Privatizations and Corporate Governance in France*

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Since mid-1993, when a landslide electoral victory returned the centre-right to power, the French government has embarked on an ambitious privatization program. In three years, nine major state-owned enterprises (SOEs) have been at least partially sold, and other companies among the largest in France will be sold in the coming few years. The current sell-off wave follows the one in 1986-88, when the previous conservative government disposed of its holdings in a number of large banks and non-financial enterprises. Successful as it might have been in terms of overall receipts and increase in the number of small shareholders, that experience, however, was partly marred by criticisms over the methods chosen in selecting buyers, the prices fetched through private placements, and the corporate governance consequences of privatizations. Regarding this last issue, in particular, it was argued that privatizations did little to make the management of French large-sized enterprises more transparent or to make it easier to transfer their control through market channels.

This paper analyzes how privatizations since 1993 have intertwined with changes in both the mechanisms of corporate governance and the market for corporate control in France. Three questions lead the analysis: what have been the main motives for selling SOEs? What assessment, albeit only preliminary, can be made of the privatizations completed so far? What factors, other than privatizations, are driving changes in French corporate governance? Section 1 sketches the channels through which privatization policies may have an impact on

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the system of corporate governance. Section 2 examines the main features of the French SOE system – the prevailing organizational and governance structures, its role in the French economy and some key performance indicators. Section 3 presents a short overview of the 1986-88 privatization program, the criticisms to which it has been subject, and the strategy followed by the 1988-93 socialist administration. Section 4 briefly describes privatizations since 1993. In Sections 5 and 6, the focus of the analysis shifts on recent development in the governance methods in the French corporate sector and on the role that privatizations may have had in spurring such changes. Finally, Section 7 suggests some preliminary conclusions based on a comparison with other countries.

1. Corporate governance, state-owned enterprises and privatizations

Advances in the theory of corporate finance and industrial organization, as well as the ongoing debate over the "first-best" capitalist model, have made the analysis of corporate governance – the mechanisms whereby economic systems (in their broadest possible sense) cope with the information and incentive problems inherent in financing investments and facilitate the intertemporal transfer of income claims – a burgeoning theme in comparative institutional economics. Key elements of this literature are the sources of financial resources for corporations, the concentration of ownership, the relevance of listing, the role and composition of boards of directors, the rules governing the market for corporate control and the obstacles that they may pose to corporate control activity, the relative importance of the voice and exit mechanisms (boardroom pressures and take-overs, or internal and external control, respectively) in disciplining managers.

The efficiency of SOEs, it is usually argued, is likely to be lower *ceteris paribus* than in the private sector, since corporate goals often deviate from profit-maximization. Inefficient SOEs do not face the risk of bankruptcy, and the market for corporate control, because of the state's tight grip through majority stakes, cannot act as an adequate device for disciplining managers. In theory, this concentration of ownership in the hands of a single majority investor could have served to circumvent the collective action problem that impedes small, dispersed shareholders in Anglo-Saxon public companies to wield efficient monitoring on corporate managers. This relative advantage of public ownership, however, has often been offset by agency problems stemming from the multiplicity of ties linking the government, ministries with specific competences, Parliament, political parties, and the management of SOEs, all with different goals, possibly at cross-purpose. Moreover, SOEs' managers are often appointed for political reasons, rather than for their corporate skills.

Links between privatization and corporate governance are of two main kinds: selling SOEs exposes them to the take-over and bankruptcy threats, thereby easing the corporate governance problems proper of public ownership, and it provides an opportunity to modify the distribution of ownership rights among different classes of investors by extending public listing among large firms, increasing the number of small shareholders, and reducing ownership concentration. But while creating "people's capitalism" has always ranked high among governments' goals, tackling the issues that remain after ownership is transferred from public to private hands and when no (absolute) majority shareowner emerges has seldom been an overriding concern. Potential improvements in technical efficiency following control transfer may be jeopardized if corporate control is not contestable: in this case, and especially if conduct regulation proves insufficient to open up protected markets, managers can exploit rents accruing from market position without having to worry about the threat of take-overs. Privatization policies should take such elements into account, making imperative to introduce reforms and redress perceived inefficiencies.[1]

Most experiences, however, suggest the limited power of privatization in changing the modes of governance which are prevalent in each country's large private companies. In the UK, a country whose privatization policies are often referred to as a benchmark, "control [of privatized companies] is not exerted in the forms of threats of take-over or bankruptcy; nor has it for the most part come from direct investor intervention" (Bishop *et al.* 1994, p. 11). After

[1] This paper focuses on corporate governance to the possible neglect of competition issues. The empirical literature suggests that the prospective allocative gains from ownership transfers may fail to materialize when privatized companies are not subject to competitive pressures on product markets. Analyses of privatizations, specifically in the case of the UK, have covered at great length this topic, and some observers have indeed argued that the attention paid by French authorities to competition issues is insufficient (*The Economist*, July 15, 1995, p. 14).

the steep rise experienced in the immediate aftermath of privatizations, the slow, but constant, decline in the number of small shareholders also highlights the difficulties in sustaining people's capitalism in the longer run. The set of reforms introduced in Italy together with the 1993-95 privatizations, while hardly effective, constitutes a rare example of a legislative effort aimed at providing non-controlling shareholders, *i.e.* both individual and collective investors, with more adequate safeguards and at introducing the necessary conditions to allow them to monitor managers (Goldstein and Nicoletti 1995). But successive governments were unsuccessful in broadening the number of large private business groups, whereas enhancing the mobility of control to investors outside of the traditional core of Italy's capitalism was explicitly included among the authorities' strategic goals. On the other hand, experiences such as those of the UK and Chile underscore that mass sell-offs require the development of new institutional investors, such as pension funds, that may later play an active role in corporate governance.

2. The French public enterprise sector

Size and scope

The French SOEs sector is among the largest in the EU. In 1988, France was ranked fourth in terms of SOEs' employment as a share of total employment and third in terms of SOEs' contribution to both value added and gross fixed capital formation. At end-1992, 2,750 SOEs were employing 1,737,000 people in France, with a towering presence in energy and telecommunications, and relevant employment shares in transport, banking (in both cases, around a third of each sector's employment), insurance (21%) and manufacturing (10%) (Chabanas and Vergeau 1993b). In 1993, the three largest French groups, ranked by turnover, were public, as were four of the top 10 and fifteen of the top 50.[2] As a term of comparison, in Italy the state owned twelve out of the top 20 non-financial enterprises in 1991.

[2] See *Le Nouvel Economiste* (1994), "Le 5000", 37th edition.

Organization and control structure

French SOEs are organized in different forms:

– most public utilities (*e.g.* Gaz de France and Electricité de France) and other enterprises exploiting *de facto* monopolies (*e.g.* ERAP – controlling Elf Aquitaine –, SNCF and RATP) are corporations with public establishment statute (*entreprises publiques à statut d'établissement public*) and therefore subject to budgetary control;

– the Caisse des dépôts et consignations, the largest French institutional investor, is a public establishment (*établissement public*) subject to parliamentary control; its general manager is appointed by the President of the Republic for an indefinite period and its employees are public servants;

– since 1991, France Télécom and La Poste have been *exploitants publics*, public-law corporations depending from the Industry Ministry[3] and now exempt from the rules of budgetary control; their permanent employees are civil servants included in the *fonction publique*, therefore covered by life-employment guarantees;

– finally, SOEs operating on (mostly competitive) final product markets are normal joint-stock companies,[4] in which private investors sometime hold minority stakes.[5]

Efficiency

Direct public intervention in the realm of production is usually justified on the ground of market failures of two kinds. On the one hand, the existence of scale economies may make public ownership of a natural monopoly preferable to public regulation of a private enterprise, in order to reduce information asymmetries in regulation. On the other hand, imperfect capital markets risk to select against the financing of risky investments in innovative projects, which have the

[3] Following the 1991 reform, the Ministry for Post and Telecommunications was abolished, being replaced by a newly-created direction (*Direction générale des postes et télécommunications*) of the Industry Ministry.

[4] Although Air France had become a joint-stock company with workers' participation (*société anonyme à participation ouvrière*) when it merged with UTA in 1992, it returned to the status of joint-stock company two years later.

[5] For example, five subsidiaries of Usinor were already listed at the time of its privatization, with the steel-maker's ownership stake in each ranging from 28 to 68%.

potential of improving a country's competitiveness both directly and through spill-overs and other positive externalities.

Estrin and Pérotin (1991) have suggested that certain institutional arrangements may have solved, at least partly, the principal-agent problems in French SOEs. First, political uncertainty may have given the French public administration – and, by extension, SOEs – more freedom to pursue long-term goals in the public interest, presenting public managers with stable and well-defined corporate objectives.[6] Corporatization was first proposed in France by the 1969 Nora Report, which established the *contrats de programmes* to allow SOEs greater autonomy. Second, the common *grands corps* background of the French *élite*, by inducing agents (the managers) to provide the principal (the Minister) with inside information and expert 'second opinions' on SOEs' performance, may have acted as a non-market alternative to internalize agency relations by means of mergers and vertical integration. Third, in France the existence of a common managerial market in the private and public sector makes it rational for SOEs' managers to maximize profits, and not to please politicians. All these factors should have made SOEs as efficient as their private sector homologues.

Four broad sets of indicators (productive efficiency, costs and prices, financial results, and dynamic efficiency) seem appropriate to assess the performance of SOEs, although they may be differently apt for comparative purposes. First, despite considerable methodological problems,[7] a large body of literature devoted to comparing the *productive efficiency* of private and public enterprises across different sectors and countries suggests that, for a given competitive and regulatory setting, there is no clear-cut performance differential (*e.g.* Pestieau and Tulkens 1993). Evidence reported by Estrin and Pérotin (1991) shows that in France nationalization was associated with performance improvements, whereas privatization did not bring about any significant change in either direction.

[6] This hypothesis, however, does not receive strong support from economic theory, which suggests on the contrary that, lacking monitoring by a devoted principal, managers would fail to minimize shareholders' interests preferring instead to maximize their own perks.

[7] These include "problems of measuring key variables (like allocative efficiency), the relative scarcity of cases where like-with-like comparisons can be made between public and private firms, the limited time that has elapsed since many major privatizations, and difficulties in distinguishing between the effects on efficiency of changes in ownership, competition and regulatory policies" (Vickers and Yarrow 1991, p. 117).

Focusing on public utilities' *costs and prices*, the French telecommunications sector "does not seem to be any less efficient than in other EU countries in terms of operating costs and quality of service" (OECD 1989a, p. 72). France Télécom operates more phone lines per employees than Deutsche Telekom and, albeit by a small margin, British Telecommunications, although they all trail well behind the average for US "baby Bells".[8] In terms of network digitalization – a key element in enabling the convergence of telecommunication and information technology – France is a pace-setter, with the third highest ratio in the OECD (OECD 1995b, Table 4.5). Comparative statistics presented in Goldstein and Nicoletti (1995, Table 1) also show that phone and electricity average prices are in line with those in the rest of the EU, while SNCF, despite being a chronic loss-maker, is regarded as one of the better performing rail companies OECD-wide (OECD 1995a, p. 95).

Financial results provide a rough indicator of allocative efficiency, although they are less appropriate to draw comparative conclusions as SOEs' objectives differ from pure profit-maximization, to include for example regional and industrial policy.[9] In 1992-94, unprofitable SOEs (excluding those obliged by law to supply a universal service, such as SNCF and La Poste) posted a cumulative loss of FFr 83 bn (around US$ 16 bn), with the largest negative contribution coming from banking, air transport, aeronautics, steel and electronics. Some of these are crisis sectors in other EU countries as well. The problems of Crédit Lyonnais, however, appear to be due to bad corporate governance, and two separate inquiries – by the National Assembly in July 1994 and by the Cour de Comptes in October 1995 – have indeed singled out bad management and the passivity of the state as shareholder as the main causes for the losses run up between 1987 and 1993. Exposure to competition may accelerate a financial turn-around. Thus, if for Air France a sheltered market environment has delayed the adoption of restructuring measures, Usinor-Sacilor, the steel-maker, has achieved a remarkable improvement in its financial performance in the early 1990s, under

[8] *Financial Times*, July 13, 1995.

[9] See, for example, the interview with Gérard Longuet, Minister for industry, *Le Nouvel Economiste*, October 15, 1993, p. 64. The 1992 report of the *Haut conseil du secteur public* warned that the EU Commission, by focusing on market liberalization and deregulation, could hinder the French SOEs' duty to guarantee universal service (Bizaguet 1993, p. 755).

the combined pressures of foreign competitors and of the EC Commission. Debt in French SOEs is also very high, at 1.6 times own capital at end-1994.[10] While excluded from the Maastricht criteria, the debt of SOEs stood at FFr 620 bn at end-1994, i.e. slightly less than 20% of the stock of public debt.

Consistent with the second above-mentioned rationale, another indication of how effective SOEs are in fulfilling the objectives for which they exist is by looking at their internationalization and R&D intensity, taken as proxies of *dynamic efficiency*. France's ability to change its pattern of industrial specialization has traditionally been a cause of concern for national authorities, with public support and direct intervention often being the answer (OECD 1989a). Many public enterprises operate in high-technology sectors; conversely, a large number of French companies which are leaders in their respective markets are state-owned. While it is obviously impossible to say whether a French private firm would have operated more or less efficiently (e.g. by pouring money in more promising innovative projects, or in more dynamic foreign markets), various indicators suggest at a minimum that French SOEs on global oligopolistic markets behave much like their foreign, usually private-sector, competitors. Out of the eleven most globalized French groups (in terms of foreign sales over total sales) in 1993, six were public, and so were six of the twelve largest French transnational corporations ranked by foreign assets (UNCTAD 1994, Table I.2).[11] Data on patents granted by the US Patent Office in 1992 also shows an important SOEs' presence (four out of six French enterprises) and six of the seven largest R&D spenders in France in 1992-93 were SOEs.[12] Nonetheless, public ownership and the higher degree of unionization characteristic of SOEs have limited their flexibility in capital operations, as proved for example by the failure of Renault in swapping an equity stake with Volvo.

[10] For a sample of 225 French firms, the debt-equity ratio was 0.875 in 1991 (Rajan and Zingales 1995, Table II).

[11] UNCTAD data, however, also show that in 1990-92 five such companies recorded a growth of their foreign assets at average or lower-than-average rate (UNCTAD 1994, Table I.3).

[12] *Business Week*, August 9, 1993, pp. 49-54, and *ibidem*, June 27, 1994, pp. 44-49.

3. French privatizations since 1986: facts and criticisms

The privatization plan carried out by the Chirac government was among the largest in the OECD area in the 1980s. A list (law no. 793) was prepared in July 1986, envisaging the sale of 65 SOEs by February 1991. Most of them had been brought into the public sector during the 1945 and 1982 nationalization waves: in a typical example of "tactical" privatizations, the new administration saw the reversal of the policies of the 1981-86 socialist government as an appropriate move to signal the changed political climate and to promote "a distinctive program that differed from the otherwise conservative policies of the socialists" (Feigenbaum and Henig 1994, p. 192).

Reflecting historical motives, different countries have followed different institutional arrangements as far as the definiteness of legislative measures, the centralization of sale decisions and the introduction of supervisory mechanisms are concerned (Goldstein and Nicoletti 1995, Table 2). France adopted in 1986 a detailed framework law (no. 912, issued in August), and an *ad hoc* advisory committee (*Commission de la privatisation*) was instituted to monitor the privatization process. While the electoral defeat of the centre-right in 1988 halted the sale-offs, 31 banks and financial and non-financial enterprises, employing over half a million people, had already been sold, with total receipts amounting to around FFr 70 bn. As such companies operated in competitive sectors untainted by natural monopoly and were showing healthy financial results, there was no need to introduce regulatory changes and/or to undertake lengthy restructuring plans, a factor that considerably speeded the privatization process.

Among the privatized companies, twelve were sold at least partly through public offering on the stock exchange in the 14 months between November 1986 and January 1988. As "people's capitalism" was explicitly included among the goals of the plan, various inducements were used, such as the priority accorded to small shareholders in case of excess demand, the distribution of a free share for every ten bought during privatizations and held for at least 18 months, and substantial discounts for employees. Most offerings were heavily oversubscribed, contributing to increasing the number of French shareholders from 1.7 million in 1982 to 6.2 million in 1987. Employees also participated enthusiastically to sale operations,[13] as did foreign institutional investors, making the Paris Bourse one of the most internationalized (in terms on non-residents' shareholdings) stock exchanges in Continental Europe.

Privatizations proved effective in widening share ownership, but they may not have been the most appropriate vehicle for this goal: after taking into account the discount on private sector sales, Jenkinson and Mayer (1988) estimate that the revenue foregone due to underpricing has been 10% of the amounts raised. As the *Commission de la privatisation* was charged with assuring the maximization of receipts from the disposal of state assets, it was therefore criticized on the ground that political priorities induced it to consistently opt for an offer price at the lower end of the range proposed by independent auditors (Cartelier 1992).

A second class of criticisms concerns the effect that privatizations have had on the configuration of French corporate power. As discussed below, large economic groups mutually associated through a complex web of equity cross-participations represent the core of French business. In order to assure stable control in privatized enterprises, at least for the first few years, the government sold controlling stakes to a "hard core" (*noyau dur*) of shareholders, which bought between 18.2 and 30% of the firms' capital, with each member owning 0.5 to 5%. The core's members were picked through a private placement (*vente de gré à gré*) at fixed price, slightly above the price for public offers.[14] This sale method has been criticized on various grounds:

– while shielding companies from the take-over threat was supposed to allow them to pursue long-term goals, no strategic logic was followed in forming the *noyaux durs*, as their members, each owning only a limited amount of shares, were often driven by purely financial motives;[15]

[13] In all cases, at least half of the employees took part to the ownership plan, all offerings being oversubscribed (Pensier 1994, p. 6). All data on the number and characteristics of small shareholders are taken by a SOFRES survey for the Banque de France.

[14] The amount of the control premium rose from 2.5% in Paribas (February 1987) to 10% in Matra (February 1988), though the privatization Commission supported only reluctantly the government's decision to impose an overpricing for *vente de gré à gré* (CLES 1993). An alternative would have been to resort to a tender offer among investors interested in becoming members of *noyaux durs*.

[15] A 1988 law made it possible for members of *noyaux durs*, tied by clauses limiting their ability to sell their shares, to freely dispose of them.

– the price paid scarcely reflected the control premium;

– the process lacked transparency, as the Minister for the economy appointed the members of the Commission and retained considerable discretionary power over the final choice; and, finally,

– small investors were given insufficient safeguards against managers and controlling shareholders.

Following the return of the socialists to power in 1988, all the remaining privatizations from the Chirac's list were halted. According to the *ni-ni* strategy of the socialist administration, no new nationalizations were to be made either, leaving unchanged the size and the scope of the public sector. However, while the French system requires a thorough legal framework to dispose of the State's direct shareholdings (*entreprises de premier rang*), it still leaves individual enterprises a considerable leeway for buying and selling operating subsidiaries.

Between 1988 and 1991, the so-called *respiration du secteur public* affected no less than 1,600 firms, two thirds of them entering the public sector and a third exiting from it. This led to an overall increase of the number of SOEs from 2,000 to 2,600 and of their employment from 1,355,000 to 1,763,000 (Chabanas and Vergeau 1993a). The most important development concerned the legal status of France Télécom and La Poste, previously directly managed by the Ministry for post and telecommunication, which became public corporations in 1991.[16] Similarly affected were the industrial plants of the Defence Ministry, which were transferred in 1990 to a new joint-stock company, GIAT. In 1989, public insurance companies were allowed to issue to private investors non-voting shares equal to up to a quarter of their capital. In 1990, Renault – whose FFr 12 bn of debt *vis-à-vis* the state had been forgiven the previous year, in exchange for a restructuring plan which brought to the closure of the Billancourt plant – swapped a sizeable equity participation with Volvo. Through the issue of non-voting stock, in the form of *certificats d'investissement*, a few SOEs opened up their capital to private investors, Elf Aquitaine and Rhône-Poulenc being also listed on the New York Stock Exchange. In the opposite direction, Air France took over UTA, its main private sector competitor, and Framatome, a firm with a leading position in the nuclear energy business, returned to the public sphere, although Alcatel retains a large minority participation.

[16] These two enterprises employed 450,000 people in 1991, and their inclusion in the SOE system therefore fully accounts for the rise in the number of employees.

4. Privatizations since 1993

Legal framework

In May 1993, the Balladur government announced the list of SOEs to be sold (Table 1).[17,18] The government explicitly limited the scope of state retrenchment to competitive sectors, although no legal reference defines what constitutes this subsector of the SOE universe (Durupty 1993). Beside public utilities and the Caisse des dépôts, the largest non-financial enterprises excluded from the list operate in defence-related businesses (CEA-Industrie, Dassault and GIAT). Contrary to what had been the case in 1986, no time limit was set for the sale of the 21 candidates, twelve of which had already been targeted for sale in 1986.

The privatization law (no. 923) of July 1993 embodied the main elements of the 1986 one, but it also changed some of its provisions and included new ones. While the 1986 sell-offs were legally limited to SOEs appearing in the list, the new law has extended the range of SOEs that could be sold, to include state-owned financial holdings that own other SOEs indicated in the law. It has also allowed to privatize SOEs through the sale of equity stakes at successive steps (whereas only complete privatizations were envisaged in 1986), and has made it possible for investors to pay their shares in various installments (with a maximum delay of 3 years). In order to make the selection of hard cores' members more transparent, the law has given more powers to the *Commission de la privatisation*, whose agreement, on the other hand, is no longer required for minor sell-offs. The law and subsequent decrees have also modified a number of statutory provisions that could stand in the way of privatizing, partly or completely, Renault (employees' board representation and foreign equity stakes), Elf Aquitaine (state's indirect participation through ERAP and public monopoly on the transportation of natural gas) and SEITA (legal monopoly on tobacco and matches and collaboration between the enterprise and growers).

[17] Privatizations were not a major issue during the 1993 campaign. The centre-right explicitly included them in its electoral platform, and established a link between the sale of SOEs and the improvement of the government budget; the then-ruling socialist party, while not using the word "privatization", more vaguely referred to the "continuing opening up of SOEs' capital [to private investors] to the service of industrial strategies", earmarking proceeds towards the capitalization of the public pension system. See *Le Monde*, March 2, 1993.

[18] Beside the list of 21 SOEs, the government published a first timetable in July 1993, which included BNP, Rhône-Poulenc, Elf Aquitaine and Banque Hervet. In August it was decided to start with BNP. Banque Hervet was in effect dropped from the timetable.

Table 1

THE 1993 PRIVATIZATION LIST

Company	Sector	Ranking[a]	State participation %	Date of nationalization
Aérospatiale	Aeronautics	30	74	1936
AGF	Insurance	4	65	1946
Air France	Airline	26	99	1945
Banque Hervet	Banking	90	55	1982
BNP	Banking	3	73	1945
Bull	Electronics	46	72	1982
Caisse Centrale Réassurance	Insurance	36	100	1946
CNP	Insurance	6	42	1868
Compagnie Gén. Maritime	Transport	..	100	1933
Crédit Lyonnais	Banking	1	52	1945
Elf Aquitaine	Oil	1	51	1941
GAN	Insurance	5	79	1946
Pechiney	Alluminium	22	55	1982
Renault	Vehicles	2	80	1945
Rhône-Poulenc	Chemicals	15	43	1982
SEITA	Tobacco	82	100	1959
Société Marseillaise du Crédit	Banking	46	100	1982
SNECMA	Aeronautics	56	97	1945
Thompson	Electronics	18	82	1982
UAP	Insurance	1	53	1946
Usinor-Sacilor	Steel	13	80	1981

[a] For each company, the ranking is defined in terms of turn-over (non-financial enterprises), assets (banks), or premia (insurance companies).
.. = not available.
Sources: Le Monde, May 28, 1993 and *Le Nouvel Economiste* (1993), "Le classement annuel des entreprises par secteurs d'activités", 36th edition.

The limits on foreign equity participation have been substantially relaxed,[19] while stricter conditions have been introduced as concerns the use of the *action spécifique*. The old law only imposed

[19] The 1986 law prohibited foreign participations in excess of 20%. Incentives for small shareholders were also limited to French nationals. This was in clear disagreement with both articles 7 and 221 of the Treaty of Rome, respectively requiring national treatment for all EU citizens and, more in particular, for all EU investors. According to the new law, the 20% limit applies only to non-EU investors – the ceiling being calculated relative to the sole share of capital sold by the state during privatization – and it can be surpassed when the participation is acquired within a commercial, industrial or financial co-operation agreement between a French company and a foreign counterpart. Finally, non-French EU citizens can also benefit from financial incentives.

investors willing to increase their shareholding in a privatized company to seek the permission of the Minister for the economy, and it put a 5-year limit on the exercise of such special powers. According to the new text, the shareholding ceiling is fixed on a case-by-case basis, the "golden share" has an indefinite lifespan (but in each company, once abolished, it cannot be reintroduced), it can also be issued in subsidiaries of public enterprises, and it gives the state the right to appoint some non-voting directors. According to the 1993 law, an article can be included in the companies' statutes giving the state the right to veto the sale of certain assets, when this is deemed to jeopardize vaguely-defined "national interests". The Minister for the economy also retains the right to veto any foreign participation of more than 5% in privatized companies operating in the domain of public order and health, and in the production and/or trading of weapons and other war materials.

Restructuring measures

The 1993 list included both profitable, ready-to-sell companies and loss-making ones. For the latter, governments all over the world have had to decide whether to carry out complex restructuring plans, or to immediately transfer control to the private investors and let the market "do the job". While it is conventionally posited that private businesses are better suited to turn ailing enterprises into financially-viable concerns, most countries, such as the UK and Chile in the 1980s and Italy in the more recent past, have adopted a pragmatic approach, improving the situation of shaky SOEs through the spinning off, liquidation and closure of parts of businesses, management changes, labour-shedding and consolidation of the balance sheet. Within the EU, the use of state aid has been very cautious, as the European Commission has increasingly conditioned its approval upon the fulfilment of rigorous restructuring goals.[20] Following article 90 of the Treaty of Rome, dealing with state aid, a SOE may receive only one unabashed subsidy for restructuring, although such a subsidy is considered different from other legitimate capital increases that a "reasonable" private investor would make.

[20] However, in a July 1995 decision on Greek government aid to a state-owned cement company, the European Court of First Instance overturned the Commission's approval, saying that insufficient attention had been paid to the aid's effect on competition and trade between member countries.

Table 2 provides a summary of restructuring measures carried out since 1993:

– in most SOEs managers appointed by the previous government have been replaced: regardless of performance, it was felt that only new managers could show the required enthusiasm towards privatization;

– some SOEs have reduced their employment levels and refocused on core activities. Elf Aquitaine has disposed of stakes in Pinault-Printemps and Compagnie Générale des Eaux, Air France has sold the Meridien hotel chain and participations in the Belgian and Czech airlines, and Pechiney has reduced its stake in Carbone Lorraine and sold other non-strategic participations;

– sizeable financial aid has been provided, either directly or indirectly, to ailing SOEs. A bond issue taken up by the Caisse des dépôts in 1993 raised the money for a FFr 1.5 bn capital increase for Air France, which also received direct state aid in 1994 (FFr 10 bn) and 1995 (FFr 5 bn).[21] In 1993, France Télécom bought 17% of Bull, which also received a FFr 11 bn capital injection, whose approval by the European Commission was made conditional upon the state reducing its stake to a minority by end-1995. In 1994, the government provided a FFr 18.4 bn guarantee to OIG, a special vehicle hived off to contain part of Crédit Lyonnais' doubtful portfolio, and agreed in March 1995 a new rescue package.[22] Also in 1994, Aérospatiale received FFr 2 bn in new government money, which it used to cut its debt. Finally, the government recapitalized GAN – giving it FFr 2.8 bn-worth of state-owned shares in Elf Aquitaine and CIC, a retail bank – and Comptoir des Entrepreneurs, a property finance group controlled by AGF.

[21] In 1996, SAS, the Scandinavian airline, has filled a complain with the Brussels' Commission, arguing that Air France was using state aid in a fare war in breach of rescue conditions.

[22] OIG was established so that troubled assets did not drag the bank's solvency beneath the 8% minimum stipulated in the internationally-agreed Cooke ratio. Under the terms of the 1995 agreement, these and other assets will be held in a new corporate vehicle (CDR), financed through a FFr 135 bn loan from SPBI, an intermediary company controlled by the state; Crédit Lyonnais, in turn, will finance SPBI through a FFr 145 bn loan. CDR will be managed directly by Crédit Lyonnais, but with close state's supervision. In exchange for the restructuring, the bank is obliged to meet a series of tight financial targets, as well as to significantly reduce its activities, notably by selling off much of its banking network outside of France and divesting of its stakes in non-financial enterprises, with a sell-off target of FFr 100 bn.

TABLE 2

RESTRUCTURING MEASURES IN FRENCH SOES

Enterprise	Financial results (FFr billion)			State aid since 1993 (FFr billion)	CEO's appointment	Employment change (1992-94, %)
	1992	1993	1994			
Aérospatiale	-2.4	-1.4	-0.5	2.0	1992	-14
AGF	1.5	1.0	0.9		Jan. 1994	+19
Air France	-3.3	-8.5	-3.5	8.2	Oct. 1993	+16
Banque Hervet	-0.2	-1.2	0.1	1.4	1989	:
BNP	2.2	1.0	1.7 P		May 1993	-3
Bull	-4.7	-5.1	-2.0	7.0	Oct. 1993	-14
Caisse Cent. Réassurance	0.2	0.3	0.3		1989	+1
CNP	1.1	1.3	1.4		1992	:
Comp. Gén. Maritime	-0.7	:	-1.0		1992	-23
Crédit Lyonnais	-1.8	-6.9	-12.1		Nov. 1993	-11
Elf Aquitaine	6.2	1.1	-5.4 P		Oct. 1993	+2
GAN	0.4	0.4	-5.3		Jul. 1994	-72
Pechiney	0.2	-1.0	-3.8		1994	-5
Renault	5.7	1.1	3.6		1992	-6
Rhône-Poulenc	2.2	1.8	3.0 P		1986	-2
SEITA	0.4	0.6	0.7 P		1993	-3
Soc. Marseillaise du Crédit	-0.5	-0.3	-1.2		1992	:
SNECMA	-0.8	-0.8	-2.2	0.8	1992	-11
Thompson	-0.5	-3.0	-2.2		1982	-2
UAP	1.1	1.4	1.6 P		Nov. 1993	+24
Usinor-Sacilor	-2.4	-5.7	1.5 P	0.7	Sep. 1986	-31
Electricité de France	1.9	2.1	1.3		Nov. 1995	-1
France Télécom	3.3	4.8	9.9		Sep. 1995	-2
Gaz de France	1.6	1.1	1.4		Oct. 1993/Jan. 1996	-1
La Poste	0.1	-1.2	0.2		:	-1
SNCF	-0.3	-7.7	8.4	1.8	1994/Dec. 1995	+9

P = privatized
: = not available
Sources: Ministère de l'Economie, Direction du Tresor; "Le classement annuel des entreprises par secteurs d'activités"; *Le Nouvel Economiste* (various years), Dictionnaire Lafayette (1995); *Who's Who in France*, 26th edition.

Outcomes

In order to appease small investors, the 1993 law made possible the deferred payment of shares, a provision used in a limited number of cases. The *emprunt Balladur* has proved the main financial incentive so far. Such four-year bonds – issued in mid-1993 with the same favorable tax treatment of PEAs (equity savings plans) and an attractive yield in line with the return on SICAV (tax-free money-market investment funds) – raised FFr 110 bn, and gave its holders (1.4 m) the option to convert paper into SOEs' shares. The fall of interest rates has also contributed to entice small investors. As concerns institutional investors, new techniques – such as book-building and greenshoe[23] – have been introduced since 1993.

Since late 1993, nine SOEs have been fully or partially privatized through the stock market, yielding more than FFr 120 bn (Table 3).[24] All offerings have been oversubscribed, although by widely different margins; the underpricing has also varied significantly, generally remaining well below the levels reached in 1986-88. In most cases the state's assets share has been reduced to zero; sizeable holdings remain in SEITA and Elf Aquitaine, while difficulties in finding strategic partners have slowed the sale of further stakes in Renault. Contrary to other OECD countries such as Italy and Mexico, receipts from divestiture have been used to polish fiscal outcomes; but as the methodology adopted for testing EU countries' convergence towards Maastricht criteria forbids such practice, since 1995 privatization receipts have been earmarked for debt repurchase.

Privatization came to a temporary halt in the few months before the April 1995 presidential elections.[25] The overall uncertainty over

[23] The greenshoe technique allows to smooth price movements after a public offering has been closed: the leader of a placement consortium can increase the amount of shares offered by a fixed percentage (usually up to a maximum of 15%) and within a fixed term (usually 30 days). As concerns small investors, the pre-marketing technique was utilized: in the period before the price is made public, this allows to assess demand in terms of the maximum amount of money that investors are willing to invest (rather than in terms of number of shares).

[24] In early 1996 the government also sold off most of its remaining stake in Total, the oil company, resorting for the first time in France to a "bought deal" involving a bank buying shares using its capital and then selling them to investors at a profit.

[25] A group of international partners (including NEC, Motorola, Dai Nippon Printing and IPC of Singapore) agreed in April to participate in a partial privatization of Bull.

TABLE 3

PRIVATIZATIONS IN 1993-96

Company	Date	Net receipts (FFr billion)	Times subscribed	*Underprice* %	Market return (%)	Type of shareholders			
						Government	Households/ employees	Professional investors	*Noyau dur*
BNP	Oct. 1993	27,280	5.2	18.3	-19.9	2	53	15	29
Rhône-Poulenc	Nov. 1993	16,502	4.5	11.8	-1.3	2	63	11	24
Elf Aquitaine	Feb. 1994	33,734	3.0	8.8	-5.8	13	46	31	10
UAP	May 1994	17,971	2.5	3.2	-32.0	3	44	15	38
Renault	Nov. 1994	7,901	1.4	12.1	-22.1	53	31	11	5
SEITA	Feb. 1995	5,567	..	3.0	71.3	13	39	23	25
Usinor-Sacilor	Jul. 1995	10,022	2.1	2.5	-11.7	10	24	49	17
Pechiney	Dec. 1995	4,300	1.3	-10.0	16.0	9	48	29	14
AGF	May 1996	8,500	4.5	11.0	8.8	0	27	48	25

"Professional investors" include banks, institutional investors and financial holdings. In the case of Renault, the figure for "Households and employees" also includes "Institutional investors", whereas "Professional investors" includes shares held by Volvo. *Noyau dur* refers to all stakes hold by core investors, not only to those bought from the state during privatization (which are separately reported in Table 7). For Pechiney and AGF, investors classified in the *noyau dur* are core shareholders which are not tied by any formal agreement. The sale of 6% of Renault in July 1996 to twelve financial investors (see Table 7) is not included.
Underprice calculated as the difference between the sale price and either the last price before the sale price's announcement or the first price after privatization; market return calculated as the difference between the sale price and the price on June 23, 1996 (net of distribution of free shares for long-term investors).
.. = not available.
Sources: Assemblée Nationale (1995), *Rapport fait au nom de la Commission des finances, de l'économie générale et du plan sur le projet de loi de finance pour 1996. Annexe no. 44*; OECD (1995), *Economic Survey of France*; Datastream.

the result was reinforced by declarations of the socialist candidate hinting at an immediate stop of the program. The new administration revised downwards its estimate for 1995 revenues from privatizations (from FFr 50 bn to 40 bn), as difficulties in selling loss-making insurance companies and manufacturing enterprises combined with depressed financial market conditions and strong competition from other privatizing countries. The program was resumed at mid-year with the sale of Usinor-Sacilor. Three public groups – Pechiney, Renault and CGM – were slated for privatization by end-1995, the latter two being the first loss-makers to be sold.[26] In the event, only the first one was painfully privatized and the revised target for 1995 was undershot.

Future corporate plans at many industrial SOEs are rather precarious. Long delayed by national security motives, the privatization of Thompson, a company with a strong arms and weapons division, was finally announced in February 1996.[27] In the same month, a plan was unveiled to create a civil and military aeronautic pole centred on the merger between Aérospatiale and Dassault "within two years". Despite the resistance of private shareholders of Dassault – a profitable company in which the state has 46% of capital and 51% of voting rights – and a parliamentary report in June 1996 suggesting to create a common holding, rather than to merge the two companies into a single entity, the government carried through its plan. Regarding Renault, difficulties in finding a strategic partner have combined with the fall of the market value below the privatization price. Following the decision to sell a further 6% stake through a private placement with financial investors, government's holdings will fall below 50% while the *groupe d'actionnaires stables* will be strengthened. The plight of Framatome is similar: prospects on its major market, nuclear plants, are affected by the EU-wide plans for energy liberalization, but the firm cannot diversify without government's approval. Finally, the change of France Télécom's status to a joint stock company, first proposed in 1995, aroused strong resistance among staff, fearful of losing their civil servant standing and the attached employment

[26] Pechiney reported net profits of FFr 658 m for the first half of 1995, a loss the previous year.

[27] Only minority stakes in SGS-Thompson, the chip-making company jointly owned with a subsidiary of the Italian public group IRI, have been floated so far.

guarantee. According to the 1996 telecommunications law, the government will retain a 51% stake in the company's capital, existing employees will keep their status, and France Télécom will be able to extend the attached employment guarantees to new employees until 2001.

5. Some general features of corporate governance in France

Analyzing the corporate governance consequences of privatizations requires an understanding of some basic features of the ownership, financial and monitoring structure in French large firms. Table 4 shows the ownership structure of common stock in the six largest industrialized countries. In France and Italy, the relative underdevelopment of stock markets makes it necessary to present two different sets of data, one covering all joint-stock companies (*sociétés anonymes* and *società per azioni*, respectively) and one solely for listed companies. France is, after Italy, the country where the ownership share of financial institutions is lowest. The weight of non-financial enterprises is considerable, although estimates confined to listed companies show it to be smaller than in Japan, Germany and Italy. Gauging the extent of "people's capitalism" is more difficult, as households may hold shares either directly or indirectly through investment and pension funds and life insurance companies. While the Bourse experienced a strong growth in the first half of the 1980s, the 1987 crash led to a fall in the number of shareholders to a low of 4.5 million in 1992:[28] the strong franc policy and the rise of interest rates compounded to disincentive equity investment, whose share in households' portfolio fell from 22.6 in 1986 to 12.2% in 1992. As in other OECD countries, indirect shareholdings through institutional investors correspondingly rose, although the size of their assets remains reduced, as the pension system is based on a public pay-as-you-go scheme, while life-insurance contracts are tied to fixed-income investments. Moreover, French mutual funds invest in equities a far lower share of their assets than their counterpart elsewhere in the OECD area (OECD 1995c, p. 13). Finally, the weight of public

[28] Small investors hold a scarcely-diversified portfolio: in 1993, a quarter of them owned shares in only one company.

authorities is sizeable, although this last figure is underestimated by the inclusion of *grandes entreprises nationales* in the same class as (private) non-financial enterprises.

TABLE 4

OWNERSHIP OF COMMON STOCK IN SELECTED OECD COUNTRIES

	France		United States	Japan	Germany	Italy		United Kingdom
	Total	Listed				Total	Listed	
Financial institutions	7.9	23.0	44.5	48.0	29.0	7.8	4.0	61.8
Banks	4.0	–	0.1	18.9	14.3	4.4	2.8	0.6
Insurance	1.9	–	6.0	19.6	7.1	3.4	0.8	17.3
Other	2.0	–	38.4	9.5	7.7	–	0.4	43.9
Non-financial institutions	92.1	77.0	55.5	52.0	71.0	92.2	90.6	38.2
Non-financial enterprises	58.0	21.0	–	24.9	38.8	24.5	27.3	3.1
Households	19.4	34.0	51.4	22.4	16.6	50.5	36.6	17.7
Government	3.4	2.0	–	0.7	3.4	8.0	26.8	1.3
Foreigners	11.2	20.0	4.2	4.0	12.2	9.2	5.3	16.3

Sources: for France: total (1994), INSEE, *Comptes nationaux*; listed (1992), CREP, Université de Paris-Dauphine; for USA (1994); Board of Governors of the Federal Reserve System, *Flow of Funds Accounts*; for Japan (1992): Japan Securities Research Institute (1992), *Securities Market in Japan*; for Germany (1993): Deutsche Bundesbank (1994), "Entwicklung und Bedeutung der Geldanlage in Investmentzertifikaten", *Monatsbericht*, Bd. 46, Nr. 10; for Italy: total (1994), Banca d'Italia (1996), *Assemblea generale ordinaria dei partecipanti, Appendice*; listed (1993), Barca, F. *et al.* (1994), *Gruppo, proprietà e controllo nelle imprese italiane medio-grandi*, il Mulino, Bologna; for UK (1993): Central Statistical Office, *Share Register Survey Report*.

This ownership structure partly reflects national laws, rules and regulations (Table 5).[29] Compared to Germany, a useful term of reference, French banks face higher legal obstacles to acquire equity stakes in non-financial enterprises and to monitor their managers. Moreover, the failure of Crédit Lyonnais in becoming a sort of French version of German *Hausbanken* – owning manufacturing enterprises in a variety of sectors and being involved in their management – may have further discouraged banks from being directly

[29] Table 5 follows from Table 1 in Prowse (1994), on which comparisons made between France and other countries are therefore based.

involved as controlling shareholders in non-financial activities, while raising the attention of banking regulators. The rules applying to traditional institutional investors are in line with international norms, but insurance companies have seen their balance sheet position severely shattered in the early 1990s by over-exposure to property investment. The rules protecting minority shareholders appear to be relatively milder than in other EU countries. Auto-control – i.e. a company being its own shareholder by owning its own shares through its subsidiaries – was outlawed only in 1990, but shares with multiple-voting rights can still be issued, an important mechanism to prevent unfriendly take-overs. Legislation concerning insider trading was passed in 1989, but this is not a penal offence and only a limited number of fines have been imposed so far. On the other hand, the ownership threshold at which investors are required to inform the regulatory authority of their equity stake in a company is lower than in Germany, making markets more transparent. Finally, legal and regulatory constraints on non-financial firms' access to non-bank finance appear looser in France than in Germany and Japan.

As regards monitoring, French companies can choose either the traditional board of directors or a two-tier board structure similar to Germany's, with a supervisory board presided over by a chairman on top of a management board headed by a chief executive. Less than 2% of companies have adopted the latter model, and workers' involvement in management (co-determination) remains far lower than in Germany. The power of the chairman-chief executive officer (PDG) is thus larger than in other major OECD countries, where the two posts tend to be filled by different individuals (OECD 1995d). The right given to the PDG to be a company's sole legal representative – while in Germany, for example, it is the supervisory board that has such responsibility – was introduced in French law during the Vichy regime in the 1940s. As Charkham (1994, p. 120) notes, "the principle that power should be concentrated at the centre and that it should be strong seems to be pivotal in French assumptions about the organization of society and is reflected both in the [C]onstitution, in the authority of the President, and in corporate governance, in the authority of the PDG".[30]

[30] This argument specularly mirrors Roe's observation that a reason for the failure of US financial intermediaries in the 19th century to develop into strong institutions was that the central government was considered too weak to provide effective counter-power (Roe 1996, p. 645).

TABLE 5

CONSTRAINTS ON INSTITUTIONAL SHAREHOLDINGS

Institutions	
Banks	Can own up to 10% of non-financial enterprises, if such a stake does not allow to exercise a "notable influence". Each participation must not exceed 15% of own capital, with total participation not exceeding 60% of own capital. The total annual turnover from non-banking activities must not exceed 10% of net banking revenue.
Insurance companies	Can hold up to 65% of total assets in equities; can invest up to 10% of total assets in securities of a single company (but this top limit can be increased with approval of the regulatory authority); can own up to 5% of a company.
Mutual funds	Can own up to 10% of each type of financial instruments issued by the same company; cannot place more than 5% of their assets in financial instruments issued by the same company.
General	Auto-control (i.e., a company indirectly being its own shareholder by owning its own shares through its subsidiaries) has been outlawed in 1990. Companies can grant double-voting rights to fully paid shareholders of record for the prior 2-to-4 years. Vote by mail is admitted, while proxy voting is not.
Take-over rules	Regulatory notification required for ownership in listed companies (at 5, 10 and 20%); for stakes higher than 20%, the purchaser must state his intentions; an investor owning more than a third of shares, acting alone or in concert, must offer for all of them. OPAs' rules are specified by a self-regulatory authority.
Insider trading	A 1989 law increased the COB's powers to investigate and punish insider traders, but convictions have been rare.

Sources: Banque de France; *Guide Juridique Dalloz*; Guyon, Y. (1994), "Les investisseurs institutionnels en droit français" in T. Baums *et al.* eds, *Institutional Investors and Corporate Governance*, Walter de Gruyter, Amsterdam.

6. "Financial poles" and *noyaux durs*

As capital markets remain relatively less developed than, for example, in the UK, it would have been very difficult to conclude all privatizations exclusively through the stock exchange. In order to cope with the dearth of resources needed to undertake big investments, institutions in the "financial heart" (banks, insurance companies and mutual funds) have been grouping around three "poles" with considerable financial leverage and placing power (Morin 1994). As reported in Table 6, their members account for more than half of total banking assets, more than 40% of insurance premia and a third of the assets managed by SICAVs.

TABLE 6

FINANCIAL "POLES" AND THEIR MARKET POWER

	Market share		
	Banking (1994)	Insurance (1994)	Mutual funds (1993)
a. Crédit Lyonnais	15.0	2.5	7.0
AGF	–	11.3	0.8
Paribas	11.1	–	3.4
b. BNP	12.5	2.6	8.5
UAP	–	24.7	0.9
Suez	3.5	–	1.7
c. Société Générale	12.7	2.4	9.3
Total	54.8	43.5	31.6

Sources: Association des Sociétés et Fonds Français d'Investissement; *The Banker*; Fédération Française des Sociétés d'Assurances.

Links between these financial institutions and large enterprises have moulded "relatively autonomous centres of corporate power, that consist of clusters of firms that frequently link financial and industrial capital and are to various degree co-ordinated by ownership and board-director ties" (Svartz 1985, p. 197). Despite banks' presence, such corporate poles are far looser than Japanese *keiretsu*, pivoted around a "main-bank", while they resemble somehow the German structure, where the three *Grossbanken* (Deutsche, Dresdner and Commerzbank) and the two largest insurance companies (Allianz and AMB) are closely knitted together, and also control the biggest mutual funds. French banks, however, cannot gather proxy votes (unless they do so in order to follow the instructions of the board). More importantly, in the French system employees play a far less important role, as testified by the feeble adoption of the two-tier board structure compared to the importance of co-determination in Germany.

This system of cross-participation has recently come under scrutiny for its slowness in reining in PDGs in cases of corporate crisis.

Interlocking boards certainly feed collusion: a manager of company A who is a director in company B will be careful before being critical of B's managers, as one of them is likely to sit in A's board. The common background of directors may also often prevent "boardroom coups" just as it has forestalled hostile take-overs.[31] France is remarkably different from her major trading partners as regards the recruitment and career paths of corporate *élites*. Research comparing France with Germany (Bauer and Bertin-Mourot 1993) and the UK (Thobois 1994) have shown that top managers in the French 200 largest companies tend to:

– have studied in the same universities, with two institutions (Polytechnique and ENA) producing 46% of them – the comparable figure for Oxford and Cambridge is 37%, although the social network of British corporate *élites* is also based on a common background at "public schools";

– have spent, to a far larger extent than elsewhere, at least part of their previous career in government and/or the civil service, with a quarter having passed through the five *grands corps d'Etat*;[32] this holds especially true for SOEs' managers;

– have been appointed directly at the top post (36%), with only a few having climbed the various ladders of managerial responsibility (7%); in Germany, a third was appointed at the top of the same company where he (or, much more rarely, she) started, and more than a further third had entered the managerial rank at the lowest level in some other firm.

On economic grounds, the fact that each company in the French financial heart simultaneously holds many, small equity participations may further limit close inside monitoring. In a seminal contribution, Albert Hirschman (1970) argued that the exercise of "voice" – of which close board supervision by shareholders is a typical example – is usually associated with "loyalty": given the high costs of close monitoring, however, each investor can show its loyalty only to a limited number of firms. In Anglo-Saxon corporations, diversified

[31] While very few acquisitions are hostile (Franks and Mayer 1990), changes of corporate control are frequent, come in successive waves as in the US, and have a positive, albeit feeble, effect on performance (Kremp 1995).

[32] These are Mines, Bridges, *Inspection des Finances, Cour des Comptes* and *Conseil d'Etat.*

investors are usually "disloyal" and they rather "exit", therefore driving prices down and leading to a new allocation of capital and managerial resources; on the other hand, as shown by the German example, loyalty to a firm requires concentrated shareholdings. On this account, France looks like a rather hybrid model of corporate governance; while small equity stakes should in theory make the exit option preferable, market's illiquidity and restrictions on the free disposal of shares make it more expensive to dispose of shares and should thus be an encouragement to express voice.

In choosing to resort to a combination of sales techniques – public offers both on the domestic market and abroad, placements for French "professional" investors, and *gré à gré* (over-the-counter) sales to form *noyaux durs* (renamed *groupes d'actionnaires stables*) – the government reinforced the peculiar features of French capitalism. As French authorities wished to pass on control of SOEs to stable hands,[33] that of *noyaux durs* has therefore been an almost obliged choice. With many privatized companies being also core investors in other former SOEs (Table 7) – in the case of Renault, for example, 3 of the 4 core investors (Elf, BNP and Rhône-Poulenc) had been privatized by the Balladur government –, this strategy has made it easier to find the financial resources needed to sell large-sized companies. But this explanation is not sufficient: as *noyaux durs* represent at most a third of a company's capital and are formed by many investors, the financial commitment is rarely in excess of FFr 1 bn, certainly not an extraordinary amount in the fourth-largest OECD economy. Some observers, in particular Morin (1994 and 1996), have pointed out that the strategy has strengthened the role played by companies belonging to the "financial heart", contributing to the concentration of economic power: cross-holdings, as well as other ties linking more than a couple of firms, allow to increase the power of each pole with a minimum of new capital. And while outside non-controlling investors are called to contribute new funds, they have not received effective means to control management, which has always remained the same which had been appointed by the government. In the framework of continuing state involvement, it is then easier to understand the seeming paradox of SOEs taking shareholdings in the *noyaux durs*. Compared to the first privatization

[33] Core investors are compelled to keep all their shares for the first 3 months after privatization, and 80% of them in the following 21 months.

Table 7

THE COMPOSITION OF *NOYAUX DURS*

	Rhône-Poulenc	Banque Nationale de Paris	Elf Aquitaine	UAP	Renault	SEITA	Unisor Sacilor
Air Liquide							1.03
AXA	1.25		1.00				
Banque Nationale de Paris	1.25		1.40		1.50		
Caisse des dépôts et consignations				0.70	1.00		
COGEMA							3.38
Compagnie générale des eaux		0.52		2.20			
Dassault		1.08					
Electricité de France							3.67
Elf Aquitaine		2.07			1.50		
France Télécom							
Française des Jeux						2.50	
Navigations Mixtes						1.50	
Paribas			1.00				
Pechiney		0.83					
Peugeot		1.03		0.80			
Renault		1.03	1.00				
Rhône-Poulenc		1.08			1.00		
Saint Gobain		1.81		1.20			
Saint Louis		0.52					
Société Générale	1.50					5.00	
Suez			1.40				
UAP			1.50				
Other French groups					1.50	10.00	0.91
Other French banks			0.50	0.50	2.25	5.00	0.49
Foreign-industry	1.00	2.03					2.02
Foreign-finance	1.00	3.00	1.00	5.40	2.25	1.00	0.49
Total	6.00	15.00	8.80	10.80	11.00	25.00	12.00

wave, however, foreign participation, aimed at moulding new alliances possibly based on a strategic logic rather than on financial motives, has been sizeable and has served thereby to appease foreign critics of the pro-French bias in 1986-88.

Even the economic rationale for *noyaux durs*, indeed, is far from straightforward. One of the main mechanisms to prevent managers from deviating from value-maximizing policies in favour of one particular class of stakeholders is by concentrating holdings of financial claims. Imposing ceilings on the equity stake of each company runs counter to this logic: managers keep their power, often deriving from information asymmetries, as the disciplinary action of "loyal" shareholders is made more cumbersome by the need to act in concert, although the concentration of financial institutions into the poles may lessen this inconvenience. Moreover, if the fall in the stock price makes a company a possible take-over target, limits on the free disposal of shares result in an obstacle for an interested raider.

While countries such as Italy, Spain and Chile have introduced specific provisions in order to protect small shareholders in privatized companies, French authorities have been cautious not to establish a link between state retrenchment and corporate governance.[34] Still, timid changes appear to be underway. The rising presence of foreign investors – their estimated participation in privatizations has gone from less than 2% in 1986-88 to around 12% this time (Cherpitel 1994) – puts pressure to align transparency requirements in France on the par with the international best practice. US pension funds, following a normative reform that now requires them to use their votes on foreign shares, have called for greater supervision of the activities of companies by people who are seen to be more independent from management.[35] Investigations of corruption have showed the general

[34] An example of insufficient transparency is provided by the fact that, in general, prospectuses for small shareholders have not included information on the composition of *noyaux durs*. In October 1995, the financial markets regulator (Commission des Opérations de Bourse, COB) issued a public warning on the Pechiney accounts for the first six months of the year, to be included in the privatization prospectus: the COB argued that the company had published figures that breached national accounting rules and allowed a loss to be turned into a profit.

[35] For example, Elliot Associates, a US investment fund, tabled a series of resolutions at the 1995 annual meeting of CIP – a quoted holding company in which BNP holds almost 90% of voting rights – claiming that the board of CIP had been unresponsive to its concerns about group strategy. The resolutions, however, failed to win enough backing for its approval. See also Fanto (1995).

quiescence of directors and have led the PDG of the largest private group (Alcatel) to resign. On the wake of such concerns, two committees were jointly set up in 1995 by the employers' federation and the association of private businesses. Table 8 compares their proposals with recommendations made in the UK to increase the transparency and efficiency of boards. While the recommendations of the French reports certainly have parallels with the 1992 Cadbury committee on corporate governance, they still appear weaker than in the UK. Also, given the French traditional preference for legislative action, implementing the recommendations may be difficult if they are enforced through voluntary guidelines.

7. Conclusion: France in comparative perspective

This overview of the French privatization experience has identified more elements of continuity than structural breaks. Comparing France with other countries, current privatizations seem to be driven by tactical motives, rather than by a search for increased efficiency. Most of the public enterprises sold so far were recording satisfactory technical and financial performances. For some companies, tight budget constraints and lack of access to foreign capital may have curbed investment and public ownership may have impeded alliances with strategic partners: still, it is noteworthy that those SOEs more likely to fall under this category, Air France and France Télécom, are still to be privatized.

It is therefore fair to conclude that privatization has been more a matter of political, rather than economic, opportunity. Net proceeds from divestiture have brightened fiscal results, easing the pressure to cut deeply on other, more politically sensitive areas, such as the social security system. It is indeed noteworthy that in late 1995, when negative market conditions caused the administration to miss its revenue targets, the reform of the social security system gained prominence as a means for achieving fiscal consolidation, leading to the intense strikes of December. On the same vein, while in the case of Crédit Lyonnais, state support is probably warranted, considering the systemic repercussions that the failure of the largest European

TABLE 8

IMPROVING THE BOARD IN FRANCE AND THE UNITED KINGDOM

	France[1]	United Kingdom[2]
Chairman of the board	Can also be chief executive.	Should not also be the chief executive.
Selection of non-executive directors	Should be selected by a special committee, whose composition is not specified.	Should be selected through a formal process and both this process and their appointment should be a matter for the board as a whole.
Length of appointment	No limit.	Best practice as 12-month contracts or less. Shareholder approval should be sought for contracts longer than 3 years.[3]
Limits on number of directorships	To be reduced from eight to five.[4]	No.
Audit and remuneration committees	Not required, although only the board should allocate stock options.	Non-executive chairmen involved in the day-to-day running of the business, and executive directors should be excluded. Remuneration committees should justify any deliberate policy of paying above the average.
Stock options	Annual reports should include informations on companies' policy for allocation of options, the number granted, their price, how many people would receive them, and how many were exercised.	Annual reports should include informations on companies' policy for allocation of options, the number granted, their price, how many people would receive them, how many were exercised and how many to each director. Performance targets must be clearly stated.
Taxation of stock options	Only capital gains tax is imposed.	Gains to be taxed as income tax.[5]

1 Proposals of the Lévy-Lang committee on stock options and of the Viénot committee on boards of directors (both, July 1995).
2 Recommendations of the 1992 Cadbury committee on corporate governance and of the 1995 Greenbury committee on executive pay.
3 The Report of the House of Commons Employment Committee (June 1995) proposes to lower this limit to 1 year.
4 The ceiling is elevated to 13 for directors in subsidiaries of which the parent company holds at least 20% of capital.
5 In July 1995, the Inland Revenue eliminated income tax relief on executive share options.

bank would have, in other cases, such as Air France and Bull, the government's involvement has been partly dictated by political considerations.

Still, with nine large-scale sales in three years, amid fierce international competition and often gloomy financial markets conditions, the second privatization wave may be *prima facie* considered an outright success. Compared to 1986-88, small shareholders did not require huge underpricing, but still responded rather enthusiastically to most issues. The Balladur bond also assures that demand will continue to be sufficiently high in the near future. The stricter controls of the special Commission in charge of privatization also seem to have been effective in ensuring transparency, as no complaints have been heard concerning the composition of *noyaux durs* in privatized companies, as had been the case in the previous period. The same holds true for foreign participation.

As regards corporate governance, *noyaux durs*, aimed at keeping control in stable (and predominantly national) hands and shield managers from the take-over threat, have been the trademark of privatization *à la française*. Discomfort with this policy has prompted many analysts to observe that the government has privatized only half-heartedly, by-passing a historical opportunity to introduce more market-friendly mechanisms of corporate governance. But this conclusion underestimates the strength of path dependence, overvalues the impact of privatizations in other countries, and fails to acknowledge the changes that, albeit for reasons that go beyond privatization *per se*, are happening in France. Historical features are entrenched in the institutional system in which companies are financed and governed: the British experience after privatization provides a strong cautionary note against unwarranted hopes that changes in corporate governance are easy in the short-term. A parallel can also be drawn with developments in the French financial sector since the early 1980s, where banks have responded to disintermediation by extending the range of services they offer and have eventually come to dominate the mutual funds industry (Bertero 1994 and Bianco and Goldstein 1995). In the same fashion, the financial poles, developed to cope with structural problems of French capitalism, are likely to keep their considerable power, filling the void left by state retrenchment. And more open competition on final product markets, growing integration of financial markets, and increasing activism by large shareholders will put a tighter rein on PDGs, making them more accountable than in the past. Still, the fact that large investors monitor managers more closely does not necessarily mean that the interests of small shareholders are taken into greater account. By substituting a PDG whose performance they consider disappointing, core shareholders in the long-run make the interests of non-controlling investors, but in the short-run they are not compelled to pay any control premium, as does a raider on the open market. At the same time, in the *noyaux durs* ceilings on individual shareholdings may deprive the system of the advantages deriving from close monitoring by a majority investor.

There is no "first-best" model in corporate governance structures, and according to many analyses both "insider" and "outsider" systems could benefit by importing some of the characteristics of the other. All in all, governance in French large corporations can still be improved by taking measures that would allow 'organizational competition' between Anglo-Saxon and German-Japanese mechanisms.[36] France has indeed been a precursor in this area, and the fact that very few firms have chosen to give employees a seat in their board by adopting the German two-tier structure would not be a good excuse for shying away from reforms nowadays. Banks should be allowed to exert a greater influence in corporate governance, something that the state's retreat from credit institutions would make more acceptable. On the other hand, competition on the market for risk capital and corporate control should be enhanced by more transparency in the capital and ownership structure of large enterprises and business groups, stronger enforcement of insider trading legislation, and greater fairness in the treatment of non-controlling shareholders. In the legalistic tradition of France, it is unclear whether self-regulatory mechanisms could be effective; nonetheless, excessive government's encroachment would look suspiciously at odds with the overall liberalization of the French economy.

[36] As Roe (1994) underlines, permitting competition between different organizational forms does not mean using law to encourage or requiring alternative forms of governance.

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