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THE RELATIONSHIP BETWEEN A FRENCH MULTINATIONAL AND ITS SHAREHOLDERS

by Bertrand Collomb
C.E.O. of Lafarge

Report by Michel Berry

Summary of the meeting

In theory, French shareholders have a great deal of power, even more than their Anglo-Saxon counterparts. But in practise, the C.E.O. is a sort of monarch who is under little threat of shareholder control, notably due to the fact that French law puts the company's interests before the shareholders'. This French exception often astounds foreigners.
However, the logic of financial markets and the American influence with financial globalisation will mean new types of relationships between French companies and their shareholders. Or at least, this is the direction taken by the Lafarge Group.

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PRESENTATION BY BERTRAND COLLOMB

Companies' relationships with shareholders are a topical issue, given the current debates on corporate governance. To add to this, recent events have shown that shareholders have more power than people thought. I'm going to tackle the subject from the point of view of Lafarge's international experience. I'd like to show that invisible or latent factors are just as important as visible factors: shareholders' expectations and behaviour create a weight of judgement that can have more influence on corporate strategy than annual shareholders meetings or board meetings. I will look at this from three angles:

- the French legal framework
- the behaviour of shareholders in financial markets
- the behaviour of directors with regards to shareholders

The shareholder's legal role: the French exception

The French legal system has principles that make it distinct from the majority of foreign corporate laws, in particular American law.

A distinction between company interests and shareholder interests

In American law, a company is a contract between shareholders. The directors are the shareholders' guarantors, who ensure that everything is done in their interests. French law, however, distinguishes between company interests and shareholder interests: there is a company interest which is defined by legal rules and may limit shareholders discretion. This has led to situations that seem incongruous to the Americans. For example, one American shareholder tried to force its French 100 % subsidiary to respect a rule banning sales to a foreign country that was threatening to put it out of business. However, the court ruled that this measure went against the company's own interest, which had to come before the controlling shareholder's interest.

I was a member of the Viénot committee, which was set up by the AFEP and the CNPF (Conseil National du Patronat Français, the Confederation of French Industry) to think about corporate governance in French companies. We had a lively debate on the subject: some of the members who are very involved in American business found the notion of specific company interest absurd and completely out of date, but the majority thought that it was a fair representation of the French view and even the European view of the relationship between companies and their shareholders.

The Société Anonyme (SA): a unique framework for a variety of contexts

I'm only going to mention the legal status that concerns Lafarge, which is the 'société anonyme'. There used to be only one type of société anonyme, regardless of a company's size, sector or shareholders (dispersed or concentrated, international or national). This isn't very practical and it sometimes creates situations that border on the absurd. For example, since you need at least seven shareholders to create an SA, a '100%' subsidiary has to line up at least six holders of single shares who sign a document that commits them to selling their shares as soon as they are asked to. A 'simplified SA' status has been agreed on in order to overcome the problem. In French law there is no notion of a group and each company is an independent entity.

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A monarchic democracy

The SA is a sort of monarchy which is moderated by the possibility of the monarch being dismissed. The shareholders meeting was designed along democratic lines, with one share giving one vote, although this has recently been modified by double voting rights and limitations on voting. The meeting can dismiss the directors at any board time, including the chairman and CEO. In fact this has happened recently. I should point out that the representation of shareholders is more democratic than in many other countries, where it is possible to restrict votes to a part of the capital. For example at Philips, only seven shares have voting right, and these are held by a foundation governed by a former Philips chairman.

The board of directors is elected by the shareholders meeting and the chairman by the board. The board can dismiss the chairman *ad nutum,* in other words at any time, without awarding any compensation. It's forbidden for any clause in a chairman's contract to provide for compensation. This is because compensation is said to go against public order, by limiting the board's freedom to dismiss its chairman. In practice, financial arrangements are often made, but there's no common provision for compensation like there is in American companies. French bosses have a more precarious legal status than German chiefs who cannot be fired (although they have fixed-term contracts). They're also more vulnerable than the Americans who can be fired at any time but only with considerable compensation.

The chairman has to be the chief executive. This rather odd principle of concentrating the power is called... the *Führer Prinzip.* It was introduced into the French legal system in 1940, during the Nazi era, as a reaction to certain scandals that had occurred before the war. At that time, there had been a distinction between the roles of chairman and chief executive, and the chairman often had a purely honorary role. When people were looking to lay the guilt on someone, chairmen would say that they didn't know what was going on in the company and the chief executives would point a finger at their chairman. To put an end to this situation, it was decided that only one man was needed at the helm and a measure was introduced that fitted the ideology of the time (these days, Germany's laws are in fact very collegiate). Therefore the concentration of power in French companies comes from a principle of German law which was never actually implemented in Germany but introduced in France during a suspect period. However, if you were to listen to people's reactions when we try to challenge this principle, you'd think we were trying to bomb a cathedral!

The extensive powers of the C.E.O. and the board of directors

The board and its chairman have the same powers, which seems rather strange. These powers are considerable. I could sell 60% of my company's assets without asking permission from the board of directors or the shareholders. I would only have to ask permission from the shareholders if the company's business as defined in the bylaws was to be altered. Seeing as this is laid out in very general terms, it is rare for anyone to be able to argue that it has been changed. By contrast, an American chief executive cannot make an investment of several million dollars without the board's consent. Our law isn't typical and foreigners can't make head or tail of it. This means that when we have contracts with foreign companies, they ask for our board's consent when they don't need to. This said, we don't disappoint them!

On the other hand, French law requires shareholder consent for any move that concerns company equity: the number of shares, the dividing up of shares into different categories or the way in which the dividends are shared out between the shareholders. By contrast, American law allows the board to change the bylaws and make equity changes without asking permission from the shareholders.

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The law and business practises: how to limit abuses of power

All in all, shareholders have more power in the French legal system than in the American system, and French chief executives have more power than their foreign counterparts, although it's true that they're also more vulnerable. This legal framework does of course affect the company and its shareholders in different ways, depending on their capital structures. For example, if the company has only a few major shareholders, most of the negotiation takes place at board meetings. If the company has a shareholder with a strong majority, then the company's management is subordinated to the shareholder. The arrangement in companies with dispersed shareholding is often criticised: the chairman is the one who selects candidates for the board of directors and the board then elects the chairman; in this case, the board's role is more to approve than to control. In addition, the shareholders present at general meetings represent merely a few percent of the votes, since the board controls 30-40% of the proxies.
In this last case, the board of directors plays a key role because it's impossible to challenge the chairman at a general meeting, except by a 'proxy battle', where a shareholders gains enough power to oppose him. To my knowledge, this has never happened in France. Proxy battles do occur in the United States and there are even companies that help shareholders to gain power, although it's rare for them to win. If the chairman has the support of the board, he can do as he pleases. This explains why the debates on corporate governance have focused on the boards' role, composition and proceedings. The risk of abuses of power is greater in France than in the United States, where it's easy for unhappy shareholders to legally sue a director. Given that this sort of case has been coming up for the last thirty years, the directors have tried to set up board procedures that protect them from these risks.

The influence of financial markets

Companies need the capital that they collect on the financial market. The shareholder is an investor who buys shares if he believes the company's prospects are looking good and sells them if the prospects look poor. We can distinguish between two periods in France: pre-1980 and post-1980.

The turning point of the 1980's

Before 1980, real interest rates were often negative due to high inflation. National markets were compartmentalised: investors didn't have the right to buy abroad and they merely had the choice between bonds with negative real interest and shares. There were no take-over bids: even if share prices were low, nobody lacked enough decency to announce that he wanted to buy at a higher price than the market. Therefore the level of performance expected by shareholders was rather modest. For example, I was looking into the history of our company, which has always enjoyed a good reputation, and I was surprised to find that Lafarge provided a limited return to its shareholders between 1960-70: it practically guaranteed no more then inflation. However, the shareholders couldn't do better elsewhere, so they were happy to see their capital maintained.

Since then, everything has changed! Today's investors have an enormous choice. They can invest in a wide range of financial products, in any country that they like. The burden of state deficits and the insufficiency of the available lending leads to very high real interest rates. Investors can therefore opt for highly profitable risk-free investments. In addition, there's a risk of take-over bids if share prices drop too low. Stock market prices have therefore become important for the corporate strategy.

A new management criterion: share profit

What determines the value of a share? Numerous studies have been undertaken to try to answer this question. The Gordon-Shapiro model estimates share value as the current value of future dividends. Other approaches consider the company's net assets to be the current value of future profit. These two formulae lead to different values but the earning per share is an important indicator in both cases. The price/earning ratio (or multiple of share profit) depends on the interest rate of bonds, the expected growth and the risk premium that is estimated by the stock market. It's therefore possible to construct models to determine the theoretical share value. Banks publish curves that compare real values with the expected values, given the market's basic tendencies.

Earning per share has therefore become a vital indicator for financial markets to judge the company. This means that company executives must take share profit into account. When they've been used to basing their actions on different criteria: namely, industrial profit or net profit. I had a long discussion on this subject with some Lafarge managers seven or eight years ago: while they understood that the company needed to expand, they couldn't understand why the share profit should constantly increase. My response was simple: if the profit didn't grow, the investors wouldn't buy. Nowadays this message has more or less been taken on board. This new way of looking at things has several important implications for the company's management.

Employee shareholding schemes

One consequence is the development of employee shareholding schemes. The Americans invented a profit-sharing scheme for executives or directors so that the external objective of share profit would be integrated into internal goals. They did this by creating stock-options, which automatically made their beneficiaries sensitive to share prices. Companies have also made considerable efforts to develop employee shareholding schemes, sometimes providing matching money in these savings schemes. At Lafarge, 80% of the French staff are shareholders and they ask me about the share's price every time I visit our group in France. We're going to develop this type of shareholding scheme abroad, although it can also create problems, due to the volatility of financial markets. In particular, people don't understand why the share price can drop when the company's profits rise. This means that we need to educate people and explain that profits will drive stock price only in the medium-long term.

The imperative of creating net value

It's important to create net shareholders value. The most serious companies use some indicators of asset profitability, but many others still have a long way to go. For example, a past chairman of Crédit Lyonnais, stated that share profit was not at all important for a state-owned company and that his company was doing very well because it had doubled its equity (through various acquisitions) while the share profit had significantly decreased.

Resorting to the market at the right pace

The importance of share prices has led companies to fine-tune the conditions in which they resort to the market. Enormous differences still exist between the different cultures. The English raise equity under all circumstances, even when share prices are low. Given that the increases are limited to the existing shareholders ("right issues"), companies reason that an equity increase at low share prices is good for the shareholders and that this is a way to reward them share out the dividends. By contrast, French companies always have to be prudent because, the Americans, they don't always limit capital increases to the equity shareholders. If the prices are too low, they risk diluting the shareholders with new buyers, but if share prices are too high, the investors have no real prospects of making a serious profit.

Share prices in theory and in practice

Although these models are probably accurate in the medium-long term, they do not account for fluctuations in the market. However, the market fluctuates constantly and sometimes the fluctuations can be significant.

The company and speculators

The shareholder can back out at any time. If he buys when share prices are low and sells when they're high, he can make a tidy profit. The attitudes of companies and shareholders towards fluctuations in share prices are often conflicting. The volatility of share prices can be disruptive for the company because it can lay the way open for take-over bids and cause confusion for the employee-shareholders. However, professional shareholders are only interested in the volatile stock: they don't want to wait ten years to make a profit. This causes problems to do with adjusting the corporate strategy to the logic of financial markets.

Do the markets remember?

The fact that corporate strategy is a long-term affair begs the question, "Do markets remember?" Our experience shows some contradictions.

We had a difficult period in 1981-82, where we had to deal with a heavy recession and we made some mistakes. We made practically zero profit and the share price dropped to 80 F, or 20 F for the current shares since we divided them into four (the share price is today 380 F). We managed with this and made brilliant profits of between 85-89 but the share price didn't reward this performance. We were therefore left with the impression that the market had remembered.

We had to face another heavy recession between 1990-93, which we came out of better than the other companies. In 1994 our total net profit was the same as in 1989 and our share profit was 20-30% lower. However, I have often been congratulated on our performance. You could therefore say that the market does not remember.

No doubt we have to put things into perspective. In 1990-93 the situation was difficult for everyone and we managed better than the rest; people gave us credit for this, forgetting that we had had the best performance before the recession. In 1981-82 we didn't do as well as other companies and people remembered this.

A simplifying mimicry

Shareholders can't understand the whole complex working of the company and this creates two phenomena that make companies' communication task difficult. These two phenomena, mimicry and reductionism, are accentuated by financial globalisation.

Nowadays everyone reads the *Wall Street Journal* and tends to react like the Americans. To illustrate the effects of a simplifying mimicry, I can mention the job done by one financial analyst who has placed the prices of our American subsidiary and the parent-company on the same graph for 2-3 years. There is near-perfect correlation, for no economic reason. Lafarge Corp. represents only 30% of our turnover and we only own 53% of the company, which means that it makes up approximately 15% of the group. Moreover, the American market cycle is not at all in step with the situation in Europe or Asia. Finally, Lafarge Corp's performance hasn't varied at all like it has in the rest of the group.

The sole reason for this parallelism is as follows: we have many foreign shareholders, 15% of whom are American, the most reactive of shareholders. The Americans set the market price

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by entering or leaving the market, and they make their decisions in a very schematic way. They buy what they consider to be ‘French’ stock because it is quoted on the Paris stock exchange (even if we made 95% of our turnover abroad, we would still be a French stock). If they’re concerned about the French situation, they sell their French stock. For example, the Americans were concerned to see two candidates from the same party stand in the 1995 presidential elections: in any ‘normal’ country there would be two candidates from two different parties! This meant that they sold their French stock. Furthermore Lafarge is considered to be ‘early cyclical’ stock. If investors feel that activity is going to slow down in the United States, they buy early cyclical stock, without stopping to ask if the European cycles are in step with the United States: that would be too complicated! Investors therefore make decisions based on simplifying criteria that they apply to Lafarge as well as to Lafarge Corp.

Given that this sort of mimicry and simplification is very disruptive for the company, it tries to limit their effects by managing its relationship with its shareholders in an appropriate way.

Managing the relationship with shareholders

Overcoming instabilities means avoiding the slightest economic slump. This means that shareholders sell at the least sign of a downturn, making prices crash and creating a threat of take-overs. This makes it important for companies to build as much shareholder loyalty as possible.

Lafarge’s shareholding

Our shareholding is partly a legacy of the company’s past. We started business in the Rhône Valley and we still have an important concentration of shareholders from the region. But we wanted to raise considerable capital in the seventies and eighties and this wasn’t easy in the French market. We therefore used all the international means of financing and were innovative in products such as Euro convertibl warrants and so on. This brought us a large proportion of foreign shareholders.

We have a system for monitoring our shareholding, which means I can give you a few facts and figures. We currently have 125,000 shareholders, including approximately 123,000 individual investors who together hold about 30% of the capital.

Among these individuals, 70% own more than 100 shares, 50% are retired (10% more than in 1987) and 22% are top managers or company directors. Their median age is 55 years. 91% also own other shares. They’re therefore investors who have a whole portfolio of shares, unlike most shareholders of newly privatised companies. Some other figures will help you to evaluate our shareholders’ loyalty: 34% have held shares for over ten years, some for several generations; 56% (34+22) have held shares for more than five years and 24% have owned their shares for less than two years. Therefore the shareholders fall into two categories: investors and speculators. What’s more, when we offer to reinvest their dividends in shares, those that have held shares for over five years reinvest while the rest don’t.

Foreign institutional investors represent 40% of the capital, two-thirds of whom bought their shares on the London stock exchange. We haven’t identified all of them, but we do know for example that they include the great Scottish Widows Fund, whom we’re going to meet regularly in Edinburgh and Glasgow to explain our strategy. As I said, 15% of our shareholders are probably American, many of whom through London broker and others directly. Finally, 30% are French institutional investors.

Stabilising equity without locking it up

To avoid any unpleasant surprises without locking up the equity, we've taken some technical measures to stabilise it. In particular, we ask investors to notify the company when they cross certain thresholds, to prevent them from building blocks of shares without our knowledge. We've refused to lock up our equity for ethical reasons: if someone offers shares at 50% more than the stock market price and I'm unable to explain to my shareholders that I could do better, it's normal that I should be bypassed. But our system is such that this sort of deal would cost sellers the maximum and this stops them from giving us any nasty surprises. My predecessor, Olivier Lecerf, used to say that he could put up with raiders but not rodents!

We have two elements of stability within our shareholders:
- Firstly, a dozen of our identified institutional investors have told us, or even written to say, that they intend to stay with us in the long-term. This is not a binding commitment, but if they did want to sell, they would be obliged to give us sufficient warning so that we could come up with a suitable buyer. These are French and foreign investors, both industrial and financial. They represent 25% of the capital and each hold between 1-3% of the capital. This is not a hard core of shareholders nor a pact (they haven't committed themselves to voting for the management) and they don't know each other. This is what I call my unsecured ballast.
- Secondly, our private investors aren't prepared to budge at the first gust of wind, although they would be tempted if they were offered 50% more than the share price. However, at least with them we have the time to explain things before they make their minds up. We have a financial information strategy which is based on openness and predictability, similar to the one Air Liquide have used for the last ten years.

The art of informing shareholders

The market hates surprises and therefore they have to be avoided. When you know for example that your profit is going to be lower, you have to let the information permeate several months in advance. We get particularly worried if the analysts' consensus forcasts better than ours. We therefore have to give them not forecasts but facts that will bring their predictions closer to ours. If we ourselves ever have a surprise, we have to try to smooth things out to avoid a sudden shake-up on the stock-market. We often complain about shareholders' short-term behaviour but this isn't always true, even with institutional investors. We therefore have to let them in on our management methods and strategy in order to inspire their confidence. For example, our shareholders are worried at the moment because we're having a lot of money: they're afraid that we'll do something stupid with that money. It's up to us to explain our investment criteria to them.

It's not easy to keep individual shareholders informed: it costs a lot of money to send them all information and the bank files available to us are not always very up-to-date. However, it is possible to circulate financial information through certain specialised newspapers. We used to arrange shareholder meetings in some provincial cities but only 200 people would turn up and we wondered about the impact of this type of information. Last year we inaugurated a new formula with the *Journal des Finances.* We organised meetings in Lyon and Marseille, by sending invitations with questionnaires to our shareholders (the newspaper also announced the meetings). The newspaper chose the twelve best replies and invited the respondents to participate in three round table sessions, where a journalist acted as the moderator and I was present to answer questions. Each meeting attracted 1000 people, who seemed to be satisfied. The paper published a report of the debates. This sort of action seemed to us to have made an important impact.

The usefulness of annual meetings

Annual shareholders meetings often receive bad press. People find them a very heavy-going ritual for what they're worth. In other words, the people who attend them are generally quite old, represent only a few percent of the capital, and they tend to ask annoying questions! But annual meetings are useful, if only sometimes in an indirect way. In particular, you have to have to have a rare degree of stamina to be able to confront two or three hundred dissatisfied shareholders for several hours, even if they aren't spring chickens! This is especially true if you don't have an entirely free conscience. It makes you think about things carefully so that the same doesn't happen next time. It occurred to me that if general meetings have their uses, we may as well make them interesting. Nowadays when we organise these meetings, we carefully present reports, which the shareholders seem to appreciate.

The visible and the important

Having said this, you can't judge the real power of shareholders by how sharp their questions are or by how long the annual meetings last. Our subsidiary Lafarge Corp. holds its shareholders meetings in a small room with all its board members and barely one or two shareholders (despite the fact that 47% of the capital is held by the public). The meeting lasts twenty minutes and follows a steady ritual, and yet there is much stronger shareholders control than in France. However, the constraints posed by shareholders aren't visible, but result from the directors' responsibility or potential law suits. The relationship between companies and their shareholders is complicated and the most important moments are not necessarily when the representatives of the two parties meet face-to-face. What counts most of all is the way in which shareholder interests are integrated into corporate objectives. This, however, is a subject that is rarely mentioned in debates on corporate governance.

DEBATE

Financial strategies

Intervenant: *I belong to a trading company, having also worked in industry, and I can vouch for the gap between these two circles. It seems a shame that so few companies have a communications strategy aimed at the financial markets.*

On the subject of what the market remembers, I feel that investors pay particular attention to the risks of nasty surprises. We can compare this to the b*onus-surcharge logic of car insurance. A company accumulates bonus points when it can confidently predict a growth in share profit. But as soon as it has the slightest accident, the company has to pay a surcharge. It takes a long time to build a positive image, but losing it is no problem!*

The volatility of share prices is accentuated by the professionalisation of the French market: the unit trust directors are assessed every week by the specialised press, which means that they act only once a week.

Your stock market strategy is to aim for a growth in share profit and encourage shareholder loyalty. Why doesn't it aim to optimise share prices?

Bertrand Collomb: This is something that I can't easily dismiss! But what exactly does 'optimising' mean? You could say that I take what Simon calls a 'satisficing' approach; in other words, I aim for a profit that will satisfy my shareholders.

I'm against optimisation that implies an asset skimming policy, if that's what you mean. It's true that we've introduced a share-profitability criterion into our management so that we can check that the profit is sufficient, but I don't want us to maximise this criteria. This would mean reducing the company to merely its best parts, financially speaking. I consider corporate

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growth to be a priority: survival means growth when you're operating with big fish in a little pond. Skimming wouldn't be a good long-term strategy for us or for our shareholders.

Int.: *But what if they aren't thinking long-term ?*

B. C.: The unit trusts are forced to think long-term. You'll understand why I emphasise the creation of French-style pension funds: they'd be judged over a long period and require a minimum of French stock, which would be good for French firms.

Int.: *What do you think about the American practise of companies buying their own shares?*

B. C. : French law makes it impossible for a company to buy its own shares **and then** to cancel them out: a sacred principle is that the capital is a guarantee for third parties (in fact, in certain conditions, subsidiaries can buy shares from the parent company, but they are not allowed to cancel them out). In American law, the capital is not sacred and companies continually adjust it: they buy their own shares if they want to have less share capital and more debts.

Legal constraints aren't the only obstacle: the American practise is linked to the ability to take up stock at any time in a vast market. Even if the financial analysts are telling me that we have too much share capital (whereas three years ago they were telling me that we had too much debt), I would hesitate to buy back a part of our capital since I'll probably need to raise some equity in two or three years' time and I'm not sure that I'll be able to do so in all circumstances.

Finally, this practise is linked to the short-termism of American daily life. The analysts are always impatient and don't like financial structures that are poorly suited to the context. This means that companies constantly adapt, but at the price of a short-term vision.

For all these reasons, I wouldn't be prepared to carry out this type of financial optimisation, even if it were legally possible.

Different shareholder expectations

Int.: *The big global cement groups have different shareholders: for example, Holderbank is a family-owned group. Does this have any impact on the groups' strategies?*

B. C.: As a family-owned group, Holderbank probably has the most chance of withstanding short-term hiccoughs and can have a more risky strategy because it has less to fear from its shareholders' reactions. On the other hand, Blue Circle, the major English group, is under a great deal of pressure from the City. This has meant that it has had to pull out of Mexico, which the City considered to be too risky, although it could have been a very profitable move.

However, the differences are getting smaller. Holderbank itself increasingly needs to solicit the financial markets and it has been encouraged to take the Anglo-Saxon market's criteria more and more into account.

Int.: *Jean-Louis Beffa, C.E.O. of Saint-Gobain explained to us in the same seminar that shareholder expectations vary from country to country, which leads to different styles of strategy. (J.L. Beffa: "How to be French and Seek World Leadership", Session No. 31, March 1992).*

B. C.: This is certainly true if we talk about Germany and especially Japan. But the differences between France, England and the United States are getting smaller. French private investors are more stable than the Americans but the institutional investors are increasingly coming up against the same constraints. As long as the big German banks own a major part of the companies, these companies won't face the same constraints as pension funds and unit trusts. But won't the banks one day discover that they've invested too much money in the major industrial firms to be able to do their jobs properly as bankers?

Int.: *Do you have any pension fund representatives on your board?*

B. C. : No, and it's a mistake to think that the American pension funds would want this: they'd have a legal responsibility that they don't want and they'd lose the freedom to sell when they want to. They don't have the same wish to be involved in running the firm. They don't attend general meetings and have only recently started to exercise their powers outside the United States. They simply want to be sure that the system is working well enough for there to be a correcting-mechanism if anything goes wrong.

In fact, they only get involved during crises. To give an example, we made a take-over bid for General Portland in 1985. At first it was a friendly bid but it later became hostile. The management blocked us with a court order, arguing that our offer was too low. After six months, the pensions funds intervened. The management hadn't had any other offers, and the pension funds made sure that the transaction took place at a 10% higher price than we had proposed.

How boards of directors operate

Int.: *The Americans often describe French boards of directors as old school tie clubs, where the presence of staff representatives prevent any sort of debate from taking place. What's your opinion on this?*

B. C.: Some boards of directors are very bad and others are excellent. In 1975, one important company chief explained to me that the role of board directors was to keep quiet and support the chairman. Fortunately, his opinion wasn't shared by Olivier Lecerf, Lafarge's chairman at the time, who had had some American experience. Our board of directors works well.

What does 'working well' mean for a board of directors? It doesn't mean that the board makes decisions: it's too difficult to understand what's going on in a company for the board members to be able to make valid decisions during four two-hour sessions per year. Here's how a board director can play a useful role:

- he must be well-informed and certain that no important information is being hidden from him;
- he must know how to ask questions to check that what he is being told is plausible;
- the chairman must take the board's questions seriously; if certain board members are dubious about a plan that I'm proposing, I don't usually back down, but this does make me think and it influences the plans I'll put forward next time.

The presence of staff representatives creates fewer problems than you might imagine. In fact, the notion of groups doesn't exist in the eyes of the French law, which means that the staff representatives come from the holding company. They consist of two secretaries, a manager and an accountant. They never intervene, because a board meeting is impressive and deals with complex matters. To put them more at ease, I've started having breakfast with them before the board meeting and I inform them of the subjects that are going to be discussed. I think they like it. There haven't been any leaks through these representatives.

However, it's true that their presence often disturbs the other board members who don't know how far to take things in front of them. In any case, the Anglo-Saxons don't understand it. That's why I've set up certain board committees where we can discuss certain subjects in greater depth away from the staff representatives. But this takes time and it's difficult to get the most eminent board members to attend both the board meetings and the committees.

Within the constraints of the French law, the chairman can turn the board into a mere rubber-stamp session if he so desires. However, this is becoming increasingly difficult in practise. The Viénot committee should soon propose some relevant measures.

Int.: *Are you going to adopt the English Cadbury report?*

B. C. : This targets English companies that have a different type of corporate governance. There, the 'club' element is more pronounced, given that English boards are mainly made up of company members. These faults are moderated by the power of the City. In France we

have our own problems that are very different. That’s why it’s legitimate to use French reports.

Towards more conflicts?

Int.: *Are you worried about shareholders bringing lawsuits against the managers?*

B. C.: A large number of lawsuits are already happening in France. From now on we’ll have to pay a lot of attention to how we inform a market that reacts instantly.

The information is delicate and I hope that we won’t get to the same degree of formalism as the United States. In principle, it’s forbidden to give shareholders information that differs from what the public see. The Securities and Exchange Commission’s theory is that we must not communicate with shareholders apart from by communiqué. But the Commission knows that we have to talk to our shareholders. So far we’ve managed to handle this contradiction by being honest: you need to be stringent to avoid slipping up.

In spite of this, the number of lawsuits will increase. But I hope that we won’t get to the stage where a case’s legitimacy is less important than it’s ability to cause damage, like in America. For my first court case in the United States, I had asked my experts whether we were in the wrong and they replied that no, we weren’t, but that we would have to pay up if we wanted to avoid a lawsuit that would paralyse us for a year. I sincerely hope that we can avoid this sort of problem.

Int.: *I study ways of dismissing C.E.O.s and I have the impression that no-one really knows how to do this. I particular, the relationship between the chief executive and his shareholders is more emotional than the relationship between an attorney and his principle in other fields. In politics, people are better at making things less personal when they dismiss a leader.*

B. C. : How can we talk about this in an objective manner? Once again it’s very difficult to appreciate the way a company works by looking at it from the outside. If the profits are low, how can we know if it’s due to a bad economic climate or simply to bad management?

The only way of being objective would be to introduce a sort of automatic response: a C.E.O. with poor results would be fired. I knew one English company which used to say, “Make the budget or you’re out!” This led to disastrous results. Think about it: if the market takes an unexpected downturn of 10% and the management sticks to the budget at all costs, it’s certain that it’s making mistakes. The excessive influence of the bottom line is a problem in the United States. As for the model set by political staff, I wouldn’t recommend that companies follow it, given the problems that it causes.

Of course, there’s no need to wait ten years if there’s a problem, but it’s not advisable to rush into things either. Even in the United States, IBM took a long time to change their chairman. All the same. the chairman should at least have the security of an escape route, if he’s to face the stormy weather of business life.