

INSTITUTIONAL CHANGE, CORPORATE GOVERNANCE AND CORPORATE
PERFORMANCE IN FRANCE

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Abstract

The rise to power of the collective management in France, which comes to replace the individual one, revealed the emergence of new shareholders preaching the re-establishment of the reports of force with the managers (CEOs) within the large French companies. Through an exploratory study of the Anglo-Saxon institutional investors's role in the inversion, practically successful in the United States and the United Kingdom, of the reports of force between the shareholders and the managers in favour of the first, we released a strongly mimetic behavior of these investors (seduced by the success of their control system) in their decision to evolve the rules and the practices of corporate governance into France, and to get similar results to those carried out in the two other countries. The recent developments of the new institutional theory of the organizations come then to emphasize the impact of the institutional framework, and its modification, on the organizations forming a given organizational field. The institutionnalists also contribute to explain the mimetic behavior of the institutional investors through the concept of mimetic isomorphism, and this by putting the accent on the research of legitimacy.

Key Words: institutional investors, institutional change, isomorphism, corporate governance

INTRODUCTION

The rise to power of the collective management in France, which comes to replace the individual one, revealed the emergence of new shareholders preaching the re-establishment of the reports of force with the managers (CEOs) within the large French companies. That puts an end to the practice of the "vote with the feet" in particular for the Anglo-Saxon pension funds, the decisive question is thus concerning the decisions's control of managers and their conformity to shareholders's interests. Concretely in France, evolving rules of corporate governance (CG), is fighting against the relative complexity of the modes of manager's remunerations, the lack of transparency in information transmitted to the shareholders, the strong dependence of the directors with the CEOs, the concentration and the crossing of the directors's mandates. In other terms, it leads to restore an effective internal control (independent board of directors) and an external one (more active takeover market) of the corporate management .

If these internal and external control are inoperative, the CEO can divert to his profit a part of the produced richnesses. That's from now on, known by the term of the harmful rooting. In fact it covers all the measurements put in by the manager, aiming at reducing the efficacy of the control and sanction systems, in order to guarantee a maximum utility drawn from the appropriation of the organizational revenue.

However among the objectives of the updating of the governance regulation, it's to circumvent this harmful rooting strategy primordially founded on an informational asymmetric strategy. However, we note in France that the control mechanisms aiming at guaranteeing a good management suffer from multiple dysfunctions. In consequence and during the 1990's, these problems were raised in France in the Viènot reports (1995, 1999) like in the law of May 15, 2001 on the New Economic Regulations (NRE). These legal innovations recorded in fact a true convergence of the French rules and practices of corporate governance towards the Anglo-Saxon ones. These new French rules and practices inspired of the Anglo-Saxon model can be partly the fact of the seniority of the reforms relating to corporate governance in the United States and the United Kingdom. This anteriority leads so that these recommendations to be imposed like an compulsory reference. Such imposition can be explained by the real will of "generalization and harmonization of the various corporate governance systems" expressed by American investors in particular the public pension funds (Hirigoyen, 2001).

So in order to explain this evolution of the governing rules and practices in France and their principal causes, we will think in this present article, to emphasize the impact of an institutional change on the strategies relating to corporate governance and the performance of these firms in France. Indeed the role of the environment in the strategic choices is nowadays taken for asset (Andrews, 1987). But in general, only the economic environment was regarded as relevant and really important. In its work on the development of the American companies, Chandler (1962) had proposed incidentally that the strategy was determined by the market. Thompson (1967) and Lawrence and Lorsch (1967) had highlighted the influence mechanisms of the environment on the strategic and structural choices of the companies. In particular, Thompson (1967) distinguished the “task-environment” from “the general-environment”, and affirmed that the former was the dominating factor in the rational behaviour of the firms. the “general-environment”, in fact more institutionalized, was not regarded as important.

Later, Chandler (1977) brought in another determining contribution. It argued that the managerial standards, considered as a "visible hand", had also strongly contributed to the development of the large companies and the American capitalism. For the first time, the more institutional aspects seemed to play a substantial role in the strategy of the firms. Following Chandler, the new institutional theory of the organizations made substantial progress (Scott, 2001) suggesting that the behaviors of the organizations were affected considerably by the dominant ideas imposed on managers. It is actually notorious that the managers tend to adopt mimetic behaviors, whose springs are the desire of being legitimate compared with their peers and gratified for what they made (Powell and DiMaggio, 1991). Consequently, the strategies of the companies tend generally to resemble each other and thus determined by the institutions (Berger and Luckman, 1967; Meyer and Rowan, 1977; Oliver, 1991).

The new institutional theory of the organizations was then perceived as being primarily a deterministic theory. However, Oliver (1991, 1997), then Greenwood and Hinings (1996) and Roberts and Greenwood (1997) argued and showed that, from the conceptual point of view, the theory wasn't incompatible with the idea of the varied strategic choices. In other terms, according to these authors and well another (Scott, 2001), even if the institutions are constraining, they leave place with an important variation in the strategies of the firms, which is generally taken for asset by the managers and the researchers.

However, few empirical research showed these bonds between the strategic choices and the institutions. The difficulty that such research meets, comes owing to the fact that to appreciate

such a bond, it is necessary to observe an institutional change, which is not easy. Indeed, the institutions change generally only in a progressive way. There are seldom radical transformations in the institutional plan, which would allow to observe the effects on the strategy of the companies and their performance. However the deregulation relative to questions related to the corporate governance systems in France since 1995(the report of Viénot), presented a rare opportunity to examine such impact.

In what follows, we decided to proceed, by adopting an analogy between the strategies of the companies and the corporate governance systems (micro-analytical focus) present in the large French firms. This choice finds its origin in the quasi-absence of theoretical works establishing of the bonds between an institutional change and its impact on the governance mechanisms applied within the companies.

In this article, and initially we will propose to draw up the descriptive framework of our problems, in which we will think to present in a first part the reforms relating to corporate governance recommended in the Anglo-Saxon world and in particular in the United States, and, implemented through the various shapes of activism of the American institutional investors. In the second part we will suggest passing on the various evolutions of the governing rules and practices in France (explained variable) while making a comparison with those observed in the United States. In the second time, we provide the theoretical bases explaining the mimetic behavior of the institutional investors characterizing their will of homogeneization of the various corporate governance systems (we return to the new institutional theory for better understanding of the bonds between the institutions, the strategies of the firms), as well as the assumptions of such longitudinal research, hoping to have in a forthcoming paper the methodology to test the proposed assumptions and the principal results.

The United States: the institutionalization of the corporate governance:

In the United States the reasons of the intensification of the debate on corporate governance are varied. The reflexion was started from the end of the 1970's. The wave of the hostile takovers known during the 1980's offers a first occasion to blame the capacity of the managers of the large companies to maximize the value of the firm, and to doubt the quality of the existing corporate governance system. In parallel a series of turbulences occurs: The discovery, in several companies, of the illicit payments made in the ignorance of the board of directors lead the authority of market, the SEC (Securities and Exchange Commission) to intervene. It causes in particular the establishment of three specific committees: An audit committee, taking care of the good book-keeping in connection with the auditors, a nomination committee, charged to think of the composition of the board of directors and to suggest the appointment and the replacement of the managers, and finally a remuneration committee whose function is to examine the remuneration of the managers and to make proposals on the matter. The 1990's mark a new rupture once again: the losses posted by several American companies put at fault the monitoring system ensured by the board of directors and lead to the replacement of some of its managers.

According to L'Hélias (1997), the corporate governance is from now on "institutionalized" under the aegis of the institutional investors and more particularly of the pension funds. The latter are to some extent, responsible for this impressive wave of replacement of the managers in the 1990's. Thus the structural modification of the form of detention of the transferable securities, related to the explosion of collective management in the Anglo-Saxon countries, resulting then the rise to power of these institutional investors, have an important consequence.

According to the terms of Peyrelevade (1999), the power of these institutional investors supports the inversion of the report of force between the shareholders and the managers in favour of the former: "Whereas the direct detention of the actions by the individuals was accompanied by a dilution of the control exerted by the contributors of the capital and left the essential capacity with the direction of the firm [], the concentration of the securities in the hands of a new institutions category, the fund managers, subjected by the competition and the regulation to a duty of good management of the savers interests, has deeply transformed the nature of the relations between mandants and agents".

Becoming thus even dominant and important shareholders, the institutional investors have searched to exert their power. Thus the activism as regards to corporate governance would be before all the fact of the funds privileging a long-term and an index-linked investment policy. It's the case of the public pension funds, such as CalPERS or TIAA-Cref. Index-linked management, also known as *passif*, consists in reproducing an index by the policy of placement. Because this technique permit to remove any freedom in the choice of the values composing the securities portfolio, it is understood that the funds privileging this type of management are shown particularly demanding on the points which touch with corporate governance (Charlery, 2001).

We make a point of specifying in the second place that the action of these funds is juridically framed by the American Ministry of Labour by the intermediary of ERISA legislation in 1974. In 1988, there was the Avon letter which came to supplement the provisions of ERISA: It is obligatory to the managers of pension funds to vote at the general assemblies of the companies of which they are shareholders, and to "use all the care, all the expertise, and all the necessary diligence" while they exert their voting rights. However it should be noted that the activism of the pension funds exceeds very often this lawful framework. Indeed this going beyond can be either "direct, or by the intermediary of groupings such as the Council of Institutional Investors: their action can take several forms different from the vote in general assemblies, with knowing the Lobbying on the authorities in order to modify the regulation, the direct contacts with the management of the firms, the setting with the index of the least powerful companies or the most defective ones in points relative to the corporate governance questions and finally the proposal of the rules on the matter "(Joly, Moingeon, 2001).

These recommendations, published in particular by TIAA-Cref in 1986 and CalPERS in 1996, concern for the majority, the composition of the board of directors (two thirds at least of the directors must be independent), the availability of the information relative in particular to remunerations of the social agents and necessary for the shareholders in order to judge the independence of each directors, and the installation of audit, nomination and remuneration committees within each board.

Thus being the result of this increased activism of the institutional investors, the American Law Institute published in 1994 its reference document on the corporate governance. This text speaks to the judicial authorities, the legislators and the companies, and covers a very broad field: the objective of a company, its structure, the duty of diligence, the duty of equity, the role of the directors and the shareholders in the operations which result in the change of control. In short all topics that the institut judges fundamental in the field of corporate governance.

What is concerning precisely the daily firm management, the superiority of the board of directors is marked in the reference document of l'ALI, which puts also recommendations that will make it possible to the board to fulfill its functions. It recommends in particular the nomination of independent directors, the best transfert of information of the shareholders, the establishment of specialized committees, and the guarantee of transparency of the financial markets. In addition it is important to wonder on the practical effects of these publications. According to the opinion emitted by Tunc (1995), the document of the ALI could profit from the attention of the judges and the legal departments of the companies. But especially it could contribute to the reinforcement of collective action of the savers representatives who found in this document a legal base with their requirements.

France: A transposition of the Anglo-Saxon model?

The release of the reflexion on corporate governance in France finds more certainly its origin in the increasing opening of the place of Paris to the foreign institutional investors. This phenomenon contributed to the propagation of new standards of operation and control ready to govern the life of the companies (Magnier, 2001). Can a question then be put, the major nature of the French model of corporate governance is it for as much affected?

In order to answer such interrogation, we note that the French model of corporate governance, related to some extent with the Anglo-Saxon model and with the Rhenan one, or sometimes distinguished radically from these two models, would deserve a specific analysis. From this point of view several authors contributed to highlight some of the fundamental features of the French model. Charreaux and Desbrières (1997) estimate that the traditional mechanisms of corporate governance allowing the alignment of the manager's interests on those of the shareholders (financial market, managers market and the board of directors) seem to be, through the practice, not very relevant in the French system of corporate governance.

With a regard to the market of takeover, it's appeared not very active in France in spite of the presence of some hostile takeovers (Thus between 1988 and the 1995, public hostile offers count only ten offers) in particular observed after the disengagement of the State of the internal audit of the companies at the time of the first privatization wave.

The analyse of the role of the board of directors seems to be too dependent on the shareholding structure which conditions the distribution of the power in the company. Thus the board of directors doesn't assume a disciplinary function in the non-managerial companies (Fama, 1980), in which there is a majority coalition of shareholders exerting a direct control on the CEO, and limiting consequently the role of the board to that of approbation and help in taking decisions (Charreaux, Pitol-Belin, 1997a). This result can be explained by the specificities of the French capitalism. These latter are related to the importance of the capital concentration between the hands of the founder family. Thus constituting the bases of French specificity, these characteristics can also constitute important sources of rigidity for the transposition of the Anglo-Saxon system of corporate governance to the French companies. However with the world deregulation, the remarkable dynamism of the financial markets of the principal industrialized countries and, the rise of the incertitude concerning the financing of the retirements, we attended the emergence of the foreign investment funds whose reason of being is to contribute to the amelioration of their savers performance.

This increasing participation of the foreign institutional investors, in particular the Anglo-Saxon ones, could constitute a direct or indirect powerful lever, working mainly with an opening of the bonds of cross participations accompanied by a final disengagement of the State and, a progressive evolution of the corporate governance rules and practices. Thus even if that doesn't belong to their primary vocation, the American and British funds does not hesitate to get involved in internal management to weigh on the main strategic trends of the firm. Becoming thus the principal influential actors of the French financial market, the Anglo-Saxon funds have searched to exert their power by taking an interest with the problems related to corporate governance, such as the research of a greater informational transparency, the clarification of the role and the composition of the board of directors and the reinforcement of the external control through the elimination of anti-takeover measurements (Jeffers, Magnier, 2001).

- The reinforcement of the role of the board of directors:

A great number of researches in particular American ones, has in fact tried to appreciate the capacity of the board to exert the disciplinary function which is reserved for him, by measuring the impact of its composition on various indicators intended to measure its effectiveness (Hermalin B E, Weisbach Mr. S (1991), Cochran P L, Wood R A, Jones T B (1985), Pearce J A, Zara S A (1992)). Accordingly some works tried to bring directly the

composition of the board of directors closer to the performance of the firm. Others tried to develop a specific measurement of the performance of the board, distinct from the financial performance (the legal proceedings engaged by the shareholders against the board can be regarded as a criterion of performance of the board).

In France the disciplinary role of the board of directors is almost missed. Charreaux and Pitol-Belin (1997 b) identified in fact three permanent roles of the board: A role of maintenance of the discipline, it prevents the chairman of the board and his managing team making faults at the time of the decision-making, a second role of approbation in which the board is seldom in the initiative of making decisions and it's satisfied, after being held informed, by approving the decisions taken by the direction, and finally a third role which consists of advising into or out of the meetings.

As for the composition of the French board, the study of Charreaux and Pitol-Belin (1997 a) reveals a clear domination of the "internal" directors on the "external ones", which means that the board, made up by directors having a direct relation with the managing team, can make proof of a lack of objectivity in the decision-making process. To confront this defect relating to the disciplinary function of the board of directors in France, the Anglo-American institutional investors reacted with an aim of reinforcing the effectiveness of the control role exerted by the board. They required that this effectiveness depend on its real capacity to detect possible insufficiencies in the management of the firm, to understand the origin of these insufficiencies and in an against part, to define relevant inciting and corrective measurements, and even the sanctions towards those which are in the origin of these insufficiencies and to impose such measurements. The exercise of these tasks requires, according to these foreign funds, from the directors independance and objectivity qualities and a capacity to make a critical assessment on the proposals put forth by the direction (thing already approved in the United States through the empirical studies). For this reason, the research and the selection of the directors seem to be in the eyes of the foreign funds an important stage in the center of the question of the independance of the directors board in France.

The separation of the functions of president of the board (chairman) and its general manager (CEO) also occupies an important space among the requests of the foreign institutional investors for the amelioration of the disciplinary function of the directors board. This dual structure is in fact frequently used in the united kingdom but seldom observed in France (presence of the monist structure). It however guarantees a flexibility and best balance in the organization of the power and the influences within the companies. the Simultaneous

existence of a Chairman and CEO and several general managers with the head of a company results generally in a subordination of the general managers to the power of the chairman or a specialization of the latter. The separation of the functions of the president of the board and its general manager (CEO) must be imposed at the time like the solution allowing the establishment of a true balance of power.

- The reinforcement of the role of the financial market:

The financial market represents the place indeed where the quality of the management of a company can be estimated and possibly sanctioned. However the efficiency of this market is conditioned by a best quality of information. That's in fact the role of the director's board, and more precisely the role of the external directors of insuring a better transfert of any useful information towards the financial market, while taking care that it will not be in parallel handled by the internal members of the firm . Let us note moreover, that in the finality of establishing a better control of the decisions taken by the direction, the foreign funds recommended the elimination of several anti-takeover measurements installed by the CEO in order to protect his human capital against the expropriation risk which represent the takeover offers, and thus against the external pressure of the financial market. Indeed Martin and Mc Connell (1991) show that the public offers that we can qualify by disciplinary ones, are partly justified by the existence of bad performances. The market of takeover plays, according to the authors, a role of control acting on the CEOs who do not maximize the richness of the shareholders. Knowing that Martin and Mc Connell (1991) regard the operation as hostile, if we observed a change of the managing team little time after the public realization of the hostile takeover. Thus presenting a risk more and more important for the large French companies, the direction tends to dispose the means and the measurements to protect itself from these unfriendly offers (such as the development of consumer loyalty, creation of a hard core, the double voting rights, the crossed participations, the shareholders pacts). These various measurements, and in particular those bringing to the concentration of the power, such as the attribution with the double voting rights and the constitution of the crossed participations get generally an important defensive impact in case hostile public offers, and contradict the requirements of the foreign investment funds relating to the respect of the principle of the social equity ("an action, a voice, a dividend"). These techniques, qualified by the American funds of "poison pills first generation", are highly criticized by the foreign investors. Thus these defensive effects justify waitings of the Anglo-Saxon institutional investors of the elimination of such measurements able to neutralize the role of

control and monitoring of the takeover market and consequently, it also neutralizes a better informational transparency with respect to the shareholders.

- The remuneration of the CEOs:

The remuneration of the CEOs is a paramount aspect of the resolution of the agency conflict with the shareholders. The installation of incentive remuneration is, indeed, an instrument among others with the hands of the directors board to direct the behavior of the CEO. It is especially a means of transforming and of reducing the interest conflicts being able to exist between the shareholders and the direction. For this reason, the topic of the CEO's remuneration took an importance within the waitings of the Anglo-American institutional investors. The latter chose to act on the form of remuneration related to the performance, because it can constitute an important lever to control the behavior of the CEO in the optic of the resolution of the agency conflicts. The installation of variable remunerations can be likely to reduce these antagonisms while making converge the objectives of the CEOs towards those of the shareholders. The stock-options can be the most representative of these waitings because they profit in more of their incentive nature, of a particularly advantageous tax treatment in France.

Let us point out a new tax system of the stock-options, that was voted in May 2000 by the Nationale Assembly within the framework of the law on the new economic regulation (NRE). It envisages in particular the reduction of the time of the unavailability from five to four years. If this time is respected, the appreciate value of the acquisition is exonerated from the social contributions, while being subjected to the IRPP (tax on the salary of a physic person) or to a rate of 40% (according to choice of the recipient), and the appreciate value of the transfer will be subjugated with common law system of the appreciations of transfers of the transferable securities and, is thus imposed on the rate of 16% raised by social deductions of 10%, that is to say on the whole 26%.

It results various objectives which can chair the installation of the stock-options by the companies, we can quote the mobilization of the CEOs to the development of the value of the firm and thus with the safeguarding and the development of shareholders interests (Desbrières, 1997), and the installation of a remuneration system at low cost, competitive and aligned on the practices of the market at the international level.

As a conclusion, we can say that the reinforcement of the internal and external mechanisms of government expressed by the institutional investors and in particular the American pension funds, is quite revealing of their desire to establish a better transparency into the firm.

Anxious to conform to the waitings of the international investors, French employers (MEDEF) and French association of the private companies (AFEP) found in the first report of Viènot, a first answer which comes to mark the beginning of the French reflexion as regards to corporate governance. Through this report, the French reaction seems to borrow the way of the adaptation of the structures of the French companies to the Anglo-Saxon rules of corporate governance. Charged to examine the composition, attributions and the operating mode of the directors board of the dimensioned companies, the report affirms that firstly it belongs to the board to take care of the reliability and the clearness of the information transmitted by a firm. It is also desirable that each board comprises at least two independent directors and that the number of reciprocal mandates is not excessive. At this framework the presence of independent directors, released from the influence, at the same time of the CEO and the shareholders, will allow to insure to the board an objective expertise on the way in which the firm is directed (Fama, 1980). It's also important that each board will be made up by a selection committee of the directors and the social agents, a remuneration committee and an audit committee. Insofar as the internal directors are excluded, the committees can become an expression place released of the influence of the direction team. This faculty offered to the directors to organise their work in all independence, is regarded as determining in three fields: The monitoring of the elaboration mode of the documents and financial information, the valuation of internal audit and the relationships with the external auditors (Audit committee), the selection of the CEOs and the directors (nomination committee) and finally the definition of their financial advantages, including the wages, no-claims bonus and other gratifications such as the profit-sharings in actions or all advantages in kind (remuneration committee).

Let us note that the second Viènot report, published in July 1999, came to supplement the provisions of the first report, while being interested not only with the questions dependent on the directors, the operation of the board, and the financial information, but also with that relating to the dissociation of the functions of chairman and the CEO of the board and with the publicity of remunerations and the options of the CEOs.

Indisputably, these Viènot reports are inspired from the Anglo-Saxon GE rules, in particular those in force in the United Kingdom and the United States. Indeed since 1995, certain changes were actually recorded. Investigations carried out by the specialized companies, such KPMG or Korn International Ferry, constitute an invaluable base of the evolution valuation of the French practices. According to the study realized by Korn Ferry, in 1998, 87% of the

companies of the CAC 40 applied the standards of corporate governance recommended by the report Viénot I, against 37% three years before. However the confusion of the management and supervisory powers within the board was always maintained because of the non universality of this rule (In the United States this confusion remains in 80% of the large firms), that additioned to the insuffisance of the disclosure of remunerations of the social managers. This can be due to the fact that the second Viénot report remained rather careful on this subject, insofar as it called to the transparency of total remunerations of only presidents of the directors board (Magnier, 2001).

This deficiency of application of these new texts, deprived of any constraining legal force, opened the way with a first debate bearing on the methods of the reforms required through these two reports. Does the initiative of the companies have, on the contrary, being framed by a lawful reform? It's proven in fact that the proposals of the Viénot reports do take only a character of advise, and appeared in withdrawal compared to the very inciting provisions of the Cadbury, Greenbury or Hampel reports. Admittedly the initiative of French employers is doubled by the attention of the COB, but the action of the latter could seem timid in comparison to that of the American and British market authorities.

Under these conditions, the law of May 15, 2001 on the new economic regulations (NRE) appeared for the realization of this finality: It's to mitigate the absence of the coercive character qualifying the provisions of the former autoregulation reports, in particular those bearing on these two questions relating to the principle of transparency as for the publication of individual remunerations of the social agents, and that of the separation of the functions of control and management cumulated by the directors board. Indeed the text of the law seems to be more strict on the first subject: It claims the obligatory diffusion of remunerations of each "social agent", however there even remains not very explicit on the definition of the remuneration nature. As for the second subject, the law envisages the possibility to opt for a dissociation between the functions of the chairman of the board and those of the CEO, contrary to the law of 1966 which imposes that the president of the board is a also general manager. As the case in the United States this dissociation is an option, however in the United Kingdom it is highly advised.

Through the former developments, we released a strongly mimetic behavior of the foreign institutional investors (seduced by the success of their system of control) in their will to make

evolve the rules and the practices of corporate governance in France. In order to explain this behavior, in addition to the influence of the institutional change on the strategies of a firm, we have chosen the neo-institutional theory (privileging the search of legitimacy) as a theoretical framework of our research.

Institutional Change and organisational strategies

In its very popular conceptualization of the environment, Thompson put the accent on "the environment-task" of an organisation, considering that "the general environment", often stable, could be neglected at first approximation. By doing this, it provided a theory which is very powerful to explain the organisational behaviors in situations of great stability of the values, standards and rules of behavior which characterize the society. On the other hand, this theory is very insufficient in a case of an instable situation (Kiggundu, Jorgensen and Hafsi, 1983). Indeed, very often, in these cases, the "general environment" dominates and the effects of the "environment-task" are comparatively unimportant. This dichotomic vision between "the environment-task" and "the general environment" was beaten in breach by the recent development of the institutional theory (Berger and Luckmann, 1967; Meyer and Rowan, 1977; Scott, 2001). Nowadays, continuing the ideas of Barnard (1938), in connection with persuasion, there is a strong convergence towards the realization that nothing can't get out of the "dominant" ideas. Nothing is conceived in the vacuum. Our reasoning even, our rationality, are strongly impregnated by "institutions" (Dacin, Goodstein and Scott, 2002) which are then defined as being the ideas which "dominate" our understanding of the world. Even our comprehension of "the environment-task" is coloured by the institutions. In another terms, the reality is socially built (Berger and Luckmann, 1967). Coase (1937) noted that institutions were created by human beings to decrease the uncertainties of transactions between economic agents. A large part of these uncertainties are due to opportunistic human behavior (Williamson, 1975, 1985). Without institutions, transactions could have never begun and markets as well as firms may have never existed.

The institutions define then what we or not regard as acceptable and thus determine the framework in which any action finds its legitimacy. An organization cannot survive without legitimacy: An approval of its "general environment", that its actions are "desirable, suitable and are adapted, with the interior of the standards, values and beliefs system, socially built" (Suchman, 1995). This system called institutions can be specified. As suggested by Scott

(2001), we can distinguish for the needs of a study between three components for the institutions -normative, lawful or coercive and cognitive. Is each one of these components the base of a valuation form of the legitimacy of an action (Scott, 1995) and of distinct mechanisms of control -normative, coercive and mimetic (DiMaggio and Powell, 1983). The normative component, which was discussed much per Weber, focuses on the "normative rules which introduce a prescriptive, valuative and obligatory dimension in the social life" (Scott, 1995). The lawful institutions put the accent on "explicit lawful processes: activities relative to the establishment of rules, monitoring, and sanctions" (Scott, 1995). Finally cognitive elements are "rules which specify which types of actors can exist, which structural characteristics these actors can adopt, which procedures they must follow and which meaning is associated to their actions" (Ruef and Scott, 1998). In this manner, the institutions determine in a strong way our perception of the world. Di Maggio and Powell (1983), like Meyer and Rowan (1977), even argue that legitimacy isn't related with effectiveness. The approbation that the organizations obtain which enables them to survive refers neither to their effectiveness, nor to the feelings of the members of the organisations towards their efficiency. By accepting being like the others, organizations and individuals, obtain thus their approval (Powell and DiMaggio, 1991). The institutions are thus powerful, they make it possible to maintain the legitimacy of the actions undertaken and thanks to that, they ensure survival. The neo-institutionnalists thus tried to explain the collective constitution of these institutional structures which make legitimate, because taken for asset, certain beliefs, certain standards and some practises. They also analyzed the organisational fields. Di Maggio and Powell (1983) defined the notion of the organisational field as follows:

- An organization unit operating in the same field, defined by the similarity of their services, products or functions.
- The organisational field includes also the organizations which influence in an important way the first, for example the regulating actors (the State).

The borders of the field are not geographical. The actors considered are connected by a certain form of a direct interaction. They share common significances (Scott, 1995).

By the time and the action, the rules which define the field become institutionalized. A common language and a social structure develop (Lawrence, 1999). One of the key contributions of Di Maggio and Powell (1983) is to understand the institutional processes of structuring of the organisational field. In another terms, the structures and the shapes of the field do not proceed in natural existence but by socio-institutional process. This process, of institutional definition, constitutive of the field appears by four phenomena:

1. The increase of the extent of the interactions between organizations in the field.
2. The emergence of inter-organisational structures well defined of power or coordination and the appearance of forms of coalition within the constitutive organizations.
3. The increase of the load of information to which each organization must face within the framework of its activity, at the same time of the structuring of the field.
4. The development of a mutual conscience among the participants implied in an activity of common nature.

An organisational field is thus formed as the constitutive organizations adopt organisational forms which either are imposed there, or suggested like legitimate models. The organizations refer to these models, insofar as the adoption of these forms is crucial to guarantee or accentuate the legitimacy of the organization, in order to exist institutionally.

According to Di Maggio and Powell (1983), during the first years of organizational field, the organizations which are there can be strongly diversified. By the time, these organizations resemble each other. The authors deduce from them a process of homogenization related to the process of structuring of the field. To describe this homogenization process, Di Maggio and Powell (1983) adopted the concept institutional isomorphism.

- The concept of institutional isomorphism:

The other key contribution of Di Maggio and Powell (1983) is to define the phenomenon of institutional isomorphism, which makes it possible to understand how the organizations which compose a field tend to become more similar the ones to the others in their organisational characteristics and their operating modes, and to approach the standards and common models established under the term of the institutions.

Noting a remarkable homogeneity of the post-industrial organizations, they raised the following question: Why the organizations are homogeneous? In accordance with Meyer and Rowan (1977), they supported the idea that this homogeneity emerged not because of the competition or of an effectiveness objective, but like the result of a research of the organizations to reach legitimacy in their environment, and to become socially defined as such.

The authors defined three mechanisms to explain the change towards isomorphism or homogeneity in the installation of the institutionalized procedures and the practices through the organizations: Coercive, mimetic and normative.

1. Coercive isomorphism:

It is led by two forces, the first deals with the pressures related to powerful organizations (this concerns the inter-organisational power, if the actions of an organization can be forced by more powerful unity actions), and the second is about the pressure to conform to the cultural hopes of the society (of the customers, the suppliers or the State).

2. Mimetic isomorphism:

It is defined like a response to the uncertainty. The uncertainty on the goals or the harmful behaviors encourages the imitation by the adoption of the models seemingly most legitimate or most successful. When the objectives are ambiguous or dubious, when the environment creates an uncertainty in the realization of these objectives, the organizations can be modelled on the practices of other organizations.

3. Normative isomorphism:

It results from the normative pressures. It finds its origin then in the professionalization of professional classes transverse to the organizations. It implies not only the internalization of the standards, but also of the social pressures by the members of the other organizations. It results firstly from the common sources socialization, which could be seen like a common exposure to a whole of the socially built myths. Secondly, it results from the diffusion of the ideas via the social networks, in which the members of the organizations influence each others.

These three mechanisms, by which institutional isomorphism is widespread, are analytically separate. In practice, they can be closely dependent (Di Maggio and Powell, 1983; Mizruchi and Fein, 1999).

As previously underlined, Scott (1995) identified three essential components of the institutions: lawful structures, normative structures and cognitive structures. Each structure represents a mechanism, according to the typology of Di Maggio and Powell (1983), by which the organizational practices become institutionalized (thus legitimate). By characterizing each of the three structures, Scott (1995) identifies a first axis of divergence between the various institutional schools. According to him the institutional models vary according to the importance that each one grants to three institutional dimensions (see table I).

Table I: The three structures of the institutions (Scott, 1995)

	Regulative	Normative	Cognitive
Mechanisms	Coercive	Normative	Mimetic
Basis of legitimacy	Legally sanctioned	Morally governed	Conceptually correct Culturally supported
Logic indicators	Rules, laws, sanctions	Values, norms	Guidelines for sense making and choosing meaningful actions

The first component (regulative structure) resting on the importance of the legislature, counts mainly on the mechanism of coercion, i.e. the report of force and the fear of reprisals of the agents to explain a phenomenon. Legitimacy rests then on the fact that is also recognized. The indicators allowing to identify the prevalence of this lawful aspect are the rules, the laws and the sanctions.

Contrary to the first, the second component (normative structure) is formed on the basis of social obligation of the agents. For example, one does not ask "where is my interest? ", but rather: "being given my role, what is awaited from me? what do I have to make? ". The normative rules introduce a prescriptive and valuative dimension, suitable for the social life. The normative systems rest on the normative mechanism. Legitimacy is then controlled by the morals which prescribes the social actions to undertake. The principal indicators of a normative mode are the values and the standards.

The mechanism characterizing the third component (cognitive structure) is the imitation. The organizations have tendency to imitate each other, they imitate the referents perceived as leaders or models. The legitimacy of the actions then comes from cultural support from what considered correct. The actors thus try to conform to the systems of the beliefs and the cultural diagrams.

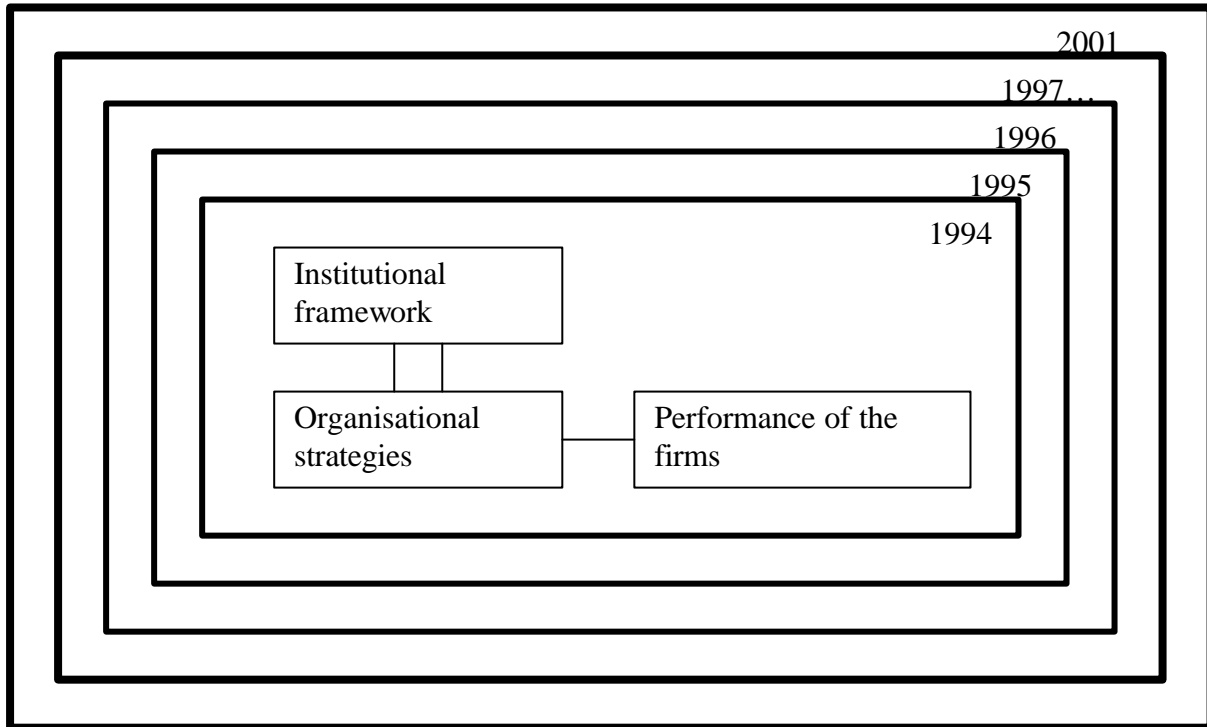
The strategic mimetism results directly from this last mechanism. Indeed, the institutional standards affect the cognitive interpretation of the managers (Aldrich, 1994) and the flows of resources, which are related to the pressures with conformity resulting from several sources, in particular from the great dominant values of the environment, the State and other organizations in charge of the regulation, standards and professionals standard and of the uncertainty which comes from the "environment –task" (Dacin, 1997).

In this order of ideas, Carney and Gedajlovic (2002) showed how the Co-evolution between the organizational strategies and the institutional environment allows to explain the development and the success of the family groups in Asia. The idea of the Co-evolution suggests that the effect isn't perhaps with a single direction and that the organizations can also influence, although in a thinner way, the evolution of the institutions. Lawrence (1999) argues in a stronger manner the nature of the relationship between institutions and organizational strategy. He suggests that the firms can even have institutional strategies intended to act to influence the formation and the transformation of the institutions, in order to take care to the maintain of favorable conditions to the strategic plan. The organizational strategies (the systems of control) and the institutional evolution are then dependent in a so narrow way that the companies are very attentive with all the changes which can occur within the institutional framework.

However, on the empirical level, few research illustrated clearly this relation of impact and of Co-evolution which exists between the institutions, the strategies of the companies (systems of control) and their performances. In the majority of the cases, the institutional changes are done gradually without leaving identifiable traces on the strategic behaviors of the organizations. Consequently, to be able to detect such an impact, it is an important to study a case of radical institutional transformation and it's what we carry out in this study. We use a case of change of the most important institutional variable of the environment of the companies, into occurrence, the regulation of the market (rules and practices of corporate governance in France).

The deregulation relating to corporate governance in France changed in an important way the rules of the game for the large companies on the market. The companies (and particularly Anglo-Saxon institutional investors) were then at the same time very active to support the deregulation and for ensuring that, this one is able in a sufficiently progressive way to allow the necessary adaptations. We leave side the actions of the companies (we speak about the mimetic behavior of the foreign institutional investors in their will to make advanced and the French rules and practices of corporate governance : The political lobbying), which carried out to the institutional transformation. We will be interested in this article especially in the situation which followed the implementation of the deregulation and will try to show that institutional change will be able to have an important effect on the strategies of the firms and their performance. In this direction, three assumptions will guide our study (figure 1):

Figure 1: Conceptual framework of our research



Proposition 1: When the institutions are in period of transformation, there is Co-evolution between the institutions and the strategies of the companies, there's a mutual influence (Oliver, 1991).

Assumption 1: Any change of the institutional environment of a given organizational field involves changes in the strategic choices of the firms of this field.

Assumption 2: When features of the institutional environment change, governance structures used to support transactions are expected to shift from one discrete form to another with some kind of lag.

These assumptions rest on the idea according to which the institutional environment of a given organizational field constrained the strategic choices (and into occurrence governance structures) of the firms of the field, by reducing relatively the strategic repertory of the companies. Consequently, an institutional change in an organizational field should generate a

strategic change on the level of the behaviors of the organizations taking into account that it creates new opportunities at the firms and favorable conditions to the questioning of the order already established. However this assumption does not deal with the opposite effect which consists of the action of the companies on the institutions.

Assumption 2: The organizations forming an organizational field, can exert an impact on the institutional environment.

We believe only that taking into account the slow evolution of the institutions, the effects on those of the action of the companies cannot be easily observed over one relatively short period. It would be necessary for that to give a longitudinal research which would relate to decades, like what makes Dacin (1997) to be likely to find a convincing relation.

Assumption 3: When the institutional environment a given organisational field changes, then the relative performance of the companies of the field changes.

This assumption thus accepts, like an established fact, the relation which exists between the strategy of the firm and its performance (Rumelt, 1974, Porter, 1994). Consequently, it stipulates that any institutional change of the companies environment should be translated on the level of their performance.

Conclusion

The most frequent perspective of strategy research focuses on the levels of the industry, the firm or the transaction and considers the institutional environment as a “given” exogenous variable. This paper reverses this perspective to a large extent. The kind of questions raised by institutional economics are: why have institutions changed?, have these changes led to a set of similar or highly different institutions, what was the role of firms in those institutional changes, how have the above changes affected relative competitive advantage?

Then we have tried through this article to begin to answer to these questions by proposing the institutional theory as framework, in order to provide the theoretical bases explaining the mimetic behavior of the institutional investors characterizing their will of homogeneization of the various corporate governance systems (we return to the new institutional theory for better understanding of the bonds between the institutional change, the strategies of the firms), as well as the assumptions of such longitudinal research, hoping to have in a forthcoming paper the methodology to test the proposed assumptions and the principal results.

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