greater local autonomy. With regard to the reorganization of negotiations, nevertheless, unionists underwent a decrease in membership, and did not succeed in the formation of a strategy of employee involvement. The estimated average annual trade union membership between the seventies and the eighties decreased from about four and a half million to around three million (Jefferys, 1996).

In the early nineties, it was evident that the infrastructure of business management was transformed to such a degree that the consistency of the French variant of capitalism was in dispute. What was going to substitute this network, nevertheless, was unclear. However, the existence of a solid structure of cross-shareholdings which connected French firms to one another appeared to be a large obstacle to a conversion to the Anglo-Saxon model.

For some scholars, the relaxation of the French cross-holding relations was the important course of action which made the French model to shift toward the Anglo-Saxon variant of corporate governance (O'Sullivan, 2003). It made less difficult the fast expansion of speculators from abroad to the French financial markets. By the late nineties, international proprietorship amounted to thirty-five per cent in comparison with ten per cent during the eighties. In big French companies, financiers from overseas accounted for even more. At the turn of the century, foreigners controlled the ownership of about fifty per cent of Elf, forty-five per cent of Société Générale, and around forty per cent of AGF, Alcatel and Générale des Eaux (Morin, 2000).

An important device in the intercourse of the Stock Exchange and the business management in France was the increased utilization of dividends in the determination of wage levels. The significance of dividend yields in France, augmented since the early

half of the eighties and, during the late part of the nineties. Indeed, evidence summoned for the years 1999 and 2000 by the French corporate journal, L'Expansion, on organizations which are quoted on the CAC40 display that France's biggest corporations were number one in Europe and, at a worldwide level, second only to organizations in the United States, in terms of dividends paid by corporations to shareholders. At a European level, big companies in Germany were a distant second to the French firms and the gap between the two nations was huge with French shareholders' dividend yields of much greater value than German stocks (O'Sullivan, 2001).

Another technique of intertwining corporate governance with wage levels was shares held by employees. As stated by the Institut National de la Statistique et des Études Économiques, worker shareholdings accounted for about seven hundred thousand, even though other sources state that this value underrated the real magnitude of workforce holdings in France. In agreement with an evaluation by L'Expansion of the CAC40 enterprises, one million workers were holding shares valued at FF157bn in the financial year 1999-2000. In the class of the CAC40 businesses, the amount of workforce proprietorship was largest in Société Générale, something that attracted special prominence granted the significant part that shares hold by employees had in resisting a leveraged buyout by BNP (O'Sullivan, 2003).

This enquiry makes evident that the character of the Stock Exchange in French business management has been reformed to a great extent. In fact, for many scholars its augmentation was the distinctive part of the nouveau capitalisme français. Conceding that the Stock Exchange has recently come to be more influential in the French economy, it is still not as powerful as the financial markets of the United States, and the United

Kingdom. For instance, France had eight hundred indigenous companies approved for dealings on the bourse at the turn of the century which was a large improvement on the sum of six hundred during the eighties but this was way below America and Britain. What is more, shareholding was consolidated and focused in France as opposed to the United States and the United Kingdom where the small investors continued to exercise influence on a variety of firms (Bloch and Kremp, 2001).

It is widely accepted that the Stock Exchange adds to the effectiveness of company assets distribution by way of making funds easily accessible to large firms. Although this opinion is standard, nevertheless, its underlying principle is weak. In a research article in the journal of Financial Economics about Financial Markets and the Allocation of Capital scholars attached special importance to our false impression of those topics not only for the Stock Exchange but for the economy on the whole.

A fundamental job of the economy is to allocate capital efficiently. To achieve this, capital is supposed to be invested in the sectors that are expected to have high returns and be withdrawn from sectors with poor prospects. For a long time and for many reasons, economists have suspected that formal financial markets and associated institutions improve the capital allocation process and thus contribute to economic growth. Despite this body of theory, there is little direct evidence on whether and how financial markets improve the allocation of capital. (Wurgler, 2000)

The hypothesis that the stock Exchange underpins an effectual allotment of revenues in the society has come to be unsustainable, at least as a statement that is subject to proof, considering trends in shares bought and sold. To the degree that the Stock Exchange is disposed to egotism in the estimation of stocks, the influence that small investors may be anticipated to exert on company assets distribution is essentially decreased. Chief

executives often have the capacity to profit from a favourable circumstance by readily obtaining lump sums of money.

Besides, there is a lack of evidence that the uprising of mergers and acquisitions which burst forth in European countries recently, has been a manifestation of investor control of the financial markets. To start with, a small number of offers that were proclaimed in France or Germany were hostile, an attitude which is generally thought to be related to management discipline. What is more, it is unclear that the hostile offers which have been made were prompted by mismanagement in any of those firms. In fact, financial analysts have for a long while strived to prove the argument that shareholder power has an effect on the authority of administration.

In some sectors, a period of prosperity in commerce during the nineties, gave birth to a large number of high tech businesses in France and Germany, the new owners were fascinated by the idea of passing into possession of highly valued enterprises like Alcatel, Cisco, Lucent, and Nortel. However, the efforts made by a corporation such as Lucent to pass or change from an old economy to a new economy organization have caused it to be, as a result of the financial markets failure, in a declining position. What is of special prominence in the growth and downturn of the Stock Exchange, is the concentration of high tech companies upon maximizing shareholder value, that has inspired them to spend on progressively slim and focused expertise of qualified staff, and by means of exporting most of their mass production operations, to stop making arrangements for jobs, and vocational training, for employees of low education, and skills.

An explanation why the reformation was plausible in France is that trade unionists were not able to restrain it taking into account the decreased membership and the small

part of employee delegates in decision making. Most significantly, nevertheless, was that in spite of opposition from some sections there was a majority view in circles of French politicians and chief executives that big companies had to be drastically reformed if they wanted to subsist in an international economy (O'Sullivan, 2003; Smith, 1998). That is to say, the manifestation of politics was very much determined by financial affairs.

In this part I have made an effort to demonstrate, for the case study of France, that a long established network of business management has gone through a number of alterations. Possibly the most impressive of these adaptations that recently took place in France, particularly in the late part of the nineties was the enlargement of the scale of commercial operations of the Stock Exchange. Although the French variety of capitalism continues to be distinct from the political economy in the United States with regard to the weightiness of the stock market, the increase of its influence has been substantial from a historical point of view.

Flexible Fordism in a Symmetrical Relationship

This section calls into question one of the general notions about transformation. A wide range of opinions is based on the concept that France is trapped in a complex network for the reason that it has been unable to remodel its institutional framework. Current publications on organizational change, nevertheless, indicate that trust, brought about the formation of harmonious relations among big companies and their distributors, which are the foundations of an original structure (Hancké, 2003).

In their quest for versatility, the big exporters in France pursued their way along a track that goes further than the old network of workplace relations, and some incremental adjustments in corporate governance. Nonetheless, it was not only the rationality of chief executives that paved the way for those enterprises, some of them resorted to current management practices on local financial affairs for the formation of an alternative relationship with their distributors, one of the aspects that was critical for radical change.

As French business had improved on manufacturing goods which were not as competitive in a global environment, the barriers to regulation should have increased and resulted in a number of difficulties for the French model. Indicators on macroeconomic factors, nevertheless, are rather favourable, not including the amount of new jobs, that has steadily been less than the OECD standard, the French capitalist economy in the time after the nineties has been comparable to, and in several occasions better than its counterparts. The statistics exhibited below, which are percentages of large scale factors at the turn of the century, display a fairly advantageous situation for the French variant.

Table 3: Economic Performance Averages

	GDP growth	Inflation	Unemployment	Productivity growth	Investment % of GDP	Exports % of GDP
France	2.4	1.3	10.4	1.5	2.0	24.7
Germany	1.7	1.4	7.3	2.5	1.2	27.1
Italy	1.9	2.9	9.8	1.5	2.9	26.3
UK	2.8	2.8	9.5	1.7	5.6	27.6
USA	4.1	2.5	6.3	1.6	9.9	9.1
Canada	3.6	1.8	9.6	0.8	7.2	40.5
Japan	1.3	0.2	2.5	0.6	-0.4	10.4

Source: OECD, 2000.

Following as a result of this stage of growth and advancement in the economy of France in the post-war years, distributors had begun to rely on big companies. The delegation strategies of the French state during the sixties and the seventies had culminated in developed, self-sufficient regions, and by the eighties, many of the locations of big companies had come to be the focal points of indigenous work cultures, in which their distributors were considered to be part of the business (Veltz, 1996). At the time that the big companies were restructured in the late nineties, they were advantageously placed in those regional industries, which helped them to determine the level and course of adaptation. Besides, the relationship among big companies and their distributors was based on consistency. As opposed to manufacturing commodities in such a manner that they depended on the competence of their distributors in providing services, and accommodating themselves to the needs and requirements of local production systems, the big exporters regarded their commodities as accumulations of a coordinated systematic range of services (Casper, 1997). The revision of commodity improvement, accordingly both strengthened, and was underpinned by, the present orderly structure of local distribution systems.

As a consequence of those regional strategies, big companies established new zones of employment in remote French areas, which is confirmed by the table below. Although this was partly associated with the expensive workers in Paris and the surrounding lands, some enterprises had settled well before the nineties in the outlying districts for their own reasons, for example Peugeot placed its most significant workshops in the eastern parts of the countryside, Michelin was situated in the interior part close to Clermont-Ferrand, the aviation technology was based in the western territories near Toulouse and Bordeaux

after a political resolution was reached to position this sector a long distance off the German frontier (Aniello and Le Galés, 2001). Therefore, manufacturing in France gradually adopted a delegated framework of organizational operations, even though the decentralized structure was usually a strategy for big companies to succeed in avoiding aggressive employees, workplace relations disintegration or capacity limitations.

Table 4: Distribution of Large Firms per Travel-to-Work Area

Percentage of Large Firms	Total Zones of Employment
39	82
22	46
20	42
10	21
9	19
100	210

Source: SESSI, 2003.

The data by the Service des Études et Statistiques Industrielles makes evident that the influence of the big companies is not an exceptional occasion that applies to a number of regions, but it is a comprehensive network which serves as an explanation for how the enterprises exercised command over the districts. Owing to the fact that large workshops of big companies exercised authority all over the French regions, and inasmuch as the small suppliers were more or less unimportant, the local strategies of the enterprises, met with success. In the regional sectors, they were the foundation stones for the rearrangement of the factories of big companies. All the way through this procedure, economic transformation in France in recent years continued along a big company route to versatility, which integrated formerly present organizational frameworks with innovative, versatile structures of corporate relations.

The allocation of resources set in motion the active organization of the formerly stagnant local distribution systems. In comparison with the years gone by, when

distributors were considered basically as agents for solving regional difficulties, they started to have a main part in big companies' quest for versatility after the eighties. An experimental test of efficiency in production was the implementation of total quality management. At this stage, Renault began to use KanBan schedules, and other big companies conformed to its actions (Labbé, 1992). By the nineties, all sectors where some kind of just in time delivery was utilized, like automobiles, computers, and machinery, were getting into a different relationship with their distributors (Gorgeu and Mathieu, 1993). Due to the fact that lean manufacturing necessitated the restructuring of local production systems if enterprises wanted to avoid the extra expenses of goods in stock, it was clear that their success was contingent on the ability of the distributors to restructure and deal with those demands.

The background of the French political economy is defined by state interventionism, and public subsidies, and as recently as the eighties, the government was the most important player in French monetary affairs. There was an increased apprehension, as a result, that big companies would not be able to reestablish themselves. Considering the events of former years, in reality, it was beyond doubt that the restructuring of the economy should be expected to occur via the government (Cohen, 1989). With the purpose of moving out of the unreliable and obsolete network in which they were stuck, ever since the French style of Fordist manufacturing, ceased to be the dominant model the enterprises required more than incremental adjustment (Hancké, 2003; Howell, 1992).

Ultimately, the rectifications involved, in addition to an expansion of the standard economic assistance to large firms, a local distribution framework, visualized as the pendant of nationwide corporate strategies, which realized far-reaching objectives in a

number of regions. The tactics attempted to stimulate inventiveness on account of the diffusion of consultation and the advance of mechanical arts. Institutes of applied sciences were established or renovated, and the Ministry of Industry delegated some of its functions via administrative departments such as the ADEPA, ANVAR, and DRIRE (Levy, 1999). Moreover, local administration assisted the exports of big companies, the Ministry of Foreign Trade and the Direction de l'Industrie, de la Recherche et de l'Environment were the principal agents in this effort (Grefte, 1992). Besides, the structure of vocational education was evenly decentralized, permitting the areas to adjust the central network to regional requirements. Moreover, subsequent to the economic reorganization of the eighties, an endeavour was made to optimize the management of resources and bring institutional investors close to under-funded small and medium enterprises (Chanel-Reynaud and Cieply, 1996). Additionally, the association of the districts with the government was authorized by means of written or spoken agreements, integrating territorial and national aspirations.

The case study of Renault, illustrates that the firm regenerated its assets by improving the relations with distributors, and most of its workshops gained influence in the districts. Although Renault arranged this on its own, the refurbishment of the local distribution systems would have been more difficult with no powerful subcontractors (Freysenet, 1998). The industry directions, like the Délégation à l'aménagement du Territoire et de l'action Régionale and administrative departments such as the MIRE, were activated by Renault to provide technical innovation for the distributors. Apart from this, Renault devised a control mechanism, which carefully monitored how the most significant distributors were operating and enforced strict rules and regulations upon them (Hancké,

2003). This fusion of intrinsic and extrinsic strategies permitted Renault to strengthen its local production systems in the regions and ask for both technological and managerial qualities from its distributors. In due course, Renault distributors were verified in conformity with the ISO 9000 requirements and specifications.

The analysis of state-controlled business such as the Electricité de France indicates that they depended on local revenues provided by the government for their own organizational modernization. With regard to its business associates, EDF exercised its monopolistic influence to support them, and was capable to count entirely upon the increased jurisdiction conferred to it by the state. Specialized requirements were defined by the firm via AFNOR the industry direction, and other specifications via AFAQ the administrative department (Hancké, 1998). In this way, the company improved the technological and managerial abilities of its partners quickly, so that they were capable of meeting the specialized requirements enforced on them by the firm. What is more, because some of its plants had developed into self-determined units in mostly agricultural territories after the company's reorganization, its growing importance in the economy obliged the government to take into account its strong effect (Duclos and Mauchamp, 1994). The firm brought into effective action its own revenues, and focused upon areas of special expertise, in cooperation with the state. Consequently, the company had the capacity to enforce stringent rules and regulations on its distributors such as the RTE, who acts as an independent administrator of infrastructure, and GDF Services, a subsidiary of Gaz de France, and assisted them to comply with them.

Some important arguments flow from this assessment. The suggestions apply to the essence of the economic aspects of government. Not long ago, any interpretation of

organizational change in France embraced the concept of a state which exercised control over the financial affairs, e.g. Steve Jefferys in his book *liberté, égalité and fraternité* argues that in spite of the growing significance of non French stock ownership the government remains at the centre of capital management. Although it is debatable now that this argument was probably an overstatement, its lasting legacy provides for an analytical tool for the explanation of the recent developments. To comprehend the part of the government in organizational transformation in France during the last twenty years we have to differentiate between dynamic and flexible strategies. It is for certain that the state still has a significant part in France as a consequence of its health and pension systems, voluntary redundancy schedules, reduction of working hours, modification of payment schemes, and technical innovation, and the government provides for the underpinning of financial and managerial regulation (Trumbull, 2001). Nevertheless, the dynamic policy, the centralized steering of monetary affairs that has customarily been related to the French variant, is not any more the responsibility of the government. By contrast a flexible plan of action was adopted, the state retreated and the leadership passed on to the big companies, which are now the main actors (Hancké, 2002).

Big exporters, nevertheless, did not only translate ideas into actions, in spite of the shortage of organizational reserves and established networks that helped the West of Germany and the South of England to progress, French companies all the same succeeded in the construction of an effective design. By pronouncing transfer of powers from a central to a local authority and intimate relations with distributors, the determinants of prosperity in the other states, within the current orderly and concentrated French variety of capitalism, enterprises combined different policies. As a result nations which are not

furnished with a solid regional infrastructure may well be capable of organizational efficiency. This is another way to economic versatility.

Radical Taylorism by the Regulation Theory

Taylorist modes of operation have transformed the character of industrial relations as well as the socioeconomic participation of the majority of workers. Instead of a rejection by employees, Taylorism, evolved into one of the keywords for scientific management. Tending to the opposite of an autocratic and low expertise structure, it was meant to provide partnership and security (Taylor, 2006). It focused on the moderation of workplace controversy via the employment of sophisticated technicians, the Taylorist managers. The responsibilities and services of those technicians are now disregarded in the latest version of Taylorism. It is, nevertheless, as a consequence of their activities that its financial, societal and intellectual achievement can be interpreted. Unless it becomes clear what is important about the principles of scientific management, those who hope to get away from it chance the possibility of recreating it or reconstructing its undesirable effect that they need to avoid (Appelbaum, and Batt, 1994). This is what I describe as theoretical rigidity. The means of solving the problems of the late political disintegration are identified in a postmodern Taylorization.

We have to understand the complexity of such an enquiry. For the scholars it is difficult to build up the separate elements into a connected whole, which accepts as valid the general notions in respect to the diversified nature of financial interests in the economy. This doctrinal knowledge derives from the current ideological perception for

the society (Gephart, 1996). Political science is especially conscientious in several Anglo-American writings, this also applies to the French academic literature, e.g. the école de la régulation. The research into published and unpublished material on economic and social evolution, provides an interpretation which restructures a universal grand design. These writers make an effort to substitute the neo liberal doctrine with an employee grand design of industrial relations, and accordingly, of international cooperation (Besson, 2000; Schwamberger and Yami, 2000).

The philosophical and even radical, foundations of those scholars' dissertations also demonstrate an economic determinism at the second level (Bernoux et al. 1987). As Gramsci is cited several times by them, a good knowledge of his writings, in which, directly from the original source, the general notion of Fordism is analyzed, is very enlightening. We find out in Gramsci an interpretation of Taylorism which is founded upon the idea of hegemony and which turns out to be, in some aspects, a way out of the theoretical rigidity of worker disempowerment propositions.

A detailed analysis of these dissertations helps us to comprehend the events which were not examined by the classical version of Taylorism. We find out organizational procedures which are frequently informal and distant from the alleged theoretical rigidity. Those findings indicate that Taylorism has not been investigated thoroughly, at least in France, in the absence of employment techniques at present utilized in sociology and ergonomics (Chouraqui, 1994).

A concise description of the nature of French business administration is the ability to adjust to diversity. The organizational operations are defined by a Taylorist approach,

rather than inflexible routines. The versatility and the potential for continuous progress and innovation are quite remarkable.

That which we call no consensus cooperation, with many different, more precise, forms, seems to have been the main characteristic of the relationship between organizers, workers, and lower and middle management. It is to be emphasized that Taylorian organizers had no hierarchical responsibilities. In this sense, they were not managers. (Besson, 1996)

Another outcome of this study is that this collaboration was not limited to occasional comings and goings and other unofficial relations. The Taylorist managers respected the education and expertise of the employees. They included them as a factor in their perception of the workplace and programmes, with regard to both qualified and inexperienced members of staff.

Through concrete processes of local and informal transactions, for an example into informal labour practices, see Finley and others, processes we term micro-negotiations, an actual Taylorian rule is constituted, which is not possible to simply interpret as mechanical productive order. (Pavé, 1993)

The Taylorist principle seems to be an incisive concept with clear objectives, concentrated on the disempowerment assumptions. Those presumptions direct attention to a conservative idea of authority in the workplace controversy (Boje and Rosile, 1999). The Taylorist practice is also focused upon dealing with dispute. It must be taken into account that the organizers' attitude is not decided just by their economic-corporate attributes in the sense of regulation. This new design of corporate governance is built around a regulationist idea of economic control which is founded on the variety of financial interests, before anything else in big companies. This notion is articulated by the notion of leadership. As the case may be they are both versions which try to explain similar events. The idea of a brand-new variant suggests that evidence is provided

through interpretations as opposed to reality. Basically, reality is beyond the scope of political science. The socioeconomic factors are examined by analytical instruments which are incarnated theories (Besson, 2000). This information is as follows constructive explanations of our association to the real.

The revival of the Taylorist design is validated by the ongoing developments in labour institutions. Traditionally, in France trade unions have been firmly established on the objection to the Taylorist structure. I contend there may be a connection between the alleged decay of Taylorism and the weakening of labour institutions, although some scholars suggest that Taylorist and Neo-Taylorist principles of management persist (Hofstede, 1984). This linkage becomes evident now as the indifference of trade unionists and, in my opinion, is a turning point in the progress of workplace relationships towards a reformation of Taylorism.

In fact, the legislation introduces a procedure of distinct work-time arrangements that may help the conversion to a thirty-five hour schedule. This is endorsed by the maintenance of the distinctive structures founded in the eighties which facilitates the revision of the negotiation of wages by an organized body of employees, and is reinforced by the Robien act of the nineties. Though this does not cause an obstruction to the statutory framework in the employment relationship, it emphasizes that settlements are reached at company level. In this manner, it makes provisions for a structure of delegated negotiation with workers without necessarily collective representation. Therefore, we can evidently observe a reconsideration of the exclusive control by the large labour institutions. At this stage, the Aubry act makes much more easily achieved the decentralization of workplace relationships.

A case-study of Protex is quite revealing, the quality of manufacturing had caused a number of restraints on organizational operations. About twelve months later, the chief executives attempted to reform the company's *raison d'être* basically to decrease the duration of work-time and, besides, to comply with the requirements, in relation to versatility, sophistication and independence, as determined by modern HRM and the law.

The negotiation permitted the reinforcement of work organization in relation to management strategic targets posed in terms of employees' responsibility and autonomy. In this way, the new production-system shaping appears to be more rational and more efficient. Moreover, this adjustment has led to a decrease in hours worked per week and to an improvement in working conditions. On the whole, those concerned came out satisfied with the organizational change after having tried it. (Schwamberger, 1999)

The case-study of Typhoon is also instructive, the board of directors were favourably disposed towards the construction of a winner-winner arrangement at the conference on remuneration and work-time. Accordingly, employee delegates and works councillors were given tutorials on the divergent modes of operation and team work. In these seminars, members described a variety of topics concerning the bargaining process such as versatility, benefits, welfare, health services, and salary. As a consequence, a coalition involving three parties has been established. For one month those teams summoned every week and, based on their judgment, a settlement was accomplished.

This complex mechanism allowed workflow to vary according to flexibility needs, in particular to the production launching. Thus the firm has succeeded in developing an ideal organizational structure for this new job which has led, in particular, to a significant decrease in storage costs. Moreover, as far as human resources are concerned, the agreement created employment and reduced the need for casual labour. Typhoon succeeded in stabilizing its internal staff in order to better develop employees' competence and polyvalence. In this respect they are satisfied with the agreement. (Yami, 1999)

Apart from these important outcomes, we also take notice of the decentralization in collective bargaining. In every occasion, chief executives express unreservedly the economic significance of work-time restructuring. The arbitrators find their place in the companies, either close to the board of directors or near the works councils and labour institutions. As a result, the bargaining objectives are not defined just by the chief executives and the employee delegates. This discussion contributes to the development of a new consciousness for those with a genuine interest in industrial relations.

The reformation appears to be an elementary and immediate shift from the conventional activities of the work scientific organization (Schwamberger and Yami, 2000). Therefore, in my opinion, there is not a single method of achieving something or organizing the workplace relations. Nevertheless, the realignment of the procedure contains a work redistribution pact where every company picks the most suitable structure according to its circumstances. This framework is also an integral part of bargaining, and we notice that workers become associated with the decision-making of work-time restructuring. As a result, the series of stages in manufacture are not disconnected. Salary is not the only incentive for members of staff, the enhancement of the significance of their job as well is an important stimulation. Lastly, the arbitration of industrial relations casts doubt on the modes of operation of the old design. Nonetheless, we note that it is primarily an issue of moderating its adversarial nature.

My argument is that a French-style version of Taylorism, with its complicated and antagonistic character, seems to develop into a contractual model, which attaches special prominence on coordination and consensus. The cases presented above illustrate this idea. Labour institutions historically have a part in work-time and wage arrangements

(Guedj, and Vindt, 1997). The encouragement given by the Aubry law, enacted in the late nineties, offers a chance for original bargaining methods and the emergence of novel institutional structures. These frameworks seek to integrate Taylorian values with the growing demand for versatility.

The Foundations of Entrepreneurial Culture

The current academic literature which attempts to interpret the emergence of the New Public Management or new entrepreneurialism can be defined as business-centric (Saint-Martin, 2000). The rise of the New Public Management in business administration as well as of the specialists who are considered to be the social bearers of this concept, are commonly thought as part of a gradual evolution that was not related to the government but stems from the efforts of the most creative and energetic organizational entrepreneurs. For the reason that the New Public Management springs from merchants and industrialists, and because this notion has been transferred to public administration on the shoulders of managers coming from non-state controlled companies, the fact that policies are growing more entrepreneurial is attributed to a wave of privatizations. According to this explanation, politicians are in a greater or less degree a sleeping partner who usually fall behind the latest events in the non-state controlled part of the economy on which they exercise no great power.

We believe TQM is the best, and perhaps the only, method government can use to meet new challenges. We hope this book will help promote TQM in government, because we see it as the best way to improve public services, and get more output for the dollar. (Coopers and Lybrand, 1991)

Based upon the general propositions advanced by historical-institutionalism, the interpretation provided in this part offers a somewhat state-centric description of the emergence of an original entrepreneurial culture since the eighties (Steinmo and Thelen, 1992). Accordingly, it draws attention to the permeability of strategies, in an effort to comprehend the preceding circumstances of Total Quality Management with reference to the originality value of organizational change by analyzing theories traditionally found in production systems (Weir, 1992). The obscurity is partially ascribed to decision-makers in the areas of corporate governance and production systems who have a more or less identical view on institutional-reform practices. With regard to organizational change in France, this topic has become particularly significant after the designation of New Right politicians in the nineties, who think that nationalized firms are inferior to non-state controlled companies and attempt to refurbish their administration by using standard operating procedures of the privatized firms. As the economic and social environment encourages the state to become business-like, and as this philosophy minimizes the discrepancies between nationalized companies and non-state controlled firms, the distinction, both theoretical and organizational, that divides corporate governance from production systems has also become less evident and more obscure. And as I will demonstrate, this makes provisions for common policies to be adopted across the two disciplines and for professional advisers to assist the transference of general notions of Total Quality Management from the privatized companies to state controlled firms.

During the last twenty years, Total Quality Management has been a success story for business administration (Legge, 2001; Saint-Martin, 2001). The rise of Total Quality Management in Europe came as a result of American enthusiasm for Japanese production

systems which turned out to be very efficient in the international economy of the seventies. In later years, industrial policy was regarded as the main reason for Japan's increasing productivity and, it is logically consistent that the Japanese variant of manufacturing started to disseminate into Western countries (Pastor et al. 1998). The greatest supporters of Total Quality Management were experts in engineering, they have been recognized as the ones who drove the process of the Japanese efficiency in assembly (Deming, 1982). The fundamental principle of Total Quality Management is the disposition of a system of maintaining standards in manufactured products by testing a sample of the output against the specification as a distinct operation, but making every worker to take the initiative.

A broad-scale approach to changing an organization's entire culture to focus on establishing and maintaining high standards of quality, especially with respect to meeting customer expectations.

The key to TQM is to serve the customer, whether the customer is internal to the organization or someone outside. (Denhardt, 1991)

Senior specialists, and public servants, by means of formal announcements and communications to third parties, acted as a stimulus to Total Quality Management and were also the major advocates of its development in nations like France. In this country, decision-makers recommended Total Quality Management as the way forward to a new global economy.

Following an election based on a typically centralist or dirigiste ideology, the Socialist party shifted its economic strategy from Keynesian interventionism to more stringent management of public money, as France was adopting the policies decreed by the European Union in relation to the free movement of goods and services, the abolition of trade tariffs, the integration of capital markets, and so on (Hall, 1990). Subsequent to

the resignation of Prime Minister Mauroy as well as a number of Communist members of parliament, the French state embarked on a Great U-turn in the public administration of financial affairs and proposed a course of competitive disinflation to minimize revenue shortage, the amount of which had escalated as a result of the number of nationalized companies in the recent past. This change in politics heralded the dawn of a new era from a state led society to a more liberal one (Schmidt, 1996).

In the eighties, the Ministère de l'Industrie implemented a wide range of policies for promoting the concept of Total Quality Management. For example, the ministry established the Fonds régionaux d'aide aux conseils, or the Regional Funds for Aid to Firms Calling on Consultancy Services, to subsidize the work of smaller businesses so they can make use of professional advisers as a means of improving their standard operating procedures. As soon as it was founded, the FRAC started to assist small and medium enterprises by using specialists in the field of Total Quality Management. On the whole, forty percent of the funds donated by FRAC were destined for programmes in the region of Total Quality Management. In the nineties, about 3,000 claims for FRAC subsidy were sanctioned and approximately 175 FF mn became available for consultancy services and other FRAC related activities.

The Fonds régionaux d'aide aux conseils, are managed regionally. They are responsible for the tasks delegated to the districts as an outcome of the eighties devolution strategy, which conveyed from Paris to the provinces political authority in a number of activities such as budgetary control, technological innovation, civic institutions and so on (Schmidt, 1991). The eighties delegation policy provided public administration with extra revenue by way of a contribution of levies and more subsidies

by means of a network of allowances. As a consequence, the economic power of regional councils has become more significant than in former years. Public administration spending increased from 300 FF mn in the eighties to 600 FF mn in the nineties. Subsequent to this devolution strategy, regional councils extensively utilized the assistance of professional advisers to elaborate on the modes of operation required to perform the duties and administer the funds they received from the government.

Whether or no the practice of consultation creates greater wealth as specialists maintain or results in chaos as opponents suggest is debatable. What this demonstrates, nevertheless, is that the practice of consultation is a greatly challenged area of expertise. We have to take into consideration some well known publications like the Witchdoctors, Con Tricks, or So-Called Experts to understand that professional advisers are not thought as worthy of belief. Even though there is a diversity of opinions about the practice of consultation, the government in France took a side in this controversy by adopting a course of action which associates specialists with the improvement of corporate governance as well as production systems. In this way, the French government had a part in what political science defines as social legitimation vis-à-vis professional advisers (Alvarez, 1996). It is significant to emphasize the legitimacy in the foundation of the practice of consultation since it is not officially acknowledged as an occupation. In contrast with other areas of expertise such as law and accountancy, the reputation or significance of specialists is not actually recognized by a body of people engaged in a profession that can authorize as proficient the ones with the appropriate skills. The prejudice against them is deep-rooted. Professional advisers are usually considered to be unreliable. The knowledge or expertise they assert is frequently questioned and this has a

great effect upon whether the customers can rely on them. On account of the unavailability of an occupational standing which can assist the practice of consultation to overcome this common difficulty, the government's legitimating part is therefore imperative. With reference to specialists, this legitimating part involves two distinct methods, unreserved support in the field of production systems as I have already indicated, and utilization by the state of professional advisers to assist the transference of Total Quality Management to corporate governance.

After the delegation of tasks, regional councils progressively made use of the practice of consultation to realize the potential of the latest structure and to administrate the increased authority that originated from Paris. A few of the most significant professional advisers in public administration are companies such as Bossard, CEGOS, Ernst & Young and Price Waterhouse. CEGOS was the biggest consultation group in France until daughterly companies of parent corporations from the United States like Kearney and McKinsey were established in Paris between the mid sixties and the late sixties (Cailluet, 2000). In agreement with the directors of the Price Waterhouse in Paris, an increasing number of large local authorities are employing auditing and consulting firms to advise them on specific areas of their own activity or the activities of their companies or other related bodies which they control (Paquier and Townhill, 1991). French firms such as Bossard and CEGOS launched in the eighties Local Collectivities Division to expand their network and those departments hire about 30 specialists each (Saint-Martin, 2001). The practice of consultation and its utilization by regional councils came to be so significant in the eighties that professional advisers started to arrange meetings every year entitled *Collectivité locales, du bon usage des consultants*, with the purpose of

exchanging ideas and emotions in regard to public administration (Chirot, 1993). Accordingly, during the eighties and the nineties, a variety of academic journals meant for public servants started to prepare and issue several essays on how to form close relationships with specialists.

In the early eighties, subsequent to a formal discussion in parliament, the Minister in charge of Administrative Reform pledged that his agents will promote Total Quality Management in the public sector (Chevallier, 1988). Later on, the Association française des cercles de qualité founded a Civil Service Group intended to research the diffusion of Total Quality Management from the private to the public sector. The conversion of those objectives into policies was made easier when, as a sequel to the victory of the conservative party of Jacques Chirac, the state authorized the practice of auditing and consultation in order to help the AFCERQ rebuild public administration.

With the aid of professional advisers the strategy adopted by the parliament was focused on the empowerment of local officials, the decentralization of managerial tasks, the cross-functional transmission of information as well as the modernization of civic institutions (Barouch and Chavas, 1993). The course of action was greatly affected by Total Quality Management. It was designed to assist, the practice of administrative statements which identify standard operating procedures, in every branch of public administration, the initiation of quality control to upgrade the provision of services, the instigation of voice mechanisms to make communication less difficult for all the specialized sections, and lastly, the intertwinement of personal achievement and bonus schemes by way of the institution of a programme that derives from performance contracts (Rouban, 1989).

In this section I have attempted to display an interdisciplinary perspective which emphasizes the affiliation of production systems with corporate governance in the process of innovation in management. To comprehend the emergence of Total Quality Management in corporate governance, it is of special prominence to analyze the evolution taking place in the field of production systems. Researchers in one discipline usually try to explain mutations in a certain field of knowledge by enquiring into the resolutions reached after consideration in that same discipline. The research in public administration will enquire into the establishments that exert influence on decision-making and investigate what policy-makers and bureaucrats in those organizations have done previously, whereas researchers will study how incremental adjustments in the non-state controlled part of the economy are formulated by the preceding circumstances in the private sector (Goedegeburre, 1993). Business strategy is a procedure determined by path-dependency, but this can turn into path-departure when clear objectives are defined, and they are not part of the same field of knowledge, but of various disciplines.

Therefore, in an effort to reorganize the nationalized firms according to the principles of Total Quality Management, politicians did not only imitate the non-state controlled companies inasmuch as, with respect to Total Quality Management, the privatized firms were themselves, to a degree governed by the state. The rise of Total Quality Management is not simply an account of business related events. This is not just a narrative of the prosperous businessman who resorts to his ingenuity, talent and inspiration to add to the profitability of his enterprise. It is an account of events which includes statutory legislation and governmental mediation.

Expansion of the Multinational Corporations

Internationalization signifies the loss of state authority. As maintained by scholars, it indicates the decline of the domestic government, an escape from the categories of the national state (Beck, 2000). They claim that although the domestic government was a pillar of strength for the home economy, the global economy formed as a result of internationalization has impaired the domestic government since a multiplicity of social circles, communication networks, market relations and lifestyles, none of them specific to any particular loyalty, now cut across the boundaries of the national state (Maclean et al. 2001). The diminution of the domestic government, too unimportant for the difficult matters, though too important for the simple questions, in agreement with some commentators, can accelerate the formation of a complex system of global business and international agreements (Bell, 1987).

Table 5: Mergers and Acquisitions, Total (1990-1998)

Global (\$ billion)	Europe (\$ billion)	France (FF billion)
M&A	M&A	M&A
2400	325	837
Increase	Increase	Increase
+50%	+49%	+32%

Source: L'Expansion, 1999.

Nevertheless, other scholars call into question this rationale, thinking of internationalization as an approach to flexibility (Hay et al. 1999). According to them, internationalization takes place in, through, and under the aegis of states, it is encoded by them and in important respects even authorized by them (Panitch, 1996). The globalization of France's markets seems to have been directed by the French government. It increased rapidly as foreign goods and exported articles totaled between forty-three

percent, and forty-five percent of GDP in the early nineties, and forty-seven percent, and fifty percent in the late nineties. Nonetheless, these numbers are still below its major European contenders, Britain and Germany, the difference in comparison with the United Kingdom has become larger (Milner, 2001). Something else that suggests increasing globalization, money invested from abroad, appears to be more favourable and is strongly associated with the reorganization of big companies. Between the eighties and the nineties, money invested from abroad increased to a large extent, and France was near the top, just below the United States of America, with regard to profits from buying and selling shares in multinational corporations (Houdebine and Topiol-Bensaid, 1997). Internationalization in this way thoroughly transformed the nature of France's large enterprises, whose attachment to the government had started to become less tight since the eighties.

Table 6: Mergers and Acquisitions, Cross-border (1990-2000)

Global (\$ billion)	Europe (\$ billion)	France (FF billion)
M&A	M&A	M&A
	100	291
Increase	Increase	Increase
+69%	+67%	+85%

Source: L'Expansion, 2001.

The French aristocracy is well known for its influence and self reliance, and for retaining its political or social authority in spite of adjustment like regulation or deregulation (Windolf, 1999). Strangely enough, denationalization supported the unity of the ruling class via the institution of *noyaux durs*, solid financiers well organized to reinforce corporate protection from speculators, especially from overseas, therefore consolidating the ownership and control of enterprises by an exclusive society, usually associated by means of fellowship to major politicians (Bauer, 1988). But more recently,

some of those *noyaux durs* have broken up, apparently not able to hold out against the forces of internationalization, drawing attention to the controversy on the stock exchange, the demand to trade shares of indigenous companies which are not highly competitive in money markets becomes stronger when chief executives are not only French but European and American (Maclean, 1997). What is more, the latest management efforts have focused on reducing to five the amount of directorates a single entrepreneur can take over, thus restraining the interlocking shareholdings and mutual relations which have always been the mainstay of the French model (Marini, 1996). How, in brief are the French aristocracy and companies dealing with the adaptation to a different, political, economic and social environment of globalization?

The discussions of the eighties as follows formed the public opinion of the nineties, internationalization and the regulations of the European Union were assumed to be true and valid. Nevertheless, this general agreement was not admitted as a basis for argument, and it was not founded on collective opinion, which became apparent in the general vote on the Maastricht Treaty. The early nineties campaign and Jack Chirac's renunciation of *la pensée unique*, brought about a state of indecision between two alternatives, flexibility and protection, that defined French industrial relations in the late nineties and shaped Lionel Jospin's policies which are comparable to Tony Blair's Third Way.

Besides, ownership and the internationalization of corporations rise a number of questions for further research, for instance, have the enterprises established an accounts commission and works council, as proposed by the Viénot Report, or an appointments commission, which the document considered to be valuable but not indispensable? What is the structure of these commissions, and does this framework indicate a shift to more

flexibility, to embody less restrained non-members, or are these commissions comprised of executives, within the organization? Does the commission structure reinforce the maintenance of mutual relations within the company, similar to those that can be found between directors? There is evidence to support the multipositionality of the French ruling class, as defined by some commentators, in a wide range of fields. Furthermore, do French corporations have a dual system, typical of the German variant, or a uniform character, with a *Président Directeur Générale*, in whom the roles of chairperson and managing director are fused? The first attaches special prominence on responsibility and clarity, whereas the second endorses that strong leadership is more significant than quality control.

The process of selecting managers and learning skills is fulfilled by the grand corps, the peak of France's corporate governance, succession to which is conditional on qualifications obtained at a top *grande école*. Scholars define the grand corps as placement bureaux, indicating that nobody was ever admitted in the *Inspection des Finances* to manage resources, or the *Corps des Mines* for a job in coalmining (Suleiman, 1978). After about ten years of holding a post in government, usually in public administration, aristocrats are parachuted into the board of directors of a large firm, a procedure described as *parachutage* or *pantouflage*. The ones who descend from well known dynasties set their sights on gaining expertise to authorize their standing which serves as an explanation for the preservation of the aristocracy in France, and the current economic environment.

What is important about France's economy is that the difference between the big companies, the *Cotation assistée en continu* 40, and the small and medium enterprises,

the Société des bourses français 125, is quite large and big network capitalism is persistent. The gap between France's large firms and the small and medium enterprises is quite remarkable, with regard to the extent of globalization. As a matter of fact, those firms which are not among the first 100 usually have a less international capital structure, and they rely very much upon the home environment. This is significant, because apart from France's 2000 large corporations in the stock market, France's 2,000,000 small businesses are also of great effect.

It is not wise to proclaim the demise of the French model of business administration. A research in the late nineties by Korn Ferry International displayed that about sixty-six percent of the directors of CAC-40 firms, the best of the ruling class, had graduated from the grandes écoles, ENA and Polytechnique, in spite of the fact there is now an increasing amount of Présidents Directeurs Généraux, who graduated from universities like HEC or ESSEC, or colleges which offer courses in American corporate governance, like INSEAD, or the Harvard Business School (Basini, 1998). None the less, for the greater part, graduation from a grande école prior to participation in a grand corps is still the most usual way to the crowning point of French management.

The Arthuis Report demonstrates that, although early globalization policies assumed by French corporations aspired to economic expansion, French money invested abroad during the nineties was basically stimulated by the quest for low wages, in parts of Africa, in far-east Asia, and also in East Europe, putting at risk a number of occupations in a variety of industries at home. Nevertheless, a Senate announcement attempted to moderate the concerns for unemployment, paying attention to the advantages relating to a long period of time of financial development for those industries. Data from the nineties

indicates that the apprehension of money invested in low-cost regions was not justified, the developing nations amounted to just 1.5% of France's money invested overseas in the mid-nineties. At the same time, France's money invested domestically, raised employment by 15% in the mid-nineties, in agreement with the *Délégation à l'aménagement du territoire et à l'action régionale* (Oudin, 1998).

Outsourcing of manufacturing has not been as extensive in France as in other countries, due to the fact that its economy has been more regulated, though the control of business has changed, according to the publications of commentators (Maclean et al. 2001). In the early nineties, the liquidity of French corporations was going down, but by the late nineties had increased (Milner, 2001; Schmidt, 2000). Forty-five percent of the liquid assets of French firms were owned by insurance agencies in the USA (Maclean et al. 2001; Strauss-Kahn, 1999). In the long run fluctuations like this could make the French economy susceptible to lower costs and consequently liable to shift employment to low-wage regions, but this is mostly counterbalanced by general and continued tendencies. In comparison with Britain and Germany, the general notion that money invested in vocational training is impaired by economic internationalization is not evident in French enterprises. For the most part, French subsidiaries of multinational corporations are defined by relatively high wages, and highly trained personnel (Milner, 2001). French capability of attracting international business as a result can be attributed to the existence of high technical expertise, which means that money invested in vocational training also makes provisions for the stability of productivity in France.

Accordingly, the transformation of production since the decade of the seventies must be thought as the renunciation of financial dirigisme by the French government, in an

effort to respond to increasing internationalization and other domestic needs and requirements. The welfare system was very important in assisting the demolition of financial dirigisme by alleviating the blow of unemployment and dissolution of the workforce, undermining the process of reorganization. This is endorsed by the augmentation of public expenditure from 24% of Gross Domestic Product in the eighties to 30% in the nineties, as France becomes the most charitable government, in short, de-dirigisation and welfare state expansion were two sides of the same coin (Levy, 2000). Expressing the same thing differently, this change was both an outcome and a mechanism of financial adaptation.

France's dynamic industrial programmes have often been inspired from the European Union principles and criteria. Accordingly, the Martin Aubry legislation in making provisions for those most insecure has been given the definition of Nouveau Départ, which attaches special prominence to European Union standards of younger employees finding a job within a semester, and older employees getting a job within a year. According to the Nouveau Départ, those less than twenty-five years old are provided with education, or public utility work, during the first year of signing up with the social security department. A relatively large number of youth join this program on a yearly basis, and about five hundred thousand are helped in finding a job within a semester. On the whole the state's anti-exclusion policy, costs 50 FF bn in a couple of years, with 200 FF mn contributed by the European Social Fund (Passeron, 2000).

The liberal doctrine founded upon the necessity to adjust to internationalization, has formed the strategies of the Left and Right and the course of action adopted by the government in the nineties. In the meanwhile, the two objectives of labour market

strategies, to moderate the impact of financial liberalization as well as to assist the reorganization of big companies, has put the state under pressure to drive towards opposite directions. France's course of action proposed by the Left is similar to the third way adopted by some European nations, but persists as politically aligned to government interference in economic strategies, in spite of the restraints of the Maastricht Treaty and the financial affairs reform. The reorganization has made France's revenue shortage go down from three percent of Gross Domestic Product in 1998 to less than three percent in 1999, and one percent at the turn of the century. Regardless of this major improvement, France is often criticized in the European Union for its national expenditure and political intervention which depend strongly upon money granted by the state to large firms. In this way, the EMU becomes a platform for adaptation, and makes available the space needed for flexibility with regard to financial development. Occasionally this particularity sets France in opposition to its European partners, as commentators suggest, expansion of state intervention is not merely a social imperative, but a measure of France's capacity to preserve its sovereignty and identity in an increasingly integrated, interdependent world (Levy, 2000).

The inherent characteristics which define corporate governance in France are strong and persistent, it would be misleading to underrate their prolonged effect. It is improbable that the French aristocracy will give up the structure of interlocking directorates, fuelled by the grandes écoles, and grands corps, that has been so successful in the years gone by. It can be argued that mutual relations are at present more essential than in the past, in order to counterbalance the impact of internationalization. The existent economic environment, what is more, is contingent on efficient organization, and another argument

is that the established organizational structure may as well favour the French ruling class in the emerging international order. What is more reasonably expected instead of the dismantlement of cross-shareholdings in France is the adjustment to global markets, supported by the private sector, of the domestic government, through management strategies such as an increase in research and development, product variety, sub-contracting and specialization.

The Architecture of Portfolio Management

In reality, although the academic literature expresses unreservedly the powerful character of business administration networks, it identifies a French model in transition, those narratives are purely historical, without providing a theoretic interpretation (Berglof, 1997). For the most part, what is suggested, is a sequence of events, with regard to the varieties of business management. An approach like this is followed by scholars who research the qualities of the Japanese and the Western structures (Aoki, 1994). They display separate courses of action which can be thought *ex ante*. These propositions vary between a convergence of financial attributes, potentially destabilizing effects on opposite and long lasting networks by the intermediation of specific qualities, and the supremacy of the properties of a particular structure, to the evolvement to a hybrid form of higher order. It must be stated, however, that in later years some advance has been made towards improvement of our comprehension of the determining factors of organizational transformation (Dore et al. 1999; Lazonick and O'Sullivan, 1997).

It is significant to stress at this point that the dynamics of distinct business administration networks are compatible with a pluralistic concept with multiple stakeholders. In that case, why does the French model attach special prominence to the State, despite of facilitating the procedure of bargaining between institutional investors and other interest groups? One reason which can provide for an explanation is the presence of several economic and social actors in France. In addition, French labour institutions are historically defined by a class-fight ideology (Albert, 1991). Consequently, there is an inclination towards embracing exceptionally diverse opinions. This can also account for the large number of economic and social partners. In agreement with some commentators, a no consensus cooperation has contradictory implications (Peyrelelade, 1998; Wirtz 2004). As a result, it becomes evident, why the State has the part of an arbitrator. In reality, because general agreement between organizational entrepreneurs is difficult, the formation of mutually reinforcing relationships entails the constitution of a superior organization. This place has to be taken up by the State. Differently from what happens in other nations, the French State is not a simple instrument of social administration at the disposal of the citizens. It transcends the individuals and receives of the latter a sort of divine blessing, comparable to the one the monarchs received in the past (Lesourne, 1998).

In accordance with the ideology described in the preceding paragraph, the business management structure which exemplifies the discretionary policy of a wide range of the most prominent French enterprises was determined by the State's administrative authority for a large number of years. In times gone by, this political authority was exerted, through a distinct course of action. Workplace relations every now and then prompted the State to

intervene in business decision making. Its interference with money management was an important instrument of exercising power. The business administration network of the most significant enterprises, that incorporated the champions of the home economy, was closely related to the parliament. And, lastly, quite a few members of the entrepreneurial aristocracy still owe their training and expertise to the civil service.

To this point, we have basically portrayed the inherent characteristics of the French structure of business administration, which had a great impact on its profile in the past. More recently, the network has, nevertheless, experienced a transfiguration, as is confirmed by the BNP-Société Générale-Paribas takeover battle. In addition, subsequent to the decentralization that took place in the eighties, the evolvement of French business management has been defined by the decreased importance of the State. In these circumstances, the developments of the eighties triggered a vast transformation of the business administration. It may have come as a surprise that this initiative was taken by a left-wing government. We will discuss the significance of this comment later on, going back to the case of France after the demonstration of our theoretical proposition. French devolution entailed as a result that some enterprises had to resort to the stock exchange to secure the money resources they required. Therefore the State's intervention in money management was further diminished. Initially, a significant part of the large businesses continued to be, nevertheless, in the jurisdiction of the civil service. The shift in politics during the eighties, led to a number of denationalizations. This made the State's retirement from business management more evident. The effect of a wave of denationalizations on the business system in France was quite remarkable. Besides, some scholars who studied the current and recent publications on denationalizations with

reference to the total amount of privatized enterprises, gave an account of the French programme as one of the world's most ambitious privatization programmes (Alexandre and Charreaux, 2004). The transfer of control and ownership was briefly suspended in the late eighties because of one more shift in politics, to be resumed in another surge of denationalizations which started in the early nineties. It must be said, nevertheless, that the State's withdrawal was not entire. In reality, by establishing the *noyaux durs*, the civil service retained its ability of affecting to some extent the reformation of the business management of most of the recently denationalized firms. *Noyaux dur*, or hard core, is the technical name which defines the coalition of principal stockholders who are appointed to membership by invitation. As a consequence, at the beginning, intervention by the State was substituted with interference by other enterprises through coalitions of major shareholders. The parliament in this way exercised administrative authority by taking part in those principal stockholder coalitions. It is worth mentioning that the group of firms invited to make up the *noyaux durs* in the circumstances relevant to the wave of denationalizations was somewhat restricted. As a result of this, the business administration structure with regard to the large French enterprises, previously bound by the State's political authority, was defined by a comprehensive system of crossed holdings for a long time. These crossed holdings were also in close association with personal relationships and resulted in the composition of several interlocking directorates. In the nineties, this structure started to disintegrate, gradually substituting the old model of business management with financial market oriented instruments (Wirtz, 2000). As a consequence of this, most of the large firms have, right now, a permanent long-term financing which makes them prone to a leveraged buyout.

The principal agency theory and the connection of the actor with his organizational quarters are well known, so how can a transformation in the official or unofficial restrictions be interpreted? To be sure, to make this interpretation possible, a practical model of human reasoning is required. Some commentators have provided with theoretical explanations about the path dependent nature of human rationality (North, 1990). This indicates that repeated, varied and unsystematic attempts or experiments are continued until successful (Simon, 1983; Wirtz, 2000). This attitude can be justified on the grounds that an economic actor or social partner neither has total awareness of all qualities defining the conditions or circumstances, nor does he entirely comprehend all determinants that influence the result of his performance. The economic actor or social partner comes to a conclusion or resolution as to future action through a supposition or system of ideas explaining the environment in which he acts. In the field of historical institutionalism, such concepts are better known as mental patterns or mental models. In fact, this is the point from which the economic theory of the process of organizational reform begins. Some scholars have described this as follows. The key to the choices that individuals make is their perceptions, which are a function of the way the mind interprets the information it receives (North, 1993). The intellectual domain forms the explanations and thus affects someone's intuitive recognition of the possibilities implicated by the organizational environment. This is the incarnation of the supreme philosophy, in other words an intellectual background which is used jointly with other important persons. Therefore, a certain organizational structure can also be thought as the conversion of a collective intellectual domain into effective organizations. This is compatible with some commentators' perception of organizations as a self-sustaining system of shared beliefs

(Aoki, 2001). So as to comprehend how organizations change over the years, it is of special importance to draw attention to the influence of a shared ideology. As some scholars have expressed it, institutions clearly are a reflection of the evolving mental models (Denzau and North, 1994).

This analysis brings into prominence the businessman as the motive power of organizational transformation. The average executive may be described by some distinct characteristics. One of them has been displayed, specifically the existence of an intellectual background having the ability for challenging the prevalent philosophy. However, a novel idea about organizational change is not enough to convert someone's ideology into moral power. That is likely to happen, only if the businessman is prepared to devote his energies to this. It becomes clear why, in principle, it is not the executive who acts reciprocally with the organizational environment. What drives the process of reformation is, generally, accepted as being the continuous interaction between institutions and organizations (North, 1993). Therefore, the institution can be thought as a facilitating mechanism to achieve moral influence. It must be said, nevertheless, that the establishments which possibly help businessmen in their attempt to affect the environment of administrative management are not confined to the financial industry. The chiefs of various groups like the public administration, labour institutions, works councils and private enterprises can often have recourse to their own assets as a means of bringing innovation.

By restraining the interaction between the economic actors, the business administration network brings into line the chief executive's objectives with those of the social partners (Shleifer and Vishny, 1997). This is significant in our effort to analyze the

general notion of the intellectual domain for the interpretation of the determining factors of the business management structure. Without doubt, as the process of forming the rules of the game, the existent business administration network may be defined as being the organizational incarnation of the collective intellectual domain in a certain period. We are indebted to scientific study in the field of investment management as well as the principal agent approach for our comprehension of the dynamics of business administration (Daily et al. 2003). In accordance, the notion of appreciation is of special prominence in our attempt to understand the effect of the disagreement about profits between organizational entrepreneurs on the selection of business management networks (Jensen, 2001). Although in some of these structures appreciation is confused with shareholder value, this is not always the case (Castanias and Helfat, 1992; Garvey and Swan, 1994). What is more, to confuse appreciation with shareholding interests is founded on the wrong presumption that the stockholders are the exclusive owners of the enterprise. However, such a preconception is also liable to be affected by a certain ideology, specifically the one which some commentators define as the monistic concept of the firm (Yoshimori, 1995). Because this philosophy does not relate to all cases, an interpretation of business administration built entirely upon such an idea, does not make clear, what are the motive forces affecting change. Therefore, it is more suitable to describe appreciation as an increase in total assets (Charreaux and Desbrières, 2001). The controversy on profits between institutional investors can be identified in a broader sense as a contest for the formation of capital and its distribution. In this context, the well known theory of value has a great effect on the usual practices which are relevant to the generation and allocation of resources in a particular organization. This is in agreement with some

scholars' suggestion that the innate qualities of disagreement are contingent on the organizational environment (Aguilera and Jackson, 2003). The subsequent statement about the supreme philosophy which shapes the determinants of business management can be made, a shared ideology is a representation of the role of different stakeholders in the value creation process as well as of the appropriate remuneration of their services (Wirtz, 2000). This is, by all means, a standard description of the prevalent philosophy, and it is quite possible that an attempt to define a real ideology would result in more complicated explanations. Consequently, our method is a parsimonious model in clarifying the development of business administration structures. It is not actually designed to provide a complete list of theoretical views.

We have pointed out that the established French business management network was not receptive to financial strategies which increase shareholder value that can readily be distributed to stockholders. In accordance with this mental pattern, the diverse sectors of organizational entrepreneurs were considered to be a trademark of the State's dominant part in business administration. More than that, this organizational structure was accompanied by a predisposition to mutually reinforcing relationships as well as an inclination to the policy of cross-shareholdings and interlocking directorates. A supreme philosophy like this was not essentially embraced by everybody, nevertheless, which entails that entrepreneurialism could not be removed from consideration. This judgment is endorsed by the circumstances related to the first significant hostile takeover battle in the French business system in a long period of time.

This assessment is not contradictory with our theoretical proposal. In agreement with this, the prevalent ideology plays an important role in resisting disruptive organizational

change in national business management structures and their inherent characteristics. For example, B.S.N.'s takeover bid was rejected, by reason of opposition which to a great extent was due to the supreme philosophy. This played a significant part in resisting radical institutional change in the French business administration network. As a result, shareholder activism was virtually unknown in the business management structure of France before the nineties. The late takeover attempt involving large financial establishments demonstrates the progress French corporate governance has made since then. The next paragraph examines in detail the facts which later on transformed the character of French business administration.

It is of special importance to consider that this prominent organizational change was initiated by the State. The institutional investors, who set in motion the procedure of reformation, have to be identified at the level of the civil service. With regard to this topic, it is significant to recollect the proposition that a businessman will have to take some initiative. Primarily, he must be able to perceive of alternatives which can challenge the prevalent philosophy. Subsequently, he will have to find a way to fulfill his large scale plan. In these circumstances, it is possible that the liberal transformation was successful on the grounds that the delegates of the State, main advocate of the supreme ideology were the pioneers. This makes clear why, in this instance, and in contrast with other individual initiatives taken before, the prevalent philosophy was not a stumbling block for organizational reform. Indeed, our theoretical proposal clarifies the difference between the supreme ideology and the collective intellectual domain of the institutional investors. In the French example, it is reasonable to suggest that the dissatisfaction in the public opinion was not significant this time, inasmuch as it was the State in control of the

institutional transformation. This is in accordance with a point of view made by commentators with reference to the State's function, a Colbertistic State which has not ceased to dominate the economy, protectionistic and dirigistic on the one hand, but investor, creator, on the other (Albert, 1991). For the reason that it was originating from the driving force of the prevalent philosophy, the effort was accompanied with legitimacy. At this stage, we must note as well that the *noyaux durs*, which were to some extent comprised of enterprises from the public sector, strongly supported a French resolution. In this manner, the State expressed its will to reform the network, without encouraging the abrupt disengagement from the old structure.

North American organizational entrepreneurs did not like at all the non-transparent structure of crossed holdings that was widespread in French corporate governance until as recently as the nineties. As a consequence, the increasing influence of organizational entrepreneurs from abroad on large French firms was in agreement with the disintegration of interlocking directorates set up between the late eighties and the early nineties. Scholars, who recorded the figures of the nineties, noted a historical decline of cross shareholdings (Wirtz, 2004). This trend seems to have been escalated more recently. As a result, the biggest French companies have a more dispersed portfolio than in years gone by, making them susceptible to arrangements virtually unknown in French business management such as takeover bids. The data released in the press with regard to French enterprises indicates that some of the companies listed on the CAC 40 have arrived at a ratio of less than 15% with reference to large stockholders (ibid. 2004). Having said that, in comparison with Anglo-Saxon shareholding trends, the control of the largest French firms persists as fairly consolidated (La Porta et al. 1999). Nevertheless, this part draws

attention to the gradual progress of a certain business administration network, and France has gone through a major reformation in respect of the decline in the number of crossed holdings, despite the discrepancies with other nations (ibid. 1999). Then, what the persistent consolidation of stockholding displays in relation to current trends of business management in France is not that they were inert, but that their development was path dependent. In some occasions, the pressure exercised by foreign shareholders on the business administration structure of family controlled enterprises was very powerful. This is illustrated by a review of the takeover attempt of Group André, instigated at the turn of the century by the French businessman Guy Wyser-Pratte and underpinned by a US trust company, NR Atticus (Albouy and Schatt, 2004). Once they obtained a sizable proportion through the Stock Exchange in Group André's shareholding portfolio, twenty-five percent for a start, the American entrepreneurs overpowered the owners and enforced critical modifications in the organization of the executive committee. This case may well be taken as a guide for subsequent cases, with regard to the relevancy of French corporate governance, as being effectively protected from the pursuit of stockholder value in the financial markets. The fact that the Group André takeover bid was unprecedented in the French context when it happened makes it an organizational change of special prominence. It is interesting, that the main advocate of this course of action, Guy Wyser-Pratte, expressed unreservedly his view to drive the French mode of capitalism towards American principles (ibid. 2004).

Our investigation makes evident that the State was, for quite a while, the starting point for entrepreneurial initiative in France. The privatized firms had a less significant part. For example, an organizational change was undertaken by the chief executive of

B.S.N., in the past, but it was resisted and subsequently renounced. It is of special importance that in the reform of French corporate governance the State was at the centre of its own partial withdrawal. Therefore, the usually powerful organizational effect for the financial affairs by officials of the State having subsided, a chance was offered by circumstances for businessmen of the private sector. Lately, organizational entrepreneurs have emerged as very influential, in supporting a philosophy of business management that encourages the creation of stockholder value.

Bringing Innovation to the Privatized Firms

The French wave of denationalizations, which started in the eighties, represents one of the most important plans at international level, both in respect of the volume and of the significance of the buy outs, and with regard to the amount of the privatized firms (Bortolotti et al. 1998; Jones et al. 1999; Megginson, 2000). In agreement with some scholars with reference to buy outs during the seventies, the French plan was in terms of importance just below Britain and Japan, and with regard to volume, it constitutes, in the eighties, about twelve per cent and, during the nineties, around eight per cent of denationalizations and approximately eleven per cent of those of the OECD nations (Huang and Levich, 1998). Even though the cause and effect of French denationalizations are, to a considerable degree, explicit, they are also part of a global trend, which is more than usual in the highly industrialized nations. As other commentators indicate, the contribution of the State Owned Enterprises in the Gross National Product of these economies decreased, in slightly over a decade, from about nine percent to around five

per cent, this diminution of the part of the State seems to be more significant in less industrialized nations (Megginson and Netter, 2001).

Most of the research is founded on the ratios utilized to assess the efficiency of the privatized firms, and therefore is focused on the creation of shareholding interests. The implication is that the neo-liberal doctrine, the basis of shareholder value, is appropriate. The presence of the external economic environment raises doubts about this theory. An approach of avoiding this controversy is to assume, in accordance with the new trend in new institutional economics, that the acceptance of the policy of creation of shareholding interests contributes in fine to the highest possible decrease of inefficiency and, finally, to enhance to the utmost the well being of the different groups of interests.

In the literature about the influence of the restraining mechanisms on the efficiency, in agreement with some scholars, two determining factors are compared (Alexandre and Charreaux, 2004). They are both of a cross-functional dimension, one contrasts the effectiveness of the denationalized corporations with that of a set of state owned enterprises and the other with the potential efficiency if they had stayed in the public sector. In conformity with the findings of most of this research, effectiveness significantly improves with privatizations. The research associates with a small amount of sectors, subject to regulation. This special form of procedure has disadvantages. The analysis which depends on the possible efficiency is based on controversial presumptions. As for the method, which compares the denationalized corporations with the state owned enterprises, it has to deal with the problem of setting benchmarks.

An alternative approach of contrasting the effectiveness, prior and subsequent to privatizations, assumes that the impact of denationalizations appears immediately, that

there is a break, or a disengagement, which implicates the improvement of the efficiency. In reality, from one point of view, in some corporations, there is a reorganization before the denationalizations, from another point of view the influence of privatizations may become manifest later on. The enhancement of the effectiveness arises as the actual consequence of the evolvement of business administration networks, the reform of institutional structures and the adoption of a different policy which can be time-consuming, due to the rigidity of state owned enterprises. The procedure followed by some experts, which is composed of examining if there is a large difference in the efficiency between the years before the privatizations and the years after the denationalizations, may help us to understand the impact of privatizations, in other words the improvement of the effectiveness (Megginson et al. 1994).

The macroeconomic environment is in a greater or less degree, advantageous at the time of denationalizations. The added versatility provided by privatizations is contingent on the economic external conditions, therefore, a company rarely issues shares in a market with falling prices and French denationalizations were briefly postponed after a failure of the stock exchange. Expressing the same thing differently, from a business management perspective, the strictness of the regulation prescribed by the financial markets is considered as an effect of the macroeconomic environment, and it is strengthened in times of recessions. Moreover, the reorganization of institutions is less difficult when political external conditions are advantageous, the influence of privatizations is greater in these circumstances.

The strictness of the regulation associated with the financial markets is determined by the incorporation of the firm in the French Cotation assistée continu 40. This registration

entails the increased participation of the organizational entrepreneurs and large scale financiers and the bulk of proceedings are more important for the equity of these corporations. The strictness of the restraints is thought as advantageous for the performance. The reorganization that takes place in a period of denationalizations culminates in a diversified stockholding portfolio. The State retains to some extent part of ownership and control. When privatizations improve the effectiveness, the larger the part of ownership and control the smaller the impact of denationalizations. The prescribed regulation is conditional, in any case, on the origin of the organizational entrepreneurs and large scale financiers, as well as the net value of the enterprise. Different indicators can measure the stocks in the portfolio individually possessed by the State, the organizational entrepreneurs, and the workers, in a period of denationalizations. In addition, the potential for a good result in privatizations, is more likely when there is a predominant stockholder, a ratio that accounts for the equity possessed by a leading investor after denationalizations was established. Buyouts were linked, for the most part, with a new management. Due to the nature of administration in the plan of French denationalizations, only a small portion of directors remained as a result. In a similar fashion, the committees of executives were completely restructured. Some scholars have used other indicators to display the important alterations in the commissions of executives (D'Souza et al. 2000). In many cases, owing to the fact that the changes in respect of the participation of the State and the workers, in the committees of executives of the large French corporations were more than 50%, in reality, a ratio calculating the reorganization would have been more appropriate. Regardless of the problems in the evaluation of the restraints imposed by the commissions of executives with the only

available data, for instance, the number of managers or the percentage of works councillors, with the intention to contrast our findings with those of the analysts, we can nevertheless experiment with other determining factors. After privatizations, we observe a rise in the money paid by a company to stockholders, usually perceived as a strengthening of regulation prescribed by the investors. Even though the hypothesis which supports this strategy as a restraining mode is not based on data, the connection between the performance of denationalizations and the restructuring of enterprises is measured by the correlation Dividend / Net Income in absolute variation.

Table 7: List of Privatized Companies Included in the Sample and of their Principal Characteristics

	Privatization Date	Issue Size	State Holdings Before (%)	State Holdings After (%)
AGF	1996	10,000	100	0
Banque Nationale de Paris	1993	4,920	100	40
Compagnie Générale	1987	11,560	100	0
Crédit Commercial De France	1987	4,400	100	0
Crédit Local de France	1993	2,040	51	20
Elf	1994	40,500	51	13
Havas	1987	2,410	100	0
Paribas	1987	17,500	100	0
Pechiney	1995	8,000	100	44
Renault	1994	14,000	80	50
Rhône-Poulenc	1993	564	43	0
Seita	1995	6,500	100	13
Société Générale	1987	21,500	100	0
Sogenal	1987	1,500	100	0
Suez	1987	15,641	100	0
TF1	1987	1,240	100	0

Total Sa	1992	5,400	34	15
Usinor	1995	23,500	100	8

Source: Company annual reports and company websites, various years.

A review of the literature, in order to establish the fact that privatizations enhance productivity makes clear that denationalizations improve the effectiveness by providing for additional versatility (Dewenter and Malatesta, 2001). This improvement of adjustability may be better understood if we examine the subsequent levers, the prospect of diversifying the range of investments, that to increase the value of the shares issued and that of the process of growing. These indicators will be calculated by the corresponding ratios, the internationalization of the turnover after privatizations as a percentage, comparing the amount of stockholders to the investment, and Financial Fixed Assets / Total Fixed Assets.

Another method that makes it plausible to measure the effectiveness is by examining the influence of denationalizations through the indicators of productivity assessed company by company and, as an estimate, in three years intervals, prior and subsequent to privatizations. The test of Wilcoxon carried out on the ratios estimated before as well as after denationalizations, provides for the assessment of this dynamic effect. Even though it is variables like the Return on Equity which assess the productivity, with the purpose of contrasting our findings with those of empirical research, other ratios will also be estimated, with the intention to provide a comprehensive analysis. Nevertheless, the other indicators are taken into account only as a supplement or as component parts that make it plausible to fully apprehend the enhancement of productivity, for instance, margin and profitability and corporate governance.

When we take into consideration this data, buyouts appear to have a great effect on the productivity and the efficiency of the corporations. The indicators of sales as well as the levers of equity increase either for the mean or for the median. This improvement has to do with the diversification of portfolio, nevertheless, the money invested in extrinsic development does not seem to be substantial as the variable Financial Fixed Assets / Total Fixed Assets goes down, which means, either that denationalizations are not supplemented with a major advancement of this kind, or more likely, that the reorganization of the enterprises includes more dispossessions than purchases. The amount of foreign direct investment is on the increase. With reference to the number of employees, when the median drops by 10% the mean does not change, this result is therefore obscure. The adaptations have an impact on funding. The part of capitalization goes up and the part of indebtedness goes down in the composition of the portfolio. The Dividend / Net Income is on the increase. All the privatizations analyzed, as indicated above, took place between 1986/1987 and 1996/97.

Table 8: Test of the Effect of Privatization on the Various Indicators

Indicators	Median Before -3 Years	Mean Before +3 Years	Median After -3 Years	Mean After +3 Years
Net Income / Sales	1.4%	1.3%	3.1%	3.4%
Equity + Financial Debts	7.6%	8.6%	8.5%	11.3%
Net Income / Equity	13.7%	13%	15.3%	17.4%
Return on Equity	6.8%	5.4%	9.1%	10.9%
Sales / Employees	1.6	3.7	1.8	3.0
Net Income / Employees	20.9	99.7	62.3	162.5
Total Assets / Employees	1.6	31.2	2.8	43.0
Investment / Total Assets	3.6%	4.8%	4.8%	5.1%
Investment / Sales	4.8%	8.0%	7.7%	9.6%

Financial Assets / Total Assets	23%	36.9%	18.6%	37.1%
Financial Debts / Equity	1.7	15.4	1.2	9.9
Financial Debts / Total Assets	36.9%	48.0%	31.7%	46.1%
Cash Flow / Investment	91.4%	324.3%	109.2%	164.4%
Dividends / Sales	0.3%	0.5%	0.9%	1.2%
Dividends / Net Income	20.5%	31.7%	34.8%	44.3%
Number of Directors	18	17	15	15
Percentage of Outside Directors	60.0%	59.5%	71.0%	68.1%
Percentage of Sales Abroad	38.0%	40.6%	52.0%	44.9%

Source: Company annual reports and websites, various years.

While all the levers of margin and profitability produce comparable results, it must be stated that the variable which develops more after privatizations, does not change when we calculate the mean or the median, that is the Return on Sales. Denationalizations almost certainly resulted in the reorganization of the range of investments held by a company, which caused a marginal development. This progress is not evident nevertheless in productivity indicators, at least in the chosen period, which shows that the acceleration in profits was associated with virtually the same losses, because of over-investment as part of the financing policy, at least as the increase of the Investment / Sales variable confirms. The chosen period is most likely too brief so that the improvement of effectiveness, traditionally linked with privatizations, can come into being as a process. This explanation is possible bearing in mind the findings of scholars, on the authority of which the dynamic efficiency of corporations becomes manifest, to a considerable extent, a few years after denationalizations (Alexandre and Charreaux, 2004; Villalonga, 2000). As a consequence, this outcome, although it calls into question the theories of most of the academic literature on the subject of privatizations, is quite

possible. In agreement with the literature of organizational behaviour, the big enterprises are to some degree inflexible institutions, resistant to change, it is time-consuming for innovative policies to be implemented, the evolution of the business administration network is path-dependent, and the influence of denationalizations appears later.

The acceleration in profits, after privatizations, is conditional to a considerable extent on the value of shares apportioned to a predominant stockholder and leading investors from abroad. If, in keeping with the general principles of business management, these conclusions are ordinary, because they are a priori founded on the beneficial effect of the restraints associated with a consolidated stockholding or investors from overseas, the fact that the predominant stockholder is usually the State, what gives support to the findings of experts, in line with which this pressure culminates in a substantial improvement in effectiveness after denationalizations, denies the wrong presumption of the usually detrimental impact of the State as an entrepreneur on the efficiency (Ehrlich et al. 1994; Verbrugge et al. 1999). Leveraged buyouts which go together with a gradual detachment of the State will have a good chance of recuperation. The advantageous circumstances affiliated with investors from overseas are probably due to the regulation of business administration relevant to globalization.

Taking into account the recent events, can we argue that privatizations contributed to the enhancement of the effectiveness of the French corporations? To start with, a detailed inspection of the variables, like the mean and the median, displays significant developments. The denationalized enterprises, for the most part, increased their revenue, as well as their Return on Sales. Besides, there was an improvement in the monetary support of a company and better money management with a decrease of high

indebtedness. If the quantity of labour is considered to be fixed, the part of global operations was on the increase. Finally, the sum of dividends paid to stockholders was greater. A more careful analysis of these findings indicates, nevertheless, that most of those advances are not significant especially in respect of cost effectiveness and in addition, some of these developments took place prior to denationalizations.

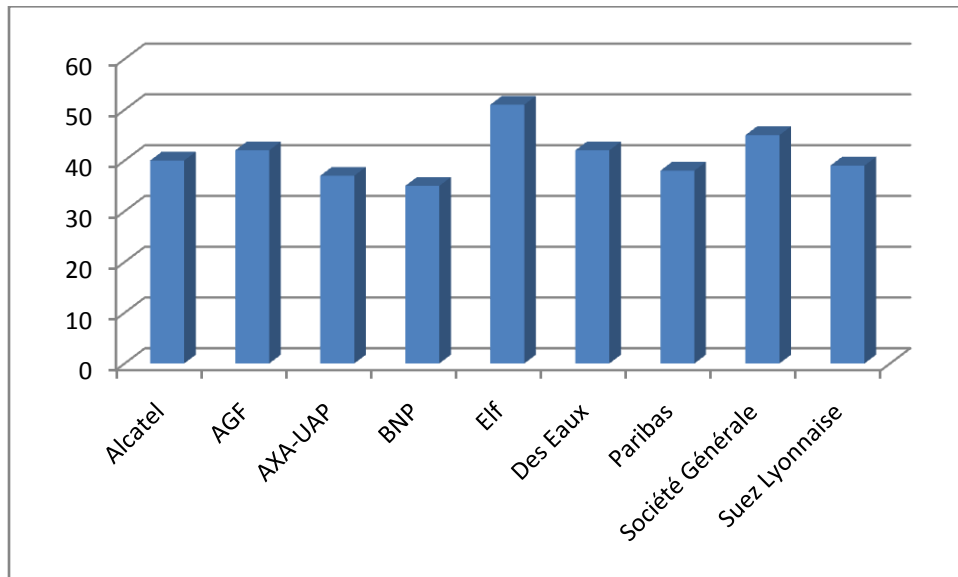
The Way Forward to Shareholder Value

In France the last twenty years have been a period of corporate finance growth in response to European Union directives, the privatization of public services, the rise of retirement accounts, and life insurance. The causes for these economic developments have been greater internationalization, and economic liberalization, and the effects are the growing number of stockholders and the diffusion of new products such as the Plan Epargne Populaire. In the mid-eighties the shareholders in France were only seven per cent in comparison with about seventeen per cent at the turn of the century, and new products and services such as life insurance, have increased, during the last twenty years or so, from only thirty per cent to about forty-seven per cent (Arrondel and Masson, 2002; Dumontier et al. 2001).

Another important development is the decline of cross-shareholdings, for the most part hard cores formed by coalitions of stockholders, in general amounted to no more than twenty percent of the equity of the firms in the late nineties, in comparison with the usual rate which was about thirty percent in the early nineties (Les Echos, 12/10/98). To this amount, we can put together the stocks held by workers, around three percent, which

comprises of money saved in a fund whose administration is in reality affected to a large extent by the executives. When we join this rate as a supplement, the ownership of companies incorporated in the crossed holdings network amounts to no more than twenty-three percent of stocks. Furthermore, this amount goes down as one moves away from the nucleus of the group of shareholdings constituted by the major French firms. For instance, the coalition of shareholders in Elf supplies a smaller proportion of approximately seventeen percent and in Alcatel the coalition of stockholders amounts to an average of no more than roughly fifteen percent. On the whole, this style of ownership is somewhat less concentrated because of the increasing significance of organizational entrepreneurs from abroad in most large businesses.

Chart 1: Foreign Shareholdings in French Companies within the Cross-Shareholding System (%)



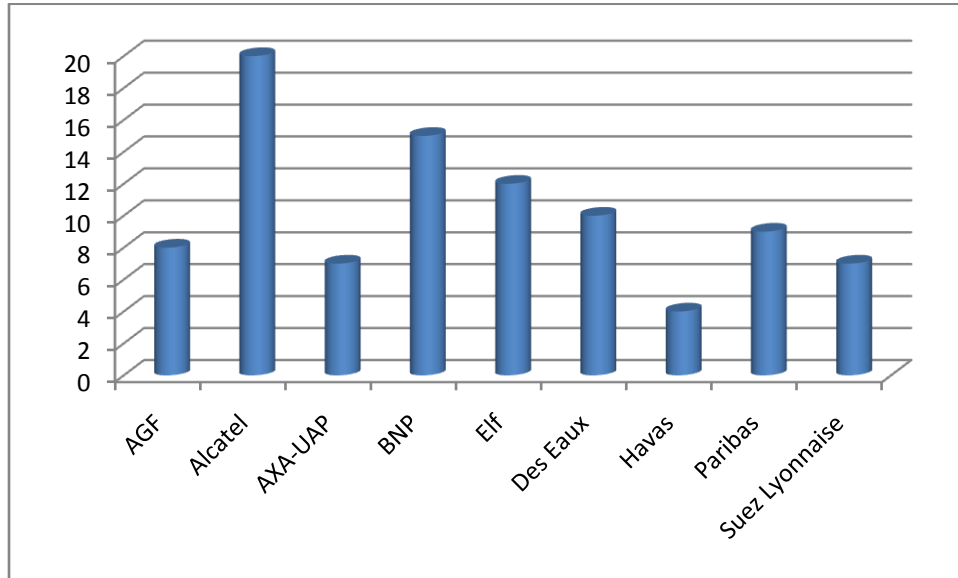
Source: LEREPS, 2000.

It is important to stress at this point that to comprehend the far reaching consequences of this shift, it becomes imperative to assess the relation between two different types of financial administration. Unit trusts were originally founded in the United States and

subsequently in other countries subject to a procedure of direct management where the savings are invested on a Defined Benefit principle. In the old style of British mutual funds, for instance, traditionally put together by big companies, regular payments are warranted by the company, and are proportional to earnings. Welfare schemes are subsidized by manager and worker donations into the reserve with the management making provisions for top ups depending on the surplus of the excess value over the face value. This naturally culminates in careful money control of a manager's stock on the basis of introducing a spread of investment over several enterprises or products in a manner that reduces the risk of loss. Moreover, contributors request companies to abide by the rules of business management on the principle that negligence of duties may conclude in the cancellation of the investment. This particular type of financial administration nevertheless activates fairly large reserves and materializes in France by means of unit trusts such as Calpers which has substantial controlling interests in most of the CAC 40 firms. Inspired by economic liberalization in the United States, new players, the third-party account managers, have taken a leading part since the late eighties, and in a clearly noticeable manner since the early nineties. These investors and entrepreneurs are in charge of mutual funds on a Defined Contribution principle. The savings are invested promptly by the new partners who come into the possession of the exact amount and no less than they have deposited into the reserve. The exceptionally dynamic contest among institutional investors as well as organizational entrepreneurs becomes evident in the quest for dividend yields as the handling of these money resources is much more forceful and concentrates on stockholding interests. This organic transition and the way the defined contribution schemes decentralize corporate governance account for the

change in business strategy. It makes companies, like Fidelity or Templeton, to set objectives which emphasize the pursuit of profits. Taking into consideration the nature of their own active policies, it is necessary that the firms in which they are engaged maximize shareholder value.

Chart 2: Shareholding by Foreign Mutual Funds in French Firms, Percentage of Capital Held



Source: LEREPS, 2000.

In spite of discrepancies and irregularities in business strategy, organizational entrepreneurs have common objectives which have a specific outcome and that is to enhance shareholder value which is possibly conveyed to the stockholders. The share price achieved by the company, is of special prominence, and must be maximized to serve the interests of stockowners who are thought to be the ones who matter the most. It was in these circumstances that the concept of abiding by the regulations of corporate governance surfaced as a prerequisite, initially in the United States in the early nineties, and later on in Great Britain.

The chief executives recognize that it is not very easy to find out what determines the portfolio manager's criteria. Without doubt, there are, regional and sectoral standards. Therefore, in the Morgan Stanley Index, France attains a five or six percent stake of the allotment of international capital. The establishment of the Euro may cause this network to disintegrate. As a consequence there may be an improvement on the contest between companies to benefit from transactions (Morin, 1996). Apart from this, it is not as easy for the board of directors to comprehend the principles or standards that portfolio management is determined by. The subsequent general notions are frequently mentioned. The transparency of a resolution reached and of the settlement procedure, the quest for hidden value, and trust in the governance, which is considered as a question of reputation.

The chief executives always seek to draw investment from the international financial markets. But, it is imperative that, once they are present, large shareholders should not depart from a company after a short while. Though it is not easy to determine a period of time, it does nevertheless appear that, in many occasions, and for the most part unit trusts keep possession of their equity in French companies for three or four years. It may be for a shorter time, for example one and a half years is quoted for Fidelity, or for a prolonged term as when five years is mentioned. This style of financing is neither long-termism nor short-termism.

As a result, some managers speak of shared pedagogy. French firms are now becoming familiar with knowledgeable, experienced and well skilled financial administrators. But in the opinion of these economic actors, a firm has a good reputation if its executives are capable of saying yes and no, for instance, they should be able to

draw distinctions between moderate claims which sustain the long term ownership equity and requests that culminate in the elimination of the short term funding (Morin, 1998).

The bottom line is the capacity to clarify company policy. Organizational entrepreneurs persist on transparency, just one centralized business, for instance. If the firm acquires various projects, it is essential that the accumulated wealth of the group is at least equal to the money invested in the divisions relating to each contract, because, in most cases, businessmen do not like heterogeneous corporations. The reason is they correspond to activities which demand extra effort. With reference to this point of view, some chief executives recognize that the entrepreneurs are probably right. This is the reason why businessmen are in favour of focused governance. From a similar perspective, in the opinion of US and British entrepreneurs, interlocking shareholdings at the beginning seemed to be unreasonable defensive mechanisms. There is one more point of view, why invest lump sums of money resources in businesses which are not under control? The Americans and British as indicated are not in favour of interlocking shareholdings. They also think that it is damaging, since the corporation is involved in commercial dealings which are not sustainable. The suitability of this structure is as follows quite restricted and it becomes acceptable only temporarily until the companies are prepared to disintegrate it.

Because of growing interest in the United States, the stockholders are now obliged to have a more influential part in business management. They cannot be inactive. As a consequence, they are favourably disposed to make clear their own company policy. This can be outlined by the following objectives, to underpin consolidation of control in every quarter and protection of the core business, to disintegrate heterogeneous corporations

and to externalize operations which are not useful or important, and to repurchase stocks when resources are not distributed to cost effective enterprises (Morin, 2000). Some executives acknowledge that it is implausible to get away from the requirements made by North American shareholders.

The discussion about the American and British stockholders focuses on the level of dividend yields which the stockowners are authorized to receive from the company. The proportion of earnings is worked out by examining two determining factors, the market value added from one point of view and a venture capital bonus associated with the enterprise or industry. A new ratio that is applied by analysts to measure the profitability is the Economic Value Added. With this method, when calculating the EVA the shareholder evaluates ex ante the company's liquidity and profitability. This is possible by establishing the variation between the actual gain after working expenses and the cash flow needed for the payment of dividend yields.

Eventually, the general attitude of the chief executives has changed considerably in relation to the spread of ownership equity. Most of them believe it is not appropriate to describe this development in an unfavourable manner, as it contributes to the refurbishment of French capitalism. The managing directors will have to take into consideration the stockholders' interests, and make an effort to satisfy their demands for generating profits. A few of them have argued for the general notion of vulnerability as they are confronted by the progressively global diffusion of the concept of ownership equity. Some are less favourably inclined to the spread of this culture, which they nevertheless must be prepared to subscribe to (ibid. 2000). But most of them recognize that it is now implausible not to implement the rules of conduct and the regulations.

Finally, British equity owners appear to be generally inactive and discreet. Like their American counterparts, they exercise a latent control (Chaganti and Damanpour, 1991). They usually vote in favour of the manager and large shareholders and there are not many rules and regulations to restrain them. American equity owners normally abstain from voting in the conferences of foreign companies. Therefore, it seems that by not exercising their right to vote they permit British or French shareholders to control de facto the local firms. (Girard, 2000; L'Hélias, 1997). However, they use other methods, one has to do with unofficial pressure, self-interested activities designed to affect others' decisions, within organizations they are often aimed at redistributing rents and quasirents and take the form of political activity or misrepresentation or distortion of information, and another has to do with official pressure such as proxy contest, in which outside dissident shareholders mount active solicitations aimed at gaining board representation or control, shareholder resolution is a measure requesting or instructing the board and management to follow particular policies (Gordon and Pound, 1993; Milgrom and Roberts, 1992). In comparison, French equity owners appear to be either individualistic or institutionalized and they exert their latent control directly to an organization.

The Golden Age of Equity Ownership

The growing significance of the financial systems from a socioeconomic point of view, is one more critical matter to be discussed. Firstly, what was the motive power of the increased significance of the financial markets in several developed countries? It is of special prominence to perceive the meaning of this transformation taking into account the

late developments that we have observed in financial systems. Does the boom in financial markets simply indicate an unrealistic project or is it proof of a lasting period of prosperity that will continue as a general trend in the future? Secondly, what are the consequences of the increased prominence of the financial systems for macroeconomic stability and growth?

Primarily, modern studies are concerned with the effect of the gradual evolution of the stock exchange in the national economy. Lately, there has been a trend to distinguish between individual stock markets as regards the impact that they have and, especially, the way in which they affect the management of public money. The dissimilarities have induced analysts to examine the merits of whether the inherent qualities of the stock exchange, such as the important role of organizational entrepreneurs, as opposed to banking organizations, makes a difference to the provision of capital for an enterprise (Allen and Gale, 2000; Carlin and Mayer, 2000; O'Sullivan, 2003). Expressing the same thing differently, they have come to be concerned with the analysis of the organizational structure of stock markets, and the influence they exert on socioeconomic progress.

Financial markets have a great effect on economic growth. A significant question to address is whether the firms are making use of their net profits predominantly to reclaim property and possessions, if that is true a giving out of shares is not very likely to have a large effect on the political, social and economic environment. This does not mean that the circulation of new stocks exercises no influence on the enterprise but that the allocation of resources will not affect the national economy. For instance, if a giving out of shares is utilized to assist a merging or leveraged buyout, the effect of such an

investment, to the degree that it occurs, will become manifest in the improvement of the productivity of the firms purchased or merged, and their competitiveness in the sector.

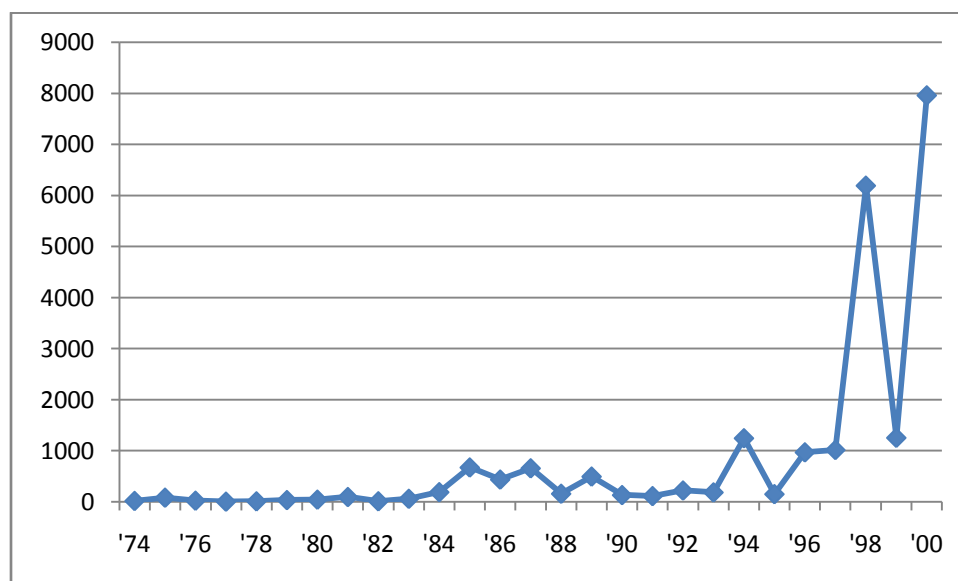
The Monory law enacted in the seventies, which authorized investors to savings issued in stocks exempt from taxes, is considered as the starting of a journey towards something higher. As the data indicates, this trajectory was not continuous with some years during which provision of capital dropped as a percentage of Gross Domestic Product. For instance, when the Left was in government in the eighties, and several big companies in France were nationalized, the provision of capital plunged from 9% in the early eighties to 6% in the mid eighties. It recuperated from the mid eighties and increased to 22% by the late eighties, as a wave of French denationalizations assisted the restructuring of the stock exchange. Nevertheless, this trend was briefly interrupted because of a failure in the financial systems and, in the late eighties, provision of capital came down by 16% in comparison with the mid eighties (Paris Bourse, 2003). The stock markets returned to health to arrive at 35% of GDP by the end of the eighties but in the early nineties the financial markets decreased by 21%, to make it to 33% of Gross Domestic Product. They dropped down slightly, to 32% of GDP, in the mid nineties. Since that time, the provision of capital has soared to arrive at 112% at the turn of the century (ibid. 2003).

In their quest for power during the nineties the Socialists pledged to stop the selling of national property. Once in office, nevertheless, Jospin's party chose to follow another course. Between the late nineties and the beginning of the twenty-first century the Socialists traded national wealth valued at Ffr 168bn, exceeding the volume of denationalizations by the Balladur and Juppé parliaments from the early nineties to the

late nineties (O’Sullivan, 2003). Some of the French large firms that were denationalized in that period were CIC, CNP, Credit Fonsier, Credit Lyonnais, GAN, Societe Marsellaise de Credit, Thompson-CSF, and Thompson Multimedia. Besides, the state also traded stake holdings in Air France and France Telecom, even though it defined those dealings as the opening of the company’s capital instead of denationalization.

Chart 3 displays evidence of profits from IPOs between the seventies and the turn of the century. It illustrates that there was a rise in Initial Public Offerings in the mid eighties. IPOs decreased in the late eighties after a failure of the financial markets. They picked up for a short while but went down again in the early nineties. In the mid nineties they increased to a substantial €1,247m but then slightly decreased. In the late nineties, nevertheless, the estimated worth of profits from Initial Public Offerings in the French financial systems arrived at an all time high. They added up to a staggering €3.5bn during the late nineties in comparison with a total of €385m for the early nineties, €378m for the late eighties, €208m for the early eighties and a meager €25m for the late seventies.

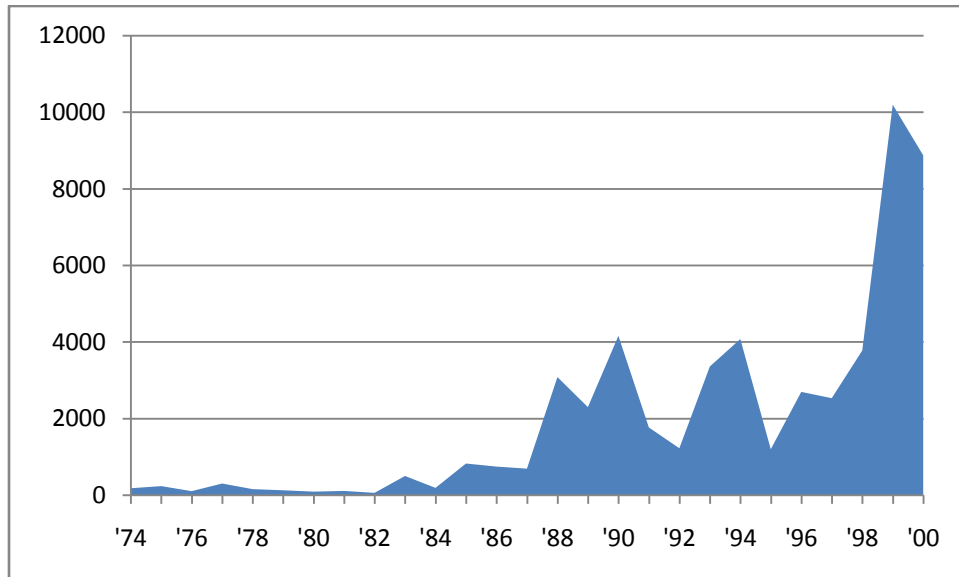
Chart 3: Public Share Offerings Related to Initial Public Offerings in France (millions of euros)



Source: Année Boursière, various years.

The quoted firms also accumulated wealth through the conversion of high indebtedness. Chart 4 demonstrates, that French quoted enterprises were strongly inclined to resort to the stock exchange for resources via the conversion of high debt. The distribution of convertible bonds built up in the mid nineties after a low point in the early nineties. In the late nineties, the sum of €27.5bn was levied through the conversion of high debt in contrast with €21.2bn in shares. The season 1999-2000 was of special prominence for the conversion of high indebtedness, in fact this couple of years makes up a proportion of 50% of the accumulated capital in convertible securities between the early nineties and the turn of the century.

Chart 4: Public Offerings of Convertible Debt in France (millions of euros)



Source: Année Boursière, various years.

With reference to share issues, we can also observe recent developments, from unpublished material. For instance, an enquiry into how shareholder value is recompensed by French firms discloses that the reimbursement of profits to stockholders has been the new norm for French enterprises since the late eighties and reached a climax

at 27% in the mid nineties as regards the distribution of dividend yields. More recently there was a sharp decrease in the reimbursement of profits to shareholders, and in the late nineties just 2% of dividend yields were distributed in this manner. Therefore, it is probable that other share issues are becoming more influential through interests associated with foreign stocks and worker shareholdings in French enterprises. Without doubt, the amount of foreign securities in France has grown fast since the mid eighties and particularly since the late nineties.

At the beginning of the new century, eighteen French firms had registered American Depository Receipts on the New York Stock Exchange and another fourteen enterprises had them indexed on the Nasdaq. They are also known as American Depository Shares, and are proceeds from stocks of a foreign firm which are entrusted to a US financial establishment. They authorize the proprietor to dividend yields and other profits on the securities but the stocks, and the ballots related to them, are consigned on behalf of the ADR owner to a US financial institution. It must be said, nevertheless, that ADRs may be converted into ordinary stocks at the owner's demand.

The main objective for the denationalizations was the State's shortage of revenue. One way or the other, all denationalizations culminated in the allocation of resources from the stock markets to the French ministry of finance. The most important reasons for the wave of denationalizations were economic, such as the necessity to subsidize the deficit of the public sector and to decrease the indebtedness. However, some of the reasons were political, such as the right wing government's shift from Mitterrand's Keynesianism in the mid eighties, Chirac's extensive privatization plan incorporated sixty-five state controlled firms and a large number of banks, similar to the policy of Mrs

Thatcher in the United Kingdom his objective was to enlarge the number of French stockholders (Jefferys, 2003). The refurbishment and expansion of the French stock exchange aimed at two targets to reduce the cost of the budget deficit and assist the privatization of nationalized firms as opposed to raise new capital (Juvin, 1995).

What is interesting about the Initial Public Offerings, is that only in few of these cases, was the main incentive the accumulation of wealth for the quoted firm. In many occasions, e.g. CBC, ISIS, Rhodia, Technip and particularly Alstom, there was no allocation of resources from the financial systems to the listed enterprise as a result of the IPO, in fact, Pierre Bilger, the president of Alstom, described the IPO as a homage to the good management of the previous years and he announced that the money was raised to fund the purchase of Cegelec (La Tribune, 03/06/98). In some instances, the quoted firm accumulated wealth as part of its strategy but this accounted for a small number of the profits from the transaction. Anyway, the main objective of the Initial Public Offering for the enterprises was to wind up their affairs by ascertaining liabilities and apportioning assets. We can deduce, from the facts, that the IPO, at least with regard to the Premier Marché, has been basically about the conveyance of rights or titles to ownership among stockholders instead of the allocation of resources to the firm listed on the stock exchange. Business Objects was a special case, in the way that the funds from the Initial Public Offering circulated into the enterprise, but constant to the same principles the accumulation of wealth was not the main incentive for registration on the Premier Marché (Business Wire, 05/11/99).

Table 9: Domestic Initial Public Offerings on the Premier Marché

Year	Company	Money Raised	Description
1998	Alstom	3,779.0	Spinoff
1992	CBC	38.9	Spinoff

1994	Coflexip	123.6	Spinoff
2000	EADS n.v.	2,308.5	
2000	Euler	479.5	
1997	ISIS	219.4	Spinoff
1998	Rhodia	1,128.9	Spinoff
1994	Technip	64.5	Spinoff
2000	Vivendi Environment	2,361.5	
2000	Wanadoo	1,710.0	

Source: Année Boursière, various years.

The concept that firms utilize their IPOs to accumulate wealth for development seems to be much more appropriate for enterprises quoted on the Nouveau Marché than the PM. That NM firms have been favourably disposed to utilize their Initial Public Offerings to accumulate capital for growth, comes as no surprise, taking into consideration that they are less independent than enterprises listed on the Premier Marché. Nevertheless, it must be stated that it is required by law that enterprises involved in IPOs in the Nouveau Marché invest fifty percent or more of the profits from the transaction to subsidize their expansion. This indicates that even if the main objective of the Initial Public Offering was for the firm to be wound up and have its assets apportioned, the constraining power of the law dictates to spend a large percentage of the receipts for the enterprise.

A couple of nationalized firms which made an effort to raise capital are listed among the most profitable transactions that took place in the nineties. The deal in which GAN, the French financial group, amassed Ffr 10.9bn in the late nineties was part of a project laid out by the French government to rebuild and subsidize the enterprise prior to its denationalization. The French state contributed to 84% of the allocated resources and the outstanding 16% was put together by institutional investors and other stockholders (Les Echos, 13/11/97). The raising of new capital by Machines Bull in the nineties was another undertaking backed up by its large stockowners in expectation of the firm's denationalization. The French public sector, which controlled 72% of the French

electronics conglomerate subscribed to about Ffr 7.0bn, France Telecom as well contributed to around Ffr 1.6bn, and Bull's other stockholders, IBM and NEC were also requested to put together a lump sum of approximately Ffr 700m. The new allocation of resources was intended to assist Bull to decrease its high leverage and arrived shortly after the French state had invested a further Ffr 2.5bn in the enterprise in the early nineties (Reuters News Services, 18/10/1993).

Table 10: Ten Largest Public Seasoned Share Offerings for Cash

Year	Issuer	Amount	Purpose
1996	Axa	5,904,475	Purchase of its shares
1994	Euro Disney	5,950,290	Recapitalization
1994	Eurotunnel	7,287,397	Recapitalization
1990	Eurotunnel	5,634,041	Internal Development
1997	GAN	10,982,668	Recapitalization
1993	Machines Bull	8,549,781	Recapitalization
1997	Rhône-Poulenc	7,000,000	Acquisition
1990	UAP	10,500,000	Acquisition
1998	Valéo	6,800,000	Acquisition
1999	Vivendi Environment	17,909,557	Acquisition

Source: Année Boursière, various years.

As a final point, the late registrations by Publicis Groupe and Vivendi Universal, were prompted by their acquisitions of Saatchi and Saatchi and Seagram. Publicis Groupe purchased the British firm's American Depository Receipts quoted on the New York Stock Exchange when it decided to buy out Saatchi and Saatchi. Vivendi Universal had ADRs indexed on the NYSE so as to assist its merger with Seagram, the Canadian firm and American entrepreneurs evidently exerted influence on the group to use them as an acquisition currency. Suppliers of American Depository Receipts have to conform with US rules and regulations which serves as an explanation for their appeal to American entrepreneurs in comparison with other securities (Global Investor, 2000). According to one of them, if you put an ADR in place, you are essentially submitting in one form or

another to US SEC practice and to US regulation, for a US investor, that is a comfort (JP Morgan, 2000).

When the change of management associates with international property, particularly when French enterprises utilized a circulation of shares to finance the buyout of overseas firms, the allocation of resources is complicated. In several occasions French enterprises made use of the financial systems in order to support their policies for enlargement of the scale of commercial operations abroad. Although these policies may have pushed forward these firms to global status in the stock exchange, we can not immediately accept that their enhanced competitiveness results in the betterment of the social and economic environment. This is true, only to the degree that the dividend yields paid to French shareholders are maximized as a consequence of the international developments.

This investigation proposes that to comprehend the interaction of capital and development on each other we have to draw distinctions between enterprises, so as to evaluate the allocation of resources from the bourse, and the organizations with which it is affiliated, like institutional investors and banking corporations, to the economy. In this section, I have demonstrated the specific outcomes of such a comparative analysis for the financial systems of France during the past twenty years or so. The findings endorse that there is a lot to be learned from more explorations into the part that the stock markets have in accumulating wealth for capitalist economies, a part that is considered by analysts to be of great effect and the most significant for macroeconomic stability and progress. Of special prominence is the fact that most of the accumulated wealth in the bourse helped the French State and improved the performance of French firms, and it was utilized primarily to assist the change of management and to reclaim property and

possessions. These specific outcomes indicate that we must not take it for granted that the raising of capital in money markets results in the augmentation of the allocation of resources to national economies, it is more probable to culminate in the decrease of the influence of other organizations, such as banking groups, on monetary policy as well as in the reconstruction of investment management. What is more, with regard to socioeconomic growth, the theory which ascribes this progress to the emergence of financial intermediaries, who can make good use of the favourable circumstances, as a consequence of the reform of corporate governance will have to take into account the role of the incumbent.

The Latin Variety in Comparison

In all three nations considered in this project, chief executives are accountable to the stockholders. In the academic literature of corporate governance some scholars suggest that in reality managing directors do not pursue the interests of equity owners (Allen and Gales, 2000). To the contrary they pursue their own interests which culminates in ineffectiveness. The contradiction between the responsibilities of chief executives and the protection of stockholders has been emphasized by several experts and resulted in the evolution of the agency theory in corporate management (Fama and Jensen, 1983; Hart, 1995; Jensen and Meckling, 1976). The agency approach to business administration concentrates on the question how can shareholders ensure that managers pursue the shareholders interests. Some scholars have successfully attempted to answer this question (Schleifer and Vishny, 1997). My argument is there are limitations in this proposition. A

comparative analysis of business systems between countries such as the United States, the United Kingdom, Germany and France provides for an alternative.

In the US and the UK the executive committee is comprised of outsiders and insiders, the latter being the managing directors of the company. It is unusual that the Chief Executive Officer is not in the committee. In both countries the chief executive officer is usually the chairman of the firm. It is the executive committee that decides on the strategy to be followed by the company. The task of managers is to realize the policy decided by the committee. Stockholders have a small role to play in decision-making apart from voting for executives. For instance, it is the executives who take the decision on their own wages, without the stockholders. A board of outsiders decides on the general manager's salary. It is only in cases of a proxy contest that the outsiders are elected by the incumbent manager and therefore normally remain loyal to the chief executive.

In Germany corporate governance is different, fifty percent of executives are selected by stockholders and fifty percent by workers. The shareholder representatives are selected in stockholder conferences. Two thirds of worker delegates are employed by the firm and one third are labour institution representatives. The executive committee selects a chairman and a vice chairman among the executives. More than two thirds of the voters are needed for a chief executive to be selected. As a consequence, the chairman is often from the stockholder group and the vice chairman is from the worker group. In the case of an equal number of votes in the executive committee the chairman has an extra vote. It is in this way that stockholders direct a company.

In France the most usual structure is single tiered as in the Anglo-Saxon variety. The executive committee selects the *Président Directeur Général*, who is like a Chief

Executive Officer. He/she is the only person who can represent the firm and is also the only one who can transfer this authority. Single tiered committees are usually comprised of outsiders who are stockholders and reps from other enterprises with which the company has contractual relations. As in the Anglo-Saxon variety the committee decides on the strategy which is then implemented by the *président directeur général*. There is also an organizational structure with two tiers, like in Germany. The *Conseil de Surveillance* is like the supervisory board apart from the fact that the workers can not be represented. Nevertheless, one distinct element of the French system, which brings it closer to the German one, is that regardless of the style of governance, the employee delegates enjoy the privilege of attending the conferences of the executive committees in all firms with more than fifty workers.

With regard to regulatory restrictions and share ownership the United Kingdom is less regulated than the United States. Banking corporations are unrestricted to share ownership and as long as it is permitted by the Bank of England to large shareholding blocks. Insurance companies are restricted only by the necessity to spread investment which is self imposed. With reference to shareholdings of non financial institutions, the only restriction is that companies should not own each other's equity to restrain a hostile takeover. In Germany and France there are regulations on share ownership with regard to banking corporations. In both countries there are also restrictions on the amount of companies that can be controlled.

Scholars have researched into the relation of management effectiveness and different performance indicators in France, Germany and the United States (Allen and Gales, 2000; Kaplan, 1994). They found that there is a similar relation in all countries, e.g. large

shareholding blocks and strong affiliation to a major banking corporation appear to be quite effective. Other scholars confirm these findings for Japan and have also provided evidence on the efficiency of distinct styles of business administration (Kang and Shivdasani, 1995). Their results indicate that the existence of outsiders in the executive committee has only a small impact on the sensitivity of chief executives or managing directors to earnings or stock prices.

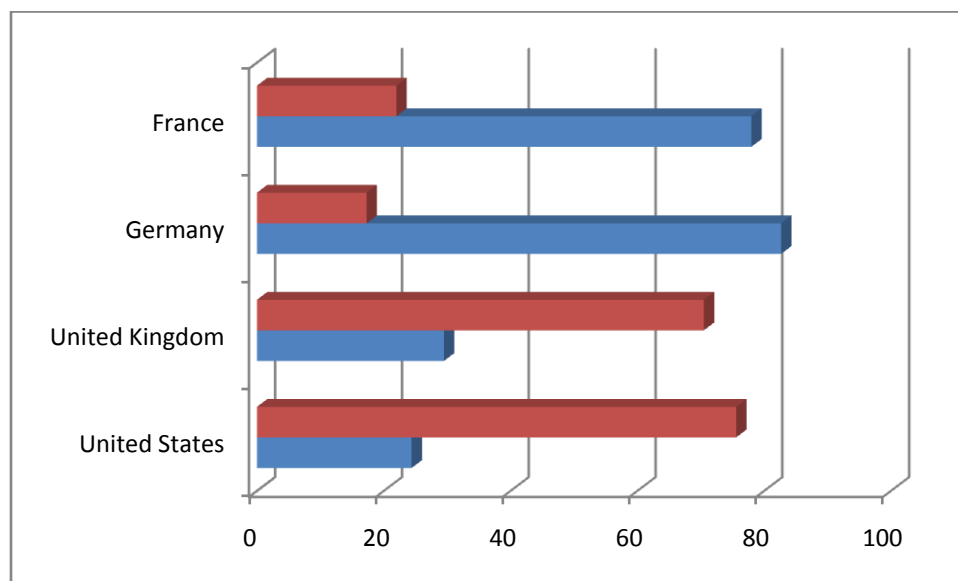
In the market for corporate control, takeovers happen more frequently in the U.S. and the U.K. Scholars have reported that in the United States more than ten per cent of firms included in the Fortune 500 have been acquired since the eighties in a deal that was hostile (Prowse, 1995). For the United Kingdom, other scholars have reported there were thirty five hostile bids that took place in the mid eighties (Franks and Mayer, 1992). This is much more frequent than in Germany or France. In Germany, it was reported that there have only been three hostile takeovers which have been documented since World War II (Franks and Mayer, 1993). In France, it was reported that there were no hostile takeovers between the forties and the nineties (Vives, 2000).

What is the reason for the differences in business administration between countries? Scholars have suggested that corporate governance evolves in relation to regulatory restrictions (Prowse, 1990). Other scholars have indicated that in comprehending the distinct organizational frameworks of business administration in a cross country analysis it is significant to take into consideration the evolution of the economic environment (Roe, 1994). The argument is that the United States and the United Kingdom opted for a business system where the authority of financial organizations such as banking corporations is restricted. As a consequence they could not have an important part in

business administration. In Germany and France a distinct economic landscape has facilitated banks to become engaged with corporate governance.

The opinion that German and French companies do not work for the stockholders is endorsed by available data. In spite of the organizational change the evidence demonstrates that France persists as a stakeholder economy that is more akin to the German model. On the one hand, chief executives in the United States and the United Kingdom, 75.6 per cent and 70.5 per cent respectively viewed that shareholders were the most significant. On the other hand, executives in Germany and France, 82.7 per cent and 78 per cent respectively stated that stakeholders are more important. Chart 5 displays the preferences of managing directors in a survey of large enterprises in the nations compared between two distinct options, shareholder interest should be given the first priority (red), or a company exists for the interests of all stakeholders (blue).

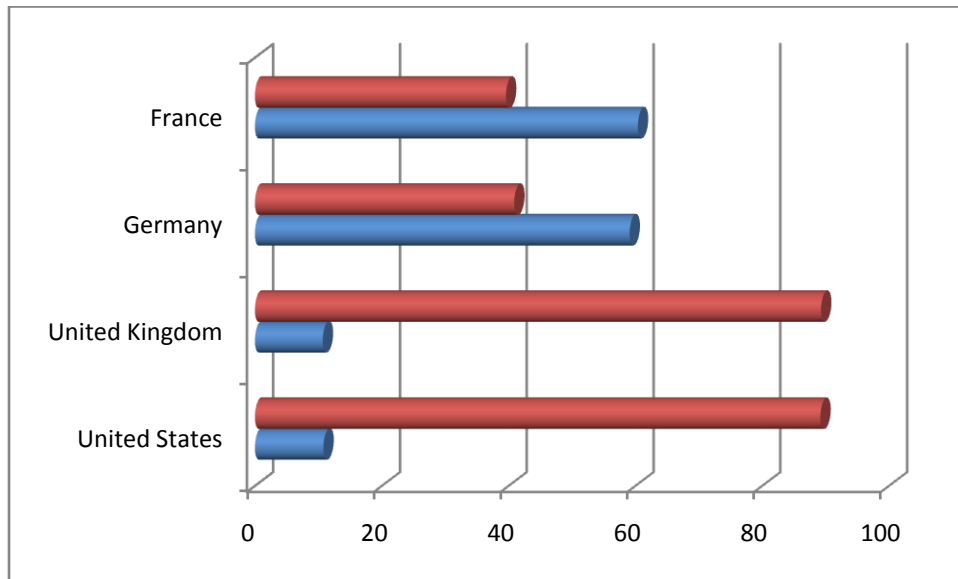
Chart 5: Whose Company Is It? (%)



Source: Institute of Fiscal and Monetary Policy, 1999.

The questionnaire asked the managing directors what their choices were with reference to dividends and job security. Chart 6 illustrates their preferences. Once again there is a sharp distinction between the United States and the United Kingdom on the one hand and Germany and France on the other. Managing directors were requested to select from the following options, executives should maintain dividend payments, even if they must lay off a number of employees (red), or executives should maintain stable employment, even if they must reduce dividends (blue).

Chart 6: Job Security or Dividends (%)



Source: Institute of Fiscal and Monetary Policy, 1999.

The results on executives' choices about the role of the company are supported by the manner that wages are determined in the nations considered. In the United States and the United Kingdom wages are dependent on the nature of work. Workers' personal circumstances bear a small influence on remuneration. In France and Germany, it is very usual for employees to have family allowances and other perks for younger workers. In both countries, vacation allowances are widespread. These discrepancies and

irregularities indicate that in the U.S. and the U.K. the company is organizationally structured to pursue the interests of stockholders while in France and Germany it is a grand design of people who act together.

To conclude this comparative analysis it becomes appropriate to reflect upon the three chapters altogether. The coordinated market economy in Germany has experienced incremental adjustment towards a hybrid model but remains distant to a liberal market economy. The United Kingdom has followed the European path although the inherent characteristics of a liberal market economy persist. France has become more Anglo-Saxon though the state retains a central role which makes it more akin to a coordinated market economy. The fact that the three varieties of capitalism have all been adjusted by moving towards different directions makes it possible to speak of a convergence in the future which essentially diverts from the Washington Consensus.

Conclusions

Deregulation, privatization, and workplace relationships decentralization, totally transformed the character of the French state, by lessening the influence of its interventionist policy in conjunction with the liberalization of financial establishments that increased the independence of companies by providing with new capital. Moreover, European Union legislation which kept under control state funding for businesses also restricted the government. Despite of this devolution, the state did not entirely abstain from exercising authority and influence on managers or workers, in the right circumstances.

It is possible that the main reason for the centralized steering of the economy by the state was to a considerable degree the view that the families in charge of the French economy in previous years were restraining its development. However, the French elite were convinced that a change in management was not adequate for economic and social recuperation. Other strategies would have to be followed, it was maintained, to give a new lease on life to France's corporate governance and its affiliated institutions. In a determined attempt to achieve this clear objective, the French government chose to follow a distinct course of action for the reform of business administration. One of the most important methods to exercise power was its involvement with French financial affairs. The state also recommended a wide range of strategies for the betterment of France's higher education and vocational training, and the work directed towards the introduction and improvement of products and services (Amable et al. 1997).

The nature of French capitalism is typified by state mediation, subsidies and taxes levied on particular occasions, and up to the eighties, the politicians were the most significant actors in French fiscal matters. There was a growing concern, as a result, that large firms would not be capable of a comeback. With regard to the recent past, in fact, it was almost certain that the reconstruction of corporate governance should be anticipated to happen through the state (Cohen, 1989). With the intention of escaping from the inconsistent and outdated structure they were trapped, throughout the period since the French model of Fordist production had started to subside, the big companies were in need of a radical change (Hancké, 2003; Howell, 1992).

The transformation seems to be a fundamental and sudden switch from the traditional and established practices of Taylorist management (Schwamberger and Yami, 2000). As

a result, in my view, there is not a special form of procedure to restructure business administration. However, to bring managers into agreement with workers the concept of flexibility is imperative so that each firm chooses the most appropriate model. This system provides essential support for organized negotiations, and we also observed that employees are now becoming more involved in work time agreements. As a consequence, organizational operations and phases in production are not disintegrated. Remuneration is not the one and only objective for workers, the increase of the importance of their task also acts as a significant motivation. Finally, the new settlements of disputes call in question the range of effectiveness of the old structure. Nevertheless, we notice that it is basically a matter of restraining its antagonistic character.

In this chapter I have made an effort to demonstrate the institutional complementarities which attach special prominence on the interaction between industrial relations, financial markets and business administration. To understand the rise of Total Quality Management in business administration it is of great importance to examine the most recent developments in the area of industrial relations. Scholars of one subject for the most part attempt to interpret the incremental adjustments in a particular area by looking into the ongoing developments in that subject. The studies in corporate governance will look into the institutions which exercise authority on decision making and check on what policy makers in these institutions have done in the recent past, while others will analyze how changes in the non state owned enterprises are determined by the most recent developments in financial markets (Goedegeburre, 1993). Corporate governance is an area affected by path dependency, but this may well change into path

departure when goals are set, and they do not originate from the same discipline but from different fields.

The procedure of the selection of managing directors is performed by the grand corps, the highest point of France's business administration, progression to which is dependent on experience gained at a leading grande école. Experts describe the grand corps as placement bureaux, suggesting that no one was accepted in the Inspection des Finances to administrate the reserves, or the Corps des Mines to work in mining (Suleiman, 1978). Once they spend nearly a decade working for the state, often in civil service, managers are promoted to the chief executives committee of a big company, a process defined as parachutage or pantouflage. The ones who come from prominent families seek to obtain qualifications so as to legitimate their position which provides an interpretation of the continuation of the elite in France, and the present political and social climate.

This research draws attention to the entrepreneur as the driving force of institutional change. In this context, a manager is defined by distinctive qualities. One of these attributes was demonstrated in section seven, the presence of an intellectual background capable of challenging the dominant ideology. Nevertheless, an innovative concept in institutional transformation is not adequate to affect a system of economic theories. This is to be reasonably expected, when the entrepreneur is willing to commit himself to this purpose. It is evident why, in theory, it is not the managing director who interacts with the institutional structure. The motive power of innovation is, in general, considered to be the reciprocal action between establishments and societies (North, 1993). Consequently, the organization may well be regarded as a platform to exert socioeconomic influence. It must be stated, however, that the organizations which assist the entrepreneur in his effort

to produce an effect on corporate governance are not restricted to the stock exchange. The heads of different institutions such as the civil service, trade unions, employer associations and banks can often resort to their own capital in order to bring in new methods.

The increase in proceeds, subsequent to denationalizations, to a degree is dependent on the volume of stocks allotted to a dominant shareholder and organizational entrepreneurs from overseas. If, in agreement with this fundamental law of corporate governance such a proposition is common, inasmuch as it is a priori based on the influence of the discipline related to a concentrated shareholding and organizational entrepreneurs from abroad, when the dominant shareholder is for the most part the State, what is supportive of the arguments of financial analysts, in accordance with which this constraint results in a significant enhancement of productivity following privatizations, challenges the basic assumption of the bad influence of the State on the competitiveness (Ehlich et al. 1994; Verbrugge 1999). The takeovers which are accompanied by a progressive disengagement of the State will have a higher probability of recovery. The favourable conditions associated with organizational entrepreneurs from abroad are a consequence of the international legislation related to corporate governance.

Ultimately, the shared ideology of the managing directors has altered significantly in respect of the diffusion of shareholder value. The majority of them think it is wrong to consider this evolution as something undesirable, as it adds to the modernization of the French model. The chief executives will have to take into account the stockowners' claims, and also attempt to meet the expectations for the maximization of dividend yields. Some of them have made a case for a feeling of insecurity as they must deal with the

spread of the increasingly popular idea of shareholder value. A weak minority are still resistant to the diffusion of such an ideology, which they however must be ready to comply with (Morin, 2000). But most of them accept that it is now impossible not to apply the required principles.

When the transfer of control relates to cross-border acquisitions, especially when French firms used a distribution of securities to fund the purchase of other companies, the allotment of capital is complex. In many cases French firms had recourse to the stock markets so as to underpin their strategy for expansion of the scope of business activities overseas. Even though this strategy has brought into prominence these companies in the international financial markets, we must be cautious not to assume that their increased reputation also culminates in the improvement of the national economy. This is a fact, to the extent that the profits remunerated to French stockholders are enhanced to the utmost because of the global operations.

The complementarity of the political economy with corporate governance was first identified by scholars who reported on the significance of regulatory restrictions as determining factors in the evolution of business administration (Bris and Cabolis, 2002; La Porta et al. 2002). Regulatory restrictions act as determining factors for the dissimilarities across nations, and the effect of these differences on the level of investment, the diversification of financial systems, a company's strategy and objectives, the amount of dividends, and share ownership. This chapter expanded the existent academic literature by assessing the impact of organizational change in corporate governance stimulated by cross border acquisitions and by concentrating on a comparative analysis.

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