Business Elites and Corporate Governance in France and the UK

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This book compares and contrasts corporate governance in France and the United Kingdom by focusing on the formation and functioning of the members of the business elite in each country. Large samples of individuals in the business elite in each country are analyzed in terms of education, career paths, lifestyles, social networks, and family ties. The authors suggest that while some differences between the countries are disappearing, the corporate governance practices in these countries are still very distinct. These differences in corporate governance are related to the differences in the formation and functioning of each country's business elite. The unique forces at work in each country help to explain differences in board structure, business/government cooperation, and merger and acquisition activity.

Among the striking attributes of this work is its valuable research methodology. The authors weave together a broad array of data from archival sources, press, and executive interviews. What makes this study particularly unique is the breadth and depth of the sample; the authors study 2,291 individuals that belong to the business elite class of France and the UK in 1998. The use of the individual executive as the unit of analysis makes this study truly distinctive. In addition, the authors conduct in-depth analysis of the top 100 elites in each country.

Among the important findings of the book is that while the press may point to significant signs of convergence among the major world economies, differences between the French and UK business environments remain. Some historic differences between the two countries are shrinking. For example, UK firms are becoming increasingly cognizant of wider social issues, e.g., negative externalities like environmental impacts. French firms have a growing number of major shareholders from institutions outside of France.

At the same time, other differences prevail. For example, a significant portion of the French business elite has previous service in the senior ranks of the government prior to moving to industry. Accordingly, the partnership between the state and industry remains strong; the French government continues to bail out failing French firms. The French maintain dense interpersonal networks via interlocking board directorships among multiple firms; firms with high levels of family ownership remain very important in the French economy. The British generally shun government involvement in business and maintain sparse networks comprised of weak ties (Granovetter, 1973). A striking proportion of the British business elite have distinguished themselves in sports or by attending top schools; such achievement helps to provide the necessary social credentials. The French continue to emphasize a vibrant manufacturing base while the UK has long shifted its focus to services.

The authors note some of the shortcomings of agency theory in explaining the behavior of business elites (15). In light of these shortcomings, agency theory is not used to analyze or explain any of the findings in this book. This exclusion may have prevented the authors from making a valuable comparative assessment. Agency theory seems to explain governance in the UK quite well, while other theories seem to apply in France.

Agency theory explains much of the relationship between board independence, family ownership and firm performance. The effectiveness of boards of director grows as director independence increases (Hermalin & Weisbach, 1998). Lack of board independence, coupled with high levels of family ownership diminishes firm value (Anderson & Reeb, 2004). Entrenchment of directors has been shown to reduce firm value in the UK (Mudambi and Nicosia, 1998). However, research on resource dependence shows that firm performance is positively related to the human capital (the ability to provide good advice and counsel) and relational capital (the ability to leverage relationships with external organizations) of its board (Hillman & Dalziel, 2003). It would appear that the French corporate governance system embraces the resource dependence view rather than agency theory. The authors point to the unique importance of social and "symbolic" network capital at the highest levels of French business. The most successful business elites are those that are able to leverage their contacts in government and at other friendly firms for the benefit of their own firm.

The authors introduce some important concepts or frameworks without support. For example, the authors suggest that Executive Directors that are also Manager-Directors have predominantly "cultural" and "social" capital and non-Executive Directors that are also Owner-Directors possess high levels of "economic" and "symbolic" capital (34). While this construct may seem intuitive, it is an important assertion and should be based either on theory development or on links to previous research.

The authors also raise some important questions that are left unanswered. As U.S.-based institutions increase their shareholding in French firms, they may be expected to advocate increased board independence in opposition to the local practices. However, the authors observe that this increased U.S. shareholding coexists with the tightly held boards. Does this coexistence create tension? If so, how is this tension being managed? Is it increasing or decreasing?

The book sheds light on the impact of many of the changes taking place across Europe. The continued evolution of the European Union (EU), with the admission of Central and East European countries, along with the sustained drumbeat of globalization and regionalization worldwide continues to push historically different countries and business cultures together. In this context, the U.K. and France serve as useful representatives of the Anglo-Saxon and continental business cultures.

In sum, this book makes an important contribution. It provides evidence of yet another source of resistance to the institutional convergence amongst the world's economies induced by globalization. Even if globalization benefits the majority of a country's citizens, this book reminds us that the business elites retain considerable decision-making power. When convergence threatens the interests of these established elites, they can form a powerful force of resistance. Country-specific cultural factors often mask the gulf between the business elites and the rest of society. This should encourage us increase our focus on country-specific factors as we seek to understand the effects of globalization and institutional convergence.

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