Thibaut KLEINER

PhD candidate

London School of Economics and Political Science

T.Kleiner@lse.ac.uk

The Ionian Conference 2000: Facing the challenges of the New Millenium

group theme 2: Technology and employment, new ways of organising production and labour

Importing new ways of organising production and labour:

lessons from French asset management industry

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Importing new ways of organising production and labour: lessons from French asset management industry

Introduction

The business environment of today, and in particular technological change and market integration, requires what Best (1990) calls a New Competition, where firms compete on the basis of new ways of organising production and labour, where flexibility, responsiveness and innovation are key factors of success. This statement is illustrated from the recent outcomes of the Lisbon European Council of January 2000, which launched another initiative to bolster European competitiveness and to foster a Europe based on innovation and knowledge. Behind the bold ambition to make Europe the world's most dynamic and competitive area within ten years is however another reality. European countries, or more specifically Continental Europe, achieved their economic success over the post-war period, thanks to product market strategies that epitomised Fordist mass production –with however national versions (Crouch and Streeck, 1997). The Lisbon European Council ambitions to break with this and to implement a "new paradigm", an "innovation and knowledge-based economy and society", relying, in particular, on the digital economy and the Internet. This means nothing else but importing from the United States a new way of organising production and labour. For applicant European Union members, the challenge is similar, although the starting point differs. Eastern and Central European countries were part of soviet economies; and their productivity levels, their ways of organising production and labour need to be enhanced and improved, in order to be able to cope with European competitive standards. Here again, the challenge is to import from abroad the ways to organise their companies.

The problem is however that importing new organisation practices from another business system is not an easy task. The political economy of national models of capitalism has shown indeed that national economies, because of particular institutional settings, function in coherently distinctive ways (Whitley, 1999; Boyer and Hollingsworth, 1997; Porter, 1990; Soskice 2000). This means that national technology and employment patterns are embedded within their socio-cultural context, which leads to path dependency and which prevents new ways of organising from being efficiently adopted by companies (Casper, 1998; Streeck, 1992). Under which conditions is it then possible to import new ways of organising from abroad, as European authorities seem to wish it?

The present paper uses a particular case study, French asset management industry over the 1984-1999, to provide some necessary conditions for organisational practices coming from one business system to be integrated into another one. The choice of the case study comes from its exemplarity. Financial services are probably the sector where globalization and transformations were the most radical over the last 20 years. Moreover, it is the one sector where European integration is the most advanced. Asset management within financial services is an interesting example, because it is influenced not only from the global trends related to financial markets, but also from national institutional configurations, like the pension system. France is a critical example for investigating change. “Plus ça change, plus c’est la même chose”: France is often pictured as a country where reform and change are impossible. Showing an example where this actually happened allows drawing some interesting conclusions about the possibilities of importing new organisation practices. The paper is based on a broader research investigating organizational adaptation in the French asset management industry. The material presented here was drawn from more than 60 interviews conducted mainly in Paris from March to September 1999 with investment professionals that were questioned about the changes in their industry. It also builds upon company documents and newspaper archives. After reviewing the transformation of French asset management industry, the paper will identify a pre-condition for successfully importing new ways of organising from another country.

I. The transformation of French asset management industry 1984-1999: plugging in an Anglo-Saxon model of organising

French asset management industry changed dramatically over the 1984-1999 period. It came from an industry that looks very much like what scholars have identified as the French model to one that looks like the Anglo-Saxon model of organising.

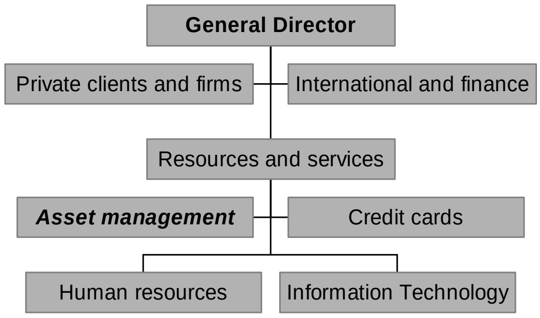
1. The French model of the mid-80s

French asset management was integrated into banking and insurance structures in the mid-80s. As a consequence, the whole asset management industry was in a situation where its role was totally unnoticed and invisible. Inside of insurance companies, asset management was exclusively devoted to mathematical reserves, which are covering future payments to clients. Within banking, asset management was not considered as a differentiated business but rather treated as another service in the range provided by a universal bank.

Work organisation

In this integrated situation, asset management had almost the same status as accounting or logistics, as shown in the organisational structures. In other words, fund managers and their departments are only treated as cost centres. They have to deliver financial performances, just like controllers have to deliver budgets, for instance. The organisation chart of Société Générale, even in 1996, while it was the largest manager of mutual funds and just before creating a subsidiary in December 1996, is a good illustration. Asset management was positioned inside of the general directory in charge of resources and services, as shown in the following diagram. It was hence regarded as a resource and not as a business, as a cost and not as a profit centre, just like human resources or information technology:

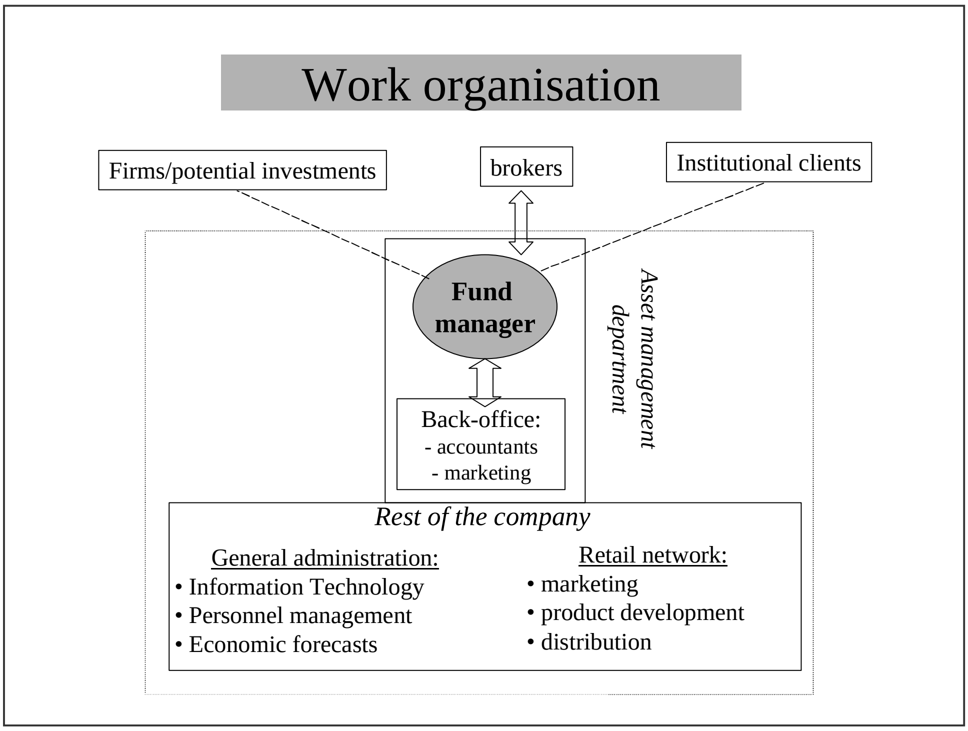
Société Générale's organisation chart 1996



Source: annual report 1996

Moreover, work organisation in the French model of Asset Management was very much centred on the fund manager. Typically, the workload, i.e. a number of accounts and portfolios, were distributed among the fund managers of the company. Each fund, each portfolio had a dedicated fund manager, who had a responsibility for all aspects of the job, and in particular the financial performances of it. As a result also, the organisation was very segmented and individualistic. Fund managers were in charge of all aspects and were not controlled very precisely by the organisation. Their mastering of financial techniques and their specific abilities were applied to the requirements of their job.

Another aspect of the work organisation comes from the link with the rest of the bank. Being considered as a support function, asset management had no specific autonomy in terms of dedicated resources, and had to rely on the administration of the bank. The fund managers were at the core of the asset management department, which was organised along technical lines, following product or sector specificities. There, the fund managers were in charge of decision-making regarding investments. To help them, the department had a back-office, made of some accountants that kept records and followed the liquidation values of the funds, and therefore controlled the administrative and accounting part. Typically, there were also some marketing people, in charge of the relation with the retail network. But all other aspects of the business were devoted to the bank or insurance company, without specific distinction to the fact that it was asset management. The following diagram gives some impression of this work organisation:



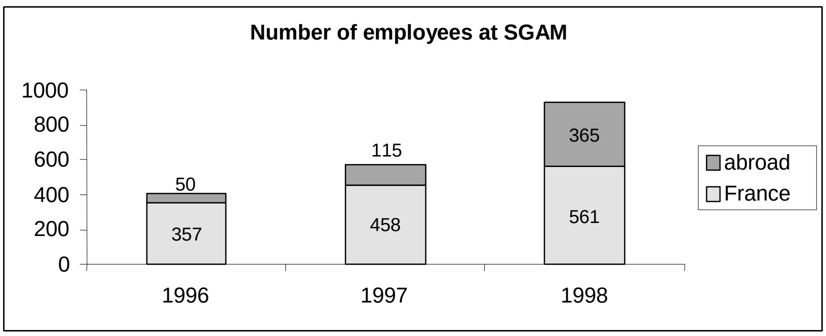
Fund managers have some contacts with brokers, who supply research and take orders, and limited contacts with clients and potential investment targets. They are at the centre of the information flow and make decisions by themselves. In fact, every fund manager is the "master on board" for his/her funds. Consequently, their work is very individual; they fight for themselves and try to beat the market with their own ideas.

Employment patterns

Employment patterns are largely the consequence of the integrated situation of asset management within banking and insurance structures. These activities were in fact very close to the public service, in terms of human resource management. Asset management professionals were included in the collective agreement, which specified most aspects of their employment contracts. The collective agreement of the banks is a typical example. It goes back to 1952 and defines most aspects of hiring and firing, pay, training, promotion and health and security. One striking element is the role of the career: people were given a job-for-life, and there was a precise correspondence between the educational level and the level of responsibility and of pay. This was possible thanks to two elements. First of all, the "basis point" (“point de base”) was used to evaluate every post in the organisation, and took into account seniority, education and individual appraisal. Secondly, education was measured along college and university degrees, as well as through specific banking degrees, which every employee could take in the course of his career. Pay corresponded to the number of accumulated points. As usual in what scholars have identified in the French model (Maurice et al., 1986), formal hierarchy was important, horizontal mobility low and vertical mobility possible but limited to certain levels, because of the primacy of the Grande Ecoles’ graduates in the top management.

2. French asset management industry in 1999

In 1999, asset management is identified in France as a business separate from retail banking or insurance. Virtually all retail banks and insurance companies have created subsidiaries devoted to asset management. In parallel, asset management subsidiaries have started to develop their own resources, as the vice-president of an asset management company summarised: “we went from a business in a bank to a subsidiary in the real sense: independent, with the means of our independence.” This happened through recruitment, and through substantial investments in terms of information systems. The number of employees is an indicator of this trend, as in the case of SGAM: over only two years, it more than doubled from 407 to 927 employees.

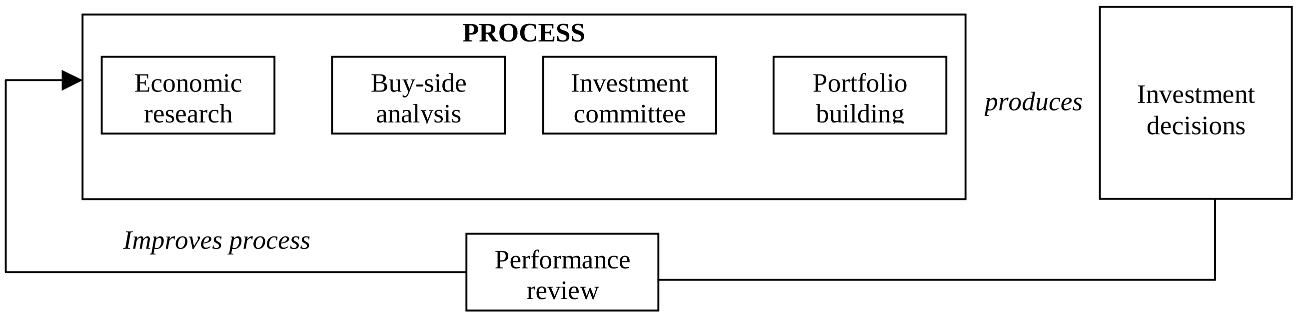


Source: SGAM annual reports

In terms of structure, the change is therefore radical from the situation of the mid 80s and asset management appears as a true industry, with suppliers and customers

Work organisation

In 1999, one notices an increased division of labour inside of asset management companies. While the value-chain was in the hands of the fund manager in the French model, the new organisation is based on several professionals, whose role is clearly delimited. As a result, investment decisions are produced by the company, through organizational routines and do not reflect the preferences of one individual any more. In 1999, asset management companies explain what they do, and show that their value is in the company and not in an individual, who might leave the firm. They display a well-structured organisation, with clearly identifiable resources. In fact, investment is presented as a process, in an industrial fashion. Labour is divided in a series of steps, each of them corresponding to precise rules and procedures. While the fund manager was doing almost everything, he/she now becomes part of an organisation, where a strict division of labour determines one's role and responsibilities. While the business used to be operated by an individual in an unsystematic way, the new organisation is based on a series of steps (economic research, buy-side analysis, committee, portfolio management, performance review and adjustment), which is labelled as a “process” by asset management professionals. The organisation is there conceived as a product of investment decisions, in an industrial fashion.



The process corresponds to a series of rules that the fund manager must apply. He/she is under control, and follows tight prescriptions regarding the securities he/she puts into the portfolio. Moreover, the benchmark[1] and tracking error[2] parameters prevent him/her to take too much freedom and to go too far from the benchmark. In fact, the fund manager has become part of the machinery, part of a collective

[1] Stock exchange index used by the client as a guideline to evaluate the portfolio manager’s performances
[2] ratio used to measure volatility in the portfolio management, in relation with the benchmark’s volatility

organisation, where he/she is not alone to decide, and where the margins of action have become rather tight.

Employment patterns

The creation of subsidiaries dedicated to asset management was used by portfolio management companies to make their human resource management more adequate to the specificities of their business, and to escape from the perceived rigidities of the practices inside of banks and insurance companies. Three elements are noticeable: more flexibility in terms of labour contract, more flexibility in terms of pay, and use of the external labour market.

First of all, the newly created asset management subsidiaries broke with bank and insurance collective agreements, and adopted a new statute for their personnel. There are nuances among companies, because some maintained some kind of relation with the bank and only transferred part of their personnel, which kept an administrative link with the retail bank. But, in general, core-workers dedicated to asset management (fund managers, sales people, accountants, IT specialists) were hired through new contracts, directly into the asset management subsidiary. This meant a new statute, a new career, without possibility to go back to the financial group. This meant no collective agreement, and only a company agreement, and an end to some of the privileges of the previous situation.

The second aspect of the change resulted in a different pay system. Pay in the asset management subsidiaries is higher than in the mother-company. Apart from basic salaries, the structure of pay is also different: the use of bonuses is general. The two categories of employees that receive the highest bonuses are fund managers and sales people. The variable part of remuneration, which did not exist in the mid 80s has come to represent an important part, as this Human Resource director explains:

> "We have increased the development of variable remuneration, like in the Anglo-Saxon system. Variable remuneration can represent 100% of the salary. This starts to be a fact. Bonuses are discretionary, uncertain and based on performance. We will take into account the rankings, like Europerformance. The one who is placed higher in the ranking will have better pay. We also look at the development of new contracts from sales people."

Some companies even use stock options, in order to motivate their employees and to increase their loyalty to the asset management company.

The third element regards the development and use of an external labour market. People being considered the key resource, in a fast growing market, this leads to a strong competition between companies in order to attract the best individuals. Therefore, asset management professionals jump from one company to another, in the hope they can multiply their salaries. Head-hunters play also an important role, and they structure the external labour market in a way similar to Anglo-Saxon countries. One notices therefore a market rule, where market prices must be paid to hire certain profiles

3. Plugging in an Anglo-Saxon model of organising

Anyone familiar with the description of the Anglo-Saxon model of organising production and labour will have recognised striking similarities with the French asset management industry of 1999. In fact, it appears that French companies have imported a new way of organising from their American and British competitors.

When looking at American textbooks or at the descriptions Anglo-Saxon companies give of their business, one notices a particular organisation, which correspond to the new structure of the French industry. British and American asset management companies are independent and have been so for a long time. They display a particular investment structure that can transform investment into a technical process, with a clear division of labour and precisely defined tasks. In fact, by many aspects, the Anglo-Saxon model is a form of applied Taylorism to investment decision-making. This is notably the view described in American textbooks about investment management. Investment is presented almost mechanically as the result of a three-step process: research and analysis, decision about an approved list of securities and portfolio management (Sharpe, W., Alexander, G. and Bailey, J. 1999).

Regarding employment patterns, British and American companies are characterised by the pre-eminence of the external labour market. Individuals move from one company to another, and have little loyalty. Their careers are made through the labour market more than through internal promotion. Hiring and firing is easy, so that bad performers will be made redundant and good ones attracted by competitive pay packages. There is indeed a great degree of contractual flexibility, just as we observed in the 1999 French industry. Pay has an important variable part, with bonus sometimes representing more than 100% of the salary; it is linked to performance. One could spend more time actually comparing the two models, but it appears rather clearly that the French situation of 1999 corresponds very much to the Anglo-Saxon way of organising. This echoes regular comments from French investment professionals, that Paris had taken from London and New York to “modernise” and increase its international competitiveness. It indicates that the French asset management industry imported new ways of organising from another business system and managed to integrate it within the French model of capitalism. This leads however to a closer examination of the processes that enabled a successful import.

II. Lessons from the case: the constitution of a new organisational field is a pre-requisite

French asset management industry illustrates a case where Anglo-Saxon practices were imported within the French system. As such, it gives some interesting elements in order to evaluate how such an import was possible. The noticing of a time frame differential will be used to categorise some pre-requisites to the importing of organisational practices from abroad.

1. Behind the scene: timing of change

One surprising element in the case is the timing of the transformations. In fact, when one looks more closely at the dates when autonomous asset management companies were created, and where industrial organization was implemented, it appears changes occurred after 1996, in most companies. This can be seen, for instance, from the creation of autonomous asset management subsidiaries. Paribas was the first one, in 1988. Then followed CCF, in 1992, AXA, CDC and UAP, in 1993-94. But these were the only ones. After 1996, one the contrary, there was a massive creation of asset management subsidiaries, in all retail banks and insurance companies. The real establishment of an external labour market dedicated to asset management professionals can also be traced back only to 1997. The delay between the moment of liberalization, which occurred in 1984-1987 and the actual organizational change is therefore noticeable, as M., CEO of an asset management company, remarks:

> M: “Honestly, changes have been less important than I expected. In 1987, we thought that everything would explode, that consultants would come very quickly, that asset management companies would get their autonomy. Today, it *seems* to be the case” (emphasis added)

The real question one should ask is therefore not only why French companies adopted Anglo-Saxon practices, but also why they did *not* adopt them earlier than in 1996. When talking to the professionals in the field, it appears that two events played a key role in the transformation of the industry. And both, strangely enough, happened in 1996. The first one is the transposition in French law of the European directive on investment services (the MAF law), which gave asset management its autonomy, by creating the portfolio management company with extended object and by giving it a supervisory body distinct from the one of banking. Interestingly, this impulse towards the autonomy of asset management was not in the directive, but was added to it by French regulators. The second element is the publication of a report about the asset management industry, the Paris-Europlace (La Martiniere) report, which analysed its specificities within financial services and argued for reforms in order to secure the competitiveness of France's asset management in the international arena. Both happened in 1996, and thereafter only were changes dramatic. When looking over the whole 1984-1999 period, one can therefore identify two different dynamics.

The 1984 to 1996 period corresponds to an exploratory phasis: some companies experiment individually new ways of organising, very often through a confrontation with British or American competitors. The track record of French financial institutions regarding acquisitions of British or American companies is not as impressive as the German one, but it is still not negligible and very illustrative of this. Paribas, for instance, was very early involved in Anglo-Saxon alliances: it bought the American company AG Baker in the beginning of the 80s, in co-operation with the British bank Warburg. This orientation made them realise that the British and American asset management markets were more developed. One of their directors explains that this confrontation was beneficial, in the sense it showed practices and methods that were unknown to the French market, and more advanced, like for instance in terms of performance measurement: "In the US, I saw some performance measurement instruments that were much more evolved." This was in 1985. On the way back home, Europerformance is created by Paribas, in collaboration with a director at the Caisse des Dépots et Consignations. "It was a way to get rid of the *Palmares Paribas*, which was a ranking traditionally made by us and which cost us several Millions and was rather rudimentary, and to finally have some decent performance measurement." This example is a good illustration of the learning process: French managers, through acquisitions, have the opportunity to get inspired from the practices of their British or American colleagues. Other examples can be mentioned. For instance, Indosuez bought and then sold Gartmore, which was commented by a manager of Indocam, the asset management subsidiary of Crédit Agricole-Indosuez, as follows:

> " In terms of structure they were in advance in comparison with us. We looked at what they were doing, and since they had partnerships with American companies, we looked very much at how American companies were organised.”

In the exploratory period, companies experimented individually what the better ways to organising are. But this did not lead to a change at the level of the industry, because the institutional environment prevented Anglo-Saxon practices from being implemented in the French model. It was not possible to pay high bonuses to one department of the bank, while the rest was suffering from losses and redundancies. It was not possible to have a flexible labour market with banking and insurance career structures organised along life-long employment. It was not possible to have an independent asset management business because retail banks opposed it, on the principle of universal banking, and a credit-based market economy. Many institutional elements present in the French model of capitalism were impeding the adoption of Anglo-Saxon practices until 1996. After 1996 however, virtually all companies have adopted these imported practices. Isomorphic trends can be observed, where all companies adopted English names, structured their business with Anglo-Saxon type organisation and employment patterns. The contrast between the two periods is particularly revealing, because it illustrates some pre-requisite for the importing of foreign organisation practices to be implemented.

2. The constitution of the organisational field

What the new law and the La Martinière report by investment professionals did, was in fact to create a new organizational field. Under the patronage of the French State, asset management was officially recognised as an autonomous business, distinct from retail banking and insurance. In other words, a new institutional space was opened, virgin from previous rules and organisation practices, precisely because it was new. In this new organisational field, the institutional impediments of the 1984-1996 disappeared, precisely because the institutions supporting it did not exist in the newly created asset management business. There was no path-dependency any more, because it was a new business area. Not surprisingly, La Martiniere report and the MAF law were largely inspired, in their prescriptions, from the Anglo-Saxon model. They provided the foundations, the rules for the new business to be organised and were the catalysts for the transformation of French asset management. In the space created, it was possible to adopt foreign practices and to structure this industry the way it looks now, in a successful import of Anglo-Saxon practices.

The example of French asset management industry does not contradict the conception of a constraining role of institutions. It confirms the findings of previous studies of national business systems (for instance Whitley and Kristensen, 1995). However, it adds to it a dynamic perspective. What the case tells us, is that sub-business systems can be created within an over-arching model of capitalism, and that they can work with rules that differ notably from the over-arching system. It means that even if institutions matter, there is a possibility for opening new spheres of action, where new sets of rules can be elaborated. In other words, national models of capitalism could very well host sub-systems operating with different rules from theirs. This would echo, in a way, the sociological theory of social differentiation that originate in the work of Durkheim and influenced functionalist theorists. Parsons and Smelser, for instance, argue that societies tend to differentiate into sub-systems (social structures) which are specialised in each of the four primary functions of their AGIL- scheme (adaptation, goal attainment, integration and latent pattern maintenance) (Schimank, 1996:98). Such a perspective would explain why it is possible for European economies to develop new areas of business organization, which differ from their traditional national patterns. Through the opening of new organizational fields, differentiated from other economic activities, it would be possible to develop sub-systems different from the over-arching one, and therefore to import organisational practices from other countries.

Conclusion

This paper is a modest contribution to the understanding of the national differences in socio-economic organisation. Using the precise example of French asset management over the 1984-1999 period, it has shown that it is possible to import practices from abroad, and that it is only possible provided the institutional setting is appropriate. The study calls therefore for a closer attention from policy-makers to the institutional environment of companies, for attempts to introduce new ways of organising to be successful. Instead of just trying to implement best practices, it is necessary to create a new business environment, with adequate rules and governance structures, so that practices imported from another business system can be adopted effectively. In other words, both present and applicant European member states need to build up new economic institutions, which will provide the means to their ambitions.

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