THE COMPOSITION OF FRENCH BOARDS OF DIRECTORS: CHANGES SINCE 1995

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Abstract

The debate over Corporate Governance has been gathering pace in France for several years. Most of the studies on this topic are based on the Anglo-Saxon view. It should nevertheless be noted that French capitalism has peculiarities, which have their origin in its methods of Corporate Governance. Carminatti-Marchand and Paquerot [2000] underline the specificities of the principles of Corporate Governance in France. An essential aspect of this is the nature of the leaders of major companies: more than 50% of the bigger French firms CEOs are graduated from Polytechnic Institute (familiarly referred to as "X") and of ENA (Ecole Nationale d'Administration). Since 1995, however, the economic and financial environment of French companies has changed considerably. We note today the omnipresence of foreign investors on the Paris Stock Exchange. That presence alters the rules of Corporate Governance and gives us reason to believe that a movement of convergence towards the directors and managers who are graduates of ENA and/or Polytechnic?

The results of the study reveal significant losses of posts for graduates of X and ENA in the management structures of large French companies between 1995 and 1999.

Keywords: corporate governance, clan, entrenchment, foreign investors

Introduction

Over the past decade, the principles of Corporate Governance have considerably changed throughout the world, and in Europe in particular. Does this mean that European managers have become aware of the need for more transparent management, or do market forces guide their attitude? An international economic and final analysis suggests that the last explanation is probably the most likely. The economic and demographic environment (Asian and Russian financial crises; increase in life expectancy) of the past few years has led portfolio managers to rethink their long-term strategy and give preference to minimum-risk investments. The result of this has been burgeoning and ever-more-complex financial investments. The opening up of European financial markets to competition has given rise to a convergence movement in managerial practices and Corporate Governance. This coming together may be explained by the need that firms (and listed companies in particular) have to be competitive on international markets. To be competitive, they must attract capital and therefore offer their shareholders an adequate yield. The yield is calculated by the financial market on the basis of general criteria, which reduces the firms' room for maneuver even more. French companies cannot escape from this general economic context, even if one acknowledges that French management has certain specificities. The study conducted by Carminatti-Marchand and Paquerot [2000] based on a 1995 sample revealed some interesting features in the composition of the boards of directors of French companies. The changes in the worldwide economic and financial environment have altered those specificities. The substantial presence of foreign investors on the Paris Stock Exchange modifies the rules of Corporate Governance and gives us reason to believe that the results obtained will be closer to Anglo-Saxon practices.

In other words, has the presence of foreign investors on the Paris Stock Exchange had an impact

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on the boards of directors composed largely of ENA or Polytechnic graduates? Can one detect a change in the way Corporate Governance rules are applied in French companies? Is the independence of French directors guaranteed for foreign investors?

To answer these questions, in a first section we set out to study the operation of Corporate Governance between 1995 and 1999, basing ourselves on the changes in the financial markets over that period. The second section will set out the French peculiarities in regard to boards of directors. We shall try to understand the extent to which the clannish behavior of French management conflicts with the Anglo-Saxon principles of Corporate Governance. The empirical study in the third section will present the results that underpin the thesis of a deep disruption in the functioning of Corporate Governance in France. We shall present our results in a fourth section.

Changes in Corporate Governance since 1995: the reasons

European integration and the advent of the euro zone have developed business and trade between the member countries. Public shareholdings in European companies, and in French companies in particular, have led to an internationalization of the shareholder base and call for a redefinition of Corporate Governance. The presence of foreign pension funds is forcing managers to take an interest in the wealth of the shareholders and to rethink their management methods to meet their expectations. This is reflected in a modification of the principles of Corporate Governance. In this first section, we shall look at the trend of the Corporate Governance function in France since 1995. We shall use the development of the French financial market as our starting point.

1.1. The development of the Paris Stock Exchange

The disappearance of leveraged financing from French companies and the acceleration of privatizations in the 1980s have enabled the Paris Stock Exchange to develop considerably. In 1985, shares represented 20% of the structure of company balance sheets; their weight was 68% in 1999[1]. Recourse to the financial market has modified the managerial behavior of French managers, and this process accelerated with public ownership of their shares. Today, French managers can no longer ignore the foreign investors present on the Paris financial market.

1.1.1. The omnipresence of foreign investors

With the creation of Euronext and the launch of the euro, Paris has become the euro zone's leading financial market. In 1999, the Paris Stock Exchange had the busiest year in its entire history in terms of the number of transactions, capital volumes exchanged and capital raised. The Paris Stock Exchange's systems recorded more than 50 million transactions, i.e. an increase of 28.13% compared with the figure for 1998. The CAC 40 Index rose by more than 50% compared with the previous year. This performance is due, in part, to the arrival of foreign investors on the Paris financial market[2]. Indeed, in 1999, 40% of the CAC 40's market capitalization was held by foreign investors, compared with 10% in 1986[3]. The amount invested by American institutional investors for that same year was 900 billion francs. Foreign investors hold half of the capital of one large company in four. Some French firms are only able to function thanks to such capital. Examples include TotalFina, 77% held by foreign pension funds, 33% of the shareholders being Anglo-Saxons, CCF 68.8% held by foreign shareholders (10% of whom are Anglo-Saxons), Rhône-Poulenc (59.9%) and Elf Aquitaine (56%, with 39% held by Anglo-Saxons)[4]. Of the five leading Anglo-Saxon pension funds present in Europe, four are American (Newton Investment Management 12.5%[5], T Rowe Price&Fleming 9.7%, Franklin Templeton 6.7% and Calpers 5.3%) and one is British (CGU 10.6%). France Télécom, recently privatized, is already 5.8% held by foreign shareholders, 2.9% of whom are Anglo-Saxons. The omnipresence of these foreign pension funds is counterbalancing the withdrawal of French households (11% of the market capitalization in 1999, compared with 26% in 1996) and the small percentage held by French institutional investors (27% of the market capitalization in 1999). The situation in Paris is unique in Europe, as the foreign portion represents only 15% of the market capitalization in London and 10% in Frankfurt[6].

The phenomenon can be explained by the French specificities. Carminatti-Marchand and Paquerot [2000] point out that national capitalism has for a very long time been dominated by cross holdings between French firms and French banks. According to Morin [1997], two groups coexisted. The first was dominated by Société Générale, AGF, Paribas, Alcatel Alsthom and Vivendi. In the second, we find circular holdings between BNP, Elf, Saint-Gobain and Suez. Today, this system of reciprocal

[1] Y. Duchesne (2000).

[2] ParisBourse SA, Press Release, 1 March 2000.

[3] Study by the firm of Carson Europe published in Expansion n°608 4-11 Nov. 1999, pp. 44-61. The data (base GEO (Global Equity Ownership) of more than 55,000 listed companies throughout the world) is based on the reports published by investors who are required to declare their equity participations and on those voluntarily provided.

[4] idem.

[5] This percentage represents the portion of the managed total invested on the CAC 40 and the Euro Stoxx 50.

[6] Study by Carson Europe op. cit.

stockholding no longer exists in French firms. The lack of capital has therefore forced the companies to open themselves up to the outside world, particularly since the Anglo-Saxon pension funds, spurred by the demographic phenomena, are seeking more and more financial investments in order to meet their yield objectives.

The presence of foreign investors transforms the rules of Corporate Governance. A study by Heidrick and Struggles [1999] shows a certain correlation between the internationalization of the shareholder base and the "Anglo-Saxon" application of Corporate Governance, particularly in regard to the transparency of information.

1.1.2. The dissemination and transparency of information

The internationalization of the Paris Stock Exchange (25% of the "blue chip" companies listed in Paris are not French, one third of the companies listed in Paris have relocated their management outside France[7]) and the presence of foreign investors force companies to meet Anglo-Saxon Corporate Governance criteria, particularly in regard to the dissemination of information. The foreign pension funds seek companies with high future profits in order to meet their own objectives. Their investment decisions are based on clear and transparent information provided by the companies. In an environment that is perpetually seeking innovation and novelty, the companies cannot ignore or disregard the capital provided by those funds. Because of this, we have noted a kind of oversupply of information from French firms since 1998, with the creation of Internet sites and on-line access to their activity reports. This behavior, although normal in the United States (40% of American households have Internet access, compared with only 10% in France[8]), denotes a change of direction in the communication strategies of French companies. This situation is also a reaction to the publication in July 1999 of the second Vienot Report, which represents a definite advance in terms of transparency and information. It advocates including in the annual report information such as the separation of the functions of the chairman and the CEO and publication of the managers' remuneration. This second Vienot Report comes after the OECD's Principle IV recommendations on "transparency and dissemination of information". The OECD advocates providing shareholders with clear and precise information on "the frequency of board meetings, identification of the directors, and the total remuneration of the managers".

By investing in Paris, the foreign pension funds have not only enabled the financial market to evolve, but have also altered the French top manager's perception of the shareholder's role in management.

The changes at the Paris Stock Exchange and the arrival of foreign investors are considerably changing the economic and financial environment in which companies operate. The change in that environment has repercussions on the managerial practices of French managers.

1.2. Repercussions of the changes at the Paris Stock Exchange on Corporate Governance

The increased competition born of the internationalization of the economy is forcing firms to develop differentiation strategies, which are reflected in substantial capital requirements. It seems that the advent of the pension funds could be a response to those new requirements, but the arrival of those new investors is altering the French managers' traditional scope for action and having an influence on the method of Corporate Governance established in France some years ago.

1.2.1. 1995: introduction of the principles of Corporate Governance in France

1995 was an important year for French firms. Indeed, the publication of the first Vienot Report on Corporate Governance marked the end of an era of "closed" company management. The objective of that report was the adaptation of the Anglo-Saxon Corporate Governance concept to France in order to open French companies up to foreign investors and thus create a European capital market. However, the French image of Corporate Governance is atypical. In actual fact, graduates of the X and/or the ENA have for a long time run the large French companies[9].

This special feature is explained by the very history of French capitalism, as Paquerot notes [2001]. The graduates of ENA and X form a specific group which has its origins in the very stringent entry requirements and which results in the number of applicants being low. This selectivity (which could be regarded as a barrier to entry to the market) enables the graduates to build a social network that could be defined as "an informal organization within which individuals interact with each other to meet various needs of a social nature" (Morgan [1989]). When the network consists of individuals having the same socio-cultural identity, it can be considered to be a clan, which Ouchi, Mayo and McGregor define as a culturally homogeneous organization in which all of the members share the same values and objectives. The networks of ENA and X graduates are comparable to that type of organization, since the behavior of those graduates is strongly influenced by

[7] Observatoire Français de la Gestion des Réserves des Investisseurs Institutionnels; "6th Annual Report on Financial Management of the Reserves of the Institutionals", July 2000.

[8] Source: Computer Industry Almanac Inc. and European Commission, 1999.

[9] M. Bauer and B. Bertin-Mourot (1996, 1997).

the links formed during their schooldays. This is what Charreaux and Pitol-Belin [1989] call the theory of social cohesion. Moreover, those two schools have a long history of training France's public elite and a relatively stable composition, which enables the clan to institutionalize social knowledge. For the clan, the company thus becomes a showcase for the scope of its power and at the same time a place where it fights to increase that power over any competing clan.

Carminatti-Marchand and Paquerot [2000] point out that this situation still persisted in 1995. In actual fact, they note that 60% of the chief executives from X or ENA have boards of directors composed predominantly of graduates of those two *grandes écoles*. Their tests show significant differences in the composition of the board of directors depending on the origin of the chief executive, since ENA top managers favor ENA directors and chief executives who are graduates of X prefer X directors. This is an important conclusion given the role that the board of directors plays in the management of the firms. The existence of an agency relationship between the owners and the managers of the company confers its legitimacy on the board of directors, which therefore plays an important role in the Corporate Governance system. It is the structure that is supposed to correct the ineffectiveness of the external controls. Its prime function is the management of the relations between shareholders and managers. Now, it is obvious that, since they belong to the same clan, it is not in the directors' interest to penalize the managers, even in the event of divergence in relation to the objectives set.

1995 marked an initial turning point on the French managerial scene, with the imposition of Corporate Governance on managers. The end of the century marked a second turning point with the application of the international rules.

1.2.2. The new "French style" Corporate Governance

The decade of the 90s was an important period for Corporate Governance in France. The Anglo-Saxon principles were resisted initially, as they were rather formal and therefore at variance with French culture, but the managers finally yielded to the market pressures and those of the financial market in particular.

1.2.2.1. A new definition of the director

The opening up of the Paris Stock Exchange to foreign investors underlines the board of directors' responsibilities in relation to transparency and the dissemination of information to shareholders. However, one notes that the effective application of the principles of Corporate Governance has more to do with a firm resolve on the part of the shareholders to ensure that their rights are respected and to increase the return on their investments. As the emphasis has been placed on controls and disclosure of information, it is not surprising that the currency of those principles is narrower in France than in the United States. In 1999, only 33% of the CAC 40 companies had produced either a director's charter or a set of internal rules and regulations. Even though 50% of those companies make reference to the notion of independent directors, only 20% offer a definition of that independence[10].

The notion of the independent director is somewhat vague. According to the Vienot Report II, the "director is independent of the company's management if he does not have any relationship of any kind, whether with the company or with its group, which could compromise the exercising of his freedom of judgment". This means that he must not be an employee or an executive of the company, or a shareholder or a major commercial or financial partner.

This definition, although it has become the reference for French companies, is used in a discretionary fashion by them, given that it is left to them to define the notions of "major shareholder and major partner". In France, only 13% of directors can be regarded as independent. The others are close associates of the firm's managers or executives. By comparison, 48% of directors in Great Britain can be regarded as independent and 68% in the United States[11]. One notes, however, that in 1999, 82% of the CAC 40 companies had directors without any legal links with them for three years[12].

This new definition of the director calls the French Corporate Governance practices into question.

Carminatti-Marchand and Paquerot [2000] highlight the clannish links between the top managers and the members of the board of directors. It is thus evident that the situation of 1995 described by those authors will not be able to persist in the future.

1.2.2.2. Convergence with international standards

Groenewegen [2000] defines Corporate Governance as "all the internal and external pressures that influence a manager's decision-making in favor of the shareholders". The internal pressures come from the shareholders, the unions and the audit committees. The external pressures come from the managers' labor market and the financial market. At the COB[13]'s discussions in November 2000, it was emphasized that Corporate Governance is "a measure intended to increase the shareholders' control over the management provided by the company's managerial staff[14]".

[10] S. Frontezak (1999) and (2000).
[11] Y. Duchesne (2000).
[12] S. Frontezak (1999).
[13] French Stock Exchange regulatory Body
[14] S. Frontezak (2000).

It is thus very clearly pointed out that the introduction of Corporate Governance for listed French firms must comply with international standards and with Anglo-American standards in particular. This situation is imposed on French companies by their investors, whether they be French or foreign. The sixth report of the OFGRI[15] facilitates identification of the other current major trends:

- The external fund managers choose their investments on the basis of the steadiness of the performance, the financial solidity, the management process and the quality of the reporting.
- Increased recourse to the fund of funds: in 1999, 51% did not resort to it, compared with only 38% in 2000.
- The external fund managers consider that further progress needs to be made in regard to personalization of management reports and information regarding important events, although they consider the current frequency of issue and the performance analyses to be satisfactory.

Although the current trends are imposing common principles for the operation of Corporate Governance, practices show that each country defines a form of Corporate Governance adapted to its own structures and managerial culture. We nevertheless cannot deny that the changes in the stock-market environment of French companies have forced them to adopt the Anglo-Saxon Corporate Governance principles. That adoption entails major upheavals for French companies. We have stated that the French managerial functions are atypical. Those specificities can be explained by the application of a form of national capitalism that is closely associated with political power. This situation has given rise to specificities in the relationships between general managers and directors.

Specificities of the boards of directors of large French companies in 1995

Corporate Governance has been undergoing major change since the mid-1990s. This change stems from the European integration movement. However, as the French image is focused on the individual behavior of the manager, we have noted situations which are atypical and which even conflict with the traditional rules of Corporate Governance.

The atypical workings of French management

The international opening up of the Paris Stock Exchange and therefore of the companies listed on it has changed certain rules of French Corporate Governance.

The decentralization of the decision-making process in French companies brought about by the opening up of the markets alters the powers of the top manager on account of the increased size and the internationalization of French companies.

The role of the French general manager has traditionally been important[16]: he represents the company externally and is bound by more or less strong links with its different stakeholders.

Bauer and Bertin-Mourot (1996) point out that the French management model is very hierarchised. What is exceptional in France is to be found in the very substantial weight of the managers drawn from specific breeding grounds, and from the senior branches of the civil service in particular. Every year 0.01% of the children of one generation become the “top students” of X or ENA. They will hold management posts in the largest French companies for 25 years.

This specificity is taken up by Paquerot [2001], who also points out that the market for managers is run by the nation’s different elite corps organized into two networks, ENA and Polytechnic[17].

The excellence of the training provided by these two schools, and their reputation, give their graduates a human capital that is attractive to shareholders and to all of the firm’s partners. This specificity is explained by the French political system, which has for a long time encouraged the different governments to be very present in national economic life. The close networking between politics and industry has enabled those two networks to create solid links in the business world. Those links are consolidated by the appointment of managers drawn from those networks. The place those networks have in French industrial life gives them an almost total advantage which eventually enables them to place their members in the management of the great national companies.

One of the basic functions of the board of directors resides in its power to appoint and dismiss managers.

Paquerot [2001] notes that the tenure of the managers drawn from the elites is shorter than that of managers who have not been to ENA or Polytechnic. To facilitate such mobility in the companies within the ENA and X networks, it is important for those networks to determine who succeeds the managers. The likelihood of succession between members of the same network is very strong[18] and suggests that the elites control the election of the directors in the companies they manage. Such a result therefore supposes control of the board of directors, the strategic decision-making structure for managerial appoint-

[15] Observatoire Français de la Gestion des Réserves des Investisseurs Institutionnels; “6th Annual Report on Financial Management of the Reserves of the Institutionals”, July 2000.

[16] See Bauer and Bertin-Mourot (1996), J. Groenewegen [2000], for a more detailed study of the French manager.

[17] In 1995, 42% of French managers were ENA and/or X graduates (G. Carminatti-Marchand (1999); G. Carminatti-Marchand and M. Paquerot (2001)).

[18] Paquerot (2001).

ments. He also emphasizes the dependency of the companies in regard to the networks. This phenomenon is reinforced by the competition between the networks.

The atypical workings of the boards of directors

Since Berle and Means (1932), it has been accepted that the board of directors is an essential organ of internal control. Indeed, since the shareholders are unable to control the top manager, they transfer that function to the directors. In Europe, Corporate Governance has resulted in internal control becoming important for solving agency problems, as this solution is less costly than putting external controls in place (as is done in the United States and the United Kingdom). Moreover, this situation is consistent with European managerial practices that favor long-term relationships in business even though the effectiveness of that control is not always recognized[19]. The board of directors functions as an essential instrument of support for the company's management. Its role is strategic[20], and particularly so in France where clannish behavior exists between directors and managers.

Boards of directors dominated by a clannish logic

The board of directors plays an essential role in the company's strategic policy. Control over it constitutes a privileged means of controlling objections from the shareholders and increasing the networks' power in the companies they control. It examines and verifies the company's decisions and appoints the general manager. It thus becomes a front door for the network, as well as a means of expanding and strengthening its power. The existence of an agency relationship between the owners and the managers of the company confers its legitimacy on the board of directors, which thus plays a major role in the Corporate Governance system. It is the structure that is supposed to correct any ineffectiveness in the external controls. Its primary function is to manage the relationships between shareholders and managers. In order to exert effective control over the managers' administration, the directors must be independent of the managerial staff and their interests must be aligned with those of the shareholders. The presence of directors belonging to the same clan as the managers severely compromises the two previous conditions and therefore the effectiveness of the control achieved.

Carminatti-Marchand and Paquerot [2000] show that 60% of the managers from X or ENA are controlled by boards of directors in which their network has a majority compared with its rival network. Only 16% of the companies in the sample have no directors from ENA or Polytechnic. Their tests reveal significant differences in the composition of the boards of directors depending on the origin of the managers.

- ENA top managers favor ENA directors.
- Polytechnic top managers favor Polytechnic directors.

These results call into question the independence of the boards of directors in relation to the managers[21].

The significant presence of directors belonging to the same network as the leaders enables the latter to manage the company in accordance with the network's interests, but without necessarily maximizing the wealth of the shareholders.

Network logics that are inconsistent with Corporate Governance practices

The links between the directors and the general manager of the company are complex and define specific behavior patterns for the boards of directors. In theory, the board is the internal Corporate Governance control tool that is used to solve any agency problems that arise between the shareholders and the top manager. The board must encourage the general manager to maximize the creation of wealth in order to ensure consensus between the company's various partners and its leader and therefore act in the best interests of the shareholders. That behavior depends on the socio-economic networks that develop between the board members and the general manager. Carminatti-Marchand [1999] shows that the legitimacy (real or otherwise) of a general manager drawn from the network has a significant impact on the directors' disciplinary behavior.

The fact of a board of directors being controlled by one of the networks entails an increase in the cost of the control that the shareholders exert over the managers' administration (among other things, the selling of shares, legal action, takeover by an external team (takeover bid, share exchange)). The conflicts of interest between the networks and the firm's shareholders lead the former to maximize their utility to the detriment of the interests of the latter. The internal control that the networks must exert over their members in order to preserve their collective reputation and their share capital does not necessarily permit an alignment with the interests of the shareholders.

The history of French capitalism has shaped France's managerial practices. The close links created during the post-war period between the political, industrial and financial powers did, until recent years, maintain the specific management functions and give rise to the atypical behavior of the managers and their directors. 1999 marks a break with those practices. In the third section, we shall attempt to prove the existence of that break by

[19] See Herman (1982), Wisler (1984), Mace (1986), and Warther (1998) on this subject.
[20] Pfeffer and Salancik (1978), Forbes and Milliken (1999).

[21] See also the results of G. Carminatti-Marchand (1999).

showing the changes that have taken place in the boards of directors.

Changes in the composition of the boards of directors between 1995 and 1999: *Have the X and the ENA lost power?*

We propose to examine the changes in the composition of the boards of directors between 1995 and 1999. We have already set out the reasons that lead us to believe that those two years constitute pivotal stages in terms of Corporate Governance in France. The studies previously carried out by Paquerot [2001] and Carminatti-Marchand and Paquerot [2000] clearly show that administration by the X and ENA managers and control of companies by the networks can be inconsistent with the principles of Corporate Governance. Conflicts of interest with foreign investors can arise when the boards of directors of those managers are composed of members belonging to the same network. The Carminatti-Marchand and Paquerot study [2000] shows that this is often the case and that control of the managers in such a situation is not guaranteed. The results of the study by Bauer and Bertin-Mourot [1997] on the boards of directors of the CAC 40 also clearly show the influence of X and ENA on the boards of directors of large French companies, as well as a strong correlation between the managers' connection with a senior branch of the civil service and the presence of directors who are graduates of Polytechnic or ENA.

Composition of the sample and methodology

The sample is composed of 99 companies listed on the Monthly Settlement Market in 1995 that have published listings of their top managers, managers, board members and/or supervisory board members for 1995 and 1999. For the two years together, 2,741 posts held by 1,569 different people were examined. We noted whether the incumbents had attended Polytechnic or ENA. This information was obtained from Who's Who or from the schools' directories of graduates.

The sample of 112 companies was reduced to 99 due to the mergers that had taken place during the period or because of a lack of information regarding renewal of the management and control structures in 1999. Given the size of the sample, we carried out non-parametric average difference tests to check the significance of the differences observed between 1995 and 1999, as well as differences in the composition of the control structures based on the general manager's college affiliation (X, ENA or other).

The results of the study

We set out to examine the changes in the number of posts controlled by the networks of X or ENA. The concentration of power in the hands of the networks can in actual fact prove to be contrary to the interests of the shareholders. The substantial presence of foreign investors on the Paris financial market could lead to a significant change in the distribution of posts. The following tables indicate the posts occupied by Polytechnic and ENA graduates.

Table 1. The number of posts occupied by graduates of X or ENA in the 99 companies that comprise the sample

Year	Post	X	ENA	X (%)	ENA (%)	Total posts in the management structures
1995	General Manager	27	11	30.00%	12.22%	90
	Director	206	175	20.70%	17.59%	995
	Member of the supervisory board	23	23	17.29%	17.29%	133
	Chairman of the Board	4	2	26.67%	13.33%	15
	Auditor	3	4	14.29%	19.05%	21
	Member of the Board	1	0	2.70%	0.00%	37
Total 1995 (1)	99 companies	264	215	20.45%	16.65%	1291
1999	General Manager	26	10	31.71%	12.20%	82
	Director	125	93	13.74%	10.22%	910
	Member of the supervisory board	15	22	10.27%	15.07%	146
	Chairman of the Board	2	4	10.53%	21.05%	19
	Auditor	1	0	14.29%	0.00%	7
	Member of the Board	2	0	4.76%	0.00%	42
Total 1999 (2)	99 companies	171	129	14.18%	10.70%	1206
	Difference 99/95 (1) – (2)	-93	-86			-85
	% variation	-35.23%	-40.00%			-6.58%

Table 2. Differences in the composition of the management structures between 1995 and 1999 in the 99 companies that comprise the sample (Kruskal-Wallis Test)

	YEAR	N	Average position	Test	Value
X general managers	1995	99	101.50	Khi-two	0.388
	1999	99	97.50	Ddl	1
	Total	198		Asymptotic significance	0.533
ENA general managers	1995	99	99	Khi-two	0.043
	1999	99	100	Ddl	1
	Total	198		Asymptotic significance	0.836
Number of X graduates in the management structures	1995	99	110.53	Khi-two	7.674
	1999	99	88.47	Ddl	1
	Total	198		Asymptotic significance	0.006
Number of ENA graduates in the management structures	1995	99	110.88	Khi-two	8.334
	1999	99	88.12	Ddl	1
	Total	198		Asymptotic significance	0.004
Number of people in the management and control structures	1995	99	104.77	Khi-two	1.689
	1999	99	94.23	Ddl	1
	Total	198		Asymptotic significance	0.194

There is no significant difference in the management posts. On the other hand, significantly fewer posts in the control structures (Board of Directors, Supervisory Board, Executive Board) were occupied by ENA or X graduates in 1999.

For the sample overall, one notes a global reduction in the number of posts. The size of the management and control structures therefore appears to be shrinking from an average of 13 people to an average of 12.

The most interesting trend relates to the considerable losses of posts sustained by the X and ENA graduate networks. They suffered a substantial reduction in their influence with losses of 35% to 40% of their posts between 1995 and 1999.

The losses of posts are mainly concentrated on directorships or supervisory board membership. On the other hand, management posts are not severely affected.

The concentration of powers within the networks seems to have sharply diminished during the period of the study. The X graduates held only 14.18% of the posts in 1999, compared with 20.45% in 1995. Likewise, the posts held by ENA graduates went from 16.65% to 10.70% during the same period.

The table below shows the change in the number of companies having more than three posts occupied by a single network. The results clearly indicate that the networks' concentration within companies reduced during the period of the study.

In 1995, 35 companies had more than three Polytechnic graduates in their management or control structures. Only 19 companies were in that position in 1999. The trend is even stronger for the ENA network, as 16 companies had more than three ENA graduates in 1995, but that figure had fallen to 4 by 1999. The number of companies having neither X nor ENA graduates in their control structures doubled during the period.

Table 2. Trend of the networks' presence in the companies that comprise the sample

	X >3	ENA >3	X>3 and ENA 3	No X and No ENA
1995	35	28	16	8
1999	19	8	4	16

The networks' loss of power is a consequence of their loss of influence in the management structures. This situation could lead one to believe that the control that the boards of directors exert over the managers belonging to the networks is moving towards greater independence.

To verify this hypothesis, we checked whether, in the two years 1995 and 1999, the managers' membership of the X or ENA network had an influence on the composition of the control structures (Board of Directors, Executive Board, Supervisory Board).

Table 3. Differences in the composition of the management and control structures based on the general manager's affiliation in 1995 (Kruskal-Wallis Test)

	GM's affiliation	N	Average position	Test	Value
Number of X graduates in the management structures	Neither ENA nor X	56	38.53	Khi-two	21.518
	X	30	63.63	Ddl	2
	ENA	13	67.96	Asymptotic significance	0.00
	Total	99			
Number of ENA graduates in the management structures	Neither ENA nor X	56	44.50	Khi-two	9.424
	X	30	51.18	Ddl	2
	ENA	ENA	70.96	Asymptotic significance	0.009
	Total	99			
Number of people in the management and control structures	Neither ENA nor X	56	45.38	Khi-two	8.775
	X	30	49.35	Ddl	2
	ENA	13	71.42	Asymptotic significance	0.012
	Total	99			

In 1995, ENA managers favored ENA directors and Polytechnic graduates favored X directors. It should also be noted that, overall, those managers had significantly larger control structures than the other managers.

Table 4. Differences in the composition of the management and control structures based on the general manager's affiliation in 1999 (Kruskal-Wallis Test)

	GM's affiliation	N	Average position	Test	Value
Number of X graduates in the management structures	Neither ENA nor X	61	44.83	Khi-two	5.585
	X	24	57.25	Ddl	2
	ENA	14	60.11	Asymptotic significance	0.061
	Total	99			
Number of ENA graduates in the management structures	Neither ENA nor X	61	44.39	Khi-two	7.731
	X	24	55.50	Ddl	2
	ENA	14	65	Asymptotic significance	0.021
	Total	99			
Number of people in the management and control structures	Neither ENA nor X	61	45.91	Khi-two	4.129
	X	24	53.25	Ddl	2
	ENA	14	62.25	Asymptotic significance	0.127
	Total	99			

In 1999, the trend had changed very little. The difference was less significant for the X in 1999 than it was in 1995. Conversely, there was no sizeable variation in the size of the control structures. The reduction in size seems to have taken place to the detriment of the networks. The two tables below highlight the concentration of ENA and X in the firms' management structures.

Table 5. Distribution of Polytechnic graduates in the management structures based on the general manager's affiliation

			Number of X graduates in the management structures								
YEAR	GM's aff.	Number and %	0	1	2	3	4	5	6	8	Total
1995	Neither ENA nor X	Number	17	20	7	5	3	1	2	1	56
		%	85.0%	74.1%	58.3%	50.0%	25.0%	10.0%	28.6%	100%	56.6%
	X	Number	2	6	3	4	6	5	4		30
		%	10.0%	22.2%	25.0%	40.0%	50.0%	50.0%	57.1%		30.3%
	ENA	Number	1	1	2	1	3	4	1		13
		%	5.0%	3.7%	16.7%	10.0%	25.0%	40.0%	14.3%		13.1%
	Total	Number	20	27	12	10	12	10	7	1	99
		%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1999	Neither ENA nor X	Number	23	20	7	5	4	2			61
		%	71.9%	71.4%	50.0%	50.0%	36.4%	50.0%			61.6%
	X	Number	5	7	4	3	4	1			24
		%	15.6%	25.0%	28.6%	30.0%	36.4%	25.0%			24.2%
	ENA	Number	4	1	3	2	3	1			14
		%	12.5%	3.6%	21.4%	20.0%	27.3%	25.0%			14.1%
	Total	Number	32	28	14	10	11	4			99
		%	100%	100%	100%	100%	100%	100%			100%

In 1995, 18 companies had more than 5 Polytechnic graduates in their management and control structures. Only 4 were in that position in 1999. The X network's losses of posts have taken place in the companies in which the members of that network were most numerous. One also notes that, in 1999, 32 companies in the sample had no member of that network in their control structures (5 of which had X managers) compared with 20 in 1995 (2 of which had X managers).

Table 6: Distribution of ENA graduates in the management structures based on the general manager's affiliation

			Number of ENA graduates in the management structures								
YEAR	GM's aff.	Number and %	0	1	2	3	4	5	6	7	Total
1995	Neither ENA nor X	Number	21	11	10	4	4	1	4	1	56
		%	70.0%	55.0%	71.4%	57.1%	30.8%	16.7%	57.1%	50.0%	56.6%
	X	Number	8	7	3	2	7	2		1	30
		%	26.7%	35.0%	21.4%	28.6%	53.8%	33.3%		50.0%	30.3%
	ENA	Number	1	2	1	1	2	3	3		13
		%	3.3%	10.0%	7.1%	14.3%	15.4%	50.0%	42.9%		13.1%
	Total	Number	30	20	14	7	13	6	7	2	99
		%	100%	100%	100%	100%	100%	100%	100%	100%	100%
1999	Neither ENA nor X	Number	27	22	8	3		1			61
		%	69.2%	75.9%	47.1%	42.9%		33.3%			61.6%
	X	Number	8	6	5	2	2	1			24
		%	20.5%	20.7%	29.4%	28.6%	66.7%	33.3%			24.2%
	ENA	Number	4	1	4	2	1	1	1		14
		%	10.3%	3.4%	23.5%	28.6%	33.3%	33.3%	100%		14.1%
	Total	Number	39	29	17	7	3	3	1		99
		%	100%	100%	100%	100%	100%	100%	100%		100%

Likewise, in 1995, 15 companies had more than 5 ENA graduates in their control and management structures. Only 4 were in that position in 1999. In 1999, 39 companies (4 of which had ENA managers) had no representative of that network in those same structures, compared with 30 (1 of which had an ENA manager) in 1995.

4. Conclusion

The results of the study show significant losses of posts by the networks of ENA and Polytechnic graduates. However, those losses do not affect the managers' posts. Losses are mainly in companies the X and ENA graduates already had a strong presence (more than 5 representatives in the company) or, conversely, a very weak presence (1 representative). Managers belonging to one of the networks favor control-structure members belonging to the same network. Therefore it is not certain that the necessary independence of the control structures is assured.
Nevertheless, for the 99 companies in the sample, one notes an overall reduction of 35% to 40% in the posts held by the networks during the period. This trend does perhaps signal a larger movement towards a normalization of French boards of directors. Over time, this loss of influence in the firms' various control structures could be reflected in a reduction in the management posts occupied by X or ENA graduates. A further study is required to measure the influence of foreign investors on French companies and to determine whether the companies, which have changed the composition of their control structures most, have attracted more foreign investors than the others. It would also be interesting to determine who has replaced the X and ENA graduates. Are they pension fund representatives, foreign investors or independent controllers? But the most important question is this one: Does this far-reaching change in the influence of the networks herald a reduction of the French State's influence over large French companies? This may be the sign that a page in the history of French capitalism is in the process of being turned and that large French companies will eventually cast off their political constraints only to be constrained by the international markets.

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