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Mental Patterns, Corporate Finance and Institutional Evolution: The Case of the French Corporate Governance System

Peter Wirtz

Since the middle of the nineteen-eighties, the French system of corporate governance has undergone some major transformations. Originally, it was dominated by the State's important weight in the structures constraining managerial discretion in some of France's largest firms. But, the public administration has increasingly retired from its active role in corporate governance matters. This paper addresses the question of a theoretical explanation of the observed phenomenon of the dynamics of governance. The conceptual framework we propose is to a great extent based on the economic theory of institutional change. It strongly emphasizes the role of so-called 'organizational entrepreneurs', who lead the initiative aiming at a transformation of existing structures. In this context, a country's shared mental pattern is, however, supposed to be a force enhancing path dependence. Theoretical propositions are deduced and applied to the case of the French corporate governance system. The analysis of the latter's evolution yields some encouraging results, indicating that the proposed theory seems globally consistent with empirical facts.

1. *Introduction*

A corporate governance system consists of the set of mechanisms which restrict managerial discretion, that is to say the CEO's field of action (Charreaux, 1997). In doing so, the instances of governance achieve an alignment of managerial behavior with the interests of different types of stakeholders, such as stockholders, financial intermediaries, employees, suppliers, clients, etc.. When looking at the practice of governance in real context, one observes the existence of substantial differences in systems across national borders. There now exists a certain number of comparative studies traditionally opposing the Anglo-Saxon to the German and/or Japanese systems of corporate governance, supposedly representing polar types. In fact, the constraints on managerial discretion in the Anglo-Saxon environment are traditionally described as being primarily driven by shareholder interests, whereas the Japanese and German systems are thought of as more stakeholder oriented (Yoshimori, 1995[1]). In a way consistent with this observation concerning the underlying "philosophy", the control instruments at the disposal of different stakeholders that are to achieve the interest alignment are traditionally characterized by the important weight of the financial market in Anglo-Saxon countries and by more relational control instances in Japan and Germany (Berglöf, 1997, Franks and Mayer, 1990, Moerland, 1995, Porter, 1992).

The comparative literature is rich of relatively static descriptions of national corporate governance systems. These studies are useful in order to highlight the existing differences between countries and to appreciate the historical roots of the different systems. However, they obscure the fact that, as a phenomenon of social interaction, corporate governance systems are dynamic and thus evolve over time. Signaling the need of a better understanding of its processual characteristics, Jensen (1993) describes the example of the American system, inside of which the weight of the capital market has experienced several changes over a long time horizon (p. 850-852). This study suggests some future research perspectives aiming, among other things, at an improved understanding of "how politics, the press, and public opinion affect the types of governance, financial, and organizational policies that firms adopt" (Jensen, 1993, p. 872). In other words, what is needed is the development of a theoretical explanation of the active influence of different agents on governance structures. Thus focusing on the active role of certain organizational leaders, be they politicians, journalists or managers, enables the researcher to address the determinants of the dynamic process constantly reshaping the incentive and control mechanisms to which a CEO is subject.

In fact, even though some researchers explicitly recognize the dynamic nature of corporate governance systems – Berglöf (1997, p. 105) observes a French system *in transition* – those accounts are often very descriptive, lacking a theoretical explanation. At best, what is proposed are different scenarios of the future development of the different national systems of corporate governance. Such a perspective is adopted by Aoki (1994), who studies the attributes of the Japanese and the "Western" settings. He presents four paths of evolution that can be imagined *ex ante*. These scenarios range from (A) "a convergence of financial attributes", (B) possibly "destabilizing effects" on polar and internally consistent systems by the interpenetration of particular attributes, and (C) the dominance of the attributes of a single system, to (D) the convergence "to a hybrid form of higher order".

Our own paper tries to address the issue of the dynamics of corporate governance by applying the concepts of the broader theory of institutional change, such as proposed by D. North (1990, 1993), to the particular case of the mutations of the system of corporate governance in France. Studying the latter has two distinct advantages. First, researchers have, so far, paid less attention to the French system than to the supposedly polar cases of America and the United Kingdom on the one hand, and Germany and Japan on the other. Hence, a description of the distinctive characteristics of France is likely to refine our empirical knowledge of international differences. Second, since the middle of the nineteen-eighties, the French corporate governance system has experienced several major transformations. We have thus chosen an especially well suited case to illustrate the assumptions concerning institutional dynamics implied by the theoretical framework. The remainder of this paper is structured as follows. The first section gives a brief descriptive account of the basic features of the French system of corporate governance as well as of its most significant transformations. Section 2 summarizes North's theory of institutional change and attempts an application to the special issue of corporate governance. It deduces a certain number of theoretical propositions. The last section then confronts these propositions with the reality of the French case, in an attempt to ascertain the acceptability of the theoretical framework when it comes to explaining real-world phenomena.

2. *The Quest for a Deeper Understanding of the Dynamics of the French Corporate Governance System*

For the last fifteen years, the French corporate governance system has undergone some major transformations. In order to fully appreciate their impact, it is however important to know the historical origins of French style corporate governance.

2.1. The Historical Roots of French Corporate Governance

Traditionally, the French attitude towards business distinguishes itself from a monistic representation of the firm, that is to say one that would be exclusively focused on shareholder interests. In fact, in 1995, Marc Viénot, a former CEO of one of France's most important banks, published a report on corporate governance which benefited from widespread attention in the French business community. It stipulates the "obligation" of the board of directors "to act in all circumstances in the *social interest* of the firm" (Viénot, 1995, p. 6, our translation, italics added). The report then goes on to explicitly distinguish this perspective from an approach purely guided by the maximization of shareholder value (*ibid*, p. 9). According to Peyrelevade[2] (1998, p. 31), the concept of the firm which underlies the Viénot report reflects the opinion of the majority of managers in France. Traditionally, in the French public opinion, "profit has a bad smell" (Lesourne, 1998, p. 103). As a consequence, in spite of claiming the maximization of profits for shareholders, the dominant ideology favors “the prosperity and the continuity of the firm” (Peyrelevade, 1998, p. 39).

The preceding paragraph indicates that the traditional French “philosophy” of the firm takes into account the interests of multiple stakeholders. In this context, what are the governance mechanisms *perceived* to be able to guarantee the respect of the dominant ideology’s interests? In fact, the French tradition designates the State as the best suited actor in order to assure the alignment of all economic decisions with the previously described philosophy of value. According to Albert (1991, p. 266), France has cultivated “social colbertism[3]” for a long time. The same author summarizes this doctrine as follows: “the State [...] commands the economy in the name of a political ambition and of a strive for social progress” (p. 266, our translation). From this perspective, the State’s role is perceived as one of a referee between the demands of different stakeholders. It “acts in place of the economic and social actors” (Les Echos, 11/17/1998, our translation). In doing so, the State is considered to be a “protector who assures redistribution according to the republican principle of *égalité*” (*ibid*, our translation).

It is important to emphasize that the control instruments of quite different corporate governance systems are theoretically consistent with a pluralist approach of the firm. Why, then, does the French tradition assign such a central role to the State in spite of privileging the mechanisms of direct negotiation between different stakeholder categories? One factor which is likely to contribute to an answer is the existence of very polarized interests in France. In fact, French trade unions are traditionally characterized by a “class-fight ideology” (Albert, 1991, p. 268, our translation). Hence, there is a tendency towards adopting extreme opposite positions. This may partially explain the polarization of the interests of different stakeholder types. According to Peyrelevade (1998, p. 32), the notion of compromise often has a negative connotation. Knowing this, it is easily understood why the State plays the role of a referee. In fact, since direct compromise between certain stakeholder groups is problematic, the structuring of mutual relations necessitates the aid of a “superior” instance. The latter’s position happens to be occupied by the State. Unlike the approach of certain other countries, the French State “is not [...] a simple instrument of social administration at the disposal of the citizens. It transcends the individuals and receives of the latter a sort of divine blessing, comparable to the one the monarchs received in the past” (Lesourne, 1998, p. 92, our translation).

France’s traditional concept of the firm is thus based on a “profoundly anti-liberal instinct of a large part of the French opinion” (Les Echos, 11/16/1998, our translation). This opinion refuses to consider a company as a tradable merchandise among others (Albert, 1991, p. 280). Traditionally, free market mechanisms are regarded rather suspiciously, and there is a belief in the benefits resulting from the State’s role as an organizer of economic activity. According to this reasoning, the State must intervene in order to eliminate suspicions of private benefits primarily destined to financial investors. Denis Kessler’s statement (quoted by Les Echos, 11/20 and 21/1998) seems to be quite significant: “Historically, the two great nationalized sectors were banks and insurance companies; *firms making money business simply had to be state owned*” (our translation, italics added).

In a manner consistent with the philosophy outlined above, the corporate governance system defining the limits of managerial discretion of a substantial fraction of the most important French corporations was characterized by the State’s strong influence during a significant lapse of time. In fact, in the past, this influence was exercised at least at four different levels. (1) Industrial politics sometimes led the State to interfere directly with certain important firms’ corporate strategies. (2) Its control over the financial circuit was a significant vehicle of influence. (3) The governance structures of the nationalized corporations, which included a certain number of “champions” of the domestic industry, depended directly on government decisions. (4) And, finally, a significant part of the managerial elite owed (and still owe) their education and first professional experience to the public administration.

At the end of the nineteen-forties, a certain number of reforms translate into legal rules the perception according to which the State has the privilege of efficiently organizing economic activity. This exerts a more or less direct influence on the managerial discretion in big corporations. In fact, in sectors considered to be strategic, the State conducts several nationalizations (e.g. energy), or very closely follows the management of firms which have remained in private hands. The latter case concerns for example the steel industry. In spite of the fact that it is not officially nationalized until the beginning of the nineteen eighties, the constraints which the State imposes on its strategy are very strong (Lesourne, 1998, p. 96). These constraints' justification is primarily based on the financial resources directed to the development of the sector, which essentially take the form of public funds. The State grants, in fact, loans at a reduced rate of interest. Lesourne (1998, p. 96) quotes the statement made close to 1970 by a steel manager: "You want to know details concerning our accounts? Ask the public administration. They know them better than we do!" (our translation).

More generally speaking, the State controls the essential dimensions of the whole financial circuit. Hence, capital export and import are limited because of exchange controls. The stock exchange plays but a minor role in corporate finance. In this context, a famous quotation by de Gaulle is quite significant: "French politics are not decided at the stock exchange." (our translation). On the contrary, banks and the public treasury and its satellites contribute an essential fraction to financing the economy (Albert, 1991, p. 269). In this context, the State's privileged position appears even more clearly knowing that the large deposit banks are also nationalized after world war II.

The specific governance structures of the nationalized firms depend directly on the government's policy. This concerns notably the composition of their boards of directors. It is, however, important to stress that the force of the State-controlled governance mechanisms varies with the type of firm we study. This force appears to be most intense in the case of the nationalized firms. But even the private sector feels the (more indirect) influence of the State.

In fact, beyond its control of the financial circuit, the public sector is often a major client. In this way, "a close symbiosis takes place between the State and the private groups" (Lesourne, 1998, p. 98).

Close ties between the State and certain corporations, be they nationalized or private, also exist at the level of higher education of the managerial *élite*. In fact, a great fraction of the biggest French firms' CEOs have received their education at the ENA (*Ecole Nationale de l'Administration*) and/or have started their professional career in the public administration. Bertin-Mourot and Bauer (1996, p. 22) observe that "it is in France [...] that the transfer of *élites* from the State's to the firms' top positions is greatest" (our translation). In this way, the large corporations partially delegate the "detection-selection-education" procedure to the State (Bertin-Mourot and Bauer, 1996, p. 23). It is also quite interesting to note that the primary origin of the managerial *élite* seems to be rather constant over time (*ibid*).

To summarize the preceding developments, we note that the State plays traditionally an important role in the French corporate governance system. Albert (1991, p. 267) describes it as "a *colbertistic* State that has not ceased to dominate the economy: protectionistic and dirigistic on the one hand, but also an investor, [and] entrepreneur [...] on the other" (our translation). In what follows, we shall see that the limits imposed on managerial discretion by the public administration have progressively been alleviated. Even though they are presently weaker than they used to be, they remain frequently stronger than in other industrialized countries. For such a comparison, it is possible to refer to the example of the market for corporate control, which appears traditionally to be less developed in France than in the Anglo-Saxon sphere. In 1990, Franks and Mayer still conclude that the public authorities have great discretion in the application of the takeover rules (p. 228). Hence, in certain cases, the French government has allegedly retarded the takeover of firms by foreigners in order to find a domestic solution (Franks and Mayer, 1990, p. 209). The recent example of the takeover battle opposing BNP to Société Générale and Paribas equally represents the attempt of interference by the public administration. But, at the same time, it perfectly illustrates the weakening of the means of public intervention. In fact, the Minister of Finance and the Governor of the Central Bank would clearly have preferred a privately negotiated solution to an open battle in the market place. In the course of these events, the State's representatives use their right to suspend a revised bid by Société Générale for Paribas to invite the different protagonists to the table of negotiation (Le Monde, 06/27 and 28/1999). During the negotiations, the Governor of the Central Bank submits his own proposals to the conflicting parties. Lacking the power to actually impose his project, the unsuccessful end of the negotiations implies, however, the obligation to wait for the closure of the official stock-exchange procedure in order to obtain a solution. A leading economic newspaper has the following comment. "This frustrating and unfruitful negotiation demonstrates that the public authority lacks the means of actively opposing the fact – in spite of the Finance Minister's publicly expressed wish to the contrary – that the mere 'luck of the market' determines one of the most important movements in banking France has ever known." (Les Echos, 07/01/1999, our translation).

2.2. A Brief Description of the Major Transformations

So far, we have primarily described the historical roots of the French system of corporate governance, which strongly influenced its shape roughly until the middle of the nineteen-eighties. Since then, the system has, however, undergone some significant transformations, as is illustrated by the BNP-Société Générale-Paribas case. In fact, following the deregulation, which was initiated by the government in 1984, the evolution of French corporate governance is characterized by the diminishing role of the State. In this context, the 1984 event lays the foundations for a rehabilitation of the capital market. The fact that this step is undertaken under a socialist government may appear as somewhat surprising. We will consider the importance of this observation in section 3. The deregulation means that certain companies gain direct access to the financial market to cover their need of funds. Hence the State's control of the financial circuit is alleviated. At first, an important fraction of the major corporations remains, however, under the direct control of the public administration. The government changes in 1986, bringing along a first wave of major privatizations. This further exasperates the State's retreat from direct corporate governance. The movement is temporarily interrupted due to another change in the political landscape, only to be continued in the form of a second wave of privatizations beginning in 1993. It should be noted, however, that the State's retreat is not complete. In fact, by installing the so-called *noyaux durs*, the public administration keeps an indirect influence on the development of the corporate governance structures of the newly privatized companies. The *noyau dur,* which is literally translated as "hard core", is the group of major shareholders. Hence, in a first stage, the direct control by the State is replaced by the control of other companies which hold significant capital stakes. The government thus exerts a certain influence by participating in building up these major shareholder groups. What is interesting is the fact that the circle of companies called upon to compose the *noyaux durs* in the context of the different privatizations is rather restrained. As a consequence of this, the system of corporate governance applying to some of the largest French corporations, formerly subject to the State's direct influence, is characterized by a dense network of cross shareholdings for several years. These cross shareholdings go generally hand in hand with personal ties in the form of an exchange of corporate directors. Around 1995, this network is starting to be undone (Les Echos (12/08/1998), progressively replacing the prevailing system of relational governance by capital-market mechanisms. As a result of this process, some of the major companies have, at present, a capital structure exposing them to the pressure of potential takeover.

This brief description of the French system of corporate governance since 1984 indicates some major changes in the control mechanisms to which a large company's CEO is typically subject. What is the logic underlying this evolution? In the following section we present the major building blocks for an explanation of this phenomenon.

3. *The Evolution of Corporate Governance and the Theory of Institutional Change*

To construct the conceptual framework, we proceed in two stages. Hence, we shall first briefly describe some major theoretical outcomes of North's theory of institutional change, before applying the latter to the specific case of corporate governance.

3.1. The Logic of Institutional Change according to Douglass North

North (1993) defines institutions as "the constraints that human beings impose on human interaction". There is a great variety of such constraints ranging from formal (rules of law) to implicit (ethical conduct). One implication of the existence of institutions is that, if the institutional constraints are properly enforced, their transgression causes a certain cost. In this way, the institutional matrix has a very strong influence on the economic opportunities of the agents it constrains. It is, however, important to stress that, even though institutions impose limits on human behavior, they are never capable of closely determining *every single* decision made by the agents who act in their realm. For this reason, the human actor has discretion over a number of decisions.

This basic assumption about the relationship between the economic agent and his institutional environment having been presented, how can a change in the existing informal and/or formal constraints be explained? In fact, to render such an explanation plausible, a realistic model of human rationality is needed. Hence, North (1990, p. 17) makes some behavioral assumptions which imply that human reasoning is fundamentally procedural. This means that the economic agent acts along the lines of trial and error[4]. This type of behavior can be explained by the fact that a human being never has complete knowledge of all parameters characterizing the environment he acts in, nor does he perfectly understand all factors that affect the outcome of his actions. What helps the economic agent to make decisions in the context of such uncertainty is a theory he holds on the functioning of the world in which he lives. In North's work on institutional change, such theories are referred to as "mental patterns" or "mental models". They are the starting block for concrete action within – or on the limits of – a given institutional framework. North (1993) expresses this in the following way. "The key to the choices that individuals make is their perceptions, which are a function of the way the mind interprets the information it receives." The mental pattern shapes these interpretations and hence influences an actor's perception of the opportunities implied by the institutional matrix. The latter is the "incarnation" of the dominant ideology, that is to say a mental pattern which is shared by several (influential) individuals. Hence, a given institutional framework can be looked upon as the translation of a shared mental pattern into real institutions. In order to understand how institutions evolve over time, it appears thus to be crucial to reach an understanding of the role of mental patterns. As Denzau and North (1994) put it, "institutions clearly are a reflection of the evolving mental models".

In the theory of institutional change, ideologies and the institutions they shape are modified by the action of so called "organizational entrepreneurs". According to North (1993), "the entrepreneurs of organizations induce institutional change as they perceive new or altered opportunities". This statement can be translated into the terminology of mental patterns, because the latter help explain the perception of opportunities. In fact, an actor must weigh the costs and benefits he anticipates from action inside the existing institutional framework against the costs and benefits he hopes to incur as the result of a change in the rules of the game. In this sense, an individual mental pattern is "entrepreneurial" to the degree that it diverges from traditional ideology, leading to the perception of better opportunities resulting from institutional innovations when compared to a strategy inside an unchanged environment. The typical tradeoff is thus supposed to be rational calculus. What strongly differentiates this perspective from substantial rationality, however, is the fact that individuals do not choose their course of action as a function of supposedly objective "real" parameters, but on the basis of their subjective representation of these parameters. According to Denzau and North (1994), "people act in part upon the basis of [...] 'half-baked' theories".

The foregoing discussion shows the organizational entrepreneur as the driving force behind institutional change. In this context, two general traits characterize the typical entrepreneur. The first has already been presented, namely the holding of a mental pattern capable of transgressing the limits of dominant ideology. But, an innovative approach to institutional matters alone is insufficient to translate one's philosophy into real action. For this to be possible, the potential entrepreneur also has to dispose of effective means of action. This explains why, in North's theory, it is not the individual that interacts directly with the institutional matrix. What brings about real change is, in fact, supposed to be the "continuous interaction between institutions and organizations" (North, 1993). Thus, the organization can be seen as an enabling device making real action possible. Hence, institutional entrepreneurs are typically the leaders of organizations[5].

The foregoing developments can briefly be summarized as follows. Human individuals act in response to opportunities that are perceived as such through the lens of mental patterns. To the extent that an actor perceives better opportunities in an altered institutional environment than in the existing one, he becomes an entrepreneur initiating real change, if he disposes of sufficient resources. The availability of the latter is typically conditioned by the support of an organization.

So far, we have mainly discussed the theoretical conditions that are the starting block for institutional change, without characterizing the nature of the process of change itself. We will address this question more closely in the context of the specific case of the evolution of corporate governance, and especially when explaining the role of the shared mental pattern as a force keeping institutional change on its historical trajectory. So, before we go on to the next section, we simply add that the nature of the evolutionary process is supposed to be "overwhelmingly incremental and path dependent" (North, 1993).

2.2. Institutional Change and Corporate Governance

If we choose to accept the definition of a corporate governance system as *the set of mechanisms which restrict managerial discretion* (Charreaux, 1997), the explanation of institutional change summarized in the preceding subsection can easily be transferred to the field of the dynamics of governance. In fact, *restrictions on managerial discretion* are a special case of "the constraints that human beings impose on human interaction", which corresponds to North's definition of institutions. As a consequence, the system of corporate governance consists of a subset of the entire set of rules composing the institutional matrix of a given country. Figure 1 represents this relationship between institutions and corporate governance. Note that an individual firm's CEO is generally not subject to all mechanisms potentially available inside the governance system of a particular country. The management of a company that is not listed on the stock exchange, for example, does not support the pressure of potential takeover in the open market as a disciplinary device. Hence a national system of governance allows for the coexistence of several subsystems[6].

[Insert figure 1 here]

Constraining managerial discretion, the corporate governance system achieves an alignment of the CEO's actions with the interests of certain stakeholder categories (Shleifer and Vishny, 1997). This has important theoretical implications if we want to make the very broad concept of the mental pattern operational for the explanation of the dynamics of governance. In fact, as a special form of the “rules of the game”, the available governance mechanisms can be represented as being the institutional “incarnation” of the shared mental pattern in a given country. Researchers in financial economics traditionally have recourse to the concept of value to achieve parsimonious modeling of the impact of the conflict of interests between stakeholders on the adoption of specific governance structures. Even though, in these models, value is often confounded with *shareholder value,* this need not necessarily be so (Castanias and Helfat, 1991, 1992, Garvey and Swan, 1994). In fact, confounding value with shareholder value is based on the very restrictive assumption that the shareholders are the only residual claimants of the firm. But, such an assumption is itself likely to be influenced by a particular mental pattern, namely the one which Yoshimori (1995) identifies as the “monistic concept of the firm”. Since the latter does not apply equally to different countries, an explanation of corporate governance based exclusively on such an approach has weak explanatory power, especially when it comes to dynamics. Hence, we propose to define value more broadly as the organizational rent. The conflict of interest between stakeholders then becomes a struggle for the creation of rents and their appropriation. Under these conditions, the commonly accepted “theory of value”, by influencing the stakeholders’ actions, has a major impact on the rules that apply to the creation and redistribution of rents. We thus propose the following definition of the mental pattern for modeling the dynamics of governance: a mental pattern is *a representation of the role of different stakeholders in the value creation process as well as of the appropriate remuneration of their services* (Wirtz, 2000). This is, of course, a highly stylized representation of a mental pattern, and it is very likely that the effort to observe *real* mental models would yield much more complex constructs. Hence, our approach aims at achieving parsimony in explaining the evolution of corporate governance systems. It is not meant to contribute to a descriptive inventory of cognitive maps[7].

Hence, the definition we propose can be viewed as what may be called the ideological core assumption of the mental pattern. It contains a positive[8] as well as a normative component. Supposedly "good" corporate governance is hence weighed by the different actors against such an ideological benchmark. In order to be able to do so, besides the core assumption, the mental pattern has to contain a representation of the economic effects of different incentive and control mechanisms. We propose to refer to this as *the technical component* of a mental pattern concerning governance issues. An example of this technical aspect is the belief in the efficacy of an active market of corporate control to achieve shareholder interests.

What is important for the dynamics of corporate governance systems as represented in the present conceptual framework is the fact that an individual's mental pattern, though partially influenced by cultural learning (Denzau and North, 1994), may diverge in a more or less important manner from the traditional concept of the firm. Such differences potentially concern fundamental core issues or simply some technical aspects of governance. In this context, an entrepreneurial mental pattern conditions the perception that an institutional innovation has a positive effect on the opportunities of rent creation and on the possibility of its appropriation by the entrepreneur. In order to be attractive to the latter, the anticipated benefits from the change in existing governance structures must outweigh the anticipated costs such a change implies. At this point, it is useful to specify, however, that an innovation does not necessarily imply the invention of a totally unknown governance mechanism. In fact, the transfer of a mechanism already existing in a foreign institutional matrix to one's own national environment can also be considered as an institutional innovation. This reasoning is the foundation of the following proposition.

Proposition 1: The organizational entrepreneur perceives the opportunities of a change of **particular** corporate governance structures as a function of his individual mental pattern. The relative weight of different stakeholder categories in his representation of the value creation process is a favorable condition for the development of control mechanisms associated with those stakeholders supposed to make a critical contribution.

Proposition 1 concerns primarily the individual organizational entrepreneur. The latter can be, but is not necessarily, the CEO of a large company. The impact of his action on the national system of corporate governance is more or less direct, depending on the organizational infrastructure of which he disposes. Hence the manager of a single corporation, by pursuing his corporate strategy, has probably an impact on the system as a whole, which is much lighter than what can be expected from the prominent leader of a regulatory body. However, through a feedback loop working along the lines of trial, error, and the imitation of supposedly successful strategies, local action may exert a decisive influence on the overall system in the long run (Roberts and Greenwood, 1997, p. 361-362). In this context, the velocity and the form which characterize a change in the system of corporate governance is *a priori* subject to the distance between the entrepreneur's innovative approach and the shared mental pattern. Hence, the following proposition concerns the interface between the local level of the individual firm and the global level of the system of corporate governance.

Proposition 2: The shared mental pattern contributes to keep changes of **particular** governance structures on a historical path. The effects of an individual entrepreneur's initiative, implying too large a departure from traditional routines of governance, are likely to be moderated by **influent** stakeholders' invocation of the dominant ideology.

But, representing the shared mental pattern as a moderating force must not obscure the fact that the dominant ideology is itself subject to change. Rather than a cause of absolute inertia, it should rather be seen as a vector of path dependence. Thus, in principle, changes in the shared mental pattern are possible. Theoretically, they tend, however, to be of a gradual rather than of a disruptive nature. In fact, it seems reasonable to suppose that different stakeholder categories engage in adaptive learning[9] as a result of observed past success. The underlying logic is a long-term tendency towards relative efficiency[10], which does not exclude, however, transitory periods of relative inefficiency (Hill and Jones, 1992). In fact, it can be imagined that changing a shared mental pattern implies costs of adaptation. Their relative weight depends on the number of stakeholders that have to engage in this type of learning and on the effort it imposes on them. Thus, for learning to take place, the concerned stakeholders must perceive the effort to be outweighed by the benefits. For gradual it may generally be, when a change in the ideology of reference actually does take place, this is likely to cause a transition in the system of corporate governance. In fact, the latter is the shared mental pattern's institutional "incarnation". Hence proposition 3.

Proposition 3: National corporate governance **systems** change as a function of the evolution of shared mental patterns.

To a great extent, research on governance has been stimulated in the field of corporate finance. Shleifer and Vishny (1997) propose a survey of this literature. They state that "[c]orporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return to their investment" (p. 737). According to this perspective, financial investors are a potentially important stakeholder category, trying to assure themselves a part of the organizational rent. Their perception of the way in which this objective can best be achieved depends on their particular mental pattern. Investors' expectations of appropriate returns are thus likely to depend on the "philosophy" according to which value is supposed to be created and redistributed in a given firm. Hence, it seems reasonable to assume that investors condition investment decisions on the consistency of their own mental pattern with the one reflected by the CEO of the firm to which they choose to channel their funds. As a result, the availability of liquid financial resources gives a firm's management discretion in pursuing their strategy, hence proposition 4.

Proposition 4: Investors' perception of managers as being capable of creating managerial rents facilitates firms' access to external resources. Those resources potentially enhance managerial discretion.

The managers of financial institutions potentially play the role of organizational entrepreneurs if they promote a change in the existing corporate governance system. Recall, however, that to actually become an entrepreneur, leaders of organizations have to dispose of sufficient means of action. Investors, having access to large amounts of money, possess such an enabling device, if they are free to invest their funds where they see the best opportunities, and if these funds are perceived to be critical to corporations. If firms in a country increasingly have recourse to a new source of finance and comply with the standards of governance imposed by the investors who control this source, the new governance mechanisms will become increasingly important. Thus, they are likely to contribute to a gradual transformation of the institutional matrix. This leads us to proposition 5.

Proposition 5: When a country's firms increasingly resort to a certain type of finance, this is one potential cause of a modification of the range of **particular** governance mechanisms composing the national **system** of corporate governance.

The theoretical propositions summarize a conceptual framework which aims at explaining the dynamics of corporate governance systems on the basis of the interaction between organizations, their leaders and the institutional context. It is the innovative mental pattern of an entrepreneur which is supposed to stimulate the process of change. In order to actually play the role of an entrepreneur, the leader of an organization must have discretion. Large amounts of liquid financial resources are one possible means of enhancing discretion.

The following section is destined to control for the acceptability of the theoretical framework when it comes to explaining the real world. Pursuing this objective, we shall presently return to a discussion of the mutations of the French system of corporate governance. In doing so, we seek to ascertain whether the characteristics of an actual historical process are consistent with our propositions. Unfortunately, the Anglo-Saxon literature is so far rather poor of descriptions of French corporate governance[11], which obliges us to base our analysis mainly on French sources. The latter range from accounts by academic observers (Hirigoyen, 1994, Lesourne, 1998) and by actual managers of large corporations (Albert, 1991, Fauroux, 1998, Peyrelevade, 1998, Riboud, 1999, Viénot, 1995) to press articles.

4. *The Theoretical Framework Applied to the French Case*

Figure 2 recalls some of the most significant milestones in the process of the transition of the French corporate governance system.

[Insert figure 2 here]

The following analysis systematically examines these changes in the light of the conceptual framework presented in the preceding section. Our reading of the evolution of corporate governance in France since the end of the second world war suggests that it is possible to roughly subdivide the total period into three distinct sequences. In fact, section 3.1. illustrates how the dominant ideology contributes to effectively counteract the initiative of an individual organizational entrepreneur. In spite of such transitory resistance, however, institutional entrepreneurs located at the very heart of traditional French-style capitalism – that is to say the State – succeed in triggering deep reaching transformations (3.2.). Among other things, these transformations bring about a liberalization of capital transfers. In the following years, this makes it possible for foreign investors to increase their influence on major French corporations (3.3.). In this context, the activism of certain institutional investors, especially from the Anglo-Saxon sphere, appears to contribute to the promotion and the increasing acceptance of new standards of corporate governance.

4.1. The Traditional Mental Pattern Resists Disruptive Change (1945-1983)

We have already indicated that the traditional French concept of the firm is rather hostile towards governance mechanisms that enhance private benefits which can easily be appropriated by shareholders. According to this point of view, the interests of different stakeholder categories are thought to be properly represented by the State's predominant role in corporate governance. On the technical side, this representation is coupled with a preference for relational control mechanisms working through a network of personal ties over anonymous mechanisms of the market. This economic "philosophy" is not necessarily shared by every single individual, however, which means that entrepreneurial initiative cannot be excluded. This assessment is well illustrated by the conditions surrounding the first important control fight in the French capital market since the end of world war II.

In fact, in December 1968, Antoine Riboud, then CEO of B.S.N.[12] (Boussois-Souchon-Neuvesel), an important glass manufacturer, launches a hostile raid on his major French competitor Saint-Gobain. The latter company was founded in 1665 by Colbert, and its trajectory is an integral part of France's industrial history. In his own words, Riboud describes the strategic motives of his initiative as follows.

"We [A. Riboud and A. de Vogüé, CEO of Saint-Gobain] had two opposite strategic visions. Our own strategy was to rapidly gain strength in our [main] activities, to concentrate our investments and to specialize our factories in order to ameliorate productivity. [...] On the other side, at Saint-Gobain, management was based on a *'colbertistic' conception* of enhancing the value of assets in the long run. 'Immediate profits and short-term return on investment must in certain circumstances be limited to assure long-term security and growth', Arnaud de Vogüé had said. These to strategies had led to results which were translated into the share prices. The 200,000 Saint-Gobain shareholders had seen the value of their shares decline between 1958 and 1968, whereas the BSN share had tripled." (Riboud, 1999, p. 82-83, our translation, italics added).

Perceiving an important potential to create rents by the merger of the two groups and in the face of his counterpart's refusal, A. Riboud decides to launch a hostile tender offer. The latter is, at that time, a very unusual strategy in the French context. It thus appears that in Riboud's perception only a radical departure from traditional corporate governance mechanisms would help to realize the anticipated wealth gains. This observation is consistent with **proposition 1**, according to which the organizational entrepreneur perceives the opportunities of a change of particular corporate governance structures as a function of his individual mental pattern. Riboud's emphasis on the development of shareholder wealth lends further credibility to

proposition 1. The latter contains, in fact, the idea that the relative weight of different stakeholder categories in the entrepreneur's representation of the value creation process is a favorable condition for the development of control mechanisms associated with those stakeholders supposed to make a critical contribution. The CEO of B.S.N. appears to lend relatively more attention to shareholders as a stakeholder category than does his counterpart at Saint-Gobain. The latter actually promotes a more traditional *colbertistic* approach. In a manner consistent with his emphasis on shareholder value, Riboud has recourse to a governance mechanism of the capital market, that is to say a hostile tender offer. Such a strategy is consistent with **proposition 1**, if the entrepreneur subscribes to a typical assumption of the agency literature, namely that the market for corporate control is a mechanism achieving an alignment of the objectives of a firm's management with shareholder interests.

The defense of the incumbent Saint-Gobain management is to a large extent based on a campaign mobilizing many stereotypical perceptions that are shaped by the traditional ideology. Thus, Hirigoyen (1994, p. 377) holds "cultural inertia" responsible for "the impossible success" of the takeover attempt. He shows that different stakeholder categories, such as the employees at different hierarchical levels, members of the board of directors and even the shareholders, are very attached to continuity. In fact, Saint-Gobain's capital is characterized by weak mobility, hence corresponding to a system of "dedicated capital"[13]. As Hirigoyen (1994, p. 378) puts it, "one inherits Saint-Gobain shares, one does not buy them". Hence, in a manner consistent with what we have earlier identified as the traditional shared mental pattern of France, the shareholders' mentality refuses to look at Saint-Gobain as a tradable merchandise.

When defending his position, A. de Vogüé, the incumbent CEO, explicitly links his approach to the public opinion. In fact, he calls B.S.N.'s takeover attempt a maneuver "stimulating *instinctive* opposition in the public" (quoted in Hirigoyen, 1994, p. 379, our translation, italics added). It is in order to point out that the important aspect of the incumbent's statements is not an assessment of his adhesion to every detail of what may be considered as the shared mental pattern. What matters is that, by integrating aspects of the dominant ideology into his rhetoric, he is able to rally the different stakeholders to his cause. The support given to de Vogüé's defense as a response to perceptions shaped by the shared mental pattern appears hence as a significant cause of the outcome of the takeover battle. Roger Fauroux, who becomes Saint-Gobain's president in 1980, gives his version of the takeover fight. "[...] in order to defeat the financial offers of its adversary, Saint-Gobain had established secret relationships with friendly firms which were to acquire a significant stake of its shares for a high price. Today, these things may seem surprising, but *when honor was at stake, ethical conduct forbade that one counts his money*." (Fauroux, 1998, p. 42-43, our translation, italics added). The "friendly" companies' support appears thus to be motivated by shared moral standards. Further contributing to our evaluation of B.S.N.'s strategy as being opposed to dominant ideology, Fauroux (1998, p. 43) describes the public opinion's image of the aggressor as "really poorly educated". Riboud (1999, p. 91) also states that in traditional business circles he had a rather bad image. So everything indicates that in the institutional context of his time, B.S.N.'s CEO transgresses a major taboo.

The foregoing analysis seems widely consistent with **proposition 2**. According to the latter, the shared mental pattern contributes to keep changes of particular governance structures on a historical path. In fact, B.S.N.'s tender offer is defeated, largely because of resistance which is mainly justified by elements of the shared mental pattern. The latter thus contributes to keeping the French system of corporate governance on its historical path. As a matter of fact, France does not develop a relatively active market for corporate control until the nineteen-nineties. The recent takeover-fight (1999) opposing three major banks (BNP, Paribas, Société Générale) indicates the great distance French capitalism has traveled since

B.S.N.'s defeat. The following section analyses the events that have influenced the gradual change of French-style corporate governance.

4.2. The State as a Platform for Institutional Entrepreneurs (1984-1994)

According to Lesourne (1998, p. 132), the traditional representation of French business relations was at its highest in the nineteen-sixties. In fact, at that time, economic growth increases people's confidence with respect to the predominant ideology[14]. Since, the French mental pattern has however undergone certain transformations. In this context, some observers speak of "a forceful penetration of American values into France" (Albert, 1991, p. 274, our translation). This evolution is made possible by the State itself. The latter appears to be the central instance of governance according to the shared mental pattern. Interestingly, it is precisely the initiative of the public administration which triggers a vast transformation of the French financial market. In fact, in the middle of the nineteen-eighties, the government "heals France's inhibitions and rehabilitates the fundamental values of the market economy" (Albert, 1991, p. 269, our translation). The increasing role of the capital market in the supply of corporate finance progressively induces a change in the attitude towards certain governance mechanisms. Hence, we observe the spreading of ideas, which are traditionally much more associated with the Anglo-Saxon referential. The increasingly internationalized capital market thus appears as an important vector, pushing a change in dominant ideology. As a matter of fact, a significant proportion of the largest French firms is presently in the hands of foreign investors. The most active among them, as it is the case of certain American pension funds, promote a mental pattern which emphasizes shareholder demands and governance mechanisms supposed to maximize shareholder value. Accordingly, the pressure coming from the capital market is perceived by French managers as a challenge to the established system of corporate governance. The following quotation from the Viénot report is a typical example of the impact the perception of the demands of the market has on thinking about corporate governance: "the Committee notes that the participation of independent directors complies with a *demand of the market*" (Viénot, 1995, p. 15, our translation, italics added). According to Peyrelevade (1998, p. 43), who is even more radical in his conclusions, the need to have recourse to finance of foreign origin forces compliance with the "ideas of the *Financial Times*".

In order to summarize the preceding developments, one can say that the State, which is at the very center of the traditional shared mental pattern, is also at the origin of an important move to liberalize the French financial market. In this way, the public administration contributes to legitimize a concept of the firm, which diverges from traditional ideology. Following this initial move, the financial market becomes an important vector for the diffusion of a "philosophy" of corporate governance, which gradually moves away from the traditional French representation of efficient control and incentive mechanisms. The public debate concerning the rules of "good governance", which seems to put increasing emphasis on shareholder interests[15], is far from being neutral with respect to the actual institutions of governance. We thus have an illustration of the plausibility of **proposition 3**, according to which national corporate governance systems change as a function of the evolution of shared mental patterns. As a matter of fact, during the last fifteen years, the dominant ideology in France has made increasing space for the market.

It is in 1984 that the State creates the basis for its progressive retreat from the control of large corporations. What is interesting is the fact that this major reorientation takes place under a socialist government. *A priori*, this may strike as rather surprising , but eventually facilitates the legitimization of the increased importance of the market by other political currents. In the middle of the nineteen-eighties, the role of the entrepreneur with an innovative approach to the conditions of corporate governance is thus played by leading members of the French national government. Financial deregulation which is initiated in this way is a significant cause of the long-term development of the market's role in corporate control. The COB (French equivalent to America's Securities Exchange Commission) receives strong authority (Albert, 1991, p. 271) in order to ascertain the proper functioning of the capital market mechanisms. Conceived to assure the security of operations and to guarantee investor interests, the new rules contribute to extract the stock exchange from its marginal position. Hence, for certain firms, the State facilitates the direct access to market finance. A change in the corporate governance system thus brings about a modification of the entire set of the possibilities open to corporate finance.

But, in spite of the liberalization of the financial market, not all firms are free to procure themselves finance at the stock exchange. In fact, the nationalized sector continues to be important, being composed of some of the biggest companies. In this context, a second major change takes place in 1986. The Chirac government launches the first important wave of privatizations. The following account helps appreciate the far reaching implications of this event.

"[...] eight large groups, the majority of which are of enormous importance (e.g. Saint-Gobain, Paribas, CGE, Havas, Société Générale, and Suez), have been transferred from the national to the private sector. The initial motivations of this new French policy can make one think of a target such as approaching the Anglo-Saxon model, in that increasing the dimension of the stock exchange by creating several million new stockholders had priority." (Prodi, 1991, "Entre les deux modèles", *Il Molino*, quoted in Albert, 1991, p. 265, our translation).

The privatization procedure, however, takes on a very particular form, which shall shape the face of French capitalism for several years. In fact, the French State does not want the newly privatized firms to become easy takeover targets. Because of this, the so called *noyaux durs* (hard cores) are installed. These are groups of permanent shareholders, controlling significant capital stakes. In this way, even though it retires from direct control of privatized firms, the public administration still keeps some influence on the future evolution of their control structure. One important peculiarity of the *noyaux durs* system is that a relatively restrained circle of companies is called upon to compose the groups of permanent shareholders (Les Echos, 12/08/1998, *Le Planisphère*). Consequently, a very dense network of cross shareholdings is created. “Hence, most of the big French companies, be they private or privatized between 1986 and 1987 or between 1993 and 1994, were often shareholders of their own principal shareholders” (Les Echos, 12/08/1998, our translation). It is also interesting to note that the exchange of capital stakes generally goes hand in hand with an exchange of corporate directors. Consequently, the corporate governance system is characterized by a relational network which is relatively well shielded off against outsiders.

The privatizations of 1986 have decreased the State’s direct control. However, the initiative is interrupted as a result of the election of a new government. Hence, an analysis of the evolution of financial relations concerning the biggest French firms shows that, in 1991, the nationalized companies are still quite numerous and of considerable weight (Les Echos, 12/07/1998). Later, a new change of governments in 1993 causes a second wave of privatizations. The latter still implies the installation of groups of permanent shareholders and thus reinforces the previously described network of mutual relations.

It is interesting to note that these major institutional changes have been launched as initiatives of the State. The organizational entrepreneurs, who are at the origin of this process, must hence be located at the level of the public administration. With respect to this issue, it is useful to recall the assumption that an entrepreneur has to comply with two conditions. First, he should have a perception of opportunities that partially diverges from traditional ideas. Second, he should dispose of some sort of enabling device to realize his strategy. In this context, it seems probable that the liberalization gains legitimacy by the fact that the representatives of the State, central player in the shared mental pattern, are themselves the initiators. This may explain why, in this case, the traditional ideology is not a serious obstacle to institutional change. In fact, **proposition 2**[16] considers the distance between the shared mental pattern and the cognitive structure of the organizational entrepreneurs. In the French case, it seems plausible that the distance perceived by public opinion is quite small, due to the fact that the State itself controls the transition. In this context, it is useful to quote Albert (1991, p. 267) concerning the traditional perception of the State's role: "a *colbertistic* State which has not ceased to dominate the economy: protectionistic and dirigistic on the one hand, but investor, *creator*, [...] on the other" (our translation, italics added). Due to the fact that it emanates from the central figure of dominant ideology, the initiative appears legitimate. At this point, we should also signal that the first *noyaux durs*, which are in part composed of still nationalized firms, show a clear preference for a French solution. In this way, the State indicates its wish to transform the system, without stimulating too violent a departure from national routines.

The growing importance of capital market mechanisms for the governance of French firms at the end of the nineteen-eighties is illustrated by Franks and Mayer's (1990, p. 198) observation, according to which only recently "a number of hostile bids have been launched in France and [...] these are set to increase in the future". At the same time, the disciplining force of a hostile-takeover risk is diminished for certain companies, as a consequence of the network of cross shareholdings. Hence, the evolution of the governance system since 1984 is double. It is characterized by a substitution of two distinct forms of control for the traditional governance mechanisms. In fact, direct control by the State is progressively replaced, either by a system of cross shareholdings, or, in the rare cases of widely held firms, by the pressure stemming from a potential hostile tender offer.

4.3. The Effects of the Increasing Weight of International Investors (1995 and later)

Globalization means that French firms are increasingly exposed to international competition. But, on a global scale, the big French companies do not always play in the major league. A strategy oriented towards internationalization, as it is explicitly promoted by certain managers, implies important needs for capital. In this context, firms can try to call on the financial market in order to supply themselves with financial resources. Recall that certain companies have gained access to the capital market since the different initiatives of deregulation and privatization. As a result of the growing international integration of the capital market, the transaction costs a foreign investor incurs are reduced. This facilitates the application of such an investor's strategy when he wishes to (geographically) diversify his financial placements. Hence, a major proportion of the biggest French firms is characterized by a capital structure where foreign investors gain increasing weight. In fact, a study of the *Conseil National du Crédit et du Titre* (CNCT, 1999) on corporate finance in France considers that, "during recent years, finance from non-residents has been amplified because of their wish to diversify their placements" (p. 181, our translation). In only ten years, the part of the French stock exchange's capitalization held by foreign investors increases from originally 10% to 36% (statistics from *Banque de France*, quoted in Les Echos, 12/09/1998). Hence, a CEO who wants to issue new equity will have to deal with potential foreign stockholders. In this context, the Anglo-Saxon pension funds, that are very attached to shareholder value, are often quite active when it comes to defending their own "philosophy" of corporate governance. They dislike the network of cross shareholdings and of interlocking directorships, which often lacks transparency. Consequently, the growing importance of foreign investors is accompanied by a successive undoing of the capital links established in the middle of the nineteen-eighties and at the beginning of the nineteen-nineties. Les Echos (12/08/1998) compare data for 1991 and 1998 and observe a "historical decline of cross shareholdings". This phenomenon seems to have been accelerated since 1995. Consequently, some of the largest French firms have presently widely held capital. This makes them easier takeover targets than in the past. Capital structure statistics concerning the biggest French firms and published by Les Echos (12/08/1998) show that ten of the corporations composing the CAC 40 index have a percentage of permanent shareholders inferior to 15%.

It should be noted that a foreign investor who takes a capital stake does not necessarily do so in the context of a new equity issue, thus injecting fresh financial resources into the firm. It is likely, however, that such a new issue contributes to an amplified potential exposure to the influence of foreign investors, who are presently an important player on the capital market. Their increasing weight may be explained by the conditions influencing the offer and the demand for foreign capital. We have already indicated that the offer partially emanates from the big institutional investors' wish to geographically diversify. They are, above all, interested in firms (French or other) that offer *from their point of view* the best perspectives with respect to return on equity. The latter is conditioned by a company's approach to the creation and the redistribution of rents. The investors' appreciation of a firm's capacity to create value and to distribute it in a supposedly "appropriate" way, thus enhancing return on equity, depends on their mental pattern. Hence, it appears to be plausible that those French corporations which are presently characterized by very large capital stakes held by Anglo-Saxon institutional investors give an image of themselves as being managed according to shareholder-oriented standards of governance[17]. This is consistent with **proposition 4**.

The demand for foreign capital seems, at least in part, to be stimulated by certain structural features of national savings. In fact, "[French] households have a strong preference for the liquidity and the security of their investments" (CNCT, 1999, p. 182, our translation). Thus, even though the study of the CNCT (1999, p. 183) clearly indicates national savings in excess of domestic needs, households invest only an insignificant part of their savings in corporate shares. Besides, those French financial institutions which manage a great part of national savings also invest very little of their funds in corporate equity. The CNCT (1999) quotes figures from the *Comité Européen des Assurances* (European Insurance Committee) and concludes that, "in a group of seven European countries [Germany included], France is the one where insurance companies invest the weakest part of their funds in corporate shares [approximately 15%]" (p. 184)[18]. Consequently, it seems plausible to suppose that a French firm, wishing to raise external equity finance in the financial market, is obliged to comply with the demands of foreign investors. This results from the weak propensity of domestic investors to put their money into corporate shares and, simultaneously, from the offer made by non-residents. Hence, the CNCT (1999, p. 194) states that "the portfolio investments of non-residents in the French market progress strongly and have attained 414 billion French Francs in 1997 [, against 257 billion Francs of portfolio investments made by residents in foreign countries]" (our translation).

As far as corporate governance is concerned, the massive arrival of foreign capital seems to have stimulated an intensifying debate on the efficiency of the French corporate governance system. Hence, the recommendations of the Viénot report are mainly justified by the perception which managers in France have of the demands of investors acting in the financial market. Marc Viénot expresses this in the following way: "[...] the strongest pressure in favor of transparency and of better shareholder information has come from Anglo-Saxon pension funds, the latter being very determined on this issue. The weight of their capital stakes also gives much weight to their recommendations." (quoted in Les Echos, 12/09/1998, our translation). The increasing recourse to capital stemming from foreign investors and the consequent adjustment of the routines of governance thus confer a certain credibility on **proposition 5**. According to the latter, a modification of the range of particular governance mechanisms composing the national system of corporate governance is caused when a country's firms increasingly resort to a certain type of finance. As a matter of fact, in the French case, financial policy potentially exposes domestic firms to entrepreneurial action by institutional investors, aiming at a transformation of corporate governance.

5. *Conclusion*

In this paper, we have tried to make intelligible the rationale underlying the major transformations of the French system of corporate governance since the middle of the nineteen eighties. Two main objectives have guided our investigation. First, we would like to fill a gap in the comparative literature on corporate governance systems, which has much neglected the French case. The latter is also very interesting in that it is characterized by several major changes which have taken place over the last two decades. This enables us to respond to our second objective, namely to illustrate the plausibility of an explanatory theory of the evolution of corporate governance. In fact, research on this issue is still in its infancy. Although many questions are still left unanswered, the analysis of the French case reinforces our confidence in the acceptability of our theoretical propositions. In a way consistent with the latter, different initiatives to introduce new governance mechanisms into the French setting emanate from so called organizational entrepreneurs. These entrepreneurs dispose of mental patterns that diverge more or less from traditional ideology. The latter can, however, pose a serious obstacle to disruptive changes in traditional routines of corporate governance. So the evolution of a national corporate governance system, such as the French one, though real it may be, is highly path dependent.

Our analysis also shows that the State was, for a long time, the primary platform for institutional entrepreneurs. Private initiative played a relatively less important role. In fact, an institutional innovation was attempted by the CEO of B.S.N., in 1968, but ran into fierce opposition and was consequently abandoned. One of the interesting aspects of the transformation of French capitalism is that the State is at the origin of its own progressive retreat. Hence, the traditionally strong institutional support for the entrepreneurial initiative by members of the State executive having diminished, the field has been left open to potentially new types of entrepreneurs. Recently, institutional investors have proved very active on this front, promoting a “philosophy” of corporate governance which aims at enhancing shareholder interests.

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Figure 1: Different levels of analysis – the relation between a country's institutional framework and its system of corporate governance

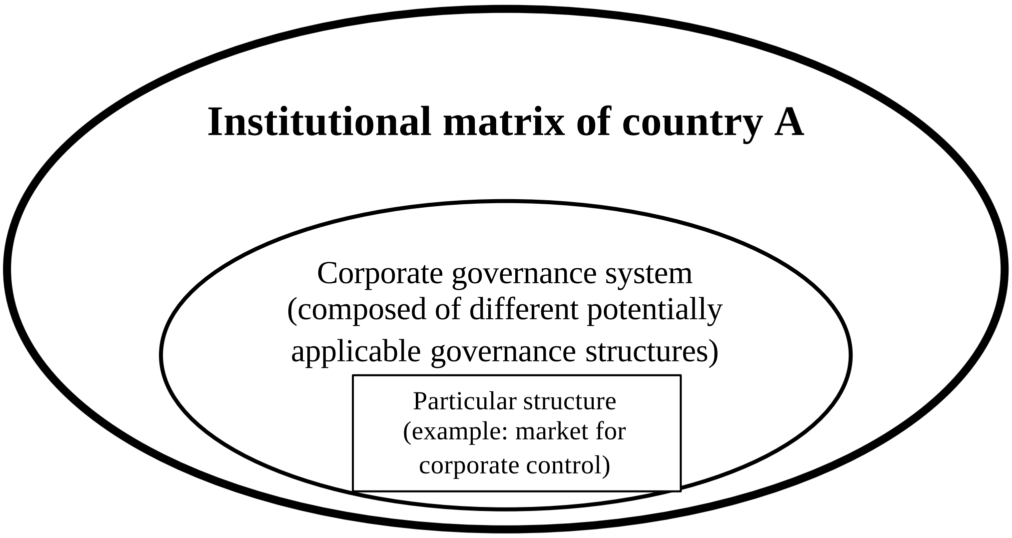
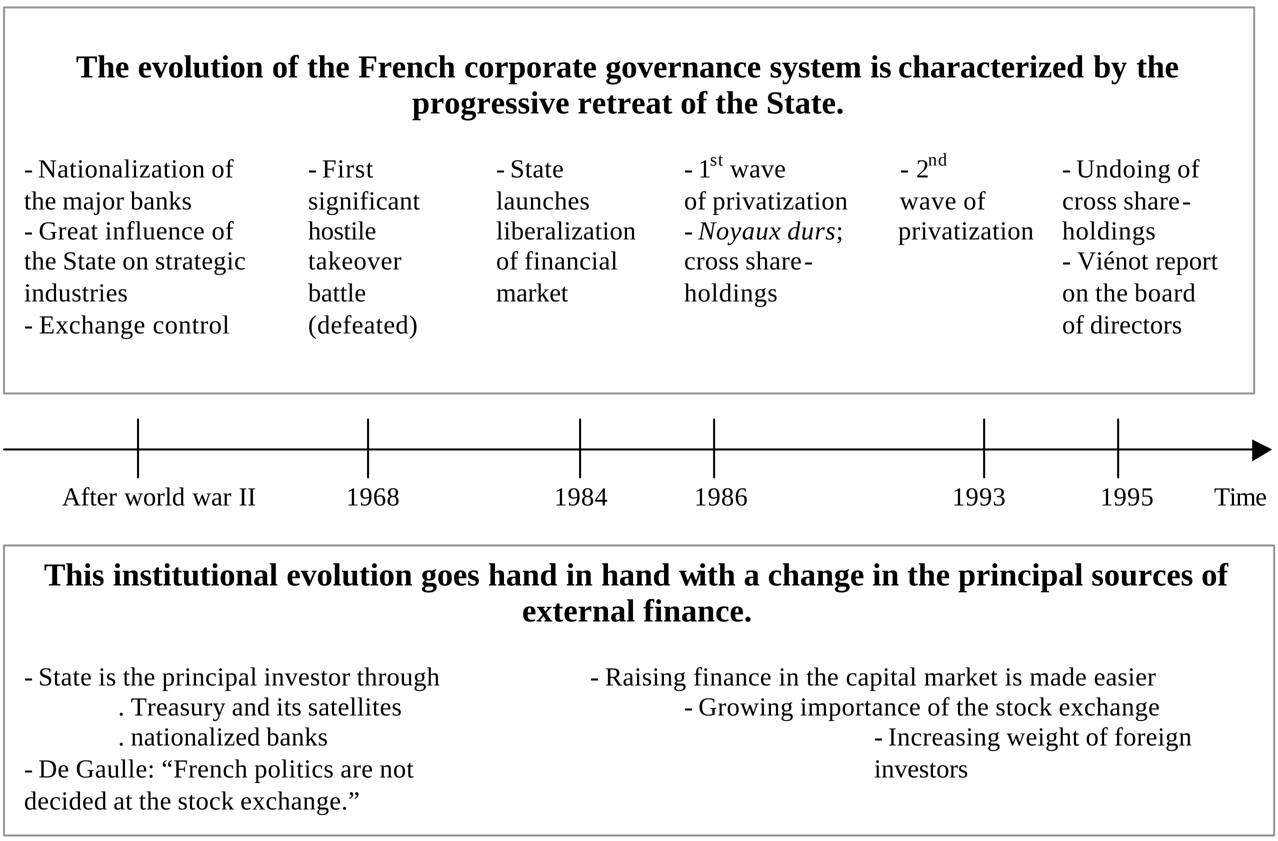


Figure 2 : Significant milestones in French corporate governance



[1] This author makes an empirical investigation concerning a national philosophy's answer to the following question : « In whose interest should the firm be managed ? » (Yoshimori, 1995, p. 33). His study identifies three different concepts of the firm: monistic (Anglo-Saxon), dualistic (German) and pluralistic (Japanese), where monistic means focus on shareholder interests, dualistic includes employees' interests and pluralistic refers to multiple stakeholders.

[2] Peyrelevade is the actual CEO of Crédit Lyonnais, a former state-owned bank which has recently been privatized after having undergone severe restructuring saving it from near bankruptcy.

[3] This term refers to Colbert, a minister under France's absolutistic monarch Louis XIV.

[4] Simon (1982, p. 131) defines procedural rationality as follows. "Behavior is procedurally rational when it is the outcome of appropriate deliberation." In a book published in 1983, the same author draws an analogy between the evolutionary process of trial and error and his approach to rationality.

[5] Those organizations can potentially take various forms. Hence, the leaders of such diverse organizations as the national government, trade unions, firms etc. may use their organizational infrastructure as a vehicle to initiate institutional change.

[6] Being conscious of this, our analysis of French corporate governance is highly stylized, focusing exclusively on stereotypical large-scale companies, as those present on the stock-market-index. Special cases like small firms, partnerships etc. are thus explicitly excluded from our study.

[7] Concerning a broader perspective of managerial cognition, the interested reader may refer to the excellent synthesis by Walsh (1995). This author considers that descriptive studies of mental patterns allow to appreciate the importance of this concept but generally fall short of developing explanatory theories of larger scope. Encouraging "effects research", Walsh (1995, p. 303) notes that "it may be time to call a moratorium on research whose only aim is to describe the content of a particular knowledge structure".

[8] In the sense of means-end modeling. In our case, the model concerns the value creation process.

[9] Note that Vromen (1995, p. 116) identifies adaptive learning as a distinct evolutionary mechanism. According to this author "*[b]eliefs* can be said to be improved in the sense that the agents come to recognize *ex post* what ways of behaving do and what ways of behaving do not yield satisfactory results" (p. 119, italics in original).

[10] It is important to recall that in our framework efficiency does not exist in an absolute sense, but is necessarily constrained (Roberts and Greenwood, 1997). Such an approach is the only one consistent with the dynamic assumption of procedural rationality.

[11] One notable exception is Schmidt (1996).

[12] The group has later changed names to become Danone, which was originally only one of its many brand names.

[13] This notion is employed by Porter (1992).

[14] This observation is consistent with the idea of a positive feedback loop linking supposedly efficient outcomes to a perpetration of the dominant ideology.

[15] See for example the viewpoint expressed by Peyrelevade (1998).

[16] Recall that, according to proposition 2, the shared mental pattern has a moderating influence on the strength of the transformation of governance structures. In this way, it opposes itself to disruptive changes in favor of gradual evolution.

[17] Recall that according to Yoshimori (1995) the Anglo-Saxon concept of the firm is monistic, which means that it is primarily focused on shareholder interests.

[18] It is, however, hazardous to conclude from the preceding arguments, as do some commentators (e.g. Les Echos, 12/08/1998), that the French economic system is "capitalism without capital". To get a more realistic picture, one should note that the proportion of equity in balance sheets has increased in a relatively regular fashion for more than ten years (CNCT, 1999, p. 48). Two factors contribute to an explanation of this evolution: a growing tendency in the flow of internal finance and equity raised in the capital market. Its analysis of the financial situation of French firms leads the CNCT (1999, p. 100) to the conclusion that finance is not an obstacle to investment by French companies. It is, however, in order to signal that, in spite of the significant decrease in the debt to equity ratio of big French firms since 1984 (CNCT, 1999, p. 52), it remains superior to the mean European ratio (p. 50).