Centre for Research on
Socio-Cultural Change

CRESC Working Paper Series

Working Paper No. 38

Is the stock market a disciplinary institution?
French giant firms and the regime of accumulation

Sukhdev Johal and Adam Leaver

CRESC, The University of Manchester

October 2007

For further information: Centre for Research on Socio-Cultural Change (CRESC)
Faculty of Social Sciences, The Open University,
Walton Hall, Milton Keynes, MK7 6AA, UK
Tel: +44 (0)1908 654458 Fax: +44 (0)1908 654488

Email: cresc@manchester.ac.uk *or* cresc@open.ac.uk

Web: www.cresc.ac.uk

The support of the Economic and Social Research Council (ESRC) is gratefully acknowledged.

Is the stock market a disciplinary institution? French giant firms and the regime of accumulation

Sukhdev Johal and Adam Leaver
(Royal Holloway, University of London and Manchester Business School)

Corresponding author
Adam Leaver
Manchester Business School
Crawford House, M.41
Booth Street West
Manchester M16 6PB

Email: adam.leaver@manchester.ac.uk

Abstract

This article explores two issues; first, whether Anglo-American institutional investors in the French stock market have disciplined unprofitable CAC40-listed firms; and, second, how the stock market has facilitated the international expansion of French giant firms so as to set the national space of compromise between capital and labour in a new international context. Whatever the pressures from US institutional investors in the secondary market, our empirical work finds CAC 40 long term profitability remains consistently lower than FTSE100 or S&P500 equivalents and post-1995 growth in total shareholder return was the result of bull market rises in share prices not management effort. CAC40 listed firms do however grow their sales much faster than FTSE100 and S&P500 equivalents, as giant French firms issued debt and equity on the primary market to fund overseas expansion through acquisition, so that by the mid-2000s CAC 40 firms had nearly half their ownership and two-thirds of their employment outside France. We therefore conclude that the stock market was facilitative not disciplinary in the French case because US fund managers and the investment bankers were not part of one unitary capital market institution. In consequence, we argue that any French national compromise between capital and labour must now exist in an international context of complex structures of cross subsidy between different social settlements.

Key words:

varieties of capitalism, financialisation, globalisation, French economy, shareholder value

Is the stock market a disciplinary institution? French giant firms and the regime of accumulation

Introduction

The French presidential election of 2007 was widely represented as a contest between left and right visions of defending or reforming the French social model, especially the compromise between labour and capital and including a 35 hour limit on the working week. The centre right's Nicolas Sarkozy presented the second round runoff as a choice between 'two ideas of the nation, two projects of society, two systems of values and two conceptions of politics'[1]. This dichotomy was partly sustained by different views of finance. The socialist challenger Segolene Royale spoke out against 'France in the power of money' and argued the challenge was to 'make human values win over financial ones'[2]. We would agree that the second round candidates of 2007 did offer French voters some kind of national choice, blurred in the usual way by competition for centrist voters and uncertainty about what the centre right could deliver. But we would challenge the assumption, explicit in Royale's rhetoric, that the forces of financialization and globalisation are external, alien and threaten to undermine France. Against such views, this article presents evidence which shows that, after the early 1990s, French giant firms used stock market finance to expand internationally so that they can now use their acquired US and UK operations to keep things going in France.

Behind these specific issues about the French case are larger general questions about whether the stock market is a disciplinary institution. The political and cultural economy literature on shareholder value and financialisation after the late 1990s started from the premise that the stock market was a disciplinary institution because, insofar as giant companies 'destroyed value' by failing to deliver adequate profitability, their managers would increase distributions or be disciplined by being sacked and/or forced to change strategy. This has been complicated by subsequent argument about the nature of the corporate response in the USA and UK. In the US case authors like Lazonick and O'Sullivan[3] influentially claimed the mechanical corporate response was 'downsize and distribute' which punished labour and rewarded capital. Others have argued this thesis does not fit the evidence and instead present shareholder value as an utopian project whose complex results included a new emphasis on narrative and performance which, in companies like GE, sustains an undisclosed business model[4]. The debate about French firms and the French case was started by Morin's[5] seminal article which observed that foreign (mainly US) institutional investors had arrived in France, and were imposing new shareholder value priorities on French firms. This mechanical view has not been directly disputed in the French case but the broader significance of any change in the stock market-firm relationship is clearly disputable given the general emphasis on the resilience of the French national model in the Varieties of Capitalism (VoC hereafter) literature. For authors like Schmidt[6], change in France is conditioned and shaped by the existing institutional features and complementarities of a national system that remained exceptional even if the French model of accumulation was no longer state led.

This article presents new empirics on the French case which refutes the disciplinary market premise and the thesis of obligatory corporate response by relatively unprofitable firms; the same empirics also complicate our understanding of the French compromise as they show how the stock market facilitated foreign acquisitions by French giant firms with unrecognised consequences for the regime of accumulation. The empirics set the behaviour and performance of French CAC 40 giant companies since the mid 1990s in longer term and comparative perspective against their UK and US counterparts in the FTSE 100 and S&P 500. The long run peculiarity of French giant firms (before or after the arrival of the US fund managers) was a relatively low rate of profit on sales or capital combined with relatively high sales growth rates. The empirics show that the stock market was not disciplinary but permissive because fund managers on the secondary market did not discipline the relatively unprofitable French giant firm sector; instead, investment bankers on the primary market facilitated its international expansion with new issues that sustained foreign acquisition.

This evidence supports the arguments of those within the financialisation debate who emphasise complex and paradoxical outcomes [7]. The French case provides a neat demonstration of how the capital market is not a unitary and disciplinary institution operating within one single calculative frame that imposes a standard set of financial demands on corporate managers; and incidentally suggests institutions can be a resource for management as much as a constraint. While all this vindicates the importance of national specificities and differences, it also sets the VoC arguments about the importance of national settlements and national institutional complementarity in a larger international context. French giant firms now have nearly two thirds of their employment outside France and much of that is in the US and UK so they are manifestly consolidating profit from a variety of social settlements. This observation raises interesting questions about whether the French social compromise between labour and capital is being cross subsidised with profits from more neo-liberal settlements, and about whether there is an undisclosed French model of accumulation which does not figure in popular political debate.

The article which follows is organised in a straightforward way into three sections. The first section provides a review of the literatures on shareholder value in France and on the French national variety of capitalism, the second section presents time series and cross section comparisons on the behaviour and performance of French giant firms in the CAC 40 so that readers can judge what changed and how in the later 1990s. A third section discusses the implications for how we think about national compromises and institutions.

1. Institutions, the French case and the shareholder value project

The French case cannot be discussed without considering the way in which debates and positions here relate both to the broad political economy literature on French exceptionalism within the varieties of capitalism literature and to the narrower literature on shareholder value and financialisation in France. The two literatures complement each other because the VoC literature explains how things generally fit together in the national case while the shareholder value literature deals with disruptive change in the firm/stock market sub-system. This section offers a brief summary of both literatures which provides the context for our later discussion of the empirics on French giant firm performance and behaviour.

The original aim of the VoC approach was to counter the post-communist triumphalism of neo-liberal political leaders in the UK and US who, it was argued, waged a ‘conservative revolution against the too-powerful state and its poisonous interventionism[8]’. VoC authors highlighted the diversity of market structures, financial systems, labour markets, training and education systems and other institutional features across different nation states whose economic performance were on a par with, and in some cases superior to, those of the Anglo-Saxon economies[9]. These different ‘varieties’ or ‘models’ of capitalism, it was claimed, incentivised and sustained different patterns of firm behaviour that defied the idea of a single universal market rationality and ‘one best way’ of running a national economy[10].

The principle focus of the VoC approach is the national sphere because, ‘so many of the institutional factors conditioning the behaviour of firms remain nation-specific’[11]. These national institutions then, ‘predict systematic differences in corporate strategy across nations’. These institutional features were durable because of their ‘complementarity’ - a situation where the presence of one institution increases the returns from or efficiency of another[12].

These national institutional configurations offered firms a particular set of business opportunities; and that through strategic insight and the outcome of competition, companies inevitably gravitated toward strategies that took advantage of these opportunities[13]. Thus distinctive national institutional structures shape differences of firm behaviour in matters productive and financial. This approach does not of course suggest that all economic activity is confined to the national sphere, nor that institutional change is never possible. Rather the authors highlight the different ways that external stimuli such as increasing global competition or liberalised capital markets are refracted through national institutions, producing different responses in different economies.

Since the VoC approach first appeared with the work of Albert[14], attempts have been made both to categorise distinctive (general) types or models based on different principles of coordination (whether through market or non-market mechanisms) and to understand specific national cases in relation to the models (whether as realisation or exception). Thus, the VoC approach attempts to identify those institutions which best support different idealised 'types' or 'models' of capitalism, which are positioned at either end of an imaginary pole that opposes market-based Anglo-Saxon/Anglo-American against consensual/trust-based Rhenish capitalism[15] or liberal market economies (LMEs) against Co-ordinated market Economies (CMEs)[16]. The French and Italian cases were always anomalous and never neatly fitted into the bipolar schema of types, as Hall and Soskice[17] recognised when they omitted France (and Italy) from their two opening tables which compares statistics on LMEs vs CMEs.

From the mid 1990s onwards, some authors began to focus on French exceptionalism and the changing character of a state-led model of accumulation which was difficult to position between the poles of Anglo Saxon and Rhenish capitalism[18]. Drawing on a much longer historical discussion of French exceptionalism, these VoC authors highlighted the French state's directive role in large areas of economic activity and its presence and influence in many national institutions. At the level of business policy the state took an interventionist approach, directing economic activities through planning, industrial policy and obtaining an ownership stake in key enterprises[19]. The state also directed corporate governance arrangements and firm financing[20], mediated inter-firm relations, set medium term corporate strategies and underwrote investment in business, sometimes assuming little or no financial return. These institutional features were seen to complement adversarial capital-labour relations with the *dirigiste* state organising wage bargaining[21]. Subsequent VoC authors[22] accepted that the binary classification of economies into LMEs vs. CMEs left cases like France in an ambiguous position because neither market-based principles nor strong, organised interest groups prevailed.

Yet the exceptionalism of the French case did not result in the rejection of the VoC approach but instead led to its restatement because the principle of institutional difference was viewed as a useful way of understanding French peculiarities. Thus, authors like Boyer[23], Weis[24] and Schmidt[25] in different ways posited the possibility of a third model of capitalism – a 'statist' model, with France the archetype. The problem with such admissions was of course that the number of capitalist types could increase further as it did in the work of Amable[26] whose mapping and measurement exercises led him to propose not two or three but five kinds of capitalism. While, the VoC literature was thus considering how things fitted together institutionally in increasingly complicated ways in various European cases, the shareholder value and financialisation literature, stimulated by the work of Morin[27] and later Goyer[28], argued about how French firms were being obliged to change behaviour and governance under pressure from a disciplinary capital market which required shareholder value.

The immediate issue was the arrival of the American funds and their managers. By the mid 1980s the French treasury had retreated from a directive role through ownership and management[29]. French giant firms were then protected from hostile takeover and gained relative productive autonomy within a solidaristic national system of *noyaux durs* where large or 'hard core' owners filled the position vacated by the state resulting in a financial system structured around friendly cross-shareholdings[30]. But in the mid 1990s this system was undermined by a more open regulatory system, the emergence of the European single market, the privatisation of large parts of the French economy and the globalisation of financial markets. There was an influx of foreign (largely US) institutional investors. As Morin noted, their share in the ownership of all French CAC shares had risen from 10-35% between 1985 and 1997[31] and (as we later observe) the share has since increased to around 45%.

What did the arrival of the American fund managers signify? Morin[32] talked about the 'new environment of the French firm: *shareholder value*' because French managers had now to explain themselves to their new shareholders who required shareholder value from French firms just as they did from US or British firms. Thus Morin[33] noted,

> Whatever their nature and regardless of differences in strategic behaviour, institutional investors share certain fundamental characteristics which result in a precise requirement of increasing *shareholder value* which is potentially transferable to the shareholders. The economic value realized by the concern must, as a matter of priority, be applied to benefit the shareholders as they are considered to be the stakeholders who incur the greatest risk.

Morin[34] has since situated these developments as part of a broader argument about the growing influence of global finance and international banks but already in 2000 he asserted the revolution was complete:

> The speed of this development has been such that it is now a verifiable fact: the largest French firms are subject to Anglo-Saxon management and return on capital norms. We have been able to verify that this diktat regarding norms is being observed throughout the CAC 40 companies[35].

Support was provided by other authors such as Goyer[36] who emphasised a mutation of corporate governance regimes in French firms which reinforced the pursuit of shareholder value as the key strategic objective. On this view, the incursion of the US investors ended the historic French system of corporate governance as France shifted from an insider to an outsider model of governance[37] where Anglo Saxon procedure about non execs and audit committees is the norm. Thus Goyer notes the rise of independent directors on specialised board committees, the growth of stock options as a means of remunerating senior mangers, and the increased dispersal of share ownership – all of which were viewed as the most efficient governance structures for securing shareholder interests. Goyer argues that the pressure for shareholder value from foreign institutional investors, was articulated through the new structures of governance which changed internal decision making processes and business strategy in French firms as senior managers went 'to great lengths to meet the preferences of Anglo-Saxon institutional investors'[38]. Maclean[39] argues that this meant breaking up conglomerates to focus on core activities, a permanent dialogue between managers and shareholders and the reward of shareholders through the dividend and share buyback strategies. For these authors, as for Morin, French giant firms had been required to adjust to the disciplinary requirements of the new owners for value.

Such provocative claims about mechanical responses prompted other authors to assert the limits of change given the resilience of the broader national system. In a trenchant restatement of French exceptionalism, Schmidt[40] argued that whilst foreign investors may own a large proportion of the total value of shares on the CAC40, they do not necessarily hold large stakes in individual firms. Moreover revisionist research on the extent of corporate governance change highlights the limited and patchy implementation of new regimes, and emphasises in particular the continued power and autonomy of the chief executives or *President Directeur Generales* (PDGs). Other authors[41] emphasise the limited impact the changes in ownership have had on the French economy and corporate governance practices and the endurance of other institutional features which act as a bulwark against change in the finance-industry subsystem, so that any changes in the French system could be understood as a move from a state-led model to a state-enhanced model of capitalism[42].

These differences about the extent of change leave Clift[43] to pose the *so what* question: the important issue is not about the new presence of US institutional investors but whether this has changed the old behaviour and performance of French giant firms. The next section therefore presents empirics from the CAC 40 since 1987 about continuity and change in French giant firm strategy and performance over the last 20 years.

2. French giant firms and a permissive stock market

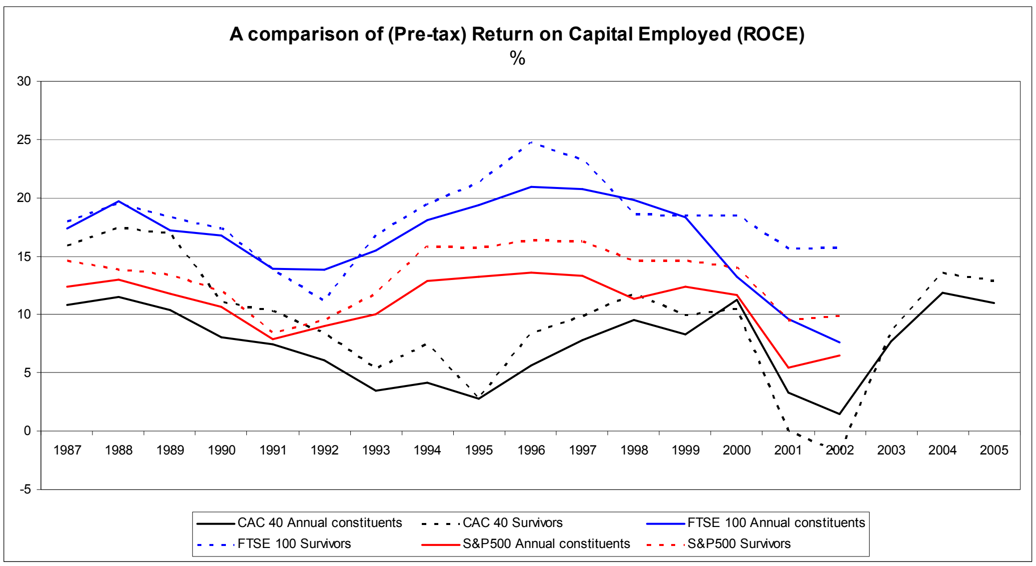
This section presents basic time series and comparative empirics on the behaviour and performance of French giant firms in the CAC 40. The comparative benchmark is provided by US in the S&P 500 and UK firms in the FTSE 100 against which French giant firms are consistently less profitable and faster growing. The time series evidence provides a perspective back to 1987 and suggests that the arrival of US funds in the mid 1990s did not change the long-standing performance profile and raise profits; so any disciplinary pressure by fund managers in the secondary market did not have mechanical outcomes in higher rates of return or profit for shareholders. Closer examination shows that the CAC 40 growth of the later 1990s mainly took the form of CAC 40 acquisition of non-French firms outside France; and this internationalisation was facilitated by bond and share issues on the primary market which was permissive not disciplinary.

Our long run empirical series focuses on the value-creating trajectory of different giant firm sectors on their national stockmarkets over the past 20-30 years. We use graphs supplemented by two appendix tables to compare the long run trends of market capitalisation, profits, return on sales, return on capital employed, sales and employment for groups of giant companies in the French CAC 40 index against the comparable groups in the US S&P 500 and the UK FTSE100. This is done both for the changing list of year by year 'constituents' in the relevant national index and for 'survivors' i.e. those companies continuously in the index. In the USA and UK we can take the data on S&P 500 and FTSE 100 back to the early 1980s; whereas in France the establishment of the CAC 40 takes us back to 1987 which is enough to provide an interesting series of contrasts. We[44] have previously published and analysed data on the FTSE and S&P performance profiles, but this article reports new EU funded research on the French CAC which is based on analysis of hard copy company accounts as well as databases.

The benchmark point of reference here is the FTSE 100 and S&P 500 which show the following trajectories, whether we consider constituents or survivors since the early 1980s[45]. Return on capital employed varies cyclically with no upward step in the later 1990s when shareholder value became the Anglo-Saxon mantra. FTSE and S&P survivors both achieve double figure average pre-tax ROCEs, rather better than constituents. The limit on dividend distributions, which average 50 per cent in both the UK and USA, is then set by the growth of sales revenue with most groups of companies growing about as fast as GDP i.e. by 2.5 to 3.5 per cent which is just about compatible with maintenance of the employment base. The substantially faster increases in share price and market cap in the bull market of the 1990s reflect rising Price/Earnings (P/E) ratios under the influence of falling interest rates, middle class savings flows and irrational exuberance. This sets shareholder value of the 1990s in a rather different light because the US and UK markets were both cruelly asking managers for more by way of returns and also in a kindly way via rising P/Es covering the failure of giant firm managers to create value through growth.

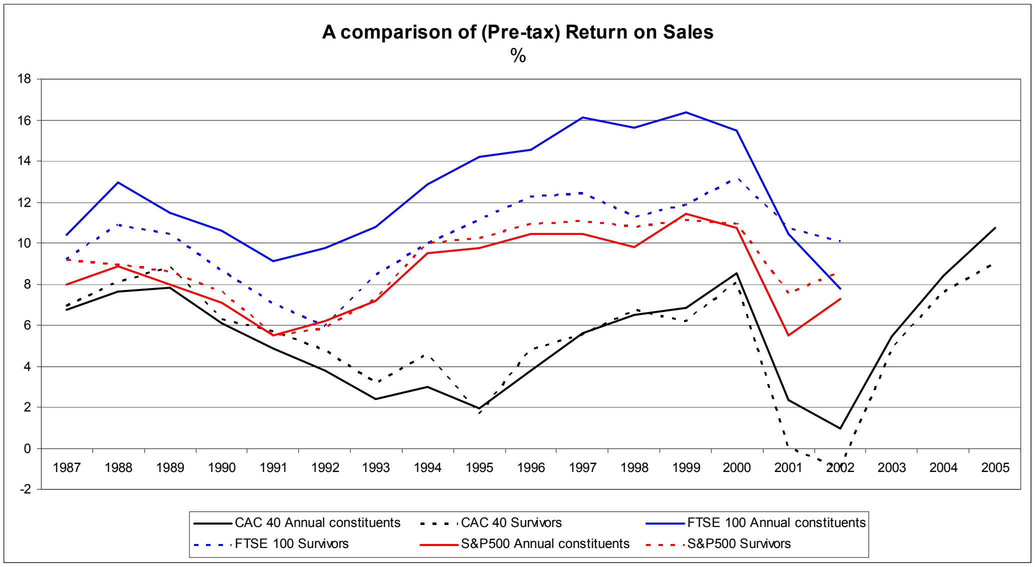
What happens if we turn to the CAC and consider French value creating performance? The major striking difference is that the average rate of profit is much lower in the CAC than in the case of the FTSE or S&P. This is not the result of over capitalisation because the pre-tax return on sales in the CAC is, just like ROCE, much lower in the French case. Figures 1 and 2 make this basic point by presenting long run comparisons of ROCE and ROS for CAC 40 constituents and survivors against their UK and US counterparts. Between 1987 and 2002 CAC40 constituents averaged a ROCE of 6.5 per cent and a ROS of 4.6 per cent compared with 15.6 per cent and 12.4 per cent for FTSE100 constituents and 10.6 per cent and 8.6 percent for S&P500 constituents respectively. CAC40 survivors follow this same pattern, with an average ROCE of 7.6 per cent and a ROS of 4.5 percent, in contrast to the FTSE100 survivor averages of 18.1 per cent and a ROS of 10.3 per cent, with the S&P500 survivor figures 13 percent and 9.1 per cent over the same period.

Figure 1: (Pre-tax) Return on Capital Employed (ROCE) CAC40, FTSE100 and S&P500 constituents and survivors, 1987-2002 (to 2005 for CAC40)



Source: Compustat, Datastream and Thompson One Banker

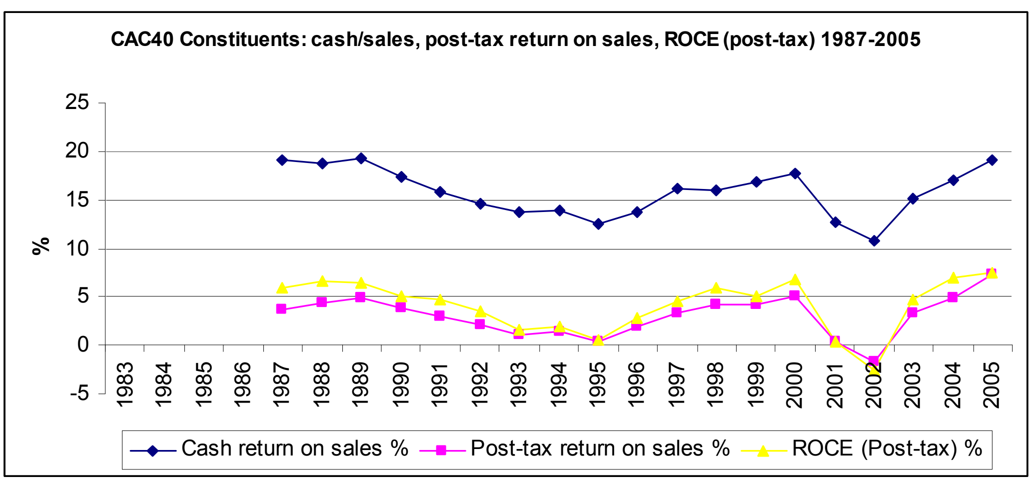
Figure 2: (Pre-tax) Return on Sales (RoS) CAC40, FTSE100 and S&P500 constituents and survivors, 1987-2002 (to 2005 for CAC40)



Source: Compustat, Datastream and Thompson One Banker

As for long run trends, the CAC shows a similar pattern of cyclical variation in return on capital and return on sales without any clear secular upward trends and a gentle cyclical improvement in returns after the mid 1990s is not sustained after 2000. So the mid-1990s does not mark any break with the long run trend which since 1987 delivers an average post tax return on sales of 4.1 per cent and a ROS of just 2.99 per cent. The graph in figure 3 summarises long run trends and visual inspection shows very clearly that in terms of profitability French giant firms continue to operate within their historic range of mediocrity.

Figure 3 Cash return on sales, post-tax return on sales and (post-tax) ROCE for CAC40 constituents, 1987-2005.



Source: Compustat, Datastream and Thompson One Banker

The (US) fund managers were a major and increasing presence on French share registers in the second half of this whole 20 year period. Morin dates their arrival to the mid 1990s and credited foreign funds with a 35 per cent share of CAC 40 equity in 1997[46]. We updated this finding by examining the 25 constituent companies of the CAC40 whose hard copy accounts provide a geographic breakdown of institutional share ownership in the French CAC40 of 2004. This sample suggests that US funds have since increased their holdings to the point where nearly half of French CAC 40 equity is now in the hands of foreign funds. Table 1 shows that in 2004 44.6 per cent of the total shareholding value in these 25 companies were owned by international institutions, with 55.6 per cent owned by French institutions and 'other' shareholders. The other important point is the pervasiveness of these institutional investors when foreign institutions hold 40 per cent or more of shares in no fewer than 15 out of the group of 25 companies. Foreign owners can still be marginal actors where shares are closely held by a family or state holdings are important; but in giant French companies where there is a large free float, foreign owners are always the dominant group. The fund managers are therefore a pervasive presence but, insofar as they are exerting disciplinary pressure, it is having no discernible effect on mediocre rates of profit.

The other striking peculiarity of the French giant firms is their commitment to growth. As we have already noted, all groups of FTSE and S&P giant firms have mediocre rates of sales growth but CAC constituents and survivors have higher or much higher growth rates than their British or US counterparts. Whereas FTSE 100 and S&P500 constituents and survivors grew at roughly the rate of GDP or around 3% between 1987-2002[47], average real sales growth for CAC40 survivors was 20.3 per cent per annum (figure 4), and 80 per cent of CAC40 survivors grow by more than 5 per cent, so that the commitment to growth is widespread in the CAC 40. As figure 2 shows French firms maintained their historic commitment to growth after the mid 1990s despite the very much weaker growth of earnings and post-tax profits (figure 5)

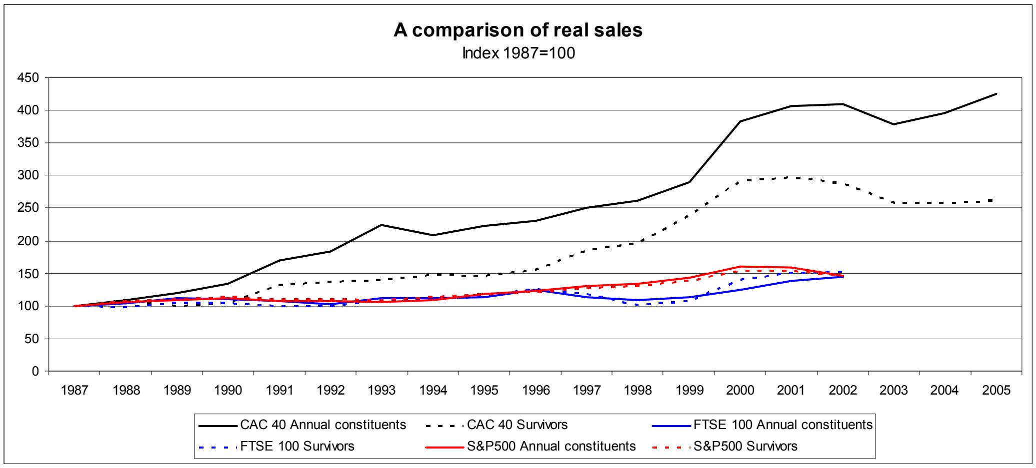
Table 1: CAC40 shareholding split by international institutional holdings and all others in 2004

2004	***Share of shareholding by type***		
	International institutional shareholding	***French institutions and others***	***Market capitalisation***
	%	***%***	***Euros mill***
Accor	51	49	6,386
AGF	58	42	10,412
Air Liquide	36	64	14,372
AXA	40	60	33,861
BNP Paribas	45	55	47,022
Bouygues	27	73	10,863
Credit Agricole	13	87	33,596
Danone	42	58	18,126
Dexia	45	55	18,631
EADS	50	50	17,136
Lafarge	50	50	12,216
Lagardere	50	50	7,478
L'Oreal	46	54	37,690
LVMH	23	77	27,407
Michelin	46	54	6,766
Pinault Printemps	20	80	8,965
Publicis Groupe	57	43	4,662
Renault	37	63	17,538
Sanofi- Aventis	50	50	81,866
Sodexho Alliance	22	78	3,540
TF1	17	83	5,143
Thales	17	83	6,070
Total	65	35	101,989
Veolia Environ	30	70	10,823
Vinci	48	52	8,268
TOTALS			550,826
Shareholding of the group by value %			

Sources: Annual report and accounts, 2004; AMADEUS

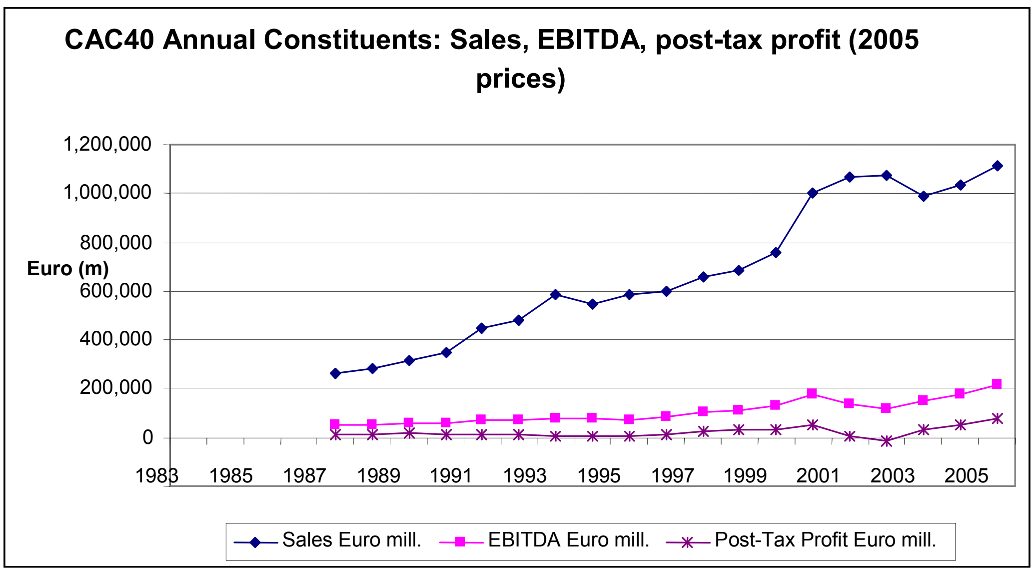
Note: List includes all 25 of the CAC40 of 2004 who disclosed geographic breakdown of shareholders in their annual reports. The BNP Paribas international institutional shareholding is estimated

Figure 4: Index of real sales growth for constituents & survivors on the CAC40, FTSE100, S&P500 1987-2004 (1987 = 100)



Source: Compustat, Datastream and Thompson One Banker

Figure 5: CAC40 Annual Constituents: Sales, EBITDA, post-tax profit (2005 prices)



Source: Compustat, Datastream and Thompson One Banker

The continuance of the French giant firm commitment to growth in the second half of the 1990s is all the more remarkable when closer analysis shows that it was directly and indirectly enabled by the stock market. The direct linkage is that investment bankers and the primary market issued the bonds and shares which enabled relatively unprofitable French giant firms to finance strategies of foreign acquisition. Here we can draw on the scholarly historical work of O'Sullivan[48] on corporate sources of funding and the working of the French new issues market. In the 1980s, the French government used the market for privatization issues whose proceeds were applied to paying down budget deficits; whereas in the 1990s a dramatic growth in new issues by public companies 'was largely attributable to the pursuit by French enterprises of external growth, especially cross border mergers and acquisitions' with the financial markets facilitating 'the strategies that French corporate managers devised and executed' in response to the globalization of product markets[49] The measure of the market's generosity is the rise in the CAC 40s issued capital which in real 2005 prices increased from 202,901m Euros in 1995 to 407,971 in 2000 and 540,787m Euros by 2005: closer examination shows that both debt and equity increased more or less commensurately so that French firms effectively had access to capital in the form that suited them: thus, family firms could, for example, issue debt not equity if they wanted not to dilute control.

The newly raised funds were generally used by the CAC40 to acquire overseas firms so that the value of French cross-border M&A purchases rose from $3,244m in 1987 to $8,939m in 1995 and to a cyclical peak of $168,710m by 2000[50] (United Nations Conference on Trade and Development 2002). In 2001 France was the largest EU outward investor of FDI and the second largest in the world next to the USA, despite its outflows falling by nearly a half on the previous year[51]. The UK and the US were the usual sites of French takeover activity[52] as CAC 40 firms took advantage of a long-established, active market for corporate control plus governance norms that enshrined the principle that 'everything is for sale'. Thus the stock market in the UK and US indirectly facilitated French CAC 40 expansion by ensuring that there was something corporate to buy with newly issued shares in countries where (institutional) shareholders would happily sell out if they were offered a premium of 30 per cent or so over last week's close.

The idea of French giant firms being less profitable and more committed to growth than their Anglo-Saxon counterparts would not have surprised the readers of an older management literature from Barsoux and Lawrence [53] onwards which presents mainland European corporate management as less interested in sweating assets and boosting margins because of non-financial concerns with technik and market share. The idea that all this might be sustained by the stock markets in a period of internationalisation will strike many as paradoxical. But the empirics suggest that the capital markets are not a unitary institution because any disciplinary efforts by fund managers in the secondary market were cancelled by the permissive efforts of investment bankers in the primary market. The net result is that French giant firm managers have been able to use a facilitative stock market for their own purposes and the drivers were not the fund managers but the French PDGs (or CEOs) who set the strategies of internationalisation[54]. The coherence of their choice no doubt reflected the Bourdieusian character of the French system with elite status acquired through the Grand Ecole education system and confirmed by subsequent circulation of elites between civil service and private firms where the PDG is the Napoleon of the boardroom[55]. Three quarters of CAC 40PDGs are *Grandes Ecoles* graduates, so the power of finance was not with the barbarians at the gate but for the enarciens inside the gate.

3. Implications for shareholder value and VoC

The VoC literature on France and the shareholder value literature by Morin both deal in stylised accounts: in the one case an account of how a national capitalism does work and in the other of how a finance led capitalism should work. On the basis of the empirics presented in the previous section, it is tempting to prefer one to the other. Certainly, the empirics discredit the thesis about a disciplinary market imposing new priorities and obtaining mechanical corporate responses; at the same time, the continued importance of national differences and discretionary strategies is vindicated. Against this, we argue in this section that both accounts fail in the same way in that they oversimplify complex logics and tend to take dominant social rhetorics and political preoccupations at their own estimation

The academic accounts of shareholder value as disciplinary pressure and mechanical response did no more than accept the claims of the rhetoric as articulated by Stern Stewart and the other consulting firms: shareholder value could and would be created by purposive managements who focused on value and delivered higher rates of return and larger distributed profits or buy backs which would drive up share prices. But, as we argued[56], during the bull markets of the 1990s the main driver of Total Shareholder Return (TSR) was increasing share prices arising from a rising price earnings ratio as the stock market put a higher valuation on a given quantum of earnings. We also emphasised that such increases in share price had nothing to do with management effort but were the conjunctural result of the flow of institutionalised middle class savings into the market and falling rates of interest. In the UK and US cases, this rising market valuation effect accounted for 42.8 per cent of TSR for FTSE100 constituents and 21.2 per cent rising of TSR for S&P500 constituents between 1992 and 2002[57]. In the French case, after the fund managers had arrived, the position was even more extreme in the second half of the 1990s because stock markets everywhere were rising sharply everywhere as the new economy euphoria spread and because large US funds were eagerly buying into French equity. More than 95 per cent of TSR on the CAC 40 between 1995 and 200 was accounted for by the rising P/E ratio and dividend payouts accounted for just 4.66 per cent partly because French pay out ratios remained well below the UK or US norm. Thus, French managers did not deliver value, but the post 1995 years were ones of brilliant success as the stock market engaged in DIY value creation.

As for the continuing low rate of profit combined with brisk growth of sales, that was an affront for academic finance and shareholder value rhetoric because if ROCE is below the cost of capital then logically, value is being destroyed. But any consideration of the UK or US markets shows that institutional investors have often been inconsistent in their ROCE preferences over time or between sectors; thus, they operated a double standard and eagerly bought tech stocks with no earnings because they believed in a narrative about the transformational potential of digital technology while at the same time requiring old economy firms to deliver ROCE of 12 per cent or more post tax[58]. The valuation of an individual stock or sector often rests on a uniquely weighted combination of different considerations. Thus GE's low ROCE was forgiven by investors throughout the 1990s at a time when other manufacturing firms were punished, because Jack Welch's narrative of management purpose and achievement covered the undisclosed business model of expanding finance to boost the lump of sales and profit. In a low key way, the US funds took a similarly forgiving line on the CAC 40 where the market partly bought into strong sales growth and explicit business model narrative about strategies of internationalisation. In a sample of sell-side analyst reports on French CAC 40 giant firms from 1998 – the middle of the upswing – sales growth was the principal focus of the reports which emphasised the importance of (international) sales growth, and the importance of gaining 'critical mass' in the US market [59].

Thus, the real problem with authors like Morin is not so much that they were wrong about the disciplinary market but that they did not realise that shareholder value is a socially constructed objective for which decent ROCE or ROS is usually desirable but not absolutely necessary. The causal arrows between share price and the many different dimensions of corporate performance may run in different reversible directions at various times; because market sentiment and by implication share price is contingent and context dependent. As behavioural finance recognises, the price of the share is not the discounted present value of future earnings and that raises the possibility of irrational exuberance under bull market conditions with excess liquidity, when elated shareholders chase prices upwards in ways which confirm their optimistic outlook. The general role of the corporate manager is then to provide a narrative and supporting numbers while distracting from or explaining away the bad news. And French managers seem to have learnt this quickly enough to impress their US fund managers.

A similar set of problems about oversimplification arises from the VoC preoccupation with national social settlements and their different social compromises between capital and labour. These issues are foregrounded because they figure prominently in domestic political debate about the proper balance between maintaining social protection and releasing economic dynamism on the assumption that the domestic choice will have massive consequences for national competitiveness. Nowhere is this more so than in France where the benefits and costs of the 35 hour week and the PCE have figured prominently in political debate so that (Sarkozy and Royal in their 2007 presidential contest could in familiar way present the different and deregulated UK and US markets either as an awful warning or as the model future that works to generate employment and competitivenes. We would admit the importance of the national because the nation still provides the stage where political and corporate elites acquire resources and formulate distinct strategies at firm and social levels. But the resources to implement such strategies and the flows of outcomes are now routed internationally with implications for what has to be negotiated domestically. This is most obviously the case with capital in France. As ownership changed in the secondary market, French managers had increasingly to sell their strategies to US fund managers who always reserved the right to change their minds and demand an end to unprofitable corporate growth and enforce strategic retrenchment in a new phase of restructuring from which the investment bankers could again profit.

Less obvious and more interesting is the question of labour and the place of national compromise in and after a period of giant firm internationalisation. The rapid growth of sales through overseas acquisition meant that French firms have since the mid 1990s been increasing employment mainly in newly acquired foreign subsidiaries. Our research is limited by the absence of disclosure before 1997 but Table 2 brings together the available evidence from hard copy accounts of the CAC 40. Whereas, the FTSE100 and S&P500 do no more than just about maintain steady employment totals, CAC 40 firms have grown fast enough to increase employment consistently: employment in CAC40 survivors grew by 75.5 per cent between 1987 and 2004 and constituents by 197 per cent over the same period. This was associated with a major tilt towards foreign employment as French firms were using the stock market to facilitate acquisition in the UK and USA. As Table 2 shows, between 1997 and 2004 in both constituents and survivor groups, domestic employment was maintained or grew marginally while foreign employment increased rapidly by 33 per cent for survivors and 96 per cent for constituents.. So the percentage of CAC40 constituent employment in France declines from 52-39.4 per cent between 1997 and 2004 while the comparable decline for survivors is from 41.5-36 per cent. By 2004, 63.7 per cent of survivor employment and 60.6 per cent of constituent employment was outside France.

Table 2: CAC 40 employment totals and share of domestic employment

	Total employment		***Domestic employment***		***Overseas employment***		***Domestic employment share of total employment***	
	1997	***2004***	***1997***	***2004***	***1997***	***2004***	***1997***	***2004***
Constituents	2,702,675	4,199,369	1,405,799	1,656,526	1,296,876	2,542,843	52.0	39.4
Survivors	1,382,031	1,692,277	574,052	614,505	807,979	1,077,772	41.5	36.3
Survivors share	51.1	40.3	40.8	37.1				

Source: Annual report and accounts and 20-F

Note: There are 14 survivors from 1987 to 2005 (with uninterupted membership)
Note 2: Approximately 12 of the CAC 40 in 2004 submit 20-F forms to the SEC

Thus, giant French firms are consolidating sales and profit surpluses from operations in neo-liberal countries where they operate mainly under local rules about labour market regulation and conciliation of organised labour. Thus, French companies in the UK can take advantage of Anglo-Saxon labour market deregulation: utilities like EDF in the UK do not observe French rules on hours and UK factories can be closed without consultation or negotiation as at Coventry where the CEO of PSA needed only 5 minutes with trade union leaders to announce his decision to close the British factory. In these cases, French giant firms support their national model of accumulation by consolidating surpluses from both neo-liberal and 'state-enhanced' social settlements. Such firms may well cross subsidise to the benefit of domestic labour in France, if the profits made from casual labour on flexible contracts in the UK or US allow PDGs to avoid confrontation with their domestic workforce over pay and conditions; certainly the domestic workforce benefits from sales growth through acquisition which keeps the fund managers happy. The outcome is complex and undisclosed. When students and unionists take to the streets in France to demonstrate against the forces of globalisation threatening their social settlement, the PDGs may think silently that it is their strategic decisions to 'go international' which have created the momentum and new profit sources to avoid conflict and maintain numbers employed at home.

This issue of cross-subsidy between social settlements, whilst not entirely incompatible with a VoC analysis, does require us to question one assumption prevalent in VoC work and crude challenge and response accounts of Shareholder Value which both believe that the causal arrows run from national institutions and complementarities to firm behaviour and financial outcomes with national institutions in the primary role and firm strategy or behaviour a secondary conditioned effect. Our analysis of the French case suggests that in some cases firms during and after internationalisation may well be the primary initiating actors negotiating and exploiting different institutional conditions and social settlements in various national jurisdictions. These discretionary moves strengthen the hand of management against labour but may also generate the performance that negates the need to attack domestically negotiated compromises. It is time that thorisation of capitalist variety and of the stock market political debate started to recognise these complexities

---

[1] John Thornhill and Martin Arnold, `Sarkozy and Royale head for poll showdown' *Financial Times,* 23 April 2007.

[2] *ibid.*

[3] William Lazonick and Mary O'Sullivan, 'Maximising Shareholder Value: A New Ideology for Corporate Governance', *Economy and Society*, Vol. 29, No. 1 (2000), pp. 13-35.

[4] Julie Froud, Sukhdev Johal, Adam Leaver and Karel Williams *Financialization and Strategy: Narrative and Numbers*, (Routledge, 2006)

[5] Francois Morin, 'A Transformation in the French Model of Shareholding and Management', *Economy and Society*, Vol. 29, No. 1 (2000), pp. 36-53.

[6] Vivien A. Schmidt, 'French Capitalism Transformed, But Still a Third Variety of Capitalism', *Economy and Society* , Vol. 32, No. 4 (2003), pp. 526-54.

[7] Froud *et al* 2006, *Financialization and Strategy: Narrative and Numbers*

[8] Michel Albert, *Capitalism Against Capitalism*, English Language Edition (Whurr Publishers, 1993), p.1.

[9] Albert, *Capitalism Against Capitalism*; Robert Boyer, 'The Variety and Unequal Performance of Really Existing Markets: Farewell to Doctor Pangloss?' in J Rodgers Hollingsworth and Robert Boyer, *Contemporary Capitalism: The Embeddedness of Institutions*, (Cambridge University Press, 1997); Colin Crouch and Wolfgang Streek, *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*, (Sage, 1997), pp.4-5.

[10] Jamie Peck and Nik Theodore, *Comparing Capitalism: Theorizing the Persistence of Institutional Variation*, Paper prepared for the second DEMOLOGOS meeting, Vienna, June 16-18, 2005, p. 5.

[11] Peter Hall and David Soskice, 'An Introduction to Varieties of Capitalism', p. 16 in Peter Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundation of Comparative Advantage*, Oxford University Press, 2001), p. 1-60.

[12] Bruno Amable, *The Diversity of Modern Capitalism*, (Oxford University Press, 2003), p. 5.

[13] Hall & Soskice, 'An Introduction to Varieties of Capitalism', p. 16.

[14] Albert, *Capitalism Against Capitalism*

[15] Albert, *Capitalism Against Capitalism*; Thurow 1992, Hart 1992

[16] Hall & Soskice, 'An Introduction to Varieties of Capitalism'

[17] *ibid*

[18] Vivien A. Schmidt, *From State to Market? The Transformation of French Business and Government*, (Cambridge University Press, 1996); Vivient A. Schmidt *The Futures of European Capitalism*, Oxford University Press, 2002; Schmidt, 'French Capitalism Transformed, But Still a Third Vriety of Capitalism'; Pepper D. Culpepper *Capitalism, Cordination and Economic Change: The French Political Economy Since 1985*, working paper John F. Kennedy Scholl of Government, January 2004.

[19] Schmidt, 'French Capitalism Transformed, But Still a Third Vriety of Capitalism', p. 529

[20] Culpepper *Capitalism, Cordination and Economic Change: The French Political Economy Since 1985*, p. 5.

[21] Chris Howell, *Regulating Labor: The State and Industrial Reform in Post-War France,* (Princeton University Press, 1992).

[22] Amable, *The Diversity of Modern Capitalism,* p. 79

[23] Boyer, 'The Variety and Unequal Performance of Really Existing Markets: Farewell to Doctor Pangloss?'

[24] Linda Weiss, 'State Power and the Asian Crisis', *New Political Economy*, Vol. 4, pp. 317-42.

[25] Schmidt *The Futures of European Capitalism*; Schmidt, 'French Capitalism Transformed, But Still a Third Vriety of Capitalism'

[26] Amable, *The Diversity of Modern Capitalism*

[27] Morin, 'A Transformation in the French Model of Shareholding and Management'

[28] Michel Goyer 'Corporate Governance and the Innovation System in France', *Industry and Innovation*, Vol. 8, No. 2 (2001), pp. 135-58.

[29] John Zysman, *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*, (Cornell University Press, 1983), p. 130.

[30] Michel Goyer, 'Varieites of Insitutional Investors and National Models of Capitalism: The Transformation fo Corporate Governance in France and Germany', *Politics and Society*, Vol. 34 No. 3 (2006), p. 405.

[31] Morin, 'A Transformation in the French Model of Shareholding and Management', p. 41

[32] *ibid*, p. 45

[33] *ibid*, p. 45

[34] Morin 2006

[35] Morin , 'A Transformation in the French Model of Shareholding and Management', p. 45.

[36] Goyer 'Corporate Governance and the Innovation System in France'.

[37] Goyer 'Corporate Governance and the Innovation System in France', p. 148.

[38] ibid, p. 138

[39] Mairi Maclean, 'Corporate Governance in France and the UK: Long-Term Perspectives on Contemporarty Insititutional Arrangements', Business History, Vol. 41, No. 1 (1999), pp. 88-116, pp 104-5.

[40] Schmidt, 'French Capitalism Transformed, But Still a Third Vriety of Capitalism', p. 540.

[41] Mary O'Sullivan, 'The Political Economy of Comparative Corporate Governance', *Review of International Political Economy*, Vol. 10, No. 1 (2003), pp. 23-72; Bob Hancke, *Large Firms and Institutional Change*, (Oxford University Press, 2002).

[42] , 'French Capitalism Transformed, But Still a Third Vriety of Capitalism'

[43] Ben Clift 'Debating the Restructuring of French Capitalism and Anglo-Saxon Insitutional Investors: Trojan Horses or Sleeping Partners', *French Politics*, Vol. 2, (2004), pp. 333-46

[44] Froud *et al* 2006, *Financialization and Strategy: Narrative and Numbers*

---

[45] Froud *et al* 2006, *Financialization and Strategy: Narrative and Numbers*

[46] Morin, 'A Transformation in the French Model of Shareholding and Management', p. 41.

[47] Froud *et al* 2006, *Financialization and Strategy: Narrative and Numbers,* p. 85

[48] O'Sullivan (2006)

[49] O'Sullivan, 2006, p. 47

[50] United Nations Conference on Trade and Development, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, (United Nations, 2002)

[51] United Nations Conference on Trade and Development, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, p. 41.

[52] Goyer 'Corporate Governance and the Innovation System in France', p. 153; Med Kechidi ''Fusions et Acquisitions: la financiarisation des logiques de concentration', Working paper, LEREPS, Universite´ de Toulouse (2003).

[53] Jean-Louis Barsoux and Peter Lawrence, *Management in France*, (Cassell Education, 1990)

[54] (O'Sullivan 2006: 47)

[55] Hancke, *Large Firms and Institutional Change*; Clift 'Debating the Restructuring of French Capitalism and Anglo-Saxon Insitutional Investors: Trojan Horses or Sleeping Partners'.

[56] Froud *et al* 2006, *Financialization and Strategy: Narrative and Numbers*

[57] Froud *et al* 2006, *Financialization and Strategy: Narrative and Numbers,* p. 78

[58] Hengyi Feng, Julie Froud, Colin Haslam, Sukhdev Johal, Karel Williams, 'A New Business Model? The Capital Market and the New Economy', *Economy and Society*, Vol. 30, No. 4 (2001), pp.467-503.

[59] See for example, the sell-side analyst reports on Michelin: ABN AMRO *Michelin: The Cost of Growth*, 3 Aug 1998 or Arnhold and J. Bleichroder Inc., *Michelin*, Sept. 22 1998, pp. 3-4; or on Sodexho Alliance: Warburg Dillon Reed: *Sodexho Alliance: Buy*, 11th Sept 1998, and Deutsche Bank Research, *Sodhexo Alliance: Still on Track, 50% Undervalued*, March 19 1999, pp.3-4.