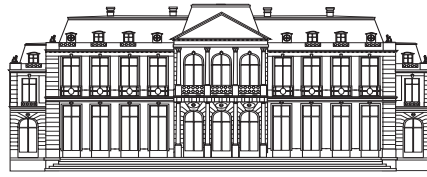


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**“CORPORATE GOVERNANCE IN ASIA: A  
COMPARATIVE PERSPECTIVE”**

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***THE TRANSFORMATION OF THE FRENCH MODEL  
OF CAPITAL HOLDING AND MANAGEMENT***

***Seoul, 3-5 March 1999***

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As the 21st century approaches, the French economy is facing a triple challenge: to become successfully integrated in a globalized world economy, to manage the transition to the single European currency, and finally to achieve the balance between employment and growth. It is likely that major new legislation will soon be working towards these objectives: the law relating to the 35 hours working week, social security reform and in particular the one concerning the financing of retirement. This article is in keeping with these prospects and questions the French model of capital holding and management. Is this model changing under the effect of the international opening of the French economy?

Our analysis can give a precise answer to this question: the shareholding model of the largest French groups knows a rapid transformation. Compared to former configurations where first the State, then subsequently cross shareholdings were at the center of capitalist relations, the new shareholding relationship which is now being set up complies with standards entirely different to the previous model.

Directly inspired by the American model of the "shareholder value", the biggest French groups are going through a managerial evolution whose consequences are only now beginning to become apparent, in particular through the new way in which the French stock exchange operates. This article aims to show this evolution and to specify its effects on the strategic behavior of the largest companies.

To summarize the most general features of this transformation, we can set out the assumption that the French economy is in the process of undergoing a rapid transition from a "financial network's economy" towards a "financial market economy". Its financial macro-circuits had been mainly governed not mainly by the market laws, but by the set of actors organized in large system of intercorporate alliances. This financial network's economy is currently in the way of dissolving into a new system, on behalf of a new logic, the one of a financial market economy.

In this respect, The French economy is beginning to operate in the same way of the Anglo-Saxon economies (United States and the United Kingdom) and is distancing itself from the other models of capitalism which to some extent had previously inspired its shareholding organization (Germany and Japan). The penetration of the Anglo-Saxon standards is impressive and total today. This infiltration is demonstrated by the currently massive presence of the North-American investors in the capital of the French firms. In this respect, it should be noted that France is the only country to offer such a large opening to foreign investors. Neither Germany nor Japan is for example in a similar situation. The result is consequently, in France more than elsewhere, an absence of shareholder commitment which is source for French firms of an unquestionable competing handicap.

In relation to this transformation, this article attempts to synthesise several considerations and developments, all of which have very different sources<sup>1</sup>. In this context, we shall endeavor to specify

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<sup>1</sup> The first source is discussions with about forty people from very different points of view: French firm managers, trade unionists and representatives from many government authorities. These discussions were held between 1st February and 15th March, 1998. The choice of firm managers were selected on the basis of two fundamental criteria: they belonged to a company quoted on the Paris Stock Exchange, their company was a French financially networked company, (i.e. involved in cross shareholdings networks). The second source of information was a national and international databases. The following bases were used: DAFSA, Mac Carthy, Dealer' S Book, Spectrum, Lerep-Sisife; these enabled us to collect shareholding information on the largest

the way which French capitalism is currently taking. This latter puts an end to the cross shareholding system (point 1), promotes the entrance of new investors -foreign institutional investors (point 2)- and with them the entrance of new standards of company management (point 3).

## 1. THE DETERIORATION OF CROSS SHAREHOLDINGS

In France, relations between firms have historically been organised along the lines of a financial network, whose dominant characteristics are interlocking shareholdings as well as the control of the property by the managers. This model, whose features were specifically reinforced in 1986 with the withdrawal of the state influence from control of economic activities, now seems to be becoming increasingly fragile.

In principle, cross shareholdings system is primarily governed by control and self-protection mechanisms of the management teams. Its main default is to be a system that immobilizes capital stocks in circular interlocking stakes, so creating a fictitious capital, that cannot be mobilized by the company. A shareholding profile for the type of the company integrated into financial network relations can be established by applying a matrix calculation taking into account the cross shareholdings as well as the interventions of large companies such as the Caisse des Dépôt et Consignations, which plays a particular role in stabilising the shareholding base of French companies.

**Table 1: Sample profile of the shareholder of a firm member of the French financial network (September 1997)**

Firm of the financial network	Shareholder structure
Hard core	20,52%
Employees	2,77%
French Mutual Funds	7,17%
Insurance companies (except core)	6,32%
Public funds	5,86%
Mutualist sector	2,62%

*Source: taken from Sisife- Lereps*

It can thus be seen that on average the interlocking stakes held by the "hard cores" accounted no more than 20,5% of the capital of the companies in 1997, whereas the average exceeded more than 30% at the start of the 1990's. To this percentage, it is however legitimate to add the capital share held by the employees in the P.E.E., which constitutes a blocked saving tied up in the company whose management is in practice very widely influenced by the managers. It is no less true that the value of the controlling interest in firms included in the cross shareholdings system stands only to the extent of 23,3% in average value.

Moreover, this percentage tends to decline markedly as one moves from the center of the system of holdings by the principal French institutions. For example, the committed stable shareholding in Elf accounts for a lower percentage (17%) and in Alcatel today for no more than about 15%. Altogether,

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French and foreign groups. Above all, they helped us to grasp the significance of allowing institutional investment in the shares of the largest firms.

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such an organization type of shareholding has a relatively reduces base in relation to the growing presence of foreign investors in the majority of quoted companies.

However, an examination of recent data on the shareholding structure of the largest groups (see the attached chart) qualifies the vision of a French capitalism which would be from now on completely open to the liberalisation. Interlocking shareholdings continue to have a role, even is they have recently declined in number. In their two forms, – insider control (circular shares intern to a group) and cross shareholdings (circular shares between two groups) –, these quite specific financial connections contribute to articulate the configuration of the French financial network:

- the insider control, even if it is no longer a source of voting rights at the shareholder's annual general meeting, regains its function if the corresponding shares are assigned between friendly organisations. Now these "parked up" shares account for very significant proportions in some parent companies: 6,4% at Elf; 5,2% at the Société Générale; 5,5% at AXA-UAP; 10% at Paribas. They can be explained only by the protective function for the leading teams;

- the cross shareholdings, on the other hand, are source of real voting rights, even if the circular capital enclosing generates the fictivity of part of the capital of the firms thus connected together; their raison d'être is again their protective function. The following are amongst the best known of such companies: Société Générale / Alcatel ; Alcatel / Générale des Eaux ; Havas / Canal Plus ; Paribas / AXA-UAP ; B.N.P. / AXA-UAP ; Suez-Lyonnaise / Saint-Gobain ; Saint Gobain / Vivendi.

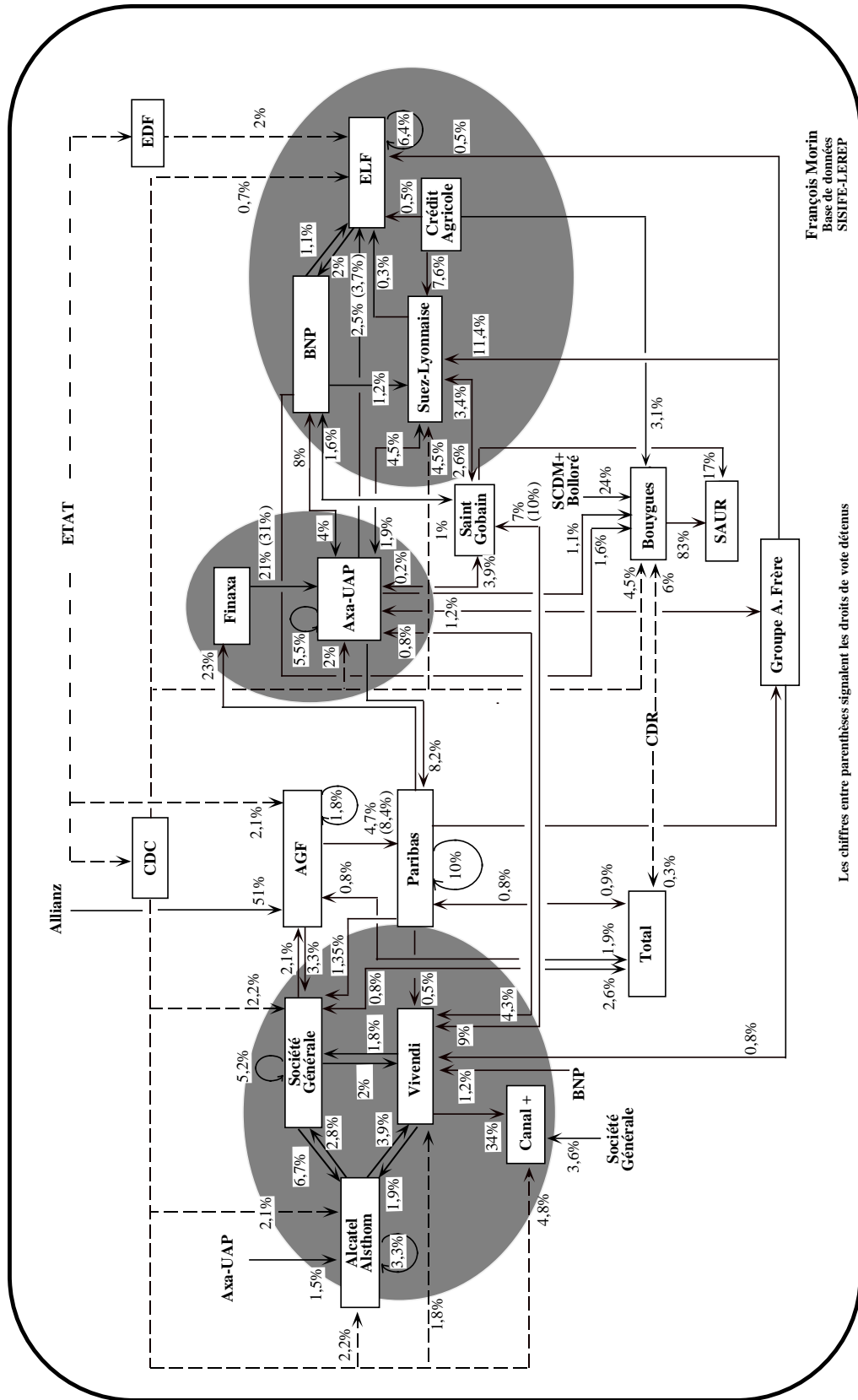
With an interlocking and concentrated property structure, the mode of organizing financial connections is moving towards less complex structures, close to the Anglo-Saxon models. The financial networked organization is indeed still exist, but on current trends we are moving away from this model, and this shift has implications concerning corporate governance.

In the opinion of several corporate managers of firms who were met, the main defect of this system where companies believe to be protected from external impact lies in the forgetting of the principal object of the investment in capital, which is the maximization of the financial output; undoubtedly, they add, the poor return of the capital invested in France (another characteristic of the French model) is a consequence of this situation.

In conclusion, the system of the cross shareholdings is out-dated. Its logic was to sustain a system of protecting companies and leading teams, which some people some people may have considered useful for firms or groups to operate internal restructuring.

Should financially networked economies be condemned as a particular system of holding and management of capital? In these economies, it is the banking and financial organisations, and not only the markets, which play a key role in restructuring measures and financing reorganisation's operations. They thus create the possibility of long-term regulation.

**Le cœur financier français**  
 - Juin 1998 -



It could also be argued that the "financial network economies" encouraged the propagation of financial shocks related to the systemic risk. By its very nature, systemic risk is independent of the model of capitalism although it is expressed in different ways in each model. In the financial network economies, the propagation of the crises is slow, smoothed, and goes up the financial links.

In the "financial market economies", this propagation appears brutally in the form of financial bubbles which, when they burst, do not affect just one specific market (acting as circuit breaker), but all the monetary and financial markets because of the increasing extent to which they are now increasing interconnection.

## **2. DESINTEGRATION AND THE NEW FOREIGN INVESTORS**

One can rather precisely date the beginning of the process. Indeed, with the AXA-UAP merger in December 96, the French financial network reaches the top of a trajectory begun thirty years before. The new AXA-UAP group concentrates financial holdings on a massive scale and has a capacity to co-ordinate activities that had never previously reached before. At present, it has at this time all the means to enable it to be the key and central actor of the French financial network: its ramifications along the major poles of this network are indeed numerous and powerful. French capital still has the choice to evolve towards a Japanese model or, let's say, rather Rhenish.

But this is not this way of the junction which is retained. Breaking with the former practices, the management team of the new group is deliberately setting to one side the capacity of co-ordinating and regulating economic activities. Only some assets will still be regarded as really strategic: the link with Paribas for example, or that with B.N.P. The remaining shareholdings will from now on go into the portfolio of group activities which has then to be managed financially according to Anglo-Saxon profitability standards.

It is so clear that AXA separates clearly in its new organization the orientations of assets management and the orientations of strategic type. Its objective is henceforth to become one of the world leaders of asset management.

The operation of the AGF perfectly illustrates this new position of the largest French asset management company in France. AXA UAP was in a position, jointly with the small central group of shareholders in the company coming under attack, to organize an adequate counter-attack; even so AXA UAP gave the Allianz group a huge opportunity to seize of the second largest French insurance group.

Couldn't it gather together, jointly with others, or even by himself, the necessary 60 billion francs whereas its assets amounted at the operation time to 3500 billion francs? But this operation, for spectacular and symptomatic as it was, was actually expressing a more general tendency: the increase of the role of foreign investors at the Paris stock exchange. This presence did not stop to increase during these last years, due to several factors: a more open regulation, the realization of the single market, the anticipation of the European currency, and more generally, the current globalization of

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the money and financial markets. This foreign share is impressive today according to the Bank of France: it increased from 10 to 35% of stock exchange capitalization between 1985 and 1997.

The Bank of France is now undertaking statistical analysis of the presence of foreign investors in the capital of quoted companies. The result, which relates to 60% of the companies, show that foreign investors hold nearly 35% of the capitalization of the Paris stock market. Even if significant variations appear according to the methods of agglomeration of the foreign shares (the method employed in the Sallustro report gives much weaker amounts), this value is often the one selected when one seeks to globally appreciate the range of the foreign capital invested on the Parisian market. This value, which corresponds to 1997 data attests the importance of the penetration of the foreign capital which is located at median levels definitely higher than in the comparable countries. The Paris stock market is thus, in the sample of the considered places, the one which is, the most open and permeable to foreign investors as indicates the following table<sup>2</sup>. We will reconsider further on the consequences of this French particularism.

**Table 2 : Average holding rate of capitalization by foreign investors (1997)**

	United States	France	Great Britain	Japan
In %	6%	35%	9%	11%

*Source: Market managers*

Since a little more than one year, highly significant fact, the dominant tendency is the accelerated rise in the capital of the French firms of big north American pension funds or those who manage on behalf of a third party. This upward movement is obviously to put in close connection with the progressive withdrawal of the French system of cross shareholdings. American institutional investors repurchase the enclosed share-holdings' blocks, in particular those of AXA-UAP, but also those of Elf, of the Société Générale, etc. The power of this movement is such, that several companies belonging to the CAC 40 are from now on held with more than 50% of their capital by foreign investors.

**Table 3: Examples of foreign capital penetration in the capital of French firms members of the cross shareholdings system (end 1997)**

French firms of the financial network	Capital shares hold by foreigners	Shares hold by foreign mutual funds
Alcatel	40%	19,81%
A.G.F	42%	8,61%
AXA UAP	37%	7,42%
B.N.P.	35%	14,56%
Elf	51%	12,11%
Générale des Eaux	42%	10,13%
Paribas	38%	8,94%
Société Générale	45%	11,32%
Suez Lyonnaise	39%	8,64%

*Source : taken from Sisife- Lerep*

On reading this table, one realizes that foreign investors are largely dominant. Their holdings are, in all the cases, higher than those of the interlocking capital, and that even if one adds with the average

<sup>2</sup> One such example of this extremely rapid advance of foreign investors is given by the developments of the Société Générale's: foreigner investor shares increased from 34,6% at the end of 1996 to 46% at the end of 1997.

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value retained previously the shares of the French mutual funds (what would make grow the value of French holding to 30,94%). But another element must be also taken into account. The share of capital held by the only category of the foreign institutional investors represents on average more than 50% of the value of the shares held by the system of the circular shareholdings. In some cases, like Alcatel, the foreign mutual funds alone have a fraction of capital that exceeds the one controlled by the group of stable shareholders.

At this stage of the presentation, it is however appropriate to clearly distinguish two kinds of fund management..

- Pension funds were initially invested in the United States and in the rest of the world according to a logic of direct management of the funds, at their own risks. It results from that a careful management, known as "portfolio diversification", which consists in distributing the financial investments in a balanced way on the values composing the market indexes (these funds are known as DB, Defined Benefits). In addition, these organizations ask from the firms the respect of principles or corporate government charters, the placements can be otherwise withdrawn. This first form of management drains large volumes of resources. It also appears in France with the investments of a group like Calpers. This one is present with significant amounts in all the companies of the CAC 40).
- With the impulse of the American financial deregulation, other actors, money managers (for the account of a third), imposed themselves from the middle of the Eighties, and in a much clearer way since the 90-decade. Those fund managers run already mutualized savings (DC funds, Defined Contributions), without supporting the risk of it, for this one is directly assumed by the contributors. Because of the very keen competition between collectors, the management of these funds is here more aggressive and is focussed in terms of shareholder presence. This competition shows itself in the search for financial outputs as high as possible.

This structural data of the running of the market's delegation of management of DC funds provides an essential key of their behaviors. It leads funds like Fidelity or Templeton to implement policies which involve higher profitability-risk pairings. The releases of financial performances on behalf of the companies in which they take place are thus a need dictated by the conditions of their own activity.

**Table 4: Mutual foreign funds and French financial network (September 1997). Percentage of held capital**

FRENCH GROUPS	FOREIGN MUTUAL FUNDS	INCLUDE		
		CALPERS ( I funds)	FIDELITY (DC funds)	TEMPLETON DC funds)
AGF	8%	0,20%	0,09%	0,20%
ALCATEL ALSTHOM	20%	0,30%	10,04%	1,90%
AXA UAP	7%	0,36%	0,26%	1,06%
BNP	15%	0,24%	0,15%	4,90%
BOUYGUES	5%	0,21%	0,05%	—
CANAL PLUS	8%	0,20%	1,31%	—
ELF	12%	0,26%	0,43%	2,10%
GENERALE DES EAUX	10%	0,41%	0,07%	—
HAVAS	4%	0,21%	0,04%	—
PARIBAS	9%	0,21%	0,18%	—
SAINT GOBAIN	9%	0,36%	0,06%	0,17%
SOCIETE GENERALE	11%	0,39%	0,68%	—
SUEZ-LYONNAISE	7%	0,53%	0,13%	0,50%
TOTAL (GROUP)	15%	0,33%	5,14%	1,50%

*Source : taken from Sisife- Lerep*

The table indicates the type of presence on the Paris market for two of these new managers. Fidelity engaged at the same time a portfolio diversification and a targeted investment policy; the targeted investment policy concerns Total since December 96 and Alcatel since March 97. Practically, all the Templeton investments are targeted, particularly on Elf, since February 97 and on the B.N.P. since April 97 (see also Graph 2 for the impact of these funds on the French financial network).

Foreign mutual funds have seen their strength grow considerably in the capital of the principal French firms. In exerting their influence, they do not hesitate about co-ordinating their shareholdings both from within and from outside the group. Internally, a company like Fidelity can intervene, for example, by means of 24 bearer funds in Total's capital which can operate as a unitary bloc especially in votes at the annual meetings of shareholders. Externally, if in their view minority interests are threatened, these funds do not hesitate to link their force, as we recently saw in France with Eramet, where the State, despite being a majority shareholder, had to yield in the face of a joint operation by several pension funds.

The result of this double process is obvious: the American pension funds (such as Calpers or TIAA CREF) just like the third party account managers of these funds (Fidelity, Templeton, Capital group types...) not only have a strong presence in the holding of capital, but they become also the main shareholders of the French firms. They are consequently in position of force to influence the modes of management and the strategic control of the firms. They become "active" shareholders who henceforth make hear their voices.

The effects of the entry of the international investors are not limited to the only aspects of the organization of the macro-circuits of financing. They also primarily concern the impact that such changes can have on corporate behavior of the firms. By tackling this question, we propose to concentrate on the new constraints facing firms with the emergence of new principles of management brought by these investors.

### **3. THE NEW STANDARDS OF MANAGEMENT**

Whatever their nature and regardless in strategic behaviour, institutional investors share certain fundamental features which result in a precise requirement, the one to support the *shareholder value* potentially transferable to shareholders. The economic value released by the company must serve in priority the shareholders. Those are considered as the actors who incur the highest risk. In this context, the respect of the principles of *corporate governance* appeared initially in the United-States at the beginning of the Nineties then in the United Kingdom as an increasingly stronger requirement.

Once laid down by the public pension funds (for example the Charter of Corporate Governance, from Calpers) all the institutional investors then integrated these principles. They were all the more put ahead that they seemed away from certain financial markets including up to a very recent period the French market.

The speed of the evolution was such that it is now a verifiable fact: the largest French firms are subject to the Anglo-Saxon standards of management and valorization of capital. This "diktat" of the standards appears, we checked it, for all the companies of the CAC 40. At this scale, it is a considerable upheaval which consequences are not still very well perceived.

Consultation with the prudential authorities are questioned, in particular the COB (French equivalent of the Securities and Exchange Commission), one finds the confirmation of this new deal and at the same time the authorities want to be reassuring. According to their executives, the investors are deprived of vision and of industrial or strategic objectives and thus do not threaten French capitalism. On the other hand, they are looking for diversifying their investments, and their presence primarily justifies itself for financial reasons. What attracted them until a recent period is the situation of the French economy, the attractive prices and a stock exchange which appears to ask for capital.

The discussions we had with managers give us the opportunity to expose the new environment of the French firm, the one of the shareholders' value. We gathered and synthesized the various "standards" of the model through what we chose to call the "precepts" of the shareholders' value, which are imposed on the firm managers. The reading of this principles does not consist in a simple artifice of presentation. Some firm managers are completely convinced of the effectiveness and the absolute imperativity of these standards; others develop a critical approach, even ironic, while recognizing that we can not actually escape from it. By the choice of the selected tone, we simply wanted to express this double position of the firm managers.

#### ***Understanding the investor's criteria***

The majority of the firm managers admit that they often find it difficult to understand precisely what motivates the institutional investor's decision.

There are of course geographical and sector-specific criteria. Thus, for the Morgan Stanley Index (MSCI), France is estimated at 5 or 6% of the capital allocation (this index places Australia at 1%).

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With the Euro, this geographical grid will disappear; that will cause to increase competition between the firms in order to profit from the contributions of the investors.

In a more general way, portfolio diversification is applied above all the economic policy of a country (and tomorrow of Europe), whereas "mixed investment policy" on their side, targets companies of the same sector. If the French economy obtains for example bad macro-economic results, this poor performance involves *ipso facto* an under-weighting of France in the geographical grid and consequently the fall of the concerned titles. Accordingly, the arrival of Euro and the European indexes will cause a new deal with in particular the abandonment of the congruence of investments; the market becomes straight off European; in this new context, the sectional indexes will take probably an increased place.

Beyond these landmarks, it is apparently difficult for the companies to perceive with clearness the criteria which are really involved in the decision of investment. The following elements are often evoked:

- the clearness of the decisional context and the procedure of decision itself,
- the search for " hidden values ", (some say " nuggets " ),
- confidence in the management, which is evaluated with the considering of its credibility.

A new tendency is perceived by some firm managers for whom the funds would look as a criterion of investment for the assertion by the firm for a strategic and credible project on the medium and long term<sup>3</sup>.

This new approach of the pension funds does not imply a longer duration of their financial investments since there is actually behind this new criterion the idea that the stock exchange price anticipates and sees far away.

*Seeking the presence of the investor, even if this one is in general on a short-term period*

The chase for the investor is general and appears on a planetary scale. But it is necessary that once present in the capital of the firm, the institutional investor does not leave after a few months! Although it is difficult to fix precise boundaries in that field, it seems however that it can be advanced that, in their very great majority, pension funds remain, on average, in the capital of the French firms between 2 and 4 years. That can be a little shorter, one evokes sometimes 18 months for the investments of Fidelity, or even a little longer; the 5 year figure was also said. They are thus neither long term investment, nor very short term ones (it is thus difficult to speak for these investors about short-termism).

Another rule wants that the more important the pension funds is, the more the decision to invest is heavy in duration and volume; this investor type thus does not make fast and speculative "round turn". The investment 's strategy is traditional: it is a question of making "the portfolio turn" every two or three years and regularly externalize the placement gains. In general, when the Anglo-Saxon investors sell, they sell everything. When that occurs, the firm managers reassure themselves by observing that the loss of an investor is quickly replaced by another.

For many firm managers, the debate on the "short-termism" and the "long-termism" appears to them, under these conditions, much too caricatural. It is true that the investments are rather of short duration on one side, but on another side, the decision to invest is based, more and more, on long-

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<sup>3</sup> In connection with this argument, one firm manager explained rather testily, that in the road shows, the questions asked by investors such as Templeton or Fidelity were much the same as those of the Trade Unions ( CGT or CFDT).

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term visions of the strategy of the firm. This balanced vision also eliminates another debate, the conception of the firm, which traditionally opposes the stakeholder and the shareholder's approach. If one indeed considers that the interest of the shareholders must be defined on a long-term, then this one necessarily incorporates parameters touching the environment of the firm as well as the wage policy...

For all that, firm managers are not unaware of the existence of certain very short term investors, which are known as well as raiders, hedgers, and which have for habit to make very short round turns in the companies (a few months). Several names defrayed recently the chronicle. "Pure" investors like the American groups Wyser Pratte (in Strafor Facom) and Asher Edelman (in the company of the Louvre) were quoted on several occasions as Hedge Funds prejudicial to the companies in which they took shares.

### *Communicating continuously*

All the companies we met take part in *road shows* that usually take place twice a year (in particular in London, Boston, New York, Sydney...). For the presentation of the half-yearly and annual results, firm managers take personally part in these meetings, (even if they know that it is a little like a religious service), but where they find investors and analysts. Between these rounds, teams are installed to constantly listen to the institutional investors.

It is different for the "one to one". In between doing the rounds, there are true meetings of work where fund managers visit the companies and meet the managers. Fidelity announces to have carried out 24 500 visits in the USA and 6 500 in Europe (in 1996). This type of meeting shows that the fund managers pay a relatively constant attention to the directions and that they carry out forms of evaluation which goes far beyond traditional criteria and from research of public available informations. In this context at least, investors do seem to want a presence in, and knowledge of, the company that goes clearly beyond what's required to implement the policy of managing a purely diversified portfolio.

In these various contacts and meetings, there was obviously an initial learning period, when mutual incomprehension was gradually eliminated on both sides. On one hand, the firm managers had to learn how to fit the requirements of the shareholder value, in particular at the moment of the Anglo-Saxon model duplication; on the other hand, it was necessary to explain the French social model (in particular concerning social right) to the investors in order to facilitate its acceptance.

The same explanation work had to be led in order to make the logic of the hard cores understandable. In this, some people could speak about "shared pedagogy". French companies are now used to see very qualified, professional, and technical persons. But credibility and legitimacy of a firm is only gained in the mind of the investors if its managers can say yes and no. For example, it is essential that they oppose

- reasonable requests preserving the value in the medium and long term,
- and the requests leading to destruction of short-term value; (there are no automatic redundancies when a company carries out research and development tasks).

### *Explaining their strategy*

Managers must be able to give a good legibility to their strategy. Investors expect major decision to be taken only after a precise examination of the value; it is of course a very strong discipline called "managerial piloting by the value". This essential point must be understood, otherwise investors sell.

The focal point lies in the capacity of exposing and explaining the strategy. The institutional investors insist on the need for making things readable: only one business, for example. If the firm develops several businesses, the value of capitalization must be then imperatively equal to the value of the parts corresponding to each business units.

For investors do not like conglomerates in general. The reason why? It would necessitate that some projects run correctly, with a capacity of management for each one. On this precise point, several firm managers recognize that investors are not necessarily wrong: we have to remain modest. It's probably for this reason also that investors prefer what they call "focused management".

In this context, it's easy to understand that the conglomerate approaches are very difficult to defend. Also, the only way of justifying them is to prove the economic efficacy of each segment of activity.

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These investors play thus a considerable part with their questions on one hand and more especially with their own vision of the strategy on the other hand. How far can it go that way? In France, firm managers tell that they are still free in their answers and choices whereas it is no more the case in the United Kingdom. The case of Barclays was several time evoked since it has been imposed a mechanism of scission which, in the last analysis, revealed to be disastrous for the British Bank (the scission of Imperial Chemical Industries (ICI) is also noted as well as Rhône-Poulenc Rorer).

In this same point of view, the cross shareholdings appeared to be at first unjustifiable protections according to the Anglo-Saxon investors. Nevertheless, we especially put forward a second argument: why immobilizing important liquidities in activities that are not their own? The Americans and British thus have a very poor view of network shareholding. To their mind, it is it's an unhealthy situation for we remain prisoners of business relations that are not really justified. The acceptability of this system is thus very limited and it is only accepted inasmuch as firms undertake fairly; it is so only accepted inasmuch as firms undertake fairly specifically to unwind cross investments.

***Conforming to the dominant strategic model***

All these elements strongly converge towards a fairly precise representation of the ideal strategic model. Investors clearly want the simplest objects and more decomposed as possible; the firm can consequently less arbitrate between the various segments of the market. Above all, they do not especially want concerns to carry out their own role of institutional investor.

With increasing engagements in the United States, these investors are now constrained to play an active part in the companies. It is impossible for them to remain in an inert position. Consequently, they are more and more obliged to specify their point of view on the strategy of the company. This one can be summarized with three essential dimensions:

- the movement of concentration per business unit and the maintain of the "network business";
- the dispersal of the conglomerates as well as the externalization of the not directly strategic activities;
- the buying out of shares when liquid assets are not allocated to sufficiently profitable projects (this is linked to the economic calculation of the investments).

Several managers acknowledge that it is impossible to escape from the requirements of the Anglo-Saxon investors.

But their requests are sometimes contradictory. For example, how to concentrate on an activity without carrying out acquisitions which often the only way possible? The Anglo-Saxon investors are hostile to acquisition operations since they are always dilutives. In addition, the effect of an acquisition on the structures lasts three or four years; and this period very often corresponds to the higher limit of financial investment.

***Submitting to the imperative of profitability***

The essential point of the debate with the Anglo-Saxon investors centres on the rate of the financial yield that the shareholders are in right to expect from the firm. The Return On Equity (ROE) is generally calculated by taking into account two parameters: the yield of government stocks on the one hand, and a risk premium related to the activity or sector. One of the new indicators of

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measurement used today by international investors to gauge firm's financial performance is today the one known as of the EVA/MVA. Using this technique, when determination the EVA, the investor estimates *ex ante* the amount of the free cash flows available in the company. This is done by fixing the difference between the net result after tax and the flow of liquidity necessary for the return on the invested capital.

Let us indeed recall that the guiding principle behind the investors' investment policies is to increase the economic and financial value transferred indirectly to their principals. Since all the funds thus invested are not capital stocks but contractual funds, the manager must reach a performance in conformity with the output that the principals have theoretically the right to require.

At the risk of being schematic, one can advance the idea that the presence of pension funds in the capital of a company is ultimately motivated, by the aim of making the invested funds yield a profit. The investment will obey a projection of profitability, which in the majority of the cases appear to be on average of 15% per year.

***Joining the debate on the shareholder value***

Several firm managers bosses have told us that we are today entering a period of intellectual revolution concerning the company management. The necessity to make a profit clearly has obviously repercussions for internal organization imperative. They first need to credibilise the objectives of financial profitability and to develop a speech on the financial performance; in this context, the "return" remains the essential attractor of the investor; but the speech on the value does not have therefore to be forgotten. It remains essential for there will remain only some operators in many sectors.

The pension funds do not intervene in operational matters; the debate on shareholder value has only a single aim: to help the company managers in making returns. This requirement explains the logic of the speech on the "corporate governance" and its institutional support, in particular in terms of composition of the Boards of Directors, of independent administrators, of committee of remuneration and committee of audit.

The implication of the managers is essential according to the investors. It aims thanks to ways of payment linked to the performance carried out by the firms at inciting the managers to seek before any other consideration the financial valorization of the company.

The mechanism of payment by stock option - system that makes it possible in this logic to reconcile the interests of the leading manager teams and those of the shareholders - thus seems to be one of the vectors that these investors wish to see applied. The firm managers are thus periodically requested to expose their system of remuneration in front of the investors.

Finally, the general feeling among the company managers has softened somewhat with regard to this penetration by pension funds. Several managers think that it is not necessary to paint a diabolical picture of this movement, which is a way of modernising the French capitalist system. The latter must take note of the shareholders role and their requirements and learn how to live under their

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constant pressure to create value. Other French company managers do not hesitate to express their feeling of helplessness in the face of the increasingly world wide application of the idea of "shareholder value" mondialism of the thought. Some others are finally more critical but all of them recognize that it became impossible today to ignore to apply the precepts that result from this.

## **Conclusion**

For our part, we think that it is not judicious to include in the same institutional heading all the Anglo-Saxon investors. Let us recall indeed that in the DB type funds, if public or not, the additional funding is primarily the fact of the employer and the financial risk is thus entirely assumed by the trustee (covered by the company). This risk must thus cover an obligation of result. It results from this mechanism of financing which give the primacy, on the long term, to prudential policies of placement. The placement of this type of funds is thus marked by nature by its bond component. It is so by a policy of placement in shares, which aims to minimise the specific risk attached to each title or each market on which the funds is involved, through techniques of portfolio management.

The observation of the policies of placement of these funds and the third party account management teams associated with them reveals a policy that complies with the principles of diversification, in every detail. It also serves to underline the fact that these players, authors of the charters of corporate governance, play an eminent role in the developments of company management techniques, it will also be very true that they will not make their presence felt by aggressive shareholding acquisition policies.

The managers of funds of the DC type are not in the same situation. In this type of funds, the risk is returned to the employees and the trust provides only the function of selection of the third party account moneys managers. The latter are the ones who promote their services to employees for their placements on individualized plans. As these systems are moreover with defined contributions, there isn't any obligation of result, but rather obligation for the trust to select the best managers. This will take place depending on the performances achieved by the various third party account managers. As this industry is very fragmented, competition between the finance institutions is therefore particularly fierce. It finds expression in the quest for the highest possible financial returns.

This structural fact drives the mutual funds to put into operating policies characterized by higher profitability-risk ratio; Because of this, their investment strategy is hence more aggressive. It consists in a more targeted approach, aiming to outperform the index.

With this double mechanism of hedging the risks, on the side of liabilities on the employee-pensioners, and from the assets side on the companies, the managers of pension funds (of DC type.) represent a new type of institutionalised capitalism. These new financial "intermediaries", because of their weight and the power relation they have been able to impose, are becoming the true masters of the financial valorization of the capital and of how it should be allocated.

By introducing new standards into the operation of the companies, they seem to be more and more the vectors of a new model of capitalism: an "institutional capitalism" searching for *shareholder value*, that can be transferred without the funds themselves taking any risk on their part.

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