

The New “Grammar of Business”

by Nicolas Véron

Originally published in French in *La Tribune*, 12 June 2006

Before resigning from his chairmanship on 2 June, Antoine Zacharias had made Vinci a worldwide leader of the engineering sector and had increased its value tenfold over a decade. One can only pause for thought that such a business leader could be forced to leave. However, the anticlimactic ending is not unprecedented, and echoes the fate of Maurice “Hank” Greenberg, the charismatic octogenarian who was forced by his Board in March 2005 to leave AIG, the New York-based insurance company which he had made a global giant over the previous forty years.

Unlike, say, Jean-Marie Messier at Vivendi Universal or Michel Bon at France Telecom in 2002, Zacharias and Greenberg were not faulted for strategic or management mistakes. What brought them down was the failure to pay due respect to such rules as, in Zacharias’ case, restraint in the self-granting of various bonuses or, in Greenberg’s, accounting orthodoxy. Nobody has contested their talent as business builders and developers; but they did not comply with what could be called the “grammar of business”.

When coining this expression in reaction to Mittal Steel’s bid for Arcelor in late January this year, France’s finance minister Thierry Breton had certainly other thoughts in mind, but the fact of the matter is that value creation is not the sole standard of today’s business world; strict respect for the established rules of “grammar” is also necessary to succeed. The importance of such rules is enhanced by the evolution of financial systems in developed economies. As has been emphasized by economists such as Raghuram Rajan and Luigi Zingales (*Saving Capitalism from the Capitalists*, Crown Business Press, 2003), one consequence of freer global trade and investment and of technological change is the relative loss of ground of “relationship-based” models, such as those that prevailed in post-war Europe in an era of resource scarcity and fragmented markets. On the rise are “arm’s-length” financial systems, based on less personal, more anonymous relationships between economic actors, a higher degree of standardization of financial and non-financial information, and a much more sophisticated legal and judicial environment. In an arm’s-length financial system, trust results not from mutual personal knowledge through various power networks, but from the respect for common rules and the shared awareness that their violation will be punished. To “offend grammar”, as Molière said, is then not just bad taste but outright misconduct, whose consequences can go as far as a complete ban from the system.

What the grammar rules are is well illustrated by some recent headline news stories. First, don’t go squarely against your owners. Mittal Steel would probably not have launched its bid on Arcelor if the latter had previously been more “shareholder-friendly”, an expression Arcelor CEO Guy Dollé now seems fond of. Nevertheless Arcelor once again gave the impression, in announcing its deal with Russia’s Severstal on 26 May, that it was ready to ignore shareholders. This is taking a huge risk for no obvious reward.

Second, keep wary when dealing with the state. Governments are simply no longer in a position to give continued and unambiguous support even to so-called “national champions”: witness the current highly uncomfortable situation of Suez, the energy-and-water group, which wants to push ahead a merger with Gaz de France but needs a vote for that by France’s parliament which is by no means sure to happen. Third, avoid being trapped in a national bias. For example, Deutsche Börse has been handicapped in its proposal of a merger with Euronext by the perception among some market participants that its underlying analytical framework was excessively Germany-centric, and it is too soon to say whether last week’s developments can change this.

Fourth, recognize the value of collective intelligence, participatory management processes and collegial decision-making. There is no such thing any more as a “CEO by divine right” (this was the title of a book by Roger Martin, former head of the Saint-Gobain Group, in 1984); it was Antoine Zacharias’s mistake to think he could still behave as one. Conversely, excessive reliance on the authority principle can be crippling in the competition for talent. It is to be noted that the quality of management is rarely mentioned as a strong point of French companies in general; a painful example of this is that no company headquartered in France features in this year’s ranking of the 100 Best companies to work in Europe (*Financial Times*, 18 May 2006). France’s “national champions” are probably more threatened by their own management shortcomings than by the fact that their shareholders are increasingly non-French.

Fifth, of course, don’t go for fraud or creative accounting or uncontrolled self-reward.

Many more rules could be mentioned to complete the picture of today’s “business grammar”. As with any grammar, this one can be learnt in the street but also in classrooms, especially in MBA classes and other international management curricula which the French elites would be well-advised to consider with less condescension than is currently the case.

One last word: Edouard Michelin, the head of the eponymous tyre manufacturer who died in tragic circumstances two weeks ago, was probably one of the French CEOs who had best grasped the new rules of the game. He also understood that French companies had to adapt as quickly as possible to survive and grow in the worldwide competitive landscape. One can only hope that the unfinished example he set will inspire his surviving peers.