An International Comparison of Corporate Governance Bundles: UK and France

1. Introduction

1.1. Motivation and Framework

Comparing the British and French corporate governance models presents a particularly interesting point of view. France and UK are neighboring countries, but still differ greatly in CG practices. This topic allows an opportunity to dive into the common law British way of thinking and the French Latin CG practices. UK is a model example and the creator of the outsider, spread ownership, model, while France has deep roots in the in family and concentrated ownership model more akin to the insider view of Garcia-Castro (2013). Both countries have had a major influence on the development of their former colonies through their practices in history. This comparison will also help us to understand the affected countries.

France and UK are geographically extremely close countries within Europe, but their corporate governance practices, institutions, and cultures are extremely different. They also hold significant economic power within Europe: In terms of GDP, United Kingdom is the second and France is the third right after Germany. In this report, we investigate these differences, and during our class presentation we will add case companies from each country to demonstrate how they influence them.

To build a general understanding around Corporate Governance differences, we use the framework provided by García-Castro et. al (2013). In this framework, countries are divided into insider- and outsider-countries. Outsider countries such as the UK have strong share-holder value orientation, common law tradition and it's GC practices are centered towards the firms outside and dispersed investors. This leads to weaker employee protection and weaker collective bargaining. Meanwhile, countries such as France are seen as insider-model countries, where employees are more protected, and firm-specific knowledge is more appreciated which leads to more bargaining power for the employees. Insider-model countries tend to have more concentrated ownership structures with deeply involved employees, families and banks.

García-Castro et. al (2013) also noted how individual GC policies have a very small effect on companies. Instead, these policies must be evaluated as a group, which we call GC bundles. Because of this, we will also evaluate which kind of GC bundles are usually present within the countries, and

what kind of GC bundles our case companies have. It is also deeply interesting to see how GC bundles and a country's institutions complement each other.

1.2 History, future and comparison

We can notice how UK and France are on the opposite ends on the framework. We continue to demonstrate this by using the case company, but also by researching the history of each country, and trying to figure out where these differences have come from. Within the case companies we can observe things such as board independence, ownership structure, minority shareholders rights, and CEO responsibilities.

To get a good hold of the changes within the two countries, we follow their events through path dependence. This means that history and past events have a large impact on the current state of the countries. In the GC context, the most important events are usually about crises, which usually stem from financial bubbles and mistakes. Many times after a crisis, lack of good GC has been seen as a reason for it, which has caused a change in GC policy to be the solution. Some of these examples date back centuries, but many of them are also recent.

Even if we ignore crises, we can see how deeply different certain cultures are. In GC, the most important factors to note are the role of the state, differences between stakeholders, and ideologies within the people. Even within a longer timeframe, ideologies about class relations and the role of the state seem to remain almost static in certain countries. Especially in our comparison between UK and France this topic is important, as we know how different these ideologies have remained throughout the years.

In addition, we also look at recent events that the countries have faced and see how the countries institutions and GC practices have recently changed. The UK has exited from the European Union, and it can be argued that it has caused a lot of financial distress in the country. Meanwhile, France is still within the EU, so it is still under EU's influence. But also, France and Emmanuel Macron are powerful people within the EU, so it can be possible that France can also affect EU's institutions and GC policies with a large force.

As we continue to discover the differences between GC bundles in the European countries, we also see how these differences can lead to conflict. Especially after Brexit, a large amount of power was to be grabbed. Covid-19 and the war in Ukraine have caused more uncertainty within the continent, which leads to the big question that should European GC bundles move into a more insider- or outsider-oriented model? European politicians have called for a more integrated policy in various

business areas, so the same development is set to continue also in the field of GC. But meanwhile, as the UK is now independent from the EU legislation, we can also investigate if the British CG can converge from the rest of the EU.

2. Examining the historical development with a dependence path

We see that corporate governance systems preserve conditions from the past, creating a path as a result of economic, political, or simply accident-type occurrences. National cultures can be thought of figuratively as the mother of path dependence dynamics, in the sense that they contribute to the formation of corporate governance systems as a result of their distinct set of values and laws. Therefore, we analyze the path behind the current cultural differences between companies from Great Britain and France.

2.1 France

The State was the primary setting for institutional entrepreneurs in France for a very long time. Comparatively speaking, the private sector was less substantial. In 1968, Boussois-Souchon-Neuvesel actually made an attempt at a ground-breaking merger that would have resulted in an institutional change, but it was abandoned due to fierce opposition. One of the notable aspects of the shift is the fact that the State served as the impetus for French capitalism's progressive retreat.

In fact, according to French tradition, the State is the best-suited actor to ensure that all economic actions are in line with the previously mentioned philosophy of values. Murphy (2005) asserts that France has traditionally promoted ‘social Colbertism’. The same author describes this philosophy by quoting Colbert, a powerful minister under France's absolutist king Louis XIV, who held the position that the State controls the economy for the purpose of pursuing political ambition and social advancement (Murphy, 2005). According to this viewpoint, the State's function is that of a mediator between the demands of various parties. It performs in place of the social and economic players (Murphy, 2005).

In truth, class-fight philosophy has historically been a feature of French trade unions (Murphy, 2005), and there is a propensity to take positions that are diametrically opposed. The polarization of the interests of various stakeholder types may be partially explained by this. Murphy (2005) asserts that the idea of compromise frequently carries a bad connotation. With this knowledge, it is clear why the State acts as a referee. The French State is not just a straightforward tool of social management at the

citizens' disposal, as is the approach of certain other nations. It transcends people and receives from them a kind of divine benediction akin to the one that the rulers in the past got (Murphy, 2005).

According to the above-mentioned philosophy, the State's strong influence over a sizable period of time was a defining feature of the corporate governance system defining the boundaries of managerial discretion for a sizable portion of the most major French firms. In fact, this influence has been used at a minimum of four different levels in the past: 1. Industrial politics sometimes led the State to interfere directly with certain important firms' corporate strategies 2. Its control over the financial circuit was a significant vehicle of influence 3. The governance structures of the nationalized corporations, which included a certain number of champions of the domestic industry, depended directly on government decisions 4. And, finally, a significant part of the managerial elite owed (and still owe) their education and first professional experience to the public administration.

The view that the State had the right to effectively organize economic activity was transformed into legislative norms at the end of the 1940s by a number of reforms. Big firms' managerial discretion was somewhat directly impacted by this. In fact, the State has nationalized a number of businesses in what are seen as strategic areas (such as energy) or has tightly monitored the operation of businesses that have remained in private hands. The latter case, for instance, included the steel sector. Although it was not formally nationalized until the beginning of the 1980s, the State severely restricted its tactics before that time (Lesourne, 1998). The primary explanation for these restrictions was the availability of funding for the sector's development, which mainly came in the form of public monies. In reality, loans with lower interest rates were given out by the State. Lesourne (1998) quotes the statement made close to 1970 by a steel manager: “You want to know details concerning our accounts? Ask the public administration. They know them better than we do.”

As a result, the State's ability to control the financial system was reduced. However, initially, a sizable portion of the major enterprises continued to be directly under the state administration's authority. 1986 saw a change in the government, which coincided with the start of a significant privatization wave. This made the State's retreat from direct corporate governance even more frustrating. The privatization initiative looks to have had a substantial impact on France's corporate sector. Indeed, considering both the total value and the number of enterprises, Murphy (2005) cites the program as one of the most comprehensive privatization initiatives ever.

Another change in the political climate briefly halted the trend, although it was later resumed with the second wave of privatizations that started in 1993. However, it should be remembered that the State did not completely withdraw. In actuality, the public administration retained the ability to

influence the evolution of the corporate governance structures of the recently privatized enterprises at least indirectly by establishing the so-called noyaux durs. In the initial stage, control through other corporations that had sizeable capital holdings replaced direct control by the State. As a result, the government had some influence because it helped to develop these important shareholder groupings.

It's interesting that the group of businesses enlisted to put together the noyaux durs in the context of the various privatizations was quite small. As a result, the system of corporate governance governing some of the biggest French firms, which were once directly influenced by the State, was characterized for a number of years by a dense network of cross-shareholdings. These cross-shareholdings typically went hand in hand with personal connections in the form of a director exchange. Around 1995, this network began to fall apart, as more capital market-related procedures gradually took the place of the previous system of relational control (Murphy, 2005). As a result, some of the big companies have a capital structure that puts them under pressure from potential takeovers.

The market for corporate governance, which historically seems to be less established in France than in the Anglo-Saxon realm, can be used as an example for such a comparison. Franks and Mayer (1990) came to the same conclusion in 1990 that the public authorities had a lot of latitude in deciding how to apply the takeover regulations. As a result, in some instances, the French government is said to have delayed foreign takeovers of companies in order to find a domestic solution, e.g., the takeover conflict between Société Générale and Paribas and BNP (Murphy, 2005).

In addition to State, self-financing has also had a major impact on the determination of France's corporate governance structure and it traces back to the major financial shock that arose as a result of the rise and collapse of John Law's Mississippi System in 1720.

As we know, corporate finance and investment is generated from three sources: banks, the capital market, and self-financing. Two of these channels, the banks, and the capital market, have been subject to considerable upheaval throughout time in France, making them inoperable as financing channels for a long period in France's corporate history since the start of the 18th century (Murphy, 2005). Because France was frequently at war, both internally and externally, the political instability of the country was accompanied by financial instability. Wars and revolutions require financing. This financing in turn created significant state borrowing and debt. Perforce the banking system and the capital market were heavily tapped to provide finance for these wars. As a consequence, the state's heavy recourse to borrowing left substantially less available for the banks and the capital markets to provide to the private sector. Enters John Law, a Scottish financier and economist who tried to reduce

the state's indebtedness through the creation of a trading company that would have as one of its objectives the conversion of government securities into equity of the company.

John Law was the controller general of finances of France. He created a fraudulent fiat banking system on an unsuspecting economy. He thought it was the unpredictable supply of gold and silver slowing the economy rather than a true economic problem. By switching to paper, he reasoned, more currency could be issued and trade would speed up. Without going into details, in five years by 1725 the amount of paper currency afloat was how many times the actual reserves of gold and silver and hyperinflation set in. The paper currency became worthless, and Law found himself in exile. These events traumatized the generation that experienced them and that way John Law indirectly created a culture of deep hostility and mistrust toward banks and financial innovation overall in France. In addition, due to Law's Mississippi Company's demise in 1721, it became increasingly challenging for businesses to achieve full limited liability status. Investors who wanted to create joint stock firms were only able to do so after obtaining government approval and going through a time-consuming process of creating their charters through challenging legal procedures. A company form for limited liability companies was introduced by law in 1925, following the *Gesellschaft mit beschränkter*, the German equivalent for limited liability company (Venturini, 1965).

With restricted access to the banks and capital markets, entrepreneurs had to have recourse to a do-it-yourself approach, namely reliance on self-financing as a method of growing their business. Self-financing in turn enabled these entrepreneurs and their descendants to retain sizable shareholdings in the family-controlled business.

Finally, the new postrevolutionary regime, embodied in the Napoleonic code in 1790, destroyed the system of primogeniture and replaced it with one based on an equal allocation of property rights among all the children in the family. (Murphy, 2005). Younger children could no longer be disinherited. The property of the parents was deemed, in large part, to be the property of the children after the death of the former. In the French civil law it is practically impossible to disinherit one's offspring. Faced with the potential "idiot heir" problem, families have successfully used the grandes écoles system to provide educated new leaders of the next generation. Adept recourse to trusts (les indivisions) and insurance has enabled family wealth to be transferred from generation to generation, minimizing in the process the burden of inheritance taxes. Add to this legal change favoring the rights of all the children, a type of cultural mentalité that each generation is just the temporary custodian of the family's property (patrimoine) faced with the objective of passing it on in even better shape to the

next generation, and one finds a different set of factors that helped shape the development of France's corporate ownership structure.

Hence, from a historical perspective, it is not surprising to see French families owning such a large proportion of French corporations. Examples of this reliance on self-financing drawn from the experiences of the Michelin, Peugeot, and many more families have been shown. Furthermore, this style of ownership ties in with the French mentality that asset ownership is an intergenerational phenomenon. As the objective of holding wealth can be seen to be to pass it on to the next generation of family assets that, hopefully, have risen in value (Murphy, 2005).

2.2 UK

Joint stock firms - i.e., companies whose capital took the form of freely tradeable shares - were only allowed in the United Kingdom between 1720 and 1844 by an Act of Parliament or by charter (Maltby & Wilkinson, 1997). A dislike for the company form of business, which was considered to be intrinsically unsound, was fostered by the South Sea Bubble scandal of 1720, in which investors bought shares in the South Sea Company at inflated prices and were bankrupted when the market crashed. In order to facilitate trading by huge organizations and to make it simpler to obtain capital, there was starting to be push for the privilege of incorporation to be made more accessible in the second quarter of the nineteenth century. Although large partnerships could and did exist, the need for each member to sign contracts posed significant administrative challenges.

Companies were able to be created by registration in 1844, but they had to submit comprehensive and accurate audited balance sheets as well as semi-annual shareholder reports. Companies that were formed, however, were still subject to unlimited liability after 1844; shareholders were responsible for the whole amount of their investments as well as their personal fortunes, if required. Limited liability was widely believed to signify lesser responsibility because it eliminated the penalty of suffering a personal loss. It wasn't until 1855 that all registered businesses were given limited liability, a reform brought about by wealthy investors who considered limited liability form as a secure place to invest their money.

Numerous initial public offers were undertaken by British industrial and commercial companies in the closing years of the nineteenth century, marking the beginning of a significant shift towards public ownership (Cheffins, 2001). The publicly traded corporation was becoming a well-established feature of the UK economy as the twentieth century got underway. Family involvement was the main complication. The founders of many British public companies that went public on the stock market

and their heirs kept a sizable portion of the shares and were heavily involved in corporate decision-making. As a result, a commitment to individual management styles was maintained. Large-scale business expanded in the UK in the years following World War One. In the 1920s and again in the 1950s and 1960s, there were two waves of mergers that resulted in significant industrial concentration and the emergence of diversified large-scale corporations like ICI, Unilever, and Courtaulds.

Still, The UK had one of Europe's largest public enterprise sectors before 1979. For instance, the Big Four British railway companies were nationalized in 1948, when the British Railways was founded. Since then, the Conservative Government launched a significant privatization initiative, and was privatized in stages between 1994 and 1997 (Zahariadis, 1997). In comparison, the French SNCF – National Society of French Railroads – was founded after nationalization of France’s main railway companies, most of them Société Anonyme, a type of limited company. Today, SNCF is wholly owned by the French state. In the UK, over £50 billion in state assets were sold to the private sector between 1979 and 1995 (excluding the revenues from the sale of the government-owned property), and the percentage of jobs held by publicly owned businesses decreased from 7.2% to under 2% (Zahariadis, 1999).

Large UK corporations began regularly employing salaried managers in the middle of the 20th century (Maltby & Wilkinson, 1997). Additionally, the power of the family was unavoidably limited to some extent when family-owned businesses entered the public market. Administrative hierarchies of larger British companies, however, remained, for the most part, archaic and unsophisticated during the first half of the twentieth century. Furthermore, many family business owners were able to maintain their ownership of the companies they either founded or inherited. They were able to achieve this because hiring for top executive roles was heavily influenced by personal connections as much as managerial skill. In our opinion, family ownership per se was not an issue in the UK, but rather the fact that inheritors were not educated properly to successfully manage the company, a model that has clearly been effective in the French context. Therefore, it can be somewhat concluded that the French equal heritage forced the owners to make sure their descendants were quipped to take over the company, making family ownership a lucrative governance method, whereas in the UK and the US family ownership is often seen as ineffective (Bodnaruk et al, 2017).

Coming to the 21st century, The UK became the first nation to enact the so-called "say on pay" rule by allowing shareholders to cast an advisory vote on the Directors' Remuneration Report in 2002 (Betty et al., 2020). By taking this stance, it was acknowledged that transparency alone was neither a sufficient legislative reaction to the growing disparity between directors' compensation and corporate

success, nor to larger political concern regarding the ramifications of this development for societal cohesion. When shareholders were given the right to a legally binding vote on remuneration policy in 2013, a new phase in the regime's development got underway. To date, say on pay has had limited success as a regulatory strategy. The European Commission, Council and Parliament reached an agreement on a revision to the so-called Shareholder Rights Directive, introducing a say on pay for shareholders at EU level in 2016 (Human, 2020).

3. Corporate Governance Bundles Comparisons

This chapter focuses on scrutinizing the fundamental difference between UK and France corporate governance, followed by the analysis on two case companies. Empirical research has pointed out the difference between the two countries' corporate governance systems, categorizing French as insider oriented and the UK as outsider oriented (Weimer & Pape, 1999).

3.1 Ownership

The ownership structure is quite divergent between the two countries, which is critical to analyze as ownership structure set the difference in other corporate governance mechanisms (Desender et al, 2011). More specifically, dispersed ownership is much more frequent in U.K. listed firms than in France, where concentrated ownership such as family firms or bank-owned firms are more common (La Porta et al. 1999). In 1997, the stat shows that almost 80% of the French companies had at least one shareholder with more than 25% ownership. In contrast, only 16% of UK companies had major shareholders, and 84% of them are widely owned by institutions (Frank, 1997). The French version of Latin European corporate governance is very network-oriented, with the government, families, or industrial groupings holding the majority of the shares. On the other hand, the Anglo-Saxon corporate governance practice in the UK is highly market-oriented, with shares widely held by institutions or individual investors. Each type of ownership has its own pros and cons, and both have been proven to be able to induce financial crises throughout history. French corporations have been able to specialize in some industries with considerable success thanks to the strong relationships with stakeholders and stability over the long term. For example, the state's engagement in the aerospace, rail, and other industries have brought sustainable growth, and family firms with centuries of expertise have been able to build some luxury good empires (Clarke and Chanlat, 2009). The high alignment of interests between shareholders and executives, especially in firms where the founders or owners are still in managerial positions, reduces significantly the vertical agency problems between owners and managers. However, this generally leads to relatively weaker corporate governance practices that

protect minor shareholders against the corporate governance risks stemming from the huge control of major shareholders, which are often criticized as being inherently less efficient than the Anglo-American market-based systems (Clarke and Chanlat, 2009). While oligarchic groups in France substantially manipulate managerial decision by direct modes of influence, outsider shareholders of UK firms could influence managerial decisions through the external mechanisms such as the market for corporate control (Aguilera, Desender and Kabbach-Castro, 2012). However, as the economic relationship between shareholders and firms in France are often long-term, it helps the firms and corporate governance system gains the stability and grits to overcome economic turbulence. The short-term economic relationship of UK firms, even though praised to be efficient, historically lead to instability and inequity (Galbraith 1993; MacAvoy and Millstein 2004). Thus, this raises a concern about the rapid adoption of this model in other regimes (Mitchell 2001; Oman et al. 2005; McClintick 2006; Clarke et al 2006). To sum up, each type of ownership system has its own pros and cons, which require different corporate bundles to constitute a good corporate governance system that protects every stakeholder's rights.

To proceed with case analysis, we choose two case companies with the typical ownership of each system: French firm LVMH with majority of family ownership and Burberry with majority of institutional ownership. LVMH has very insider-oriented and concentrated ownership while Burberry has very outsider-oriented and dispersed ownership. This differentiates the dynamics between the corporate governance bundles of the two companies, which will be explained later.

3.2 Board of Directors

When comparing the board of directors' work between the countries, we can once again approach the issue with the insider and outsider models. This time, the most common way of assessing the model is the independence of the board and its chairman. However, different research has found plenty of results that independent boards can cause, but they are often conflicting. For example, Adams et. Al (2010) noticed how some research found outsider-dominated boards to lead to more efficient payoffs, but their information regarding the insider events in the company is worse.

In the outsider-model dominated UK, the chairman of the board and its members tend to be more independent. The UK Corporate Governance Code from 2018 emphasizes the importance of independent non-executive directors whose responsibilities are separated from the operative management, which helps the board to not lose their majority to a particular group of individuals that would dominate decision-making. This supports the Garcia-Castro (2013) claim, that outsider-oriented countries tend to protect minority shareholders better.

In France, it tends to be common that the former CEO can become the chairman of the board. However, in the UK, the previously mentioned guidelines clearly state that this should not happen. According to it, it should be specifically avoided, and if the board proposes such, shareholders should be well informed of the appointment's reasons, and shareholders should be also consulted beforehand. Independence is further reinforced by the fact that independent directors should be identified in the company's annual report. Both the UK guideline and Adams et. Al (2010) mention, how independence can be severed by a deep partnership with the company, which could happen if for example a banker or a lawyer is appointed to the board that also serves the company as its customer.

Desender et al. (2011) demonstrate that ownership concentration and board composition become substitutes when it comes to monitoring management. They uncover that while the board of directors complements its monitoring role through the higher use of external audit services when ownership is dispersed, this is not the case when ownership is concentrated (Aguilera, Desender and Kabbach-Castro, 2012). This can lead to higher earnings management as seen by Piot & Janin (2007) in the French context. They also found out that separate audit committees are an effective way to combat the issue. However, as these committees are not mandatory, non-independent boards might have very few incentives to do so.

As Garcia-Castro (2013) mildly suggested, it can be possible that a non-independent board in a right GC bundle would generate positive earnings in an insider-oriented country such as France. Cavaco et al. (2016) agrees with this, as they found a negative relationship between accounting performance and independence in their French sample. They suggested that this might have something to do with the outsider board members having less information about insider events in the company, as also suggested by Adams et. Al (2010)

The disclosure of the identity of independent directors is a practice enforced throughout different regulatory settings, e.g., self-regulatory codes in France vs by the stock exchange listing requirements in the UK (Haxhi and Aguilera, 2016). As seen, the requirements vary by country, and also depend on the size or status of the company.

We conducted a case study by comparing the British Burberry and French LVMH. We evaluated the company by looking if the CEO is the chairman of the board, and as predicted, in the French company this was the case, while in the British company it was not. In addition, the French board was dominated by operative executives and members of the Arnault family, who also own a big chunk of the company. In the case of Burberry, most members of the board were independent. This makes it a

clear divide between the insider-oriented, stable and less independent LVMH's board and the outsider-oriented, monitoring and independent Burberry's board.

3.3 Executive Compensation and CEO replacement

The paper, written by Fernandes et al., 2013, indicates that institutional owners often adopt performance-based executive compensation and compensation in shares as market solutions to align shareholders and executives' interests. UK system, characterised by outsider institutional ownership, also witnesses the prevalence of performance-based executive compensation and compensation paid in shares in many listed companies. In France, because the alignment level of owners and executives is already high, using executive compensation as a corporate governance mechanism is less necessary. However, in big, listed companies, this is generally adopted for monitoring non-founder executives, which makes it moderately prevalent. In fact, the increasingly stringent say-on-pay rules have strengthened the shareholders' influence on the management and governing bodies in France.

The executive compensation, as other corporate governance mechanisms, also work better in bundles. It is said to be complemented by the board independence that can determine a fair remuneration package that maximises shareholder value, the information disclosure that allows market for corporate control, in which shareholders raise their concerns if the remuneration package seems excessive (Rutherford et al. 2007). This bundle is more presented in the UK corporate governance system. In France, in order to provide a general degree of governance efficacy in preventing agency problems, monitoring is generally substituted by the high incentive alignment stemming from concentrated ownership. This aligns with the empirical findings by Zajac and Westphal (1994) that the use of long-term incentive plans for CEOs are negatively related to the monitoring processes in place; firms that have stronger incentive alignment tended to have weaker monitoring mechanisms and vice versa.

The study by Benjamin E. Hermalin and Michael S. Weisbach. 2013 also indicates the board composition's influence on CEO replacement, in which outsider-oriented and independent board is more likely to link CEO turnover to firm performance and replace them by someone outside the firm. As a matter of fact, UK firms with independent boards also saw higher CEO turnover than in most other parts of the world (PricewaterhouseCoopers, n.d.). On the other hand, French firms with family ownership and insider-oriented board is less likely to change the CEO, who is an owner family member and has the authority to extend his mandate even when the company's performance is declining. Also, in France, the CEO turnover is more likely to be decided upon by accounting performance, which could be manipulated from within the firm rather than market share's price, an

external force like in the UK (Dardour et al., 2019). This again, highlight how the UK corporate governance system is centralized around the market's control while the French corporate governance relies on the endogenous control from the majority shareholders to do the right causes on behalf of other minority shareholders.

Our case companies, also represent well these theories, with Burberry's majority of executive remuneration delivered in shares and linked to stretching performance targets such as PBT growth, revenue growth and ROIC. Shareholders can raise their concerns and influence executive remuneration through remuneration committee lead by independent board director. In 2016, after a third of the company's shareholders rejected the executive compensation package, the then CEO Bailey's bonus was reduced, and finance director Julie Brown was forced to return a sizable buyout award that had been a component of the deal that had attracted her to Burberry. The public outcry from Royal London Asset Management, one of its institutional investors, against the package had a major impact. (J. Price, 2017). LVMH, on the other hand, with the lack of board independence, still pays its CEO excessive amount of bonus, which closely linked to company's performance in recent years. CEO at LVMH is paid approximately €8m, well over the median remuneration package for CEO in the same-sized companies (median of €3m). As the CEO already controls over 47% shares of the company, his compensation less likely aims at aligning interests. Moreover, minority shareholders have little control over CEO's remuneration since 61% of voting rights are in the hand of Arnault Family, posing concerns whether this remuneration level is fair or not.

In terms of CEO turnover, Burberry has much higher CEO turnover than LVMH, where the founder remained to be the CEO since established. Moreover, CEO of companies owned by LVMH is traditionally transferred within the system, which highlights the high retainment of employees of the insider-oriented firms.

3.4 Overview of Corporate Governance Bundles

The above sub-sections depict the main differences between France and UK corporate governance bundles. The France's insider system is characterized by concentrated ownership, insider board of directors and limited market control for corporate. The UK's insider system is characterized by dispersed ownership, outsider independent board of directors, performance-based executive compensation and market control for corporate. In the UK context, the existence of comparatively robust legal protection of shareholder interests enhances the credible independence of directors. Other corporate governance components, such as the existence of board committees, which establish and strengthen the influence of independent directors inside the board, are likely to make board

independence more effective. Similarly, independent directors are crucial in determining executive compensation and guaranteeing proper incentive alignment between executives and shareholders. Additionally, for this bundle to function properly, additional complementary institutions are required, such as high investor information disclosure, which enables the market's control, and a strict system of auditing to ensure the quality of information revealed. On the other hand, in France context, the high concentration of ownership reduces the need for the board to monitor the actions of management on behalf of shareholders and thus, the governance mechanisms are substitutable, which makes them remain absent. However, this raises the stake of horizontal agency problems where minority shareholders are not well protected from the immense power in the hand of majority shareholders (Aguilera et al. 2008).

Our two case companies typify the corporate governance bundles in the two countries. The French representative LVMH maintains a high family ownership as an insider-oriented mechanism. In the meanwhile, The UK representative Burberry highlights its market control, complemented by board independence, share-based executive compensation and information disclosure, as an outsider-oriented mechanism. LVMH, with its family control ownership and strong insider-oriented, seems like the epitome of French corporate governance bundles. However, to some degree we could depict some similarities with the corporate governance of Burberry, a UK representative. Literature (La Porta et al. 1998, 1999) has shown that investors are only willing to take minority positions if they feel that their rights are protected. Therefore, big global companies like LVMH must adopt some of the UK corporate governance practices, should they want to attract foreign institutional and individual investors for their capital. The urge to attract foreign capital, given the increasing integration of financial market, signals the possible convergence trends of France and UK corporate governance bundles, which will be explored in the next chapter.

4. Key transformation and development of CG in both countries in the coming years

In this section, we look at how researchers believe France and UK will develop in their corporate governance practices on a national level in near the future. The core framework in this section will be the Garcia-Castro et al. (2013) papers corporate governance practice bundles framework. With this framework we will demonstrate the direction of the CG practices from the key future developments perspective in both countries. First, we will look at the development's effects on an individual practice level and later look at them together to Garcia-Castro framework. We will do some comparisons in to the past, using the idea of path dependency – are the changes in line with the past. These steps will allow us to analyze the overall direction of both countries. For the most recent developments, we use newspaper articles and consultancy agency reports for background material. As predicting the future is hard, we are limited in our capacity to draw "for sure" conclusions.

4.1. Further integration of the financial markets and globalization

Investors have started to create more international equity portfolios. This has led and will further lead to more integrated financial markets, which causes the investors to demand more standardized GC practices as they bring their own expectations of practices and regulation to other markets. This could possibly lead to convergence of different systems and their CG practices bundles (Aguilera et al., 2011), which the investors are used to in their home countries.

While this progress may have been slowed since global challenges, such as covid-19, have been managed on a national level, which has worked against the integration financial markets (Zhang et al. 2020), we still believe this will drive outsider focused practices in both countries as international investors want more information, which gained easiest with transparency and good investor communication.

4.2. European union and France: Who's in charge?

France has a major say in the unions affairs as a large country, holding 11,21 % of total members of the European parliament, losing out only to Germany in the amount. French president Emmanuel Macron has also taken much more of a leadership role, left open by the previous German chancellor Angela Merkel's retirement. Also, Brexit left some power to be grabbed – first by Merkel and perhaps now by Macron.

Macron seems to desire a more centralized and closely tied European union. This would come to existence through the strengthening of European sovereignty, which in its economic aspects strives to: "*…reduce asymmetric dependencies on external powers without resorting to protectionism or even greatly reducing international trade and investment activity,*" (ECFR). From the corporate governance aspect, this may be interpreted as hinderance to the integration of financial markets and outsider CG practices becoming more common in EU, if trade, company affiliations and perhaps ownership are limited by regulation in the future. This road would take the union towards a more regulated CG field, most likely limiting foreign outsiders' possibilities, for example in making foreign buyouts more monitored.

From the French perspective this could be seen as a continuance of the State as the protector of the individual and the state interference in strategically important companies, although not because of the equal distribution but because of security concerns, due to the interdependencies of the economy. Near future major privatization waves, as seen in previously in the 1980's and 1990's, seem unlikely from this view angle, at least privatizations where possible interdependencies with foreign state owners could be established which is also in line with the previous path of delaying foreign takeovers (Franks and Mayer, 1990). This could pour over to the private sector through state intervention, especially in sectors considered strategically important. Overall, the French seem to currently hold more influence in EU than the EU has on France, due to the power vacuum left by Merkel and Brexit.

4.3. ESG – The trend transforming CG for stakeholders

The attention the ESG has gained cannot be discounted in the conversation regarding the future corporate governance development. The newest UK CG code includes stakeholder aspects which relate to ESG's social aspect and employee protection. ESG also links with the board independence matters regarding corruption, and study has found that independent boards mitigate some corruption elements (Sena et al., 2018). This revelation may lead to an increase in independent boards due to ESG aligned demands against corruption and clearer transparency about remuneration. Studies presenting evidence of better performance with independent BoD, such as Alqatan et al. (2019) will drive this change further as the findings are implemented to reality.

In France ethics considerations have gained much more attention than before as companies are looked to satisfy stakeholder demands. This also reflected in EU, as it has planned a corporate sustainability directive partly derived from the French Duty of Vigilance law. (Chambers and Partners, 2022; European Commission, 2022; Corcentric, 2021) The French "*Pacte act*" from 2019 guides the way for it in companies having to further consider social and environmental issues (Green Finance Platform, 2019) and state the company purpose, "raison d'etre", with encouragements towards ESG themes.

There's reason to believe the demands for better ESG will widen in the future, as the trend spreads and gains even more attention, which could possibly lead to further demands on all three aspects of ESG. We estimate that ESG concerns will increase employee loyalty in both countries. This will be due to more focus being placed on employees as important stakeholders of the firm. Adoption of ESG policies in firms will widen the information disclosures, for example in emissions, remuneration and employee welfare related subjects. As such the ESG trend strengthens both insider and outsider areas of Garcia-Castro's (2013) framework: employee loyalty grows (insider characteristic) while also disclosures increase (outsider practices), although it must be said that Garcia-Castro's study itself shows the employee loyalty aspect to be found in outsider orientated firms as well.

4.4. Convergence and regulation

As presented before in the integration of financial markets subsection, national CG practice bundles may converge and develop due to interaction between systems. There is some research on the topic on the French part. Ntongho (2016) believes it is unlikely for the French system to convergence towards a more outsider orientated system, instead preserving the insider orientated system of "*l'intérêt social*" through policy making. This would be a continuance of path dependency for the French system, which we believe to hold partially true in the case of convergence. The things which seem drive the French system to a more outsider orientated approach present themselves at least partially coming from the outside. These include the trend outlined above: ESG and financial market integration.

On UK's part, some researchers have estimated that the nation is rather on a convergence path with the EU on corporate governance matters, even though Brexit made a crack on the political convergence between the two (Pletz & Upson, 2019). Pletz and Upson (2019) remark on the Green Paper CG reform (Department for Business, Energy & Industrial Strategy, later DBEIS, 2016) as an example of this convergence. The outcome

of the CG reform (DBEIS, 2017) was to give employees and investors a stronger voice. The reform paper reinforces the position of a wide range of stakeholders and shareholders, through the non-legislative CG Code, as it is recognized that the directors' interests are too far apart from the owners and employees' interests. The outcome paper for example led to UK's quoted firms having to disclose a ratio of the CEO's salary relative to the average British worker in their work force with included explanation of the changes to previous year and explain executive remuneration policies. There was also a backlash from firms targeted against regulation reforms concerning CG and audit reforms in the UK in 2021 (FT, 2021). This could signal a willingness from the corporate world to react against further regulation.

From the employee perspective this can be viewed as a step towards insider orientation, as the reform increases their protection through disclosure, while also disclosing the information to outsiders and other stakeholders. This could lead to lowered performance-based incentives because of the disclosures effect on public opinion.

There have been voices which claim both for and against the current UK CG code. Cheffins and Reddy (2022) and their counter Machetti & Passador (2022). Cheffins and Reddy (2022) argue that costs of following the code are higher than the benefits, as the codes regulation has become well-accepted best practice, the regulation is present elsewhere or otherwise irrelevant, and the stakeholder approach is misguided as investors aren't interested in this. Machetti and Passador (2022) countered this with arguments of the soft regulation being flexible enough for innovation, the code working as a draft or baseline on international level, and the stakeholder approach being important to both investors and stakeholders. UK will most likely continue its current path with soft regulation, and we do not believe in Brexit weakening the British market for corporate control.

4.5. Garcia-Castro et al. (2013) framework perspective on future development

Board independence

The practice of having independent board members may be strengthened in both countries by ESG concerns, which are also driving further board diversity. The main concerns however consider corruption and innovation (Sena et al., 2018), which are linked to board independence. The ESG trend including these two concerns will likely drive further board independence in both systems. While this is in line with the British systems historical path, it is not so with the French system. The French will ease-off slightly from their national systems path.

Information disclosure

The latest British CG code reform (DBEIS, 2017) raised the requirements of information disclosures (with the option to instead explain why this was not done) in the directors' report and on the company website, including CG arrangements in the firm and followed CG codes. We believe this trend of soft regulatory information disclosure requirements to continue in UK, while in France the requirements may be based on slightly tougher regulation. These are caused by ESG aligned demands and the integration of financial markets. British companies have traditionally disclosed more information than in the French insider orientated system.

Remuneration disclosure

UK remuneration disclosure requirements were also strengthened in the latest CG code reform. There is little evidence why this trend wouldn't continue in the future. The system of "comply or explain" seems to work at least as concept, as it has been adopted by other countries as they converged towards the UK model (Esser and Macneil, 2022) and researchers have argued for this type of soft regulation, relying on the market to correct itself and leading to better performance with less regulatory friction (Renders et al., 2010). But of course, there have been voices which claim both for and against the current code as presented by Cheffins and Reddy (2022) and their counter Machetti & Passador (2022). Still, we predict the same trends which drive further information disclosure to also drive wider remuneration disclosure. In the French case these trends hold even more true due to the national system being more on the side of the stakeholder traditionally, which likely is one the reason behind these developments in the perspective of path dependency.

Performance related compensation

In France, there was a major public outcry due to a Dutch firm Stellantis CEO's seemingly excessive compensation, which alerted even the president Macrons attention (Reuters, 2022A). Meanwhile, in Britain there are conversations of enabling higher performance related compensations in some specific case (Reuters, 2022B). We see it as a possibility that arguments against excessive seeming compensation, like the French ones, could spread to UK. If the regulation for disclosing remuneration becomes much stricter, the British compensation model could be adjusted – perhaps to lower levels. To summarize, UK will most likely remain similar in performance related compensation models and have them relatively high on average as previously, while companies operating in France may take some steps back due to recent public backlash. The path dependence of outsider approach in the UK system drives further freedom in this aspect.

Employee loyalty

ESG concerns may increase employee loyalty in both countries due to more focus being placed on employees as stakeholders. Especially in France we believe this trend to hold true, due to path dependency and the political climate. In the UK this trend is harder to estimate, but we think future regulation will be more protective towards employees and as such will somewhat increase employee loyalty through necessary employee considerations firms adopt. This would be a diversion from the British systems historical path.

Efficient market for corporate control

As financial markets become more integrated and global, the efficiency of the market for corporate control should increase, as there are more (international) investors with more capital looking for incompetently run companies. In the UK the market of corporate control will likely remain efficient, as the integration of the markets and globalization will only strengthen the already efficient market for corporate control. Although Brexit might slow the integration with EU member countries slightly, the financial market integration will likely continue with globalization. Investors looking to turnover a company will have more information of targets CG practices due to the soft CG code reform which should increase efficiency.

For France the story is similar from the point of more integrated financial markets, although French policies may be stricter towards major buyouts by foreign companies as discussed in the EU section. This links to the French insider traditions and the weak market for corporate control influenced by the state.

4.6. Overall analysis of the national directions on CG practice level

The ESG trend is the major transformation driver, and it will only further increase the demands for transparency in both countries in information and remuneration disclosure aspects, pushing both countries towards outsider orientation as the demands for stakeholder considerations grow larger.

We believe the French Colbertistic state is to remain, as the traditions are deeply rooted, while growing slowly towards more outsider orientated model, mainly due to the trend of ESG concerns and financial markets integration. We also see the UK outsider model growing stronger in most aspects. The one deviant possibly being performance-based compensation, which may be lowered in some cases if the regulation becomes too transparent for the companies and the public backlash is too harsh on "high" compensation policies, while the companies lay off employees.

Table 1: CG practice development direction predictions using the Garcia-Castro et al. (2013) practice framework:

<table>
<tr><td></td><td colspan="2">Prediction of direction of CG practices in country</td></tr>
<tr><td>Garcia-Castro et al. (2013) practice:</td><td>Great Britain</td><td>France</td></tr>
<tr><td>Board independence</td><td>May be further driven by ESG and scientific research</td><td>May be further driven by ESG and scientific research</td></tr>
<tr><td>Information disclosure</td><td rowspan="2">Growing stronger towards outsider orientation due to soft regulation, integration of financial markets and ESG.</td><td rowspan="2">Growing stronger because of the integration of financial markets and ESG.</td></tr>
<tr><td>Remuneration disclosure</td></tr>
<tr><td>Performance related compensation</td><td>Likely to remain high but may be hindered because of new remuneration disclosure regulation</td><td>Trending down as excessive compensation is continuously less tolerated by stakeholders</td></tr>
<tr><td>Employee loyalty</td><td>Low, growing due to the ESG trend</td><td>High, possibly growing due to the ESG trend</td></tr>
<tr><td>Efficient market for corporate control</td><td>Growing stronger towards outsider orientation because of financial markets integration and stronger soft regulation.</td><td>Possibly little to no change due to the EU protective stance (weakening effect) and financial market integration (strengthening effect).</td></tr>
</table>

5. Conclusion

Overall, we have concluded that the countries GC systems and institutions vary widely. In the UK, Anglo-Saxon culture is dominant, and the benefits of shareholders are in great importance. In the Garcia-Castro framework, outsider approach fits well with the UK corporate governance bundles, which centralized by the corporate for market control complemented by board independence, share-based executive compensation, high standard of information disclosure and accounting measures. Investors are often dispersed, and the companies are regulated in a light way. The state is seen as an entity that can punish if someone acts clearly in a criminal way or doesn't respect its contracts, but other than that, the state gives a lot of room for the other stakeholders to choose how they want to negotiate with each other. Meanwhile, we found out that in France the role of the state is quite the opposite. It's seen more of as a referee that actively plays part in the negotiations between the stakeholders, mainly to facilitate relations between companies and trade unions. In France, the ideology of class warfare has been extremely common within its people, and it has had direct impacts on the GC mechanisms of the country. Because of that, France is seen as an insider-model country in the Garcia-Castro framework, where market for corporate control is low and other institutions remain more absent given the high concentration of ownership.

In the context of GC, it's extremely difficult to find coherent causalities, as it's clear how institutions, ideologies, history, GC and economics affect each other at the same time. During a shorter timeframe it might be easier to call a causality when a clear and sudden event takes place, but that wouldn't explain the fact how some ideologies and GC practices seem to be much more prevalent in some countries compared to others.

But what real impacts did these differences in cultures and ideologies have on the companies and practices in these countries? The answer is clearly that while we can observe some differences in the countries GC practices, we can also see how they keep changing, converging and diverging over time. Through our analysis of path dependence, we found out how various events, rulers and institutional changes within history have changed peoples' ideologies and their ideas of how companies should be governed within their countries.

After all, we can also observe how recent developments within Europe have caused changes within the GC practices in our case countries. We have had plenty of important changes within Europe in a short timeframe such as Brexit and the war in Ukraine, but when looking at the bigger picture, we also found out many long-term factors such as climate change that will change our ideologies on the matter on how companies should be governed. We also discussed the fact on how much countries within the European Union affect each other, and will the post-Brexit Britain converge from other

European countries in this matter. Research suggested a more convergent path for both countries, but the future remains unclear.

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