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**HOW TO MAINTAIN A FRENCH IDENTITY  
WHILE PURSUING  
WORLDWIDE LEADERSHIP ?**

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In this presentation<sup>1</sup> delivered last March during the "Vie des Affaires" conference, Jean-Louis Beffa expresses a refusal to believe in the cosmopolitan company. The C.E.O. of Saint-Gobain wishes, on the other hand, to demonstrate that company nationality is an important and timely concept. He explains how this concept manifests itself in groups operating on an international scale.

### **Regional activities and worldwide activities**

Several factors may motivate the management of a company to internationalize its operations.

A primary motive for internationalization is the pursuit of world leadership in an activity, or a sector where global growth is slight. In a growing number of industries, the pursuit of world leadership is in fact essential, because competition is international and companies must reach a critical size in order to survive.

A company may also wish to distribute risks among several geographic markets. In this way it can protect itself against monetary hazards. When an activity is cyclical, presence on several geographic markets may lessen the cyclical risk.<sup>2</sup>

The third reason is connected to training. Training has not yet received the attention it deserves. Being present in Germany allows a company to learn how to deal with environmental problems, presence in Japan facilitates training in production methods, presence in the United States aids training in finance and marketing, etc... Similarly, a company present in different countries may take advantage of the education system of each country : researchers trained in France benefit from a solid mathematical background, Germany educates excellent engineers and the English-speaking countries provide strong training in finance and marketing.

However, I would like to introduce an important distinction : according to whether the activity is regional or worldwide, the consequences of internationalization differ at the management level. A regional activity is associated with high transportation costs, limiting exportation while providing natural protection against competition from geographically distant countries. Bottle manufacturing is a regional activity. By their very nature, services are regional activities : production and selling must be done on site. Other activities are international. Transportation is possible and represents a small portion of the cost price. Demand is consistent, and market shares are measured on the international scale. Production can be centralized in a few plants to supply "world products" to customers who themselves are present throughout the world.

Management, and with it the means of dealing with nationality issues, differs in regional and international activities. In a regional activity, connections between the various markets are limited.

Subsidiaries focus primarily on their national market. There is no need for systematic coordination between subsidiaries in different countries. A limited number of meetings permit transfer of essentially technical information. Management is decentralized. In this example, it is possible and even desirable to completely integrate subsidiaries into the local network in the various markets : local corporate name, national management, etc.. There is little exchange of executives between subsidiaries. Regional activities can be managed by playing chameleon or through federation<sup>3</sup> : enhancing the value of a country's specific characteristics and a simple co-ordination structure headed by a worldwide leader.

<sup>1</sup> This speech also appeared in the September 1992 issue of "Gérer et Comprendre" - Annales des Mines : 22, rue Monge - 75005 Paris.

2 For example, demand for siderurgical products fell in Europe and the United States in 1991, while it grew in South-East Asia.

3 Or what is known in the literature as the multi-domestic company.

International activities require unified management. Management is more centralized. Board meetings are more frequent. The co-ordination structure is more complex. Specific local characteristics are less important because the functions of supply, production, R&D and sometimes also marketing may be centralized profitably.

The distinction between regional and international activities is not a given. Many regional activities have become worldwide activities. Coca-Cola, Mc Donalds, Sony and Apple, to name only a few, have internationalized, in appearance at any rate, regional activities. Conversely, certain companies well positioned in a regional activity have no interest in internationalization : they would have to face new competition, close some manufacturing units to streamline production, change the organization method and more seriously still, lose the advantages connected to their excellent understanding of and adaptation to the various geographic markets they serve.

For an industrial group like Saint-Gobain, present in both regional and international activities, the challenge is to simultaneously develop activities dependent on very different approaches. Sometimes the international/regional distinction overlaps in a single activity. In the "packaging" branch, the bottle, the leader, is a regional activity while the flask is international. We have created a sub-branch for the flask and we apply international management to it.

### **How does the nationality of a company express itself ?**

The nationality of a company expresses itself in at least four dimensions : the shareholdership, the nationality of the management, the location of strategic functions and the expectations of the environment.

#### Shareholders

No matter what is said, the shareholdership of companies remains purely national. The big multinationals are German, American, English, French, Japanese, etc... Unilever and Shell, often cited as examples of international enterprises, are unmistakably Dutch. To date there are no examples of true success in bringing together companies from different countries, not even from different European countries. Discussions on the structure of CMB-Packaging illustrate this fact once again. There will be no international or even European companies until the shareholders share the same expectations. The expectations of Japanese shareholders have nothing to do with those of American shareholders. In Germany, shareholdership is composed of specialized banks and institutions. In Italy, families and the State are the principal shareholders. Great Britain has always favored finance over industry, which is why industrial groups are not dominant in that country today.

#### Management

The national nature of shareholdership explains why management teams are dominated by a particular nationality. Certainly, these teams are becoming more international, but slowly. At Saint-Gobain, we are making an effort to be clear on the analysis and the timeframe in order to improve the situation wisely.

#### Strategic functions

The location of some of strategic functions is another way in which companies express their national identity. Nationality often plays a major role in decisions regarding the location of R&D. 80% of Saint-Gobain's R&D takes place in France and everyone knows this. Two sectors are exceptions to the rule that R&D is located in France. Abrasives are located in the United States because Norton, recently acquired, is an American company. R&D in advanced ceramics is located in the United States, and the French research center is under the authority of the American one.

### Expectations of the environment: the four powers

In many ways, the environment in which the company exists can be divided into four spheres whose relationships differ from one country to another : industry, finance, administration and political power.

France would have no influence in political discussions if it were not backed by the fifteen influential industrial groups. This is important in maintaining co-operative relationships between political power and industrial groups. In the same way, this context favors relationships between the latter.

In Germany and Japan, the financial sphere understands that it can prosper if supported by prosperous industry. Banks develop and protect large industrial groups. German banks are more profitable than English ones.

In England, as in the United States, the political sphere appears not to get involved in industry<sup>4</sup>. The financial sphere looks to the short term. The explosion of LBO operations reflected the perverse effects of relationships between finance and industry in the United States. When involved in an LBO, a company must appear completely efficient. It emphasizes its strong points. Management is interested in results and in any case, it is protected by huge indemnities in the event of error. Investment bankers make commissions. Banks were able to lend at high rates. Pension funds did well in the short term. The whole system focuses on the short term. The company affected by the LBO becomes profitable by reducing the costs of growth. This includes R&D and international development. This gives competitors a historic opportunity to reverse the strength ratio because the consequences of an LBO are paid for over 10 to 15 years.

The identity of a country corresponds to a particular type of relationship (supportive or adversarial) between industrial groups, the administration, the political leaders and the banks. Thus, the president of the Bundesbank, who relishes his independence, reconsidered his principles when the chancellor asked him to make a special effort to assist with the absorption of former East Germany.

### **Exhibiting a French identity**

At Saint-Gobain, we make it very clear that we are a French company and at the same time, we seek to be a company where non-French personnel can flourish. Playing chameleon would imply that we were trying to hide our French identity. Most companies who adopt a chameleon approach hold a strong position in one area and try to reassure the national environment in which they are active. But these companies remain indelibly marked by their national origin.

At Saint-Gobain, we tell our managers that our system works on three levels : we have a French core, a European base and a worldwide strategy.

### Exhibiting differences explicitly and unifying mechanisms

The official language is French. We refuse to give official status to another language. But we also hold meetings in English. Since the borders of France have been open for two centuries, our foreign colleagues have had the time to learn French. In this respect, we are fortunate compared to other companies who internationalized more recently and who have adopted English as their

<sup>4</sup> For the United States, this is less true for sensitive defense-related industries, as demonstrated by the difficulties Thomson encountered when it attempted to buy the defense activities of LTV.

working language in order to be able to communicate with and manage their foreign subsidiaries.

In a group where one third of the employees are French, there is no place for arrogance. We must recognize cultural diversity and encourage integration of other cultures. Learning how others think is fundamental. For example, we must respect other ways of thinking in meetings. A German does not like to be interrupted before he finishes his sentence. An American will speak only about his own sector while a Frenchman will express a broader opinion. The French think ten years into the future while the Germans are champions of the three-year plan.

Recognition of cultural diversity and decentralization of operations are complemented by unifying actions. We attach great importance to the values of the group even if we refuse to put them in writing. The major strategic decisions are centralized. Finance is another unifying function. We have a rule that cash flow belongs to the whole group. We tell our subsidiaries how much they should contribute to the group. The executives are connected to the group and not to its subsidiaries. They are appointed by the group according to the needs of the different sectors. The financiers see to it that figures and profitability ratios are clear and consistent.

### Executive management administration

The fact that Saint-Gobain is a company which clearly displays its French identity does not prevent non-French personnel from following a fulfilling career path here. A non-Frenchman was recently named to head a branch. This decision has symbolic value. It signifies that a non-Frenchman can reach a very high level if he is qualified for it. In the same way, positions of responsibility in the French subsidiaries are not systematically held by Frenchmen.

More generally, great care must be taken when putting together subsidiaries' management teams. A team should not surround itself only with homogeneous people. Domination by one nationality is not desirable, nor are last-minute appointments of people not fully suited for the position, a current practice elsewhere. Important operational positions are rarely given to people who have recently arrived from the outside. Priority is given to experience acquired within the company.

### Relationships between branches and subsidiaries

Saint-Gobain's international management style is reflected by the importance attached to the branches in relation to the countries. Here, the branch pushes and the country follows. Strategic orientations are defined at the branch level, while country managers are in charge of selecting people, financial control, relations with the political environment, etc... Of course, when we organize relationships between branches and countries, we take into consideration the regional or international nature of the activity concerned.

For Saint-Gobain, the reawakening of nationalities we are now witnessing represents a real challenge to our international strategies. The strength of a company is its ability to transcend

nationalities. Our managers must be able to be proud to belong to SaintGobain, whatever their nationality. To achieve this, we must remain a strong company, we must retain world leadership : experience shows that people are proud to belong to a world leader, even if it is not of their own nationality.

### **THE CONDITIONS OF A EUROPEAN COMPANY IDENTITY.**

The European company will not come into being until all the components of a company's national identity can come together on a European scale. Today, four models co-exist in Europe. The English model is dominated by a financial sphere oriented a bit more to the short term. The German model is based on close co-operation between industrial groups and banks oriented to the long term. The Italian model is characterized by the preeminence of families with very close ties with the State and the political parties. France, long marked by the tradition of Colbert, is currently being pulled towards the other three European models. The industrial groups and a small number of financial organizations (a few banks and insurance companies which depend on industry) are moving towards the German model. The rest of the financial sphere is being drawn towards the English model. The emergence of a group of contractors such as Bolloré, Arnault, Tapie and Pinault seems to me to be closer to the Italian model.

In my opinion, it seems obvious that the French model, torn between the other three, cannot be attractive to the other European countries. If we want to move towards a management model favorable to a future European identity, I don't see how we can avoid adopting the German model. In addition to the efficiency of relationships between the four powers (political, administration, industry, finance), Germany has acquired solid experience in the area of federal management. The German model seems, in my opinion, to be the only viable option to avoid the risk of shifting towards an English model, as evidenced by a few recent positions taken by the Brussels commission dealing with industrial cases.

At any rate, I am convinced that the creation of a European economy, if it is to come about, will be built on a sector-by-sector dialogue and will be oriented towards a German model. In this context, France has but one alternative. If it resists this trend it will find itself isolated, and if it plays Germany it will be able to establish a fruitful coexistence with that country.

Whatever economic structure is chosen for Europe, we must begin by unifying our cultures to reveal shared expectations for the company. Otherwise, the European economy will never exist.

If we want to develop a European corporate style, let us analyze the factors which make a country connect with the activity of the company. This will be as effective as industrial policies, quotas, assistance or other mechanisms suggested to public authorities by industrial groups whose competitors have the advantage of belonging to systems where the company enjoys a different status in the Nation. Try to buy a German or Japanese company and you'll understand.

Whether or not we follow the German model, it is crucial that the other authorities support the company in its national, European or worldwide ambitions.

The balance established between these four powers determines the shareholders' profit. And the shareholders' expectations give direction to the company's short and long-term strategy. It is this fundamental cultural component that is at stake in building the European company.