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The cohesion of intercorporate networks in France

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Abstract

In France, main companies nurture a high number of interlocking directorates. We run descriptive analyses on the 125 largest capitalizations at the Paris Stock Exchange, in order to highlight the economic and social factors driving this phenomenon. On the one hand, the governance network reflects a preference among directors of the same profile, suggesting a mechanism of bounded solidarity. On the other hand, it is included in the capital network, whose major shareholders are mostly foreign investors. We argue that the cohesion of corporate networks based on interlocks might decrease during next years.

Keywords: Social network analysis; corporate networks; interlocking directorates; governance; business elite; capital network; cross-shareholdings; equity linkages

1. Introduction

The cohesion of French intercorporate networks is more problematic than ever. Interlocking directorates are more cohesive in France than in most Western countries (Windolf 2002). An interlock (or interlocking directorate) occurs, when the director of a company sits in the board of another company. Following P. Bourdieu (1989), scholars generally underline the homogeneity of French business elite and the presence of numerous former bureaucrats at the top of main French companies. Social reproduction is thus alleged to be the underlying mechanism of cohesion. Though, such an assertion contradicts the fact that French economy is supposed to be a financial market economy. Since the late 1990s, the French economy has experienced policies of financialisation and an increasing part of foreign investment in the capital of its main companies. We may then question the sustainability of interlocks cohesion under such conditions. Are former bureaucrats still so central in corporate networks? What is the structure of capital networks? Does it allow the persistence of their power?

Our approach is based on a comparison between the governance and capital networks of the major 125 French companies at the Paris Stock Exchange. Studies generally focus on either interlocking directorates (Windolf 1999, Kadushin 1995, Dudouet et al. 2007) or equity linkages (Morin 1993, 2000). Those on interlocks emphasize the weight of social mechanisms, whereas those on equity linkages conclude that economic and political factors as protectionist interests prevail. However while directors and shareholders are closely interdependent, these different factors may be intertwined. They may all impact the structure of corporate networks. We successively present the last transformations of corporate networks in France, the objectives and the methodology of the research. Then, we

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study the ties among interlocking directors, before jointly analyzing governance and capital networks, and we discuss at last the results.

2. Context

Corporate networks in France demonstrate strong peculiarities compared to those in other main Western countries. P. Windolf analyzed interlocking directorates in Europe and the United States (2002). Among the 374 main firms in France, fewer are interconnected; isolates represent a bigger share (43%) than in Germany (32%), and mostly than in the United States (14%) and in the United Kingdom (8%). However interconnected firms are more integrated than in the other countries. The density among firms with ties is higher (4.92) than in Germany (4.21), in the United States (1.89) and in the United Kingdom (1.53). These firms do not only exhibit more interlocks, but also more multiple interlocks among each other. The proportion of multiple relationships (20%) is rather high. Moreover interlocks in France seem to be more centralized, as the firm with the highest number of interlocks in these countries is French. In brief, the French corporate network has the most cohesive core.

Two models emerge (Windolf 1999): the Anglo-American model and the Franco-German model. In the United States and in Great Britain, ownership is far more dispersed and the weight of institutional investors is more important than in Germany and in France. Further, interlocks form a very dense core in France and in Germany as opposed to the corporate networks in the United States and Great Britain. In Germany, this network intersects the ownership network to a great extent, whereas in France the overlap is weaker, but varies in function of the share of owned capital. French capitalism presents very specific patterns even compared to Germany: control relies on different social mechanisms. In Germany, control stems from a joint-regulation based on ownership interlinkages among non-financial firms. In France, interlocks are structured in particular by state regulation and family capitalism. The state bureaucracy exerts its influence thanks to shareholdings and *pantouflage*. “*Pantouflage*” refers to bureaucrats (from ministries, prefectures, embassies, high administrative bodies, etc.) leaving the administration to work in the private sector. Besides, familism is stronger in France than in other main Western countries. As a consequence, the French ownership network is hierarchical and pyramidal, whereas it is star-like in Germany and inverted star-like in Great Britain and in the United States (Windolf 2002).

M. Morin scrutinized the structure of French capital networks. In the 1990s, he highlighted the importance of financial cores and poles. The ownership network was clustered around the major banks, which owned large shares of main industrial groups. Three kinds of ties coexisted: intermediation ties among banks inside the financial core, alliance ties among industrial groups inside financial poles, and control ties inside business groups. Brokering main cliques of financial and industrial companies, the state played the role of an overwhelming ruler. This dominant position may have weakened with financialisation and globalization. As financial markets were liberalized, the share of foreign investment increased. However French capitalism exhibits paradoxical evolutions. Between 1998 and 2006, while the share of foreign investment increased to represent about 40% of the capital of CAC40 companies, interlocks became more cohesive (Agardi and Alcouffe 2007).

Scholars deduce conflicting arguments from these evolutions. To P. Windolf (2002), the French model may demonstrate stability thanks to the strength of multi-level networks, with the state bureaucracy at the highest level, and of familism. To M. Morin (2000), the French model is on the contrary converging towards the shareholder value model, since privatizations, financialisation and globalization lead to a disintegration of financial cores: Foreign investment now represents a higher share than cross-shareholdings in the capital of main French business groups. In a broad outline, we may sketch these perspectives as the sociological and the economic points of view. The first argument complies with the social reproduction theory, whereas the second point of view supports the convergence theory, as it principally concentrates on equity linkages. Focusing each on different dimensions of intercorporate networks, they draw opposite conclusions from the same evolutions.

3. Objectives

This study results from an exploratory research, whose objectives are rather to draw hypotheses and new directions than definitive conclusions. It relies on a comparison of capital and governance networks among major French companies. The capital network shows how convergent the interests of shareholders. In contrast, interlocks represent the communication network among board members, who may talk with each other (at least) during board