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**THE ROLE OF CSR IN THE GOVERNANCE OF THE “NEW FIRM”:  
AN EMPIRICAL STUDY OF THE FRENCH TELECOMMUNICATIONS INDUSTRY**

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**Abstract:** The aim of this paper is to propose an instrumental analysis of corporate social responsibility (CSR). After underlining the corporate governance issues raised by the “new firm”, which is vertically disintegrated and intensive in specific human capital, we argue that CSR can be useful as a means to regulate power relationships between key productive partners of the firm. Based on the analysis of official reports and interviews of the four major French operators of telecommunications, we show that CSR is voluntarily used by firms to maintain long-term wealth-creative employment and subcontracting relationships, through the deployment of formal and informal mechanisms.

**JEL classification:** G3, L2, M1

**Keywords:** human capital, boundaries of the firm, corporate governance, corporate social responsibility, French telecommunications industry.

## **Introduction**

The “new firm” - vertically disintegrated and intensive in human capital - has dominated the industrial landscape since the beginning of the 1990s (Rajan and Zingales, 2000). To maintain their positions in ever more competitive markets, many large firms are spreading upstream towards R&D and downstream towards services, while at the same time refocusing on their manufacturing core (Cohen, 2005). The last fifteen years have therefore been marked by the development of outsourcing, the increasing use of subcontracting and the concentration of firms on their core business (Langlois, 2003). Under these conditions, cooperative relations between firms have increased, due to the reorganisation of production processes and in a search for productive complementarities (Richardson, 1972; Loasby, 1996). These industrial reorganisations, the result of recent financial revolutions (Rajan and Zingales, 2001a) and technological revolutions (Hobijn and Jovanovic, 2001), stimulate a race to innovation and quality, a race essentially conducted by specialised employees. This is because technological advances and increased opportunities for finance and investment have shifted intangible assets, notably human capital, towards the heart of firms’ productive activity, to the detriment of physical assets, which are now easily reproducible (Appelbaum and Berg, 2000; Zingales, 2000). The critical resources of inter-firm relations are increasingly of an intangible nature, crystallising in the human, social and organisational capital that cannot be subjected to contractible and enforceable rights of control (Asher *et al.*, 2005). Thus, the role of the firm has expanded and consists in guaranteeing the specialisation and complementarity of its critical human assets throughout the value chain (Gereffi *et al.*, 2005). The economic coordination of all the assets decisive to the productive activity of the firm calls for a new analysis of the boundaries of the firm and a rethinking of the dominant approach to corporate governance (Zingales, 2000). While the importance of human capital constantly grows, power is slipping away from the senior executives who possess the residual rights of control, being dispersed among all the key partners of the firm, because of the key resources they constitute in the firm’s productive transactions. That is why the traditional definition of corporate governance is no longer adequate: it cannot be reduced to the system where the ownership and control of public listed companies (Berle and Means, 1932) is based on a rationale of strengthening the rights of the residual claimants. Corporate governance is destined to concentrate on the efficient forms of mobilisation of firm-specific human capital to optimise the growth opportunities of the firm (Rajan and Zingales, 2000). Thus, in our view, the study of corporate governance must be extended to include the regulation of the

exercise of power over firm-specific human capital based on a rationale of both the distribution *and* the creation of value.

In this context, we examine the contribution of corporate social responsibility (CSR) in the domain of corporate governance. More precisely, the aim of this article is to propose an original view of CSR as an instrument of governance of firms whose productive activity is based primarily on their specific human capital. Long confined to the role of an “extra bit of soul” for company managers concerned about ethics and morality, CSR, first defined by Bowen (1953)<sup>1</sup>, gradually developed in listed companies after the Rio Summit of 1992. Obligated to recognise their obligations in terms of the environment – principle 16 of the Rio Declaration established the “polluter pays” rule<sup>2</sup> – and anxious to avoid restrictive regulations, companies voluntarily and collectively subscribed to this concept of CSR. But over the last decade, which has been marked by both the apparent failures of shareholder governance and the spread of CSR to all economic sectors (including those of little environmental impact), the objectives attributed to it have changed: less focused on the environment (Capron and Petit 2009), they now include questions of governance, whether in terms of regulating the network of subcontractors or the appropriation of intangible assets, especially human capital.

By concentrating on these latest developments in CSR, this article proposes an instrumental approach, distinct from the stakeholder approach that is often chosen as a framework for the analysis of CSR<sup>3</sup>. However, our aim is not to affirm that this conception of CSR is the only one that prevails in companies, but to comprehend CSR by placing it in the context of governance, to show the role that it now plays in that sphere. To do so, the article is organised as follows. In the first section, we use critical resource theory to analyse the extent to which the mechanisms of corporate governance need to be modified when the “new firm” becomes a form of organisational structure in business. This involves examining the role of CSR both in the firm’s internal relations and in its relations of subcontracting. The second section is devoted to an application to the telecommunications sector in France, which we

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<sup>1</sup> According to Bowen (1953): “The term *doctrine of social responsibility* refers to the idea, now widely voiced, that the voluntary assumption of social responsibility by businessmen is, or might be, a practicable means towards ameliorating economic problems and attaining more fully the economic goals we seek” (see Acquier and Gond, 2007: 6).

<sup>2</sup> According to principle 16 of the Rio Declaration (1992): “National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the *polluter* should, in principle, *bear the cost of pollution*, with due regard to the public interest and without distorting international trade and investment” (our italics).

<sup>3</sup> Stakeholder theory is the dominant theoretical approach to CSR (Gond and Mercier, 2005).

believe to be emblematic of current developments. Firstly, this sector has witnessed one of the clearest movements of refocusing on core business, with activities based largely on the specialised human assets of partners. Secondly, as it is not a particularly polluting industry, it was not among the pioneers in terms of CSR, but provides evidence from the more recent period, beginning in the 2000s, during which the field of CSR was extended to questions of governance.

## **1. The role of CSR in the evolution of the boundaries and governance of the firm**

### **1.1. Specific human capital and the economic boundaries of the firm**

Analysis of firms constructed around specific human assets calls for consideration of the intrinsic nature of these fundamental resources, which is obscured in the incomplete contracts theory of the firm (Grossman and Hart, 1986; Hart and Moore, 1990; Hart, 1995). Since “much of the wealth-generating capacity of most modern firms is based on the skills and knowledge of the employees and the ability of the organization as a whole to put those skills to work for customers and clients” (Blair, 1995: 231), it is necessary to reconsider the boundaries, coordinating role and internal governance of the firm (Araujo *et al.*, 2003; Cézanne-Sintès, 2008). From the moment that certain human assets are critical, in other words indispensable to the productive activity of the firm (Hart and Moore, 1990), a hold-up problem arises in relation to the control of those assets. The threats associated with this hold-up are all the more serious when the human capital is highly specific, that is to say that its field of application is limited outside the relation in which it was initially developed (Williamson *et al.*, 1975; Klein *et al.*, 1978). But unlike physical resources (factories and machinery) and certain negotiable intangible assets (patents, trademarks, etc.), human capital, because it is inalienable and difficult to reproduce, cannot be appropriated, in the legal sense of the term, by the firm or its constituent partners. It is impossible to separate human capital from its owner, whatever the time horizon considered. Rights of control over human assets are therefore equally inalienable (Gibbons, 2005); they do not lie in the domain of legal ownership, nor do they change its structure. On its own, the concept of asset ownership is therefore insufficient to eliminate the risks of hold-up (Holmström and Roberts, 1998; Holmström, 1999).

Faced with this problem of *ex-ante* expropriation of the relational quasi-rent, Critical Resource Theory (CRT) proposes a solution based on the notion of access as a mechanism of

power allocation. Access is defined as “the ability to use, or work with, a critical resource” (Rajan and Zingales, 1998: 388). Thus, giving access to a critical resource means granting rights of use over a specific asset (tangible or intangible, alienable or inalienable) that is difficult to replace, but it also means cooperating with the partners who have obtained those rights. Under these conditions, the firm possesses an initial critical resource (specific equipment or the particular talent of the entrepreneur) and, as the hierarchical authority (Simon, 1951; Williamson *et al.*, 1975), it has priority control over access to its resource. By granting its most important partners a right to access, it does not give them an additional residual right of decision, but the opportunity to enhance their value by specialising in this existing critical resource (Blair and Stout, 1999; Rajan and Zingales, 2001b). Thus, the firm promotes the accumulation of co-specific investments<sup>4</sup> in human capital that creates more value than if the partners only developed their skills for themselves. The regulation of access therefore creates reciprocal dependencies, complementarities that tie individuals together and that give the firm the power to fix and manage the team of factors of production. The firm can thus be perceived as an organisation into a team that favours specialisation through the decentralised allocation of access rights (to the detriment of the centralised allocation of ownership rights). And yet this mechanism gives rise to implicit relations of a long-term nature that affect the creation of rents. In other words, as well as eliminating the risk of hold-up, the distribution of access rights is a means to manage the development of productive knowledge through the co-specialisation of partners<sup>5</sup>, beyond the legal boundaries of the firm, to the outer limits of the activities it coordinates (Sintès-Cézanne, 2008). The allocation of access to co-specific human assets therefore establishes the economic boundaries of the firm. These are determined by the capacities necessary to the firm to perform its productive activities and to interact in a specific manner with different partners in the network of internal and external relations that it builds up (Araujo *et al.*, 2003). They therefore expand when the firm seeks access, in addition to its own direct skills, to indirect specific resources supplied by organisations possessing the appropriate skills, whose activities it coordinates over time (Kay, 2000; Brusoni, 2005). Consequently, the role of the firm is to combine all the vertical productive complementarities of a modular activity by regulating the access to critical

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<sup>4</sup> According to Hall and Soskice (2001), returns on investments in co-specific assets are highly dependent on active cooperation with other specific assets, in other words assets that cannot easily be transferred to an alternative use.

<sup>5</sup> Co-specialisation consists in working together (condition of strong complementarity) within the context of a specific relation (condition of low mobility) (Teece, 1986). Consequently, two assets are said to be co-specialised if, to produce independent goods and services, they have maximum productivity when they are used together and lose a lot of their value when they are used separately (Milgrom and Roberts, 1992).

resources, with a view to producing the final product as efficiently as possible (Jacobides and Winter, 2005; Baldwin, 2008). It therefore seeks to organise, over time, the specialisation of players who are *legally* dependent and/or independent, but necessarily *economically* dependent, given the resources mutually dedicated to the competitive productive activity.

By giving access to a heterogeneous set of productive partners participating in the division of labour, the firm assumes a wider role of coordination: it manages the *ex ante* co-specialisation of its key partners within its economic boundaries (Sautel and Sintès-Cézanne, 2007). At the same time, the firm strengthens the power of control of its many partners, because, like the firm itself, they tend to master the network of specific investments at the heart of the organisation (Zingales, 2000). In particular, the key partners know that their human capital is crucial to the competitiveness of the firm, and they possess inalienable rights of decision over their critical resource and over the firm. They may then decide unilaterally to appropriate a higher share of the jointly-created rent, in a context where the relation cannot be broken off without loss to one of the contracting parties (Klein *et al.*, 1978). In other words, the accumulation of enough power in the hands of key partners is often accompanied by a deterioration in their investment behaviour and may even lead them to exercise their legal right to leave the company (Baron and Kreps, 1999). The threat of a partner breaching their employment or subcontracting contract does exist and can be very harmful, because it drastically cuts the organisational and reputational value of the firm and can even undermine its integrity (Teece, 2003). Faced with these considerations, the firm must succeed *ex-post* in maintaining specific relations with the suppliers of critical resources in order to ensure its survival. This is a *sine qua non*, particularly for innovative sectors. For firms operating in complex high-technology markets, characterised by high levels of investment in R&D and patented specialised applications, it is strictly necessary that their key employees invest in a continuous and specific way in human capital (Guilhon, 2004). It is therefore vital for human capital-intensive firms to adopt governance mechanisms that encourage their partners to invest in human capital that can be applied to the highest wealth-creating activities (Wang and Barney, 2006). It is often suggested that a certain share of future rents should be allotted to employees to maintain their incentive to specialise. However, since the possibilities of renegotiation jeopardize long-term commitments, the incentives are only effective when growth prospects are strong enough to guarantee the appropriation of a large share of the rent created, which is very uncertain. Corporate governance therefore needs to be revised (Porter-Liebeskind, 2000; Zingales, 2000; Keenan and Aggestam, 2001) to take into account the

power relations between the different partners possessing resources that are essential to the productive entity. The problem that must be addressed is how to limit *ex post* the exercise of power by each partner in such a way as to conserve the productive synergies within the firm and thereby protect the gains generated collectively through co-specialisation. Because power is divided up among the different holders of firm-specific resources, it is inefficient to define the objective of corporate governance as the defence of the gains of one sole group of individuals. Furthermore, the centrality of human capital renders obsolete the traditional disciplinary mechanisms used for the resolution of conflicts of interest and risk-sharing; incentive and control must be considered from the perspective of collective, long-term commitment by critical members of the firm. From this viewpoint, we argue that more attention must be paid to the informal dimensions of the internal regulation of power, so that in addition to the objective of allocating value, corporate governance is also given the objective of creating value. And even the most fervent advocates of shareholder value, like Jensen (2001), eventually acknowledged the advantages of such a change, proposing an “enlightened” view of corporate governance. Without calling into question the objective of maximising the market value of the firm, which remains, according to these authors, the only valid objective<sup>6</sup>, they now stress the need to take into account the stakeholder dimension as a means to acquire strategic instruments for long-term value creation.

From this perspective, CSR can be seen as a useful instrument of corporate governance, from the moment that it encourages the partners to invest in specific human capital and helps to coordinate the *ex-post* specialisation of specific human assets, things that the dominant model is incapable of doing. So our aim is not to treat CSR as the symbol of a form of stakeholder governance that could replace shareholder governance, and that might be seen as an opposite and alternative to this latter, but to show, on the contrary, how it is judiciously used by company managers to introduce formal and informal mechanisms that are complementary to the formal mechanisms of corporate governance, rather than substitutes (Poppo and Zenger, 2002).

## **1.2. CSR central to the rethinking of corporate governance**

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<sup>6</sup> Jensen (2001) criticises the stakeholder view of corporate governance on the grounds that it consists in simultaneously pursuing a number of different objectives to satisfy the often contradictory interests of the different stakeholders.



The concept of CSR has been defined on numerous occasions (Rowe 2006). Although there are certain elements of divergence between the existing definitions, they share a common base that can be summed up as follows: CSR involves the voluntary integration of social and environmental concerns into the firm's objectives, over and above what is required by law (see, for example, European Commission, 2001 and McWilliams and Siegel, 2001). It therefore bears witness to a conception of the firm that incorporates the views of the different stakeholders (Freeman and Reed, 1983).

CSR has spread rapidly in listed companies since these latter have found themselves strongly encouraged to contribute, in one way or another, to sustainable development. The Rio Summit (1992) can reasonably be considered the point of departure of a process of institutionalisation which, although on a voluntary and decentralised basis, should not lead us to neglect the role of public and political pressure. Moreover, it includes a certain measure of standardisation of practices (establishment of sets of standards, norms, social and environmental ratings agencies, etc.) and is not completely free of penalties, particularly in terms of reputation when a company fails to deliver what it has promised. This link between the way companies are "obliged" to take CSR on board and the voluntary nature of their commitments<sup>7</sup> has gradually led them to use it more strategically and less defensively (McWilliams *et al.*, 2006; Porter and Kramer, 2006). To the extent that it is they and they alone who decide on the occasion and nature of their initiatives, companies have every freedom to shape a form of CSR to suit their needs (Lamarche and Rubinstein, 2010). And recent econometric studies (Orlitsky *et al.*, 2003; Allouche and Laroche, 2005; Wu, 2006; Margolis *et al.*, 2007), using meta-analysis, provide evidence of a positive correlation between CSR and the financial performance of the company, which might help to explain why, in the United States, listed companies do more in terms of CSR than non-listed ones (Guthrie and Miller, 2007). At the same time, there was a perceptible change in the content of the non-financial reports of the largest listed companies of various OECD countries between 1993 and 2008<sup>8</sup>: Capron and Petit (2009) show that in the 1990s, these reports were almost exclusively focused on environmental issues; in the 2000s, their tone changed considerably, to

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<sup>7</sup> This link between "obligation" to address the issue of CSR and freedom of action is explicit in France, the only country where the law (article 116 of the law on New Economic Regulations) requires listed companies to issue an annual *communication* on the social and environmental consequences of their activity, without requiring any specific *action* — their freedom of action is not challenged.

<sup>8</sup> Capron and Petit (2009) base their analysis on six successive surveys conducted by the audit, accounting and consulting group KPMG between these two dates.

include social and economic concerns, while at the same time these reports spread to every sector (and particularly the sectors of finance, information and communication).

That being the case, can we understand this new development of CSR and relate it to the specific governance problems raised by the “new firm”, vertically disintegrated and human capital-intensive? Let us recall that vertical disintegration poses problems concerning governance of the network, because it deprives the prime contractors of the means of hierarchical coordination. Their capacity to direct all the subcontractors then assumes central importance, and it cannot be delegated. While refocusing on their core business, their primary activity, they must at the same time develop a “*savoir faire faire*” (“knowing how to get something done”) (Mariotti, 2004: 714), at the risk, if they do not do so, of finding themselves liable in the event of failure by one of their subcontractors. This is all the more pertinent for firms with strong visibility and reputation, because they are more likely to be held to account by NGOs, which choose prestigious targets in order to gain wider coverage (Gereffi and Mayer, 2004). For example, Nike and Puma have both been fiercely criticised for the working conditions tolerated among their subcontractors. In response, Nike published a detailed report in 2005 on the working conditions in the group’s 704 subcontracting firms. Puma, for its part, joined the *Fair Labor Association* (FLA), which applies an accreditation procedure to the working conditions in all the subcontracting firms of each of its members (Palpacuer, 2008). Ultimately, in both cases, this amounts to defining the economic boundaries of the firm and the perimeter of its responsibility, through the agency of a CSR approach.

Consequently, in the absence of a hierarchical mode of coordination, the prime contractor uses CSR as an instrument of governance to define and legitimise the perimeter of its responsibility over the whole network of subcontractors. This responsibility, which is quite distinct from legal liability (since the prime contractor is not the owner of the subcontracting firms), favours the emergence of shared norms and procedures, notably through regular evaluations of the social and environmental responsibility of the subcontractors. By defining the obligations related to the network, the institutionalisation of CSR leads to the construction of “contracto-organisational responsibility law” (Teubner, 1993). CSR practices thus form part of “a system intended to regulate the managerial scope of a company that has lost its economic and social unity” (Dupuis, 2008: 68 [our translation]). Moreover, the use of codes of conduct and systems of alert within global value chains plays a role in the establishment of rules and obligations imposed on subcontractors by the prime contracting firms (Palpacuer *et al.*, 2009). Lastly, the CSR policies followed in the prime contracting firms can heighten their

reputation in the eyes of the subcontractors, who will as a result be more willing to invest in specific assets without fear of hold-up (Klein *et al.*, 1978).

The role of CSR in the realm of corporate governance also concerns relations within the firm. While the model of shareholder governance suffers from the problem of the appropriation of all the firm's assets, and in particular the human capital, CSR also provides the means to regulate the balance of power between employees with co-specific human capital. Strict application of property rights cannot protect shareholders from the sort of setbacks experienced, for example, by the British advertising agency Saatchi & Saatchi (Rajan and Zingales, 2000). In 1994, Maurice Saatchi, the talented chairman of Saatchi & Saatchi, asked for a particularly generous stock option plan. The American investment funds that controlled 30% of the capital refused this request, on the grounds that Saatchi & Saatchi shares had failed to reach the expected levels for several years. This led to the departure of the Saatchi brothers, accompanied by forty other key senior executives. They set up a new company, M&C Saatchi, which, by attracting some of Saatchi & Saatchi's most important clients, rapidly devalued the assets of the original company. According to Zingales (2000), the disciplinary role of shareholder governance would have been effective in a "traditional firm", whose boundaries are determined by the ownership of its physical assets, but is no longer functional in the "new firm", where "human capital has become essential" and "contracts are highly incomplete" (*ibid.*: 1645). The shareholders thought that with their 30% of voting rights they could control the strategy of the firm by exercising alienable residual rights of control, along the lines of the incomplete contracts theory of the firm. They believed that they could best further their interests by refusing Maurice Saatchi the reward he had asked for, whereas they should, on the contrary, have transcended their legal prerogatives to create the productive and relational complementarities essential to the long-term future and growth of the firm. In that way they would have acquired additional power, based on their ability to stabilise the individuals in the company. But by abandoning these functions to the profit of the managers (namely Maurice Saatchi and his collaborators), they also lost the fundamental power to protect their interests. It is precisely these failures of shareholder governance that CSR can remedy by enhancing staff loyalty, by reaffirming the hierarchical relation and the property rights of the firm. This is demonstrated in the study by Béthoux *et al.* (2007) of a corpus of codes of conduct drawn from 166 multinational companies in various sectors of activities. The interest of these documents is that they are the most faithful representation of business attitudes to CSR (because they nearly all come from the companies themselves,

rather than an outside organism of certification that would have standardised their contents). By conducting a lexical analysis without any *a priori* categorisation, Béthoux *et al.* (2007) identify the sequences of words that appear most often in the corpus. They show that the codes are less concerned with the environment than they are with labour, which is certainly dealt with from the perspective of workers' rights (often with reference, more or less complete, to the standards of the International Labour Organisation), but also with ceaseless affirmations of the hierarchical relation and the firm's property rights over intangible assets.

The hierarchical relation is highlighted in the definition of procedures to be followed by the employee in the event of violation of the code of conduct or the law, and in the prevention of risks by the managerial team which "monitors", "inspects", "evaluates", etc. The codes also stipulate the advantages enjoyed by employees in the performance of their function: they must be occasional and of modest value ("meals", "entertainment", etc.) and must not place the employee in a position of obligation towards any member of another organisation, which might create a conflict of interest between the firm and its employee. Companies also use the code of conduct to affirm the necessary confidentiality of information (which may serve as a justification for controlling the external communications of the employees), but above all its property rights over that information and over the intellectual production of the employees, as testified by Compaq's code of conduct (2001): "To the extent permitted under applicable law, employees shall assign to the company any invention, work of authorship, composition of other form of intellectual property created during the period of employment" (quoted by Béthoux *et al.*, 2007: 87). Within a framework that appears to be one of partnership – as Gond and Mercier (2005) show, the dominant model of reference for CSR is the stakeholder model –, the company actually underlines its own legitimacy to appropriate the intellectual production of its highly qualified employees and the tangible wealth created by the co-specialisation in human capital.

This view of CSR as an (often informal) instrument for the regulation of relations between employer and employees or between prime contractor and subcontractors deserves further clarification, by examining its application in a sector that is emblematic of the phenomenon. We shall therefore study the French telecommunications industry, as a means to obtain empirical evidence of the need for operators to use CSR for purposes of corporate governance.

## **2. Corporate governance and CSR: the case of the French telecommunications industry**

Although the telecommunications industry is the oldest of the information and communication technologies (Musso, 2008), the operators that make up this sector nevertheless have all the attributes of the “new” firm. Firstly, they need their employees to invest continuously and specifically in human capital, because of the high technological content of the services supplied, the sustained research effort required and the complex nature of the markets in which they operate, as Ferrary (2002) observed in his study of the telecommunications sector. Secondly, apart from the nature of the activity and of the production tool used, the specificity of human capital also depends on the social environment with which the employees interact (Ferrary, 1999) and therefore on whether or not there exists an internal labour market (Doeringer and Piore, 1971). In this context, an internal labour market among the operators, ensuring a certain level of employment stability, guarantees specific and lasting commitments between employees and employers. Employees with stable jobs are more likely to align their interests with the organisational objective and to adopt the cooperative behaviour of collective value creation. For their part, the employers ensure an efficient allocation of human resources based on a rationale of making specific human capital profitable. In this perspective, investment in specific training limits the transferability of human capital, and counteracts its depreciation, thereby increasing the marginal productivity of the employees within the company. In practice, the spending of French telecom operators on non-transferable training has been very high: in 2009 the three dominant operators invested about 6% of the wage bill on in-service training, compared to an average of 2.9%<sup>9</sup> for all French companies (Dares, 2011). Secondly, telecom operators have followed the general trend of refocusing on core business, although the influence of the big, leading firms in shaping the organisation of their markets remains as strong as ever (Brusoni *et al.*, 2001), because of the high capital intensity of the sector (entry barriers). This refocusing strategy is implemented notably through the wide use of industrial and commercial subcontracting, based on a rationale of flexible specialisation. It is emblematic of firms in growth industries, but continues to be pursued during the stage of maturity (Stigler, 1951; Paulré, 2000), which is in

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<sup>9</sup> However, this average effort goes well beyond the legal obligations of French companies. Article L. 951-1 of the Labour Code stipulates, since 1<sup>st</sup> January 2004, that companies with more than ten employees must dedicate a sum equal to no less than 1.6% of their annual wage bill to the financing of actions defined in article L. 950-1. This investment is devoted to the funding of continuous professional training, in priority of a nature to develop the specific character of the employees’ human capital, notably with programmes of adaptation and development of their skills. The object of these programmes is to improve the fitness of employees to the posts they occupy and to their evolution and to help them to remain in employment. Continuous training can also involve the acquisition, maintenance or perfecting of knowledge. Along the same lines, actions of promotion, intended to allow employees to acquire higher qualifications, contribute to the specific training of the employee when the promotion aimed for is within the company.

particular the case for the telecommunications industry in France (OCDE, 2010). In reality, growth in the size of the market is accompanied by a deepening in the division of labour between firms, and therefore favours the specialisation of organisations throughout the value chain.

The telecommunications sector is dominated by two main types of players. Firstly, the network equipment manufacturers act as subcontractors. They develop the technologies and manufacture the physical components, software and terminals needed by the operators. Then, further downstream, the operators supply network-based services. For a long time, they enjoyed a situation of monopoly in national markets. This was the case for France Télécom-Orange, the historic operator in France. But the situation changed at the end of the 1990s, with the movement of deregulation, and the sector is now composed of four integrated operators<sup>10</sup>. The leader in France is still France Télécom-Orange, an international group with 180,000 employees (of whom 100,000 work in France) and turnover in France of nearly 25 billion euros in 2010. Second comes the Société Française de Radiotéléphonie (SFR), created in 1987 by the Compagnie Générale des Eaux, which presently employs about 10,000 people in France and had turnover of more than 12 billion euros in 2010. The first private operator to provide an alternative to France Télécom-Orange, the SFR Group<sup>11</sup> is considered the technological pioneer in mobile telephony and in deregulated fixed telephony. In 1994, a third operator obtained a mobile telephony licence: Bouygues Telecom, a subsidiary of the French group Bouygues, now the third biggest telecom operator in France with nearly 9,000 employees and turnover of about 5.5 billion euros for 2010. Bouygues Telecom entered the market with the aim of revolutionising the mobile telephony market through a strategy of differentiation, in particular with attractive prices aimed at students and low-income populations. However, that was without counting on the arrival of Free, a subsidiary of the French telecommunications group Iliad, which, after successfully penetrating the Internet access market in 1999, obtained the fourth, 3G mobile telephony license in 2009. This outsider aims to energise the flagging, oligopolistic market of French telecommunications by bringing innovation without any extra cost to the consumers.

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<sup>10</sup> In France, since 2005, the “general public” telecommunications offers have been “integrated”, meaning that the operators propose a package of services comprising fixed and mobile telephony, Internet and television all at the same time. And since 2006, Orange has been the unique France Télécom brand for Internet, television and mobile telephony in France.

<sup>11</sup> The SFR Group resulted from the merger, in spring 2005, of the Cegetel subsidiary of the SFR-Cegetel group and Neuf Telecom, which became Neuf Cegetel.

Bearing in mind the relative positioning of these four competitors, it will be useful to observe their past and planned future actions in the sphere of CSR. We shall do so by means of a comparative case study. Thus, through analysis of the official documents of the four operators and a series of face-to-face interviews conducted between November 2010 and January 2011, we show the extent to which these companies seek, each in its own way, to use CSR as an instrument of governance, in the management of employment relations and/or subcontracting relations.

## **2.1. CSR in French telecommunications operators**

The official documents and interviews illustrate the way each company communicates its particular approach to CSR. Broadly speaking, these communications must be distinguished from actual practices, if only because some firms are guilty of “greenwashing”<sup>12</sup>, expressing laudable views on the environment without seeking to make any real impact. In that case, why have we chosen to study the communications when we wish to identify the practices? Firstly, because the extent of those practices is defined by the firm itself, which determines, on a voluntary basis, the profile of its own specific CSR. So, even if it were possible to verify, point by point, the affirmations contained in the official documents, it would still be necessary to take the company’s communications as point of departure, because they are the only explicit statement of the company’s conception of CSR. Secondly, because some of the elements set out in the official documents and interviews have been verified (compliance with norms, certification by an external auditing firm, etc.): they are no longer of a uniquely declarative nature. Lastly and above all because the role played by CSR in the domain of corporate governance – the dimension addressed in this article – does not have the sort of positive impact on the firm’s image that an environmental action, for example, might have. It could, on the contrary, be damaging, for example when the firm records, in the official documents relating to CSR, that it is the sole owner of certain assets or that its employees do not have the right to receive gifts, or when it turns out that some of its

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<sup>12</sup> This term was defined by Greenpeace as “the act of deceiving consumers about the environmental practices of a company or the environmental benefits of a product or service.” The concept of greenwashing could also be extended to include social practices (Bazillier and Vaudier, 2009).

subcontractors' practices are reprehensible<sup>13</sup>. As this instrumental dimension of CSR is not an element to be exploited solely on the level of communication - far from it -, its presence in the official reports testifies to veritable concerns of the firm in terms of corporate governance. It is therefore on this dimension that we shall focus in our analysis of the interviews<sup>14</sup> and official documents<sup>15</sup>, based on the hypothesis that they provide a good indication of the practices of the telecom operators studied.

### 2.1.1 France Télécom-Orange

If telecom operators are frequently criticised for their behaviour towards consumers (high prices, difficulty in changing from one operator to another, lack of transparency in their supply, etc.), the historic operator suffers more specifically from a deplorable image due to the wave of suicides reported in the media since 2009. *“The social crisis that developed in 2009 at France Télécom-Orange was the result of a total loss of trust among the employees”*, explained Marc Fossier, executive manager of CSR at France Télécom-Orange. In a situation where the Human Resources Department is mistrusted, the social debate is now followed by teams from CSR Management, specially created in 2009. A vast survey of stress<sup>16</sup> has been launched and CSR Management has drawn up a plan of action to improve working conditions in the group, with the emphasis on the development of skills, the management of stress at work, professional gender equality and the strengthening of social dialogue (see *Responsabilité sociale des entreprises, Rapport détaillé, France Télécom 2009*: 32-33). In particular, the group undertakes to “recognise and accompany its employees by attaching primary importance to the human dimension and notably by empowering employees” (ibid. 13). Along the same lines, a *New Social Contract*, with a budget of 900 million euros, was adopted in September 2010 for all the group's employees in France. It “expresses our conviction that social performance and economic performance are inseparable,

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<sup>13</sup> Leading a totally disintegrated firm like Apple, for example, to guard against this risk by publishing, each year, the failures of its own network in terms of child labour, excessive working hours, etc. (see *Apple Supplier Responsibility 2011 Report*, <http://www.apple.com/supplierresponsibility/>).

<sup>14</sup> We were received on 30 November 2010 by Laurent Guidat, head of Sustainable Development Projects at Bouygues Telecom (Issy-les-Moulineaux, Hauts-de-Seine), by Valérie Prat, manager of the CSR Coordination Department at SFR (La Défense-Paris) and on 20 January 2011 by Marc Fossier, executive manager of CSR at France Télécom-Orange (Paris, 15<sup>ème</sup>).

<sup>15</sup> For reasons of clarity, extracts from interviews are printed in italics and inverted commas, while those drawn from official documents are only in inverted commas. We have underlined the most significant quotations. All quotations have been translated from the French.

<sup>16</sup> All 102,000 French employees were questioned by means of a questionnaire (response rate: 80%) by the independent consulting firm Technologia, which then conducted about 1000 individual interviews to produce a more detailed diagnosis. This aspect of CSR was verified by Deloitte, the auditor of France Télécom. See *Responsabilité sociale des entreprises, Rapport détaillé, France Télécom 2009*, p. 24.



at the service of the customers and for the benefit of everyone<sup>17</sup>. In particular, monitoring of the social performance of the company, with an impact on the variable pay of the senior executives<sup>18</sup>, has just been introduced. In this way, France Télécom-Orange shows a desire to make CSR a real factor of competitiveness, rather than a simple operation of communication. This strategy is even deployed in the structures of governance, as Marc Fossier pointed out: “*The Board of Administration has even decided to adapt its organisation and to transform the Committee of selection, pay and governance into a Committee of governance and corporate social responsibility*” and “*the group’s CSR organisation has been strengthened by the nomination of CSR sponsors at the highest levels of each entity (CEO or vice-CEO) to give greater credibility to actions involving CSR*”. In addition, this strategy complies with prevailing laws and regulations in the realm of corporate governance, including the American Sarbanes-Oxley Law and Financial Security Law, the principles of which are the security of information, personal health and safety and environmental protection.

The base of CSR at France Télécom-Orange is laid down in the group’s *Charter of deontology*, which “serves as a guide to professional conduct for the whole group. [...] Blatant infringement of these values and principles, contrary to the interests of the group, may incur disciplinary action. The nature and severity of disciplinary action is specified in the internal regulations governing each entity” (*Charte de déontologie du groupe France Télécom*: 13). The charter recalls that all France Télécom-Orange employees must ensure “respect of the principles of loyalty, integrity and impartiality in [their] relations with customers and suppliers”, refrain from “soliciting gifts or advantages or accepting gifts of significant value”, see to the “protection and respect of the intellectual property and all the projects and know-how of any nature in the group”, see to “the appropriate use of the group’s resources and the conservation of its assets” and if they have access, in a professional capacity or by chance, to confidential information, they must take “every useful precaution to preserve that confidentiality”, including after they leave the group (p. 11).

Furthermore, the *Document de référence France Télécom 2009* (annual financial report), which addresses the various operational risks that might affect the activity also stresses the group’s concern to “make its CSR a priority” (p. 31). “The social – or societal – responsibility of the company must become an intrinsic and omnipresent component” (p. 32).

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<sup>17</sup> France Télécom-Orange press release, 21 September 2010.

<sup>18</sup> Evaluation of the social performance is based partly on social indicators drawn from the accounts and partly from an anonymous survey of the group’s employees. It accounts for about 8% of the variable pay of the 800 senior executives of France Télécom-Orange, which itself constitutes between 30 and 50% of their total pay (figures given by Marc Fossier).

The analysis, in terms of risks, points in particular to the risks related to human resources following the wave of suicides in 2009 and those concerning the subcontractors. As regards the latter, France Télécom-Orange introduced its own supplier screening tool (QREDIC®) in 2004. This includes a criterion to evaluate the respect of commitments in terms of business ethics, the environment and societal responsibility. The measurements made are used for the selection of suppliers and/or to implement a plan of improvement, established jointly by the supplier concerned and France Télécom. Since 2009, the group also commissions social audits in Asia, based on the international standard SA 8000<sup>19</sup> (an audit in China in 2009 certified by Deloitte) and cooperates with Deutsche Telekom and Telecom Italia to pool the CSR audits of Asian suppliers (see *Responsabilité sociale des entreprises, Rapport détaillé, France Télécom 2009*: 48-49). Lastly, through the FFT (Fédération Française des Télécommunications) agreement of July 2010, France Télécom-Orange shares with SFR and Bouygues Telecom the tool EcoVadis<sup>20</sup>, developed by the company of the same name, in the form of an on-line platform of evaluation of the CSR performance of subcontractors.

“*The primary objective of CSR in the France Télécom-Orange group is the creation of value for all concerned: shareholders, employers, customers, suppliers, civil society*”, affirms Marc Fossier, in substance. However, there may be trade-off problems between the different sub-objectives, even within the company itself: this is the case, for example, with the two-year phone replacement programme, which is a winning strategy from the commercial point of view (customer loyalty) but not from an environmental perspective (many mobile phones in good condition are then left unused, in the bottom of drawers) or with the raising of customer exit barriers, a strategy that can be justified commercially even while the CSR management points its dangers (long-term inefficiency, or the propagation of a negative image in the customer’s circle of influence). In this respect, France Télécom-Orange has adopted the principle of materiality, which consists in making trade-offs between the different interests of the stakeholders and organising the CSR priorities into a hierarchy<sup>21</sup>. One might reasonably

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<sup>19</sup> The SA 8000 (Social Accountability 8000 Standard) was developed by the NGO Social Accountability International (SAI).

<sup>20</sup> EcoVadis is an external tool for the evaluation of the CSR performance of subcontractors based on a very precise questionnaire, since it processes suppliers in terms of purchasing categories (more than 150 categories are covered). The advantage of this tool is that it is pooled and available on-line (accessible with a log-in and password). Each department can therefore complete its own section of the questionnaire, resulting in high response rates.

<sup>21</sup> Based on the three principles of the norm AA1000APS (in accordance with the Grenelle 2 law) published in 2008 by the non-profit network AccountAbility, a CSR standard also used as a basis for evaluation by the external auditors. These three principles are *inclusivity*, which consists in identifying the expectations of the relevant stakeholders to determine the issues of CSR, *materiality*, which consists in trading off between the expectations and prioritising the risks in order to select the most significant CSR issues and *responsiveness*,

expect this principle to be favourable to the strengthening of an instrumental CSR at the service of a collective alignment of the stakeholders' interests on those of the company.

### 2.1.2. SFR

Historically, SFR's approach to CSR developed primarily at the end of the 1990s around the issue of the installation of cell phone towers and their impact on health and the environment. In this respect, the aim, according to Valérie Prat, was to define a guide to relations between the Association Française des Opérateurs Mobiles (French Mobile Operators Association - AFOM) and the Association des Maires de France (Association of French Mayors - AMF). Initially perceived as a constraint, this issue was quickly turned into a strategic opportunity: CSR would improve the group's performance<sup>22</sup>. Valérie Prat summed up this change in rationale as follows: "*Now, the idea is to do CSR to make a profit in a mature company*". Thus, for example, the dematerialization of energy-hungry data centres is also a way of reducing costs, and a CSR-oriented commercial strategy attracts<sup>23</sup> and/or strengthens the loyalty<sup>24</sup> of customers and allows to forestall a certain number of risks (involving reputation, purchasing, etc.). In other words, "*CSR must be taken into account in every one of the company's decisions*". That is, notably, the reason why the group set up a transversal organisation in 2008 dedicated to CSR, the members of which are attached to the highest echelons of each department, to improve the coordination of environmental and social actions, some of which had already been in progress for ten years or so, but in an isolated manner and with a "health and environment" orientation. At the same time, CSR serves as a tool to regulate the power relations within the group. More precisely, according to Valérie Prat, "*CSR must be put into the ADN of every employee*<sup>25</sup>, because it is a powerful lever for adhesion; there is no problem in motivating employees on these issues. This gives added

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which gives rise to the drafting of action plans that are reviewed each year (see *Responsabilité sociale des entreprises, Rapport détaillé, France Télécom 2009*, pp. 12-13).

<sup>22</sup> In 2003, for example, SFR was the first operator to introduce a voluntary recycling programme for old mobile phones, aiming to improve economic and ecological performance.

<sup>23</sup> "*At equal quality and price, customers prefer to buy from the company that does the most CSR. This preference for the most socially responsible brand is the second criterion of choice after value for money*", states Valérie Prat.

<sup>24</sup> For example, the "*éco-avantage*" option (choosing to keep one's old phone when the contract gives one the right to replace it, and benefiting from a reduction in the monthly bill instead) helps to reduce the consumption of cell phones and prolongs their useful life.

<sup>25</sup> This can be achieved through a number of initiatives such as the funding by SFR of citizen action days, solidarity leave or raising the awareness of employees about the management of paper and its recycling.

*meaning to work; it increases the pride of belonging. It is a real in-house strategy relayed by strong communication”.*

If communication on CSR is strong within the group, it is also strong towards the outside world. The group’s line of conduct is set out in three official documents: chief among these is the *Code d’éthique et d’engagements* (“code of ethics and commitments”), the main elements of which are also presented in the *Cahier Développement Durable 2009* (“2009 sustainable development report”) and the *Rapport d’activité et de développement durable 2009* (“2009 activity and sustainable development report”). Three of the seven guiding principles of the *Code d’éthique et d’engagement* actually consist in reaffirming the interest of the company and defining the limits of its property rights. The first of these three principles draws the profile of a corporate governance based on the primacy of collective interest; it consists in “avoiding situations of personal conflict of interest, which would or might be against the interests of the company”. The two other guiding principles concern the security of information and human resources of the company, since they involve “protecting information concerning the company, its customers, projects, offers and products and managing this confidentiality in accordance with internal company procedures” and “protecting the goods and resources of the company” (pp. 2-3). These principles lead to a series of underlying “objectives”, themselves associated with “SFR commitments”, aiming notably to “remind all employees of the group that it is forbidden to access all protected, nominative information and data outside the strict frame of their professional mission” or to “raise the awareness of all employees and inform the principal managers of the SFR group about the formal ban on using privileged or confidential information to which they may have access, to carry out or enable, directly or through a third party, an operation forbidden by law on a regulated market or to act in such a way for their personal profit or that of a third party, or more generally for speculative purposes” (pp. 5-7). The security of the information and resources of the company must, by virtue of the first principle of the above-mentioned *Code*, benefit all the stakeholders, within a logic of collective governance. To this purpose, SFR undertakes to “encourage the development of professional skills through appropriate training programmes, reconciling the needs of the company and the personal prospects of the employees”, to “carry out an evaluation of skills and performances by means of professional assessments, at least once a year, taking care to put into perspective the potential career prospects of each employee”, to “inform employees of the career possibilities and opportunities within the SFR group by means of dedicated communication tools, emphasising in-house advancement

whenever possible” and, lastly, to “encourage managers to develop a good working atmosphere, notably through mutual respect, recognition of the right to make mistakes, promotion of team spirit and regular information of employees” (p. 6). The security of information and resources is also the purpose of a warning from the group about corrupt practices, banning “any payment or advantage of whatever nature, or any gift of more than symbolic value, given by a third party involved in business relations with the SFR group or given by an employee to a third party involved in business relations with the SFR group” (p. 9).

The same *Code* extends the concerns of the SFR group in the domain of CSR to its relations with suppliers. The objectives are to “select industrial and commercial partners capable of providing the necessary guarantees concerning their commitment, in each country where they operate, to respect the fundamental social rights defined, notably, by the International Labour Organisation” and to “see to the mutual respect of the principles of loyalty” (p. 8), conveyed in particular by SFR’s promise to “respect and ensure that our employees respect the rules relating to competition and subcontracting” and to “respect and ensure that our employees respect industrial, intellectual or artistic property rights”. The *Cahier Développement Durable 2009* adds a degree of evaluation to these commitments; it records the existence of “sustainable development evaluation of fifty suppliers and six purchasing categories” and of “the inclusion of a CSR paragraph in consultations” (p. 11). In this respect, like France Télécom-Orange, SFR is signatory to the FTT of July 2010, which pools the evaluation of CSR performances of the telecom operators’ subcontractors through a dedicated on-line platform developed by the company EcoVadis. As a result, “*SFR has received ISO 14001 certification for its environmental management*”, summarises Valérie Prat.

### **2.1.3. Bouygues Telecom**

The CSR concerns of Bouygues Telecom emerged towards the end of 2002, in a context where environmental problems were starting to be perceived as fundamental, leading to the creation of a centralised “Environment” structure, which was subsequently developed into a “Sustainable Development” department. In April 2003, Martin Bouygues, CEO of the Bouygues group, accelerated the process of commitment of subsidiaries to CSR through their adhesion to the UN’s Global Compact<sup>26</sup>.

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<sup>26</sup> Initiated at the World Economic Forum in January 2000, the United Nations Global Compact promotes ten universally accepted principles in the areas of the environment, human rights, labour and anti-corruption.

Led by the “Innovation Architecture Services” department, working in synergy with the functional and operational entities, CSR has rapidly become an instrument of work motivation for employees, supported by strong internal communication<sup>27</sup>. *“Today, CSR is an important element in the eyes of our employees, since more than 90% declare that they work in a responsible company and are proud of that fact. The level of stress, measured during the annual medical check-up, is low (little organised competition between employees, etc.)”*, affirms Laurent Guidat. The *Rapport Développement Durable 2009* (“2009 sustainable development report”), in which Bouygues Telecom explains its environmental, social and societal commitments (which are not dealt with in the activity report), confirms his statement: “95% of employees declare that they are proud to work here, and for 95% of them, Bouygues Telecom is a public-spirited company”. These results have improved since the 2006 survey. The company even obtained, for the third year running, the “Best Workplaces” label from the Great Place to Work institute, which evaluates employee satisfaction through a questionnaire sent to a random selection of them. Among the strong points of the company, “the fairness of treatment, whatever handicap one might have” (97% of positive responses), the “pride of belonging” (89%) and the question “Overall, I would say that it is really a company to work for”, which received 88% of positive responses. According to Laurent Guidat, on the Issy-les-Moulineaux site, these favourable working conditions are based on a set of measures to strengthen employee loyalty, ranging from personal services (laundry, child care allowance, etc.) to leisure activities (sports hall, sauna, the funding of relaxing workshops such as gastronomy, painting, etc.) proposed in a HQE-certified (High Environmental Quality) building<sup>28</sup>. They are also accompanied by formal and informal mechanisms of support to the employees: *“total training expenditure represents 6% of the company’s wage bill<sup>29</sup>, and this has reduced the mobility of workers between the different operators, which had been very high in the early 2000s. [...] Martin Bouygues manifests a clear desire to accompany his employees, to retain them and favour their advancement. So a very substantial supply of jobs exists, to provide employees with career opportunities”*. Other incentives have been

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<sup>27</sup> All Bouygues Telecom employees are informed of the objectives, actions and results of CSR via intranet (news threads, interviews, sustainable development pages, etc.), have an access to official documents and a “sustainable development week” organised each year. External communication on CSR is weaker, *“too limited,”* according to Laurent Guidat, *“whereas activism is strong”*.

<sup>28</sup> The environmental impact of the building is reduced in particular by a system of rainwater recycling for the toilets and gardens, solar panels for the heating and the two restaurants which recycle cooking oils to feed succulent plants.

<sup>29</sup> Article L. 951-1 of the Labour Code stipulates, since 1<sup>st</sup> January 2004, that companies with more than ten employees must dedicate a sum equal to no less than 1.6% of their annual wage bill to the financing of actions defined in article L. 950-1..

introduced, including profit-sharing (1½ months' wages, on average), a company-funded savings plan and an attractive works committee. If the security of human assets is a declared priority of Bouygues Télécom's CSR, it should be noted that, unlike its competitors, the security of data is not. It is only mentioned in the confidentiality clauses of employment contracts.

In 2004, to fully respect the principles of the UN's Global Compact, Bouygues Telecom had to convince its strategic suppliers (and therefore their own partners over the whole logistics chain) also to adopt them. This raised certain problems, particularly for small firms said to present "social risks" (such as certain suppliers of accessories manufactured in China) who needed to be accompanied in this transition. Initially, *"the idea was to make the social audit of these suppliers a "win-win" approach: this involved Bouygues Telecom financing part of the move to compliance of the suppliers, who could, in return, exploit the charter of ethics for competitive advantage"*. The results of the first audits were catastrophic, but the constructive attitude adopted by Bouygues Telecom subsequently proved to be effective: *"most of the factories have made progress, allowing us to avoid breaking off relations with the most important subcontractors"*. This same concern to monitor subcontractors led Bouygues Telecom to sign the FFT agreement in July 2010: Bouygues Telecom therefore shares, with France Télécom-Orange and SFR, the same EcoVadis tool for the CSR assessment of subcontractors.

#### **2.1.4. Free**

Free, like its parent company Iliad, does not communicate on CSR. Nor is this operator a signatory to the FFT agreement concerning the responsibility of its members in terms of the environment, solidarity, employment or the contribution of information and communication technologies to economic development through a set of missions including the drafting of a charter of commitments relating to sustainable development or the definition of a plan of concrete actions in this sphere. Let us simply note the existence of the Fondation Free, destined to finance projects on the digital divide and free software.

## **2.2. An identical instrument for regulating employment and subcontracting relations**

Close study of the official documents and interviews shows the importance of CSR in the governance of telecom operators (with the exception of the newcomer Free). In this area, France Télécom-Orange, SFR and Bouygues Telecom have all developed, to varying degrees,

practices of providing incentives, developing loyalty and enhancing the critical resources of their collaborators. More precisely, our study brings to light a strong desire to secure the specific human capital of employees and external partners, based on a rationale of *ex post* co-specialisation of critical resources. Firstly, this means strengthening the feeling among the team members (employees, industrial and commercial partners) of belonging to a clan and therefore of putting the collective interest above individual interests, through the implementation of formal incentive mechanisms (regular hierarchical evaluation of employees or monitoring of the social and environmental performance of industrial and commercial partners). Secondly, it involves the use of informal mechanisms of coordination with the aim of the long-term retention and development of the resources of the key partners of the company.

In the domain of formal practices, SFR undertakes, for example, to “carry out an evaluation of skills and performances by means of professional assessments, at least once a year, taking care to put into perspective the potential career prospects of each employee”. Furthermore, the three operators assess the CSR performance of their subcontractors with the tool EcoVadis, to which each one adds their own specific devices. These disciplinary tools have the same objectives as the employee incentive mechanisms: they are systems for monitoring the firm’s key partners, owners of critical resources, in order not only to ensure they do not have reprehensible practices (e.g. child labour), but also to better control the quality of the products supplied, even though there is no hierarchical link between the prime contractor firm and the subcontractor. At the same time, to ensure long-term value-creating relations, the operators set up specific training programmes to enhance the value of the specific human capital to which they have access. Thus, France Télécom-Orange has based its project to the year 2015 on its main strengths, including its “innovation capacity” and its “desire to give employees the best possible training”, and SFR wishes to “encourage the development of professional skills through well-adapted training programmes, reconciling the needs of the company with the personal prospects of our employees”. To build long-term relations and get the most out of the critical resources of the company, this same operator seeks to “inform employees of the career possibilities and opportunities within the SFR group by means of dedicated communication tools, emphasising in-house advancement whenever possible”.

As for informal practices, Valérie Prat of SFR describes “*the powerful lever for adhesion*” that CSR represents and Laurent Guidat of Bouygues Telecom highlights the



importance of CSR in the eyes of employees. As for the France Télécom-Orange Reference Document 2009, it makes CSR a priority as an “intrinsic and omnipresent component” to guarantee and enhance the value of labour relations within the group, based on a rationale of respect for the principles of loyalty, integrity and impartiality. SFR focuses on the development of a “good working atmosphere, notably through mutual respect, recognition of the right to make mistakes, promotion of team spirit [...]”, which is intended to efficiently co-specialise the human capital of the workers through reciprocal learning. The company applies the same principles of promoting long-term relations with its external partners, by ensuring “the mutual respect of principles of loyalty in all relations with industrial and commercial partners”. Bouygues Telecom promotes the intrinsic motivation of its employees, since 95% of them declare that they are proud to work there, and the same percentage considers Bouygues Telecom to be a public-spirited company. In sum, the innovative practices of labour organisation and the processes of collective participation involve the partners voluntarily in a dynamic of reorganisation of powers within the company. Ultimately, beyond the legal protection of data and goods and the explicit coordination of the human assets of the company, the governance of French telecom operators is exercised through the informal instruments of CSR and directed at all the fundamental stakeholders of the company.

What is striking here is the way that CSR is explicitly used for purposes of corporate governance, both in internal relations and in subcontracting relations, with the conviction that “social performance and economic performance are inseparable” (France Télécom-Orange) and that it is possible “*to do CSR to make a profit*” (V. Prat, SFR). Nevertheless, and contrary to the frequently expressed idea that all firms do the same thing in terms of CSR, because it is simply a matter of communication, our study shows that they differ on certain points. This is because as a tool of governance, CSR is adapted to address the specific problems of each firm. Between France Télécom-Orange, the historic operator with 180,000 employees, of whom 100,000 work in France (and two-thirds of whom are civil servants), having to deal with an unprecedented wave of suicides, and Bouygues Telecom, subsidiary of the Bouygues group, which only has 9,000 employees, with an average age of 33<sup>30</sup>, the problems of governance are clearly not the same. And the response to these problems also differs: France Télécom-Orange uses CSR to solve the social crisis that the human resources department failed to either foresee or deal with, while Bouygues Telecom motivates its employees by

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<sup>30</sup> See *Usine nouvelle*, 24 April 2008.

providing them with a wide variety of services that strengthen the idea of a young company for whom it is good to work.

Another remarkable finding is the relative similarity between these operators' treatment of intra- and inter-firm relations. This echoes a certain number of recent empirical works focusing on the operational approach to the governance of specific human capital-intensive firms. This is notably the case for the econometric study by Rajan and Wulf (2003), which, on a panel of more than 300 listed American companies in the industrial sector between 1986 and 1999, provides evidence of the similarities between the governance model of the "flattening firm" and that of inter-firm relations under the growing influence of specific human capital. More precisely, the transition from companies with important stocks of physical capital to firms intensive in specific human capital has influenced the horizontalization of forms of labour organisation and the evolution of corporate governance that brings into play more tools of an economic (i.e., formal) nature and of a relational (i.e., informal) nature. Along the same lines, Hoetker and Mellewigt (2004) show that the governance of alliances established among 83 German firms in the telecommunications industry in 2001 is based on a combination of contractual (i.e., formal) mechanisms (control, incentive) and relational (i.e., informal) mechanisms (information sharing, relations of trust and cooperation). In particular, the study demonstrates that the presence of human assets favours the establishment of relational practices of corporate governance *and* contractual mechanisms, if these assets are specific in nature, bearing in mind that the intensive application of contractual mechanisms significantly increases the probability that the relational mechanisms will be effective, and *vice versa*. Ultimately, it appears that the centrality of firm-specific human capital favours the combined use of formal and informal governance tools within the framework of the economic boundaries of the firm, along the same lines as the works of Poppo and Zenger (2002). Moreover, the results of the network of partners are also largely dependent on the implementation of innovative informal mechanisms, which belong at least partly in the domain of CSR.

## **Conclusion**

The "new firm", which is vertically disintegrated and intensive in specific human capital, combines a number of productive complementarities through the regulation of access to critical resources. This conception of the firm, of which the most extreme form is the modular organisation, calls for a rethinking of corporate governance, not only in terms of its mode of wealth distribution but also in terms of its capacity of wealth creation. The incentive

and control mechanisms of the shareholder model are insufficient to ensure the necessary investment in specific human assets and co-specialisation of suppliers of critical resources that are so vital to the efficient production of the final product.

Our theory is that companies use CSR to remedy the shortcomings of shareholder governance, and this is corroborated by the results of our study of the telecom operators sector. Analysis of the official documents and interviews shows that companies introduce formal and informal mechanisms based on partnership and considered as complementary rather than substitutable to the shareholder model of corporate governance. In this respect, CSR has two distinct purposes: firstly to guarantee the long-term viability of relations with the network of subcontractors, and secondly to strengthen the loyalty of employees, enhance their productive resources, and solve some of the problems related to the inalienable character of certain assets, primarily human, which nevertheless contribute to the long-term development of the company.

This symmetry between the treatment of inter-firm and intra-firm relations is striking, as are certain similarities that we have observed in the ways that the different operators use CSR. However, this should not lead us to neglect the differences, which support our hypothesis of the strategic use of CSR for purposes of governance. Between the historic operator, facing a disturbing series of work-related suicides and declaring its desire to “become the leading telecom operator in the field of CSR by 2012”, and Bouygues Telecom, whose eight-page *2009 Sustainable Development Report* highlights above all the satisfaction of its employees, the diversity of past histories and present strategies must also be taken into account.

Translated by Richard Crabtree

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