



Family Capitalism and the French Problem with Work

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In *Le Capitalisme d'héritiers* (heirs' capitalism), economist Thomas Philippon convincingly challenges the received wisdom according to which longer working hours, less powerful unions, and less state regulation are what France needs to thrive. In the picture he paints, French company owners and managers are not victims but rather key actors of a low-trust equilibrium that combines dismal levels of cooperation between employees and employers, widespread family control, confrontational unions, and hierarchical management. Breaking this vicious circle is hard, but would be essential to unleash France's economic potential. *French Politics* (2007) 0, 000–000. doi:10.1057/palgrave.fp.8200132

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Introduction

France, it would seem, has a problem with work. Ten years ago, Lionel Jospin's socialist party unexpectedly won the general election on a platform whose central item was the 35-h week, and, having pledged to 'do what he said he would do', duly reduced the legal working time in the following years. The side effects, wage moderation and additional working time flexibility, played a big part in the socialists' severe defeat in the 2002 elections, in spite of a record surge in private sector employment. Then this year, Nicolas Sarkozy won the presidency by committing to restore 'work as a value' (*la valeur travail*) and to allow French workers to 'work more and earn more' with financial incentives to overtime.

Conventional wisdom has a long-standing interpretation of why work is such a contentious issue in France. The problem, the interpretation goes, combines labor regulation, union power, and an overgenerous welfare state, which distort working relations and depress economic activity (e.g., Baverez, 2003; Alesina and Giavazzi, 2006). It would be fixed by giving more freedom to hire and fire, lowering payroll taxes, trimming unemployment benefits, and reforming the legal framework for collective bargaining by reducing the



entrenched privileges of hardline incumbent unions, such as the ex-communist Confédération Générale du Travail (CGT) or its postwar offshoot Force Ouvrière (FO).

But look more closely, and this received answer gets less and less helpful when it comes to concretely tackling France's problems, or even to understanding them. Even with a strong mandate, policymakers seem unable to use the conventional wisdom as guidance for reform. After the 2002 change of majority, then labor minister (and now Prime minister) François Fillon made a number of adjustments to the working-time framework, but did not increase the legal working time (the reference on whose basis overtime is calculated) from its 35-h level. Nor did Sarkozy in 2007, in spite of the considerable amount of political capital he had amassed in a memorable election cycle. The first signs are that he has no plans to confront the unions head-on, as Margaret Thatcher and Ronald Reagan famously did in the 1980s. Nor, incidentally, does he currently plan to reform the civil service's protective and paralyzing labor status, as Italy did in the late 1990s and Portugal after 2005. During the campaign, he pledged to reform employment contracts to make it easier to hire and fire, but at the time of writing, this commitment was being toned down. Sarkozy's platform did not even mention one of the hardest labor nuts to crack, the complex 'collective layoff' procedures that make it mind-numbingly difficult for companies in France to restructure their operations in a downward cycle.

Furthermore, the 'French exception' is not as easy to track in the numbers as one might think. The average working time for French employees has decreased since the mid-1990s, but remains higher than in successful European economies such as the Netherlands or Nordic countries. Payroll taxes are higher in Belgium, Italy, or Sweden, and severance costs are higher in Spain. At less than 10%, unionization rates in France are among the lowest in the developed world, especially in the private sector. Moreover, studies consistently show that the French population is no less committed to 'work as a value' than its neighbors. For example, a 1999 World Values Survey (www.worldvaluessurvey.org) poll indicated that French respondents were the most likely among 24 high-income economies to consider work as 'very important' in their lives; among the most committed (7th out of 24) to teaching their offspring to value hard work as important; and among those who granted the least importance to leisure.

This latter piece of evidence is one of the many indications assembled in *Le Capitalisme d'Héritiers*, a short book published just before the 2007 presidential election, to propose a different perspective. Its author, Thomas Philippon, an assistant professor of finance at New York University's Stern School of Business, has gone through a wide array of economic, sociological, and historical sources. His provocative but compelling argument: at the root of



France's problems is not state regulation, but a low-trust, frustrating and ultimately dysfunctional social compact between company owners, managers, and workers.

Philippon looks for parameters which make France truly exceptional: the uniquely low level of reciprocal trust between employees and their employers, and correlatively, the employees' low satisfaction *vis-à-vis* their company. The World Values Survey shows French employees among the least likely to be 'very satisfied' with their work in developed economies, with only Greek workers faring worse. Another study, the Global Competitiveness Report (www.weforum.org), relies on managers' opinions to rank countries according to the quality of labor relations, from most confrontational to most cooperative. France ranks 99th out of 102, one of the least cooperative working environments in the developed world. This is not an effect of general Gallic grumpiness. The same French population ranks average when it comes to trust in their justice or political system (50th out of 102, in both cases). French workers just seem to be uniquely distrustful of the companies that employ them and uniquely unhappy about their work.

In spite of the obvious difficulty of making international comparisons of non-quantitative notions such as trust or happiness, the picture is made robust by the remarkable convergence of available evidence. For example, a private consultancy, the colorfully named Great Place To Work Institute, publishes yearly rankings of Europe's 'best workplaces' (companies volunteer to participate in the study, which is based on enquiries with both managers and employees) (www.greatplacetowork-europe.com). France's performance is consistently dismal. In the latest ranking, which was published after Philippon's book, it has fewer companies in the league table than any other European country, including much smaller ones such as Portugal, Ireland or Norway, and almost five times fewer than Germany (Figure 1). Adding insult to injury, the top ten ranked French companies are all foreign-owned, almost all subsidiaries of US groups: Bain, Morgan Stanley, PepsiCo, WL Gore (of Gore-Tex fame), American Express, General Electric CFS, Ferrero (an Italian chocolate-maker), Microsoft, Federal Express, and Mc Donald's.

Philippon connects this bleak assessment with the peculiar capital and governance structure of French companies. 'Family capitalism', defined by the fact that families not only control firms but also manage them, is highly prevalent in France. Unlike in the US, families do not give up control, even when the firm grows and lists on the stock market: there are dispersed-ownership companies in France, but most of them were formerly state-owned, not family-controlled. Unlike in Germany, where many *Mittelstand* companies started delegating company direction to professional, non-family managers as early as the 1920s and 1930s, in France family ownership most often also means management by the family's offspring and heirs. As to the

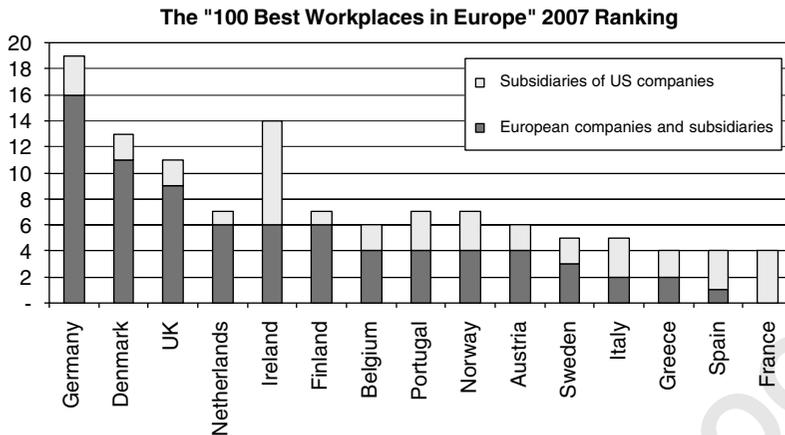


Figure 1 Ranking of Europe's 'best workplaces'. Source: Great place to work® institute Europe and author's calculations.

dispersed-ownership companies that used to be state-owned, they are still disproportionately likely to be managed by former civil servants, heirs not to a family's estate but to the French high bureaucracy's entrenched power — as is the case for about half the groups listed in Figure 2. The quasi-hereditary nature of power and distinction in France's highly hierarchical civil service apparatus, and its interconnectedness with business elites, have been repeatedly underlined, from Pierre Bourdieu's (1989) 'State nobility' to Lionel Jospin's own striking depiction of a 'new aristocracy' which 'emerges from an implicit alliance between business leaders, financiers, higher executives from industry and services, some senior State civil servants, and privileged media figures' (Jospin, 2005). Thus, the book's title aptly depicts France's dominant business framework as a *capitalisme d'héritiers* (heirs' capitalism). One consequence is that ordinary employees have virtually no chance to make it to the top, which is reserved for the ruling castes of family members and state mandarins.

The combination of low employee empowerment, confrontational unions, and heirs' capitalism creates a self-reinforcing vicious circle. The non-cooperative labor culture gives a comparative advantage to family enterprises, whose paternalistic framework may function better than dispersed-ownership corporations in taming and occasionally confronting union power. But the flipside is a defensive management attitude that emphasizes hierarchical authority, impedes delegation, values personal fealty over performance, and discourages horizontal collaboration and cross-fertilization. French managers' cultural inheritance and training leads them to (generally unconsciously) hamper employees' sense of initiative, thus destroying their motivation and



EDF	85% owned by the state
Total	Total (partly state-owned until 1992) purchased Elf (state-owned until 1994) in 2000
BNP Paribas	BNP (state-owned until 1993) merged with Paribas (state-owned until 1987) in 2000
Sanofi-Aventis	Sanofi (state-owned until 1994) merged with Aventis (itself formed from Rhone-Poulenc, state-owned until 1993) in 2004
AXA	Merged in 1996 with UAP, then France's largest insurer, state-owned until 1993
Societe Generale	State-owned until 1987
L'Oreal	Jointly controlled by Nestle and the founding family
Suez	State-owned until 1987
France Telecom	27% owned by the state (majority-owned until 2004)
Credit Agricole	Mutually owned, operates under a public charter; holding company listed in 2001
LVMH	Controlled by the Arnault family
Vivendi Universal	Longtime dispersed ownership
Gaz de France	80% owned by the state
Carrefour	Controlled until 2006 by the founding families
Renault	State-owned until 1996

Figure 2 The weight of former state ownership in France's largest listed companies. By decreasing order of market capitalization. Ranking: FT Global 500, 30 June 2007 (www.ft.com).

enthusiasm, hindering the full expression of their talents at work — and creating a fertile ground for unconstructive union behavior.¹

Of course, this plight is felt differently, depending on the industries and on managers' or employees' individual situations. It is perhaps most vivid in high-value-added sectors such as high technology, in which the quality of collaborative work and personal motivation of high-skilled employees plays a vital role (cf. Saxenian, 1994). However, sociological research, such as that recently conducted by Isabelle Ferreras in the retail sector (2007),² suggests



that similar effects can be observed in lower-skill industries, in which individual interaction among employees, and between employees and customers, are also of key importance.

Employment and growth also suffer as a result. Philippon finds a strong correlation between cooperative labor relations and high employment rates across developed economies, with France faring poorly on both counts. This correlation is likely to become stronger as the economy becomes more geared towards services, in which the quality of human relations plays a larger role, and productivity growth is more driven by innovation, which requires a collaborative culture and acceptance of change. Therefore, the problems induced by France's poor management culture not only bear on French collective mood. They can also be described as a first-order negative driver of economic performance.

The underlying dynamics are much different from what the previously mentioned conventional wisdom would imply. According to the latter, companies and their managers are the victims of the rigidity and conservativeness of unions and the state; the implication is that they would achieve wonders if left alone and unshackled. By contrast, in Philippon's depiction, managers and family owners are very much part of the problem; a problem governments may have limited capacity to solve.

Philippon's analytical framework dovetails with the one presented by the economists Raghuram Rajan and Luigi Zingales in their book *Saving Capitalism from the Capitalists* (2003), who noted that markets 'are a source of competition, forcing the powerful to prove their competence again and again. Since a person may be powerful because of his past accomplishments or inheritance rather than his current abilities, the powerful have a reason to fear markets'. Heirs' capitalism in France, as described by Philippon, would qualify as what Rajan and Zingales call 'a system of the incumbents, for the incumbents, by the incumbents'. An apt symbolic figure would be Ernest-Antoine Seillière, chairman of listed holding company Wendel Investissements, who combines the two threads of inheritance from family and state: in 1965 he graduated from the ENA, the top civil servants' training hothouse, in the same class as Lionel Jospin; and his father, a banker, in 1926 married Renée de Wendel, heiress to France's most powerful steel-industry family. During his 8-year stint as chairman of the French employers' association, Seillière was an inflammatory opponent of working-time reduction and more generally of state meddling in labor relations, but his own, grandly named 'social re-foundation' initiative to transform French collective bargaining failed to make any meaningful difference. Philippon quotes him as proclaiming, in an interview with *Le Monde* in 2002: 'There is no true capitalism outside of family capitalism. [Financial] markets are an anomaly of capitalism (*l'anomalie du capitalisme, c'est le marché*)'.



It is indeed striking to see how little space France's established business powers leave for new entrants. Of the 25 largest French listed companies, none was founded in the past 50 years. By contrast, five out of the US Top 25 are less than half a century old: Wal-Mart was created in 1962, Intel in 1968, Microsoft in 1975, Cisco in 1984, and Google in 1998. This list is dominated by high-technology companies, which, as earlier mentioned, perhaps most vitally need a collaborative management culture to succeed. But even in other sectors, the comparison is not to France's advantage. Besides Wal-Mart, a number of non-tech US companies as diverse as Carnival Cruises, CVS/Caremark, Devon Energy, Federal Express, Home Depot, or Valero Energy, all born after 1958, have grown fast enough to cross the market value threshold that would make them part of France's top 25, had they happened to be French.³ In other words, France's performance appears comparatively undistinguished when it comes to spurring the 'garage-to-multinational' variety of corporate growth.

How could France escape its vicious circle? In his final chapter, Philippon develops a set of public policy prescriptions, mainly directed towards reducing the power of incumbency in French business. They include: suppressing the tax advantage which favors transmission of company ownership to family heirs; orienting the financial system towards better funding of small, entrepreneurial companies; changing collective bargaining rules to enhance the legitimacy and accountability of trade unions; promoting better human resources management in public institutions; strengthening the freedom of the media as a means to improve corporate governance; and transforming the education system to make it less caste-perpetuating. One could dispute some of the specifics. In particular, management in the French public sector is generally even more hierarchical and disempowering than in private-sector companies, and it seems far-fetched to imagine that top-down reform could make the civil service a positive example of talent management for the rest of the economy.

But this is of secondary importance compared to Philippon's central, highly convincing point. It is futile to try to isolate the labor market, or labor regulation, as the one brake to France's competitiveness. What is needed — and certainly more difficult — is to change the framework conditions that keep France and its workers under their potential. From this perspective, any meaningful reform should modify the incentives of corporate owners and managers to foster gradual migration towards a more open ownership system, better management practices, and thus less resistance to change from employees and unions.

Which brings us back to Nicolas Sarkozy, and in which direction his presidency could move France. Sarkozy knows the French business establishment well, and has had several of its key players, such as the Bouygues family



concern, as his clients as a private lawyer. The two witnesses to his 1996 wedding were Martin Bouygues and Bernard Arnault, France's richest businessman. During a brief stint as finance minister in 2004, he was an activist in corporate matters, often with the proclaimed aim of protecting established French companies. Under his watch, the state purchased a controlling stake in Alstom, an engineering firm, to rescue it from bankruptcy or part-purchase by Germany's Siemens; persuaded Novartis, the Swiss-based pharmaceutical giant, to renounce a bid for Aventis; and directed Snecma, a state-controlled aerospace components maker, to combine with Sagem, an ailing electronics group. Bruce Stokes (2007), a canny observer, remarked during the 2007 election campaign that 'Sarkozy is not about to go after the business establishment that supports him'. Early decisions since his election include a large cut in the estate tax, which if anything might reinforce family incumbency, and the reduction of the emphasis on competition in a new European treaty agreed in June, which reinforced Sarkozy's image as an interventionist.

Thus, Sarkozy's policies so far do not exactly position him as the one who could break the sub-optimal equilibrium that hands French employees the raw deal Philippon aptly describes. His rhetoric, however, is more promising. Sarkozy's public utterances are suffused with an inclusive, uplifting can-do spirit. They ring some important bells, such as when he insists on the need to open up the upper layers of French society to families of immigrant, especially North African, descent. The way he publicly displays his friendship with successful self-made-men may contribute to break French cultural taboos on rags-to-riches personal wealth, which would be a welcome development. Now that Sarkozy has risen to the highest office in France, he could feel more freedom than before *vis-à-vis* incumbent business constituencies. He may create an alliance with younger, more entrepreneurial business leaders, and establish more distance with traditional corporate elites who, following a string of executive-pay scandals, are now arguably less popular than ever with the French public. Time will tell.

Moreover, if bad labor relations and lousy working experiences really are at the core of France's paralysis, then public policy can only be part of the answer. In an interdependent world, in which companies, markets and business trends can decreasingly be viewed through a purely national lens, the state's orientation — even in France, and even under Sarkozy — can be only one among many influences that set incentives and shape individual decisions. Ultimately, France's business owners, managers and employees are the ones responsible for the current degraded situation, and they are the only ones who really have the power to change it. For France's future, much rests on their future attitudes and choices.



Notes

- 1 This argument echoes an array of sociological research results on the specificities of human resources management in France. See Crozier (1973), Reynaud (1975), Groux (1983), and d'Iribarne (1993). Internationally comparative studies of this genre include Maurice *et al.* (1986) and Crouch (2000).
- 2 Ferreras' research was conducted in French-speaking Belgium, whose management culture is closely related to that in France.
- 3 Author's calculations based on the FT Global 500 ranking, 30 June 2007 (available on www.ft.com).

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