



**OECD Working Group on Privatisation and Corporate  
Governance of State-Owned Assets**

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**French experience in corporate governance of state-owned assets:  
the creation of the State-owned Assets Agency**

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devant le groupe de travail de l'OCDE (23 juin 2003)  
sur la gouvernance des entreprises publiques**

Mr. Chairman, Ladies and Gentlemen, thank you for inviting me to this panel. You asked me to present the French experience in corporate governance of state-owned assets: as you may know, the French public governance goes through a significant evolution with the creation of the State-owned assets Agency, which the Minister of the Economy, Finances and Industry announced on last 3 March and with the direction of which he entrusted me. It seems to me interesting to present to you the purposes of this reform and its advancement.

Mr. Francis Mer indeed announced the creation of the Agency on March 3, when he commented on the report which Mr. Barbier de la Serre had just submitted to him

This report had been commissioned by the Minister at the end of last year to a mission led by Mr. René Barbier de la Serre, former vice-chairman of the CCF, and three other members (Mr. Joly, CEO of Liquid Air, Mr. Rouvillois, former CEO of the SNCF and the CEA and Mr. David, CEO of Deutsche Bank France). This mission was put in charge of analysing the rules and practices for state-owned companies and of proposing measures for their improvement.

There were two components in the Barbier de la Serre report:

- recommendations concerning the State shareholder; these are those that the Minister immediately ratified while deciding to create the Agency;
- recommendations concerning corporate governance in state-owned companies; the Minister stated clearly that before implementing these recommendations he would wait for the conclusions of the Parliamentary Committee of Inquiry put in place on the same issues. This committee is chaired by Mr. Douste-Blazy and started its work at the beginning of January. The delivery of its conclusions is now imminent.

My tasks have been since early March and are threefold:

- to manage right now the state-owned assets with the support of the Service of Participations of the Treasury which has assumed this difficult task with efficiency in spite of limited means, with a spirit of responsibility in spite of the current multiplicity of its interlocutors, and, that goes without saying, with an absolute integrity; as one usually says, "during work, sales go on!";
- to set up the future Agency; I will later develop the method I chose;

- to propose, once we have the conclusions of the Douste-Blazy Committee, reforms to improve the corporate governance in state-owned companies.

## **1° A brief diagnosis on the public sector in France**

Allow me first a few general reflections on the public sector:

- The public sector consists of companies of all sizes, in extremely varied sectors, energy, transport, defence, culture. The State owns or controls directly a little less than 100 companies (either societies or public entities "établissements publics"). The Service of Participations of the Treasury follows at present about 70 of them. Thus, even if it must adopt the best methods of private holdings, the Agency could not be a holding.

- The state-owned companies, this common inheritance of the French people, present obviously different situations. Some of them do not go well; they have been affected more than others by the deteriorated economic situation of the last two years, and suffered from constraints specific to the public sector which are not always fully compensated by the State; some of them sometimes took risks which appeared to be excessive, because they didn't take sufficient precautions or because they didn't have sufficient culture as regards international development.

- It is also necessary to underline the assets and the weaknesses of the state-owned companies: the assets are numerous, state-owned companies accumulated remarkable technological knowledge, a number of them are European and World leaders right now.

The weaknesses are also real; some state-owned companies suffer from a deteriorated financial situation; some, not long ago, were still administrations; much have not yet added to their technological culture the necessary culture of management, especially of international management.

## **2° The objectives of the Agency:**

As regards legal framework, the agency is an administration, not an incorporated holding; it is not set "for the eternity", privatisation is an important aim.

In the context mentioned above, the creation of the Agency meets three aims:

- increase the visibility of the State shareholder;
- increase its legibility;
- improve the transparency of the corporate governance of State-owned assets.

Beyond that, the role of the Agency will be to induce cultural and management change.

### **2.1 Increase the visibility of the State shareholder**

The State as shareholder has sometimes suffered from lack of visibility and also, it should be said, from lack of authority.

The Agency will thus have three main roles:

- a role of strategic support: the Agency will have to validate and follow the setting up of the strategy of the state-owned companies; this requests a high level dialogue with the management of these companies; at least twice a year - apart from the specific decisions of shareholder - a thorough strategic dialogue will have to take place, in summer when the budgets of the companies are worked out, at the beginning of the winter when the approval of the annual accounts is being prepared.

- a role of control: the shareholder must follow the major risks run by the companies, since any economic life, the life of any company implies risk ; I note in this respect that the Agency will be able if necessary to intervene directly as an auditor in the companies; the shareholder must also be able to evaluate the quality of the management of the company.

- a role of promotion of change: in a world which changes, the State shareholder is responsible for the adaptation of the state-owned companies to their environment ; the shock is hard when one goes from a situation of monopoly to competition, the shock is hard when one leaves the only national market to launch out to the conquest of the European and World markets. It is thus necessary to enable the state-owned companies to adapt their statutes and - it is an important point - to attend to the modernisation of their methods of management.

2.2 Increase the legibility of the State shareholder

It is necessary to answer more clearly than in the past the two following questions :

1°) Who makes what?

The Agency will embody the State shareholder, while the other components of the State, the other departments of the Ministry of Finances and the technical Ministries will have to continue to assume their missions, those of the State as regulator, as customer, as licensor. It will be placed under the direct authority of the Minister.

2°) Who is responsible for what?

The Agency will define in a precise way:

- the responsibilities of the companies and of their managers ;
- those of the State as shareholder and within the State as shareholder, responsibilities of the Agency, i.e.
  - ✓ the regular follow-up of the companies;
  - ✓ the preparation of the main decisions of a shareholder; these main decisions themselves being responsibility of the political authorities, i.e. of the Minister and, beyond, of all the government

### 2.3 Improve the transparency of the State governance of its assets

The Agency will have the capacity and thus the duty to communicate in an autonomous way; this will imply:

- the development of reportings to the Minister, at least twice a year, on the global situation of the state-owned companies and on their major evolutions;
- a direct communication on these issues with the Parliament;
- actions of communication towards general public on the state-owned companies.

It is also obvious that beyond these three objectives of visibility, legibility and transparency, the APE will have a fundamental mission: to enhance the value of the state-owned companies which represent common patrimony of the French citizens.

### **3° The method of constitution of the Agency**

The Agency is intended to allow the State to be a more efficient shareholder; for this purpose, it will get its own budget and supplementary means: in addition to the 25 current executive members of the Service of Participations, 25 additional high qualified members will be recruited within the next months to reinforce this staff. These people will come mainly from private sector in order to reinforce specialised units. The overall staff will thus double to reach 70 people.

The method I chose is based on:

- listening: since I was nominated, I have met the managers of all the main state-owned companies; I also listened to the members of the Barbier de la Serre's committee; I met various experts and in particular specialists in audit ;
- methodical work: I launched as of March 17, with the support of an external consultant, a group in charge of setting up the Agency ; these reflections are based in particular on the experience of the current members of the Service of Participations but also on a benchmarking with other countries of OECD and on a comparison with the best practices of some private holdings.

Three working groups were also made up:

- one was put in charge of preparing the operational constitution of the Agency,
- another of defining the framework of the relationship of the Agency with the Minister on the one hand, with the companies on the other hand (in particular, rules of designation, remuneration and evaluation of CEOs, definition of the decisions which will have to be examined by the Boards of the companies (budgets, accounts, great investments) etc.
- the third one was put in charge of defining the perimeter of the Agency (The Minister chose to leave the CDC apart from its field). In comparison with the current perimeter of the Service of Participations, the Agency's one will also leave apart some entities (regional planning entities and

research centres especially) which will never become companies strictly speaking. This group is also put in charge of defining the future organisation of the Agency, that is its methods, which will be collegiate, as well as its chart, which will in particular have to integrate one unit specialised into audit and accountancy, one specialised in law and a third one in finance.

**The Agency is expected to be fully operational at the beginning of 2004**; in practice, the process has been faster than anticipated and we will start in our new format late September.

**4° With regard to corporate governance**, i.e. definition of best practices for corporate governance of state-owned companies, as I said at the beginning of my presentation, the Agency will make proposals to the Minister, after the recommendations of the Committee Douste-Blazy are published ; these proposals will also be based on the conclusions of the Barbier de la Serre report.

I will thus confine myself at this stage to recall some great principles which appear to me, on a purely personal basis, the main ones. Beyond the words employed today, governance of state-owned companies, it simply recalls that the state-owned companies are companies like the others and need, in this respect, quite simply a good management.

The ingredients are known:

- One needs good managers first of all; their nomination is the first decision of any shareholder and undoubtedly the heaviest. I mention that it is expected that the Agency be consulted in this respect, without challenging the main prerogative of nomination which belongs to the political power.

A good management for me is one which has a strategic vision for its company, which is able to share it with the whole of its collaborators and which is finally able to carry it through with the support of a solid team. The good management finally knows how to develop the talents around him and prepare its relief. In much cases, it would be normal that the new managers be found inside the company.

- One needs then strategies: they must be clear and comprehensible by the shareholders who have to discuss them and to approve them, by the employees who must assimilate them and apply them, by the observers, the banks, the analysts.

- The boards of directors must finally play their role which is to ask the right questions, to approve the strategic decisions and to control the action of the managers.

Some other personal reflections on rules for an improved governance:

- rules of boards: It seems to me that committees within the boards should be generalised (audit, strategy, nomination and remuneration committees).

- size of the boards and status of their members: √ I think that a reduced size will make the boards more efficient. √ Members of boards should have exactly the same responsibilities, whatever their status. √ Regarding rules of incompatibilities, I consider that one should not be able to become member of a board of a society if one is conflicted due to ones functions. √ Members of boards should be nominated by the general assembly of the shareholders and no longer by decrees.

Two subjects will have in particular to be examined in the future reflection on the governance in state-owned companies:

- the necessity to take into account the constraints or the objectives of public utility that the State imposes on some companies. They are often right now set into contracts; as for me, I can only approve the orientation of the Barbier de la Serre report which recommends to systematise the contracts of public utility;
- the second subject is the balance to be found between on the one hand the necessity of asserting the authority of State as shareholder, in order to avoid the few reverses which were observed here or there, and on the other hand the need for parallel reduction in controls *ex ante* which still weigh on certain state-owned companies.

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In a world which changes quickly, where new technologies appear quickly, where the challenges of the economic situation and structural challenges are numerous, the entrepreneurial risk will remain. I am trustful that the work which will be undertaken between the Agency and the leaders of the companies will make it possible to frame it and to limit it. Thank you for your attention. I'm willing to answer your questions.