

Introduction

Le grand commerce est le moyen d'augmenter la puissance et la grandeur de sa Majesté et d'abaisser celles de ses ennemis et envieux.

Jean-Baptiste Colbert,
French Financier, 1619-1683

The attitude of the French government toward U.S. direct investment in France, as officially expressed, has undergone a fundamental change during recent years. Long welcomed as palliation of chronic capital shortages and dollar deficits, U.S. direct investment in that country has come under intense scrutiny since August, 1962, in an atmosphere increasingly inhospitable to any further extension of American economic influence. The concern of France has been manifested not only in the candid admissions of the highest government officials but in proposals to her fellow-member states within the European Economic Community as well, urging upon them proposals for the collective control of foreign investment.

French fears, or at least those which have been publicly articulated, are grounded in four main postulates.

The first of these is the belief that American investors exercise excessive external management control of their French subsidiaries and branches. Second, the French argue that such external control is often exercised in ways inimical to legitimate French national interests. Third, they aver that certain key industries are either already under foreign control, or in imminent danger of the heavy concentration of foreign capital in those industries. And finally, French critics state that United States or other foreign control tends to remove an industry or, indeed, an entire sector of the economy from the reaches of the national economic planning mechanism. Other fears have been voiced, but none so plainly as these.

PURPOSE OF THE STUDY

The purpose of the study is to weigh the evidence supporting these French beliefs and, from the conclusions thus reached, to anticipate the future policies of the French government concerning U.S. direct investment. In accomplishing this purpose, it is the task of the study (1) to review the events which have provoked French reaction; (2) to characterize French attitudes toward U.S. investment; (3) to examine the dimensions of U.S. direct investment in France; (4) to determine which policies are typically reserved to the parent company for decision and which are left to the subsidiary for autonomous determination; and (5) to gauge the vulnerability of foreign investors to new regulation by French governmental authority.

The book draws upon a careful survey of the control policies and practices followed by twenty-four large American companies with subsidiaries in France, as well as upon the published materials. By relating the underlying issue of control to a consideration of the other aspects of the problem, the discussion has been designed to improve understanding of Gallic attitudes and of France's capability to regulate U.S. investment in that country.

LIMITATIONS OF THE STUDY

It should be observed at the outset that the study confines itself exclusively to U.S. direct private investment. This investment, as distinguished from portfolio investment, is the equity held by U.S. investors in French business enterprise acquired for the purpose of influencing or controlling the activities of that enterprise. As defined by the Office of Business Economics, U.S. Department of Commerce, for statistical use, it does not include miscellaneous holdings of stocks and bonds of foreign issuers. It is not only the equity in corporations, but also the investment in sole proprietorships and partnerships held by residents of the United States. French attention has been focused primarily upon direct, rather than portfolio, investment.

The study is unquestionably colored by the range and scope of the survey upon which certain conclusions concerning the nature of control exercised are based. Because interviews were conducted in only twenty-four of an estimated four hundred U.S. firms with operating

subsidiaries or branches in France,¹ the findings presented must be qualified. While the author believes that the practices followed by the companies interviewed are widely observed, he cannot preclude, on the basis of evidence submitted, the existence of other parent companies which wield far greater influence in the affairs of their French subsidiaries than those included in this investigation. The survey taken has, in fact, revealed a broad variance in matters over which control is exerted and the degree to which it is exercised. The study is not offered as absolute evidence in support of any premise that *most* parent companies exercise too much or too little control of French subsidiaries, but only as an indication of the extent and nature of control as exercised by *some* companies. The author also recognizes that practices may vary from industry to industry as well as from company to company. No attempt is made to discern whether bias exists in these findings, as a result.

The study is further limited. The French allegation that French subsidiaries of U.S. companies are often managed in disregard of the interests of the host country and to the detriment of France cannot properly be judged from data available to the student in this country. Only a thorough investigation in France would disclose whether "misconduct" is widespread, and whether actions of American investors do constitute a threat to

¹ According to the *Alphabetical Listing of Subsidiaries and Branches of U.S. Firms Operating in France*, compiled by the Office of the Counselor of Embassy for Commercial Affairs, Embassy of the United States in Paris, there were 395 such firms as of November 15, 1963.

the socioeconomic objectives of the French nation. There has been far more misinformation published on this aspect of the problem, even in the French press, than there have been facts brought to light. This question is deserving of additional attention.

A final caveat remains. The point of view expressed by the respondents interviewed throughout the survey was that of an executive of the parent company, speaking usually as the superior of the senior executive of the French subsidiary. The respondent was invariably an American, who often had a wealth of international business experience but who generally had not served his company in France as its local manager. It is conceivable, therefore, that a survey taken in France of the impressions of the responsible local executives would reveal a different pattern of response. It is also very probable that interviews conducted in France would disclose broader differences in opinion concerning the desirability of control than in the ways in which parent companies seek to exercise it.

PREVIOUS INVESTIGATIONS

Little has been written concerning the means by which operating control is exercised by a parent company of its foreign subsidiary.² While there are many oblique references to problems of operating control in the growing body of literature used to familiarize the business

² The only such publication is a case study prepared under the auspices of the National Planning Association: Boyd France, *The Case Study of IBM in France, Studies in United States Business Performance Abroad* (Washington, D. C.: National Planning Association, 1961), 85 pp.

school student with international business management, the only published materials that deal specifically with this subject are those of the International Management Association, Inc. A series of five case studies contributed by members of the association were grouped in a single publication³ in 1957. Two similar and related reports have been issued since then.⁴

These investigations provide useful knowledge relative to the need for, and desirability of, control as well as the means by which it is exerted. The published findings are briefly reviewed in Chapter 5, supplementing the data obtained in the survey.

There is also a remarkable dearth of documentation upon all other aspects of the problems considered in this study. Only two works which deal directly and comprehensively with the subject have been published, and both are in French.⁵ This lack of published materials handicaps the student who would seek a diversity of opinion.

ORGANIZATION OF THE STUDY

The recent history of events in France which have led to proposals for stringent control of foreign inves-

³ *Case Studies in Foreign Operations, IMA Special Report No. 1* (New York: American Management Association, Inc., 1957), 237 pp.

⁴ L. Kamsky and others, *Applying Financial Controls in Foreign Operations, IMA Special Report No. 2* and *Increasing Profits from Foreign Operations, IMA Special Report No. 3* (New York: American Management Association, Inc., 1957), 177 pp. and 240 pp., respectively.

⁵ Gilles-Y. Bertin, *L'Investissement des Firmes Étrangères en France* (Paris: Presses Universitaires de France, 1963), 324 pp.; Jacques Gervais, *La France Face aux Investissements Étrangers* (Paris: Editions de l'Entreprise Moderne, 1963), 235 pp.

tors is reviewed in detail in Chapter 2. The actions of the companies involved are put in chronological perspective together with the gathering storm of reaction in the French ministries to which protests were directed.

In Chapter 3 is described the complex of fears and anxieties which have shaped French attitudes toward the events related in the foregoing pages and which will guide the hand of government in future dealings with foreign investors.

Chapter 4 contains relevant data depicting the size and scope of United States direct investment in France. It delineates not only the volume of investment and the trend of growth but also the role of American investment in, and its contribution to, the French economy. American investor participation in selected industries is described to permit evaluation of the charge that U.S. investment has been concentrated in several narrow, key sectors of industry.

The findings of the survey, aimed at a determination of the extent and degree of control exercised by parent companies, are set forth in Chapter 5. Following an explanation of the methodology used in the selection of respondents and the conduct of interviews is a full account of the information gleaned from the interviews. Techniques of control commonly used are identified, policies reserved for parent determination are differentiated from those in which the subordinate organization acts with full autonomy, and an attempt is made to characterize the extent and degree of external management control typical of the twenty-four respondent companies. A final section of the chapter deals with replies

to questions posed during the interview which were intended to elicit evidence of discrimination toward U.S. investors.

Discussed in broad terms in Chapter 6 is the vulnerability of U.S. investors to restrictive regulatory action by the French government. Taking note of French proposals to curb United States and other foreign investment, the writer cites the legal disabilities and other considerations inhibiting France from acting unilaterally.

In the last chapter, the material presented in preceding chapters is summarized. The more important findings of the study are outlined, and certain conclusions are drawn from the investigation. The book concludes with a recommendation for additional research beyond the limits of the undertaking reported.

SOURCES OF DATA

For the historical résumé and review of developments culminating in French official reaction and for the current status of the problem, the writer has relied heavily upon articles appearing in both French and American periodicals. Several interviews divulged additional useful information pertinent to events which occurred in France when French apprehension seemed most acute. Material for the chapter on the size and scope of U.S. investment in France came from a variety of sources, including reports of the U.S. Department of Commerce and the permanent French and American literature on the subject. The survey data is the con-

tribution of key executives in twenty-four large American companies, all competent to answer in the matter under discussion and willing to provide the information. For the knowledge imparted in the chapter on vulnerability to regulation, the writer has resorted to the American literature covering the applicable laws.

Supplementing the foregoing sources were additional interviews conducted in three major American banking firms with branches in Paris. The writer has also been given fortunate access to members of the American diplomatic staff who are intimately familiar with recent developments and who have supplied much unpublished information.