Vivendi : the "Warring Brothers"

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Introduction

Since the beginning of the 1990s, regrouping strategies adopted by media groups led to a greater concentration of ownership in the sector. This development can be explained by several factors. First, deregulation policies marked the end of natural monopolies and the shift for the networks exploitation and the telecommunications services supply. In the United States, the Telecommunications Act of 1996 has had a great impact on the structure of Media industries and has facilitated convergence of Media/telecommunications. Second, digitalization made possible the convergence of telecommunications and audio-visual technologies. The development of digital and interactive technologies had accelerated the erosion of the existing frontiers between Media industries. Third, the development of competition (satellites, cables, analogical and numerical terrestrial diffusion) was at the origin of the emergence of new actors (telecommunications operators, Internet services providers etc.). In this context, Media conglomerates focused on the effects of size (productivity and economies of scale) and on the priority of controlling distribution networks for content (convergence) to secure a strong position in a global economy through mainly cross-industry mergers and acquisitions and to a lesser extent thanks to several strategic alliances.

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In this paper, using a framework based on a social class theory and applied to the case of VU, we illustrate the limits of managerialist theories related to the question of control in the modern corporations.

In the first section, we explore the main theoretical determinants of media diversification strategies and the conditions of successful regrouping movements such as mergers & acquisitions and strategic alliances. For this purpose, we apply a resource-based analytical framework to an industry which value-chain has been totally reconfigured within the convergent context. This analysis is essential to understand why the world's largest media and entertainment conglomerates Vivendi Universal and AOL-Time Warner experienced very different fates despite the similarity between their diversification strategies based on the same idea of convergence.

In the remaining sections, we explain how the question of corporate control was more problematic in the case of Vivendi Universal. Since 2002, the group experienced continuous losses leading to a number of asset disposals and to the break up of the Media Empire conceived by its emblematic CEO Jean-Marie Messier who has been accused to be at the origin of the group financial problems. But, what was the actual role of Jean-Marie Messier in this affair?

Before answering this question, we expose in the second section the now known facts of the story to show the trail of events until the resignation of Messier and the resulting consequences.

In the third section, we introduce social class theory in order to understand the control issue in VU case. The analysis provides evidences that the disintegration of the group is the consequence of a control struggle involving many influent actors exploiting the kinship, interlocks and alliances. These findings would not be reached if we adopted a framework based on managerialist theories. The enormous strategic mistakes taken by JMM do not explain entirely the situation. On the contrary, today it goes exactly as described by this man few years ago. May be he was too visionary for his time? In all cases, many charges claimed by authorities and experts against

him seem to be exaggerated. He had probably handled accounting and financial information and tried to mask the disastrous consequences of his acquisitions policy which was too expensive for the group. But, we think that he was the scapegoat in this affair. If this was the case, the question would be for which reasons?

Actually, the presence of an influent shareholder family and a board of directors composed by the elite of the French capitalism should not be neglected in this case. Did Messier completely hide information from the members of his board of directors? Did they release him when they realized the actual situation of the group and the level of its indebtedness or for some other reasons? Who was the architect of the exit of Messier from Vivendi and of his replacement by Fortou? Was he in the board of directors of Vivendi Universal and what does he represent in the French business world dominated by a web of interlocking directorates? What was the role of the Raffarin government, the market authorities in France (AMF and previously the COB), the financial and populist journalists, Medias, bankers, notation agents and associations of shareholders in the sensational end of the age Messier? Who was Edgar Bronfman Junior and how the dream of building a Media Empire he shared with JMM had become a nightmare and a source of conflict within the Bronfman family and with VU board of directors? Finally, does Vivendi Universal illustrate the story of capitalists acting like *warring brothers*?

In a concluding section, based on the difficulty in defining the locus of control and the identity of those who hold it, we question managerialist theories which support the idea of the shift of control from capitalists to organization. Their instrumental status and their role in the system reification are thus established. Even agency theory, which is anti-managerialist, is accused for darkening social reality and for diverting attention from the actual problems and crucial aspects regarding control and social justice.

The development of large Media conglomerates Vivendi and Time Warner: the failure of a diversification strategy?

Since the beginning of the 1990s, the strategy adopted by media groups has led to a greater concentration of the sector in a context of transformation of media and communications markets. This concentration can be explained mainly by the deregulation with the end of the natural monopolies for the exploitation of the networks and the supply of the services of telecommunications, by the subsequent development of competition due to the emergence of new actors (telecommunications companies, Internet services providers), and finally by the convergence of information and communication technologies made possible by digitalization.

In this favorable context, there have been an increasing number of mergers and alliances (vertical and horizontal) mainly in the United States and in Europe. At the end of the 1990s, the market was dominated by Time Warner, Disney-ABC, Viacom-CBS, News Corp and Sony, very large integrated companies (but also diversified). Vivendi-Universal and AOL-Time Warner mergers in 2000 are the best examples of global multimedia strategies adopted in the new convergence context. These two operations of diversification have had a very great impact on the markets.

In the United States and in Europe, several large and modern companies called conglomerates appeared during the 1950-1980 period. This development relied on their adoption of a diversification strategy. The three basic motivations for diversification are growth, risk optimization and profitability. Diversification is driven by the possibility of developing synergies from operating in different product/service markets. Consequently, the benefits of diversification are very often associated with economies of scale (cost economies from increasing the scale of production for a single product) and/or of scope (cost economies from using a resource in several activities carried out in combination rather than running these activities independently). Economies of scope can arise basically from duplication elimination between activities by creating a single shared facility. It can be relevant especially for groups belonging to sectors characterized by high fixed costs. In the case of media

and telecommunications, the motivation for example for cable TV companies to propose telephone services and telecoms operators to offer cable TV can be explained by the huge costs of networks and billing systems that must be spread over the highest number of subscribers (Grant, 2005, p. 457). Economies of scope occur also when a company has built a great reputation around a specific product or service: it will be very interested in launching other products that can exploit the same brand equity. Thus, economies of scope depend on the specificity of resources and capabilities - key concepts in the resource-based view framework that has become an influential approach for analyzing corporate strategy – and their transferability across industry boundaries. The resources could be physical (machines, research laboratories) and financial but the concept is often associated with the idea of organizational competences, i.e. the routines, know-how and processes that are specific to the company. The intangible assets such as qualifications, degree of adaptability of personnel, patents, brands, and the company reputation are central. Sometimes, the lack of its specification leads to the recognition of an asset called "goodwill". As they are hard to access and imitate, they often constitute strategic and unique resources from which the company's competitive advantage stems. They form part of the "*fundamental competences*" (Hamel and Prahalad, 1990), "*competences that enable the organization to outperform its competitors or to offer a level of value that is clearly superior*" (Johnson and Scholes, 2001, p.178).

Both Vivendi and Time Warner have followed in the 1990s a diversification strategy but Vivendi failed and the radical reconfiguration of the group was an actual disaster. To understand the main reasons of this failure, we expose briefly how Vivendi developed its activities and the different steps of its geographical and business expansion[2]. Then, we compare it to the case of AOL Time Warner.

1.1. The main steps of Vivendi vertical integration

Vivendi has been built on the base of French water and waste utility activities (core business of the former CGE or Compagnie Générale des Eaux). In 1996, Jean-Marie Messier as Chairman of Vivendi accelerated the diversification in the communication field after the disposal of several non strategic assets. The group made significant

[2] The table describing principle events for Vivendi Universal will be presented in the second section with other emphasis.

investments in the mobile telephone (Cegetel SFR) and the new technologies in order to become one of the first suppliers of services and contents *via* Vizzavi the new internet portal.

The most spectacular transaction occurred in June 2000 when Vivendi made the acquisition of the Canadian Group Seagram, owner of Universal, and became the second media group behind Time Warner. Historically, Seagram was a drink producer and distributor which took interest in the cinema and the music field by purchasing Universal. This diversification somewhat surprising recalls the will of the manager and family owner, Edgar Bronfman, strongly interested in the entertainment industry.

Consequently, 28% of the historical activity of services to the communities of Vivendi (water, energy, transport) were yielded out of Stock Exchange under the name of Vivendi Environnement in July 2000, and communication activities and media (newspapers, edition, telephony, television) were run by Universal. On its side, Seagram sold for 9 billion euros its activities of spirits to its competitors Pernod-Ricard and Diageo.

The Vivendi Universal merger is a historical event: it is the first time that a French company buys an American studio and become at the same time the first world editor of music. The objective of this strategy is to carry out a completed vertical integration between "contents" thanks to Universal and Canal Plus (films, music, fictions, documentary, video games) and the different distribution means (television, Vizzavi portal, mobile phones etc). Vizzavi was the result of a historical agreement between Vivendi and the British telecommunication operator Vodafone (The biggest European mobile phone operator)[3] to exploit a servicing platform to Internet via mobile terminals, computers and television, whatever the means of transport of the services are (cable, mobile, copper wire, satellite).

[3] Vizzavi Portal led to the addition of nearly 14 million subscribers to the programs of Canal Plus in Europe, 8 million subscribers with mobile network SFR, the leading contents of Havas Interactive and Internet sites already developed by this entity and finally 48 million customers of Vodafone mobile networks. The base of customers reached around 70 million subscribers likely to consume the services which will be available thanks to the third mobile generation of telephony.

The project based on integration between the "contents" and the "access" has a clear objective, which is to develop between all VU divisions promising synergies. One could thus imagine that a movie produced by Universal Pictures could be promoted then programmed on Canal +, that music sold by Universal Music can be diffused on Internet *via* Vizzavi, even downloaded like telephone ringtones through SFR, and finally all these contents could be presented and/or adapted in newspapers, books and video games.

1.2. Diversification and performance: Vivendi Universal *versus* Time Warner?

VU was not the only group that adopted a diversification strategy in a convergence context. On the contrary, VU was a follower as in January 2000 its main rival competitor AOL had already announced the acquisition of Time Warner to form the first world group of multi-media communication. The next table (Table. 1) summarizes major events for the group Time Warner.

Table 1 - Time Warner integration timeline major events and milestones

Time Warner
1922: creation of Time Inc.
1923: creation of Warner Bros.
1969: purchase of Warner Bros by Steve Ross
1985: creation of the company Quantum Computer Services which will become AOL
1989: birth of Time Warner following the purchase by the group of press Time Inc of 60% of Warner Communications
1990: Time Inc Acquires the 40% remainders of Warner
1991: creation of Time Warner Entertainment (TWE) gathering cinema, TV and cable activities.
1991: Quantum Computer Services takes the name of AOL
1996: fusion of Time Warner Inc with Turner Broadcasting System (TBS).
1998: AOL acquires CompuServe.
1999: AOL purchases Netscape Communications Corporation
January 2000: repurchase of Time Warner by AOL. Steve Case and Gerald Levin are respectively president of AOL and of Time Warner.
December 5, 2001: Richard Parsons becomes director general of AOL Time Warner following the resignation of Gerald Levin.
2002: beginning of the reorganization of AOL Time Warner which is completed in 2003.
January 29, 2003: Ted Turner founder of CNN and 1st individual shareholder of the group with 3% of the capital resigns of the vice-presidency of the board of directors.
2003: AOL Time Warner changes denomination and its name into Time Warner.
January 2004: Time Warner Cable announces the creation of anew business links Time Warner Cable Voice Services
August 17, 2005: Carl Icahn meets Richard Parsons and militates for the sale of the cable activities.
October 31, 2005: Steve Case, cofounder of AOL gives up his mandate of administrator and resigns of the Board of directors

AOL Time Warner illustrates also a vertical integration case, combining rights to contents (press, audio-visual, cinema and music) and multiple networks of cable (Ted Turner) and Internet (AOL). This merger is a perfect example of the magic triangle of the economics of convergence (contents, distribution means, and subscribers) as shown in the following table (table. 2). It is the most important merger operation ever occurred on Wall Street. AOL Time Warner represented, at the moment of the consolidation, a stock exchange capitalization of $350 billion and a sales turnover in excess of $30 billion.

Table 2- AOL Time Warner merger

AOL	Time Warner
1. Internet service provider AOL (20 million subscribers) CompuServe (2,2 million subscribers) 2. Web subsidiary companies ICQ, AOL Urgent Messenger, Digital City, Netscape, AOL. COM, AOL Noise Fone, Interactive Spinner Network, AOL Services, CompuServe Interactive Service, AOL Studios, AOL International	1. Television CNN, Turner Broadcast Service, Warner Bros TV, Home Box Office, Turner Network Television, Turner Classic Movies, Network Cartoon. 2. Production Cinema (5700 movies): Warner Bros, Newline Cinema Television: Warner Bros (32000 episodes and 135000 animation movies). 3. Music Warner Music Group (1000 artists) 4. Press 33 magazines of which Time, Fortune, People, Life... 5. Edition Time Inc. 6. Cable (13 million subscribers)

Source: Le Goff J., Mouline A. (2003), p. 40.

Strategies adopted by VU and AOL Time Warner seem to be similar but the financial results were different. However, is it relevant to compare these two groups? Are their situations so different?

We can notice that the external factors which influenced their diversification strategies were the same as described in the introduction of this paper. The emergence of a new economy and new technologies, the shift from an industrial to a knowledge economy where software rather than hardware is the first source of value were the major factors for the two groups. They even suffered from the same macroeconomic events such as the dot-com bubble "bursting" which have had a very great impact on bad performance of all media groups.

However, we can notice a difference between the two groups' diversification strategies. In the case of Vivendi, it was an unrelated diversification, while, AOL Time

Warner adopted rather a related diversification, which was a consolidation between the old and the new media" (Chan et al., 2003, p. 142). Several empirical studies have shown that companies that diversify into businesses closely related to their core activities were significantly more profitable than those that pursued unrelated diversification. It is difficult in the case of Vivendi to identify which diversification created value for shareholders and in particular to evaluate the potential for sharing and transferring resources and capabilities within the diversified firm. Even in the case of AOL Time Warner, the synergies announced between AOL, the world leader of access to internet, and Time Warner, the first world communication group, were hardly given time to materialize. Only Warner Music made a success of this collaboration with AOL with the MusicNet consortium.

Another aspect of the comparison is related to the form of consolidation which raises the question of acquisition *versus* alliance strategy. Several authors insist that acquisitions and mergers used in diversification strategies are not best formulae for growth. The failure of the integrated model of Vivendi Universal and to a lesser extent of AOL Time Warner can be explained by the organizational forms: alliance could be a better choice in comparison with mergers & acquisitions. Epstein (2004) considers five drivers of success in Post-Merger Integration (PMI): coherent integration strategy, strong integration team, communication, speed in implementation and aligned measurements. According to this author, in the case of AOL Time-Warner, one of these key elements was missing; *Commitment to a successful PMI must be demonstrated through the structure, leadership, and composition of the integration team (...). The strength of the PMI leadership proved to be problematic in the AOL Time Warner merger, when it has been reported that executives from the two companies failed to communicate effectively with one another throughout the integration process* (Epstein, 2004, p. 177).

In the case of Vivendi, many cultural and political issues made such integration impossible to manage. But, the most problematic aspect, as we will describe in the next section, was the corporate control in the presence of many powerful antagonists. In the light of these findings, is it accurate to conclude about the failure of the convergence model? AOL Time Warner recorded bad financial results with a loss of

$100 billion in 2002 (27.3 billion debts). It was the largest loss ever posted by a company in the economic history of the United States. This net loss was related to the depreciation of assets which the group retired from its Internet activities (in one year, $100 billion of assets was depreciated). In December 2003, a historical operation occurred: the "old multi-media group" Time Warner purchases AOL and the group is recalled Time Warner. Even, if the reference to the new economy with AOL has disappeared, the convergence model continues to be relevant and is still promising for the future.

These findings challenge us and advocate for a deep analysis of the case of Vivendi Universal. In the following sections, we expose another side of the story and different facets to better understanding the case.

The Messier Empire: descent towards hell[4]

Before analyzing the case, we recall the most salient events which characterized the "Messier period" since the purchase of Seagram in June 2000 until the signature of the agreement between VU and General Electric in October 2003 and the creation of NBC Universal in May 2004. At the beginning of this period, the group carried out operations which transform its core business and bring it to the court of Media giants. The end of the critical period does not coincide with the resignation of Messier but with the disposal of the American assets that was coveted by several capitalists, considering their strategic importance. In Table 3, events are exposed until the end of 2006 as the relations between Vivendi and GE through NBC continue to fluctuate.

[4] This section is based on a critical reading of French, American and Canadian newspapers and magazines (several editions of Le Monde, The New York Times, Time Magazine, Los Angeles Times. We also used several case studies on VU such as Rebiere (2004).

Table 3- Vivendi integration timeline major events and milestones

Vivendi
1853: creation of the Compagnie générale des Eaux (CGE) in charge of the distribution of water in Paris. Since the beginning of the XX century, the company has diversified progressively in the services of cleanliness, transport, energy, real estate and communication
1983: the company takes part in the creation of Canal Plus, first premium pay TV channel in France.
1987: creation of the Société française de radiotéléphone (SFR)
1997: Jean-Marie Messier becomes chairman of CGE 1998: the group takes the name of Vivendi
2000: Agreement with Vodafone Airtouch to launch the Vizzavi Internet portal.
June 2000: Purchase of Seagram, Canadian group of drinks, and creation of the communication group Vivendi Universal (VU) number 2 behind AOL-Time Warner (the European Commission and the Canadian authorities accept fusion).
December 2001: Resignation of Edgar Bronfman Jr, vice-president of the group.
2002: Acquisition of the entertainment assets of USA Networks. These assets were merged with Universal Studios under the Vivendi Universal Entertainment (VUE) name. Assets disposals (publishing assets, Tele+, Canal + Technologies) and stakes reductions (Vinci, Vizzavi, EchoStar Communications, Vivendi Environnement).
July 2002: Resignation of Jean-Marie Messier and replacement of Jean-Marie Messier.
2003: participation increase (70%) in the French telephony operator "Groupe SFR-Cegetel."
October 2003: VU and General Electric (GE) announced the signing of a definitive agreement for the combination of the respective businesses of National Broadcasting Company (NBC) and VUE to form NBC Universal (NBCU).
May 2004: Completion of the former agreement between VU and GE. From an accounting standpoint, it resulted in the divestiture of 80% of VU's interest in VUE and a concurrent acquisition of a 20% interest in NBC, resulting in VU retaining a 20% voting interest and an 18.47% ownership interest in NBCU.
September 2004: sale of the studios Babelsberg.
November 2004: acquisition of a holding of 16% by VU in Morocco Telecom which leads to a total share of 51%.
March 2005: Acquisition of an independent console developer (Radical Entertainment)
October 2005: The company's subsidiary SFR acquired 3G mobile broadcast rights for the 2006 FIFA World Cup for the French territory
March 2006: Vivendi increased its stake in NBC Universal to 20% from 18.5%.
August 2006: Combination of the pay-television activities of Canal+ and TPS France
April 2006: The shareholders of VU approved the change of the company's name to "Vivendi"
May 2006: rumors about the possibility for Sebastian Holdings to launch a take over bid on Vivendi.
July 2006: Vivendi announces the disposal of its residual stake in Veolia Environnement share capital
September 2006: Vivendi joins the FTSE4Good Global (an international sustainable development stock market index).
October 2006: Vivendi filed a criminal complaint against Deutsche Telekom and Elektrim. It has filed also a Racketeer Influenced and Corrupt Organizations Act Complaint against T-Mobile
December 2006: Vivendi remains 20% shareholder in NBC Universal (and modifies terms of its agreements with GE Regarding Liquidity).

Source: Business Press, Vivendi and Time Warner annual reports, Datamonitor company and media industry profiles.

Since the creation of Vivendi Universal with a total of 100 billion euros stock exchange capitalization, two major events should be highlighted. First, the merger with Seagram is at the origin of the entry in stage of the Bronfman family which is considered as one of the most influential Jewish families in the world. Owing to skilled businessmen like Samuel Bronfman (1891-1971), Peter Bronfman (1928, 1996), Edward Bronfman (1928, 2005), Charles Bronfman (1931 -), Edgar Bronfman Sr. (1929-) and Edgar Bronfman Jr. (1956-), and with the support of a huge

philanthropic activity and networking, through the Samuel and Saidye Bronfman Family Foundation, one of Canada's major private granting foundations and through their role in multiple campaigns to compensate victims of the Holocaust and their heirs, notably in the case of the Swiss banks, the dynasty Bronfman becomes a diversified conglomerate present in more than 40 countries and in different businesses such as entertainment and Medias.
When created, 59% of the interests in Vivendi Universal go to the shareholders of Vivendi, 12% for those of Canal+ and 29% for those of Seagram. With 8% of stocks and eight seats in its board of directors, the Bronfman family became the dominant shareholder of the group VU.

The second event to be noticed is the meeting of two challengers animated by the same dream of building a world giant in Medias, namely; Edgar Bronfman Jr. and Jean-Marie Messier. After his secondary studies in New York, Edgar Bronfman Jr. goes to London to devote himself to a passion which will never leave him: the show biz. Endowed for the music, he writes songs and till today, whereas he deals with billions, he continues his efforts to produce spectacles, even in Broadway. But his first fascination is the cinema, to the point to lose the sense of business. When he was 26 years old, he produced his first film which was a failure in spite of the presence of Jack Nicholson in the casting. Edgar Jr. was a long time in cold with his family, essentially with his father Edgar Sr., because of his marriage with a black actress, Sherry Brewer. The family re-solders itself at the time of the kidnapping of Samuel in 1982, which had done the one of Medias. Since, Edgar Jr. manages the family fortune and could be considered as the architect who made rock the family spirit empire towards Medias. Following his advices, Seagram takes nearly 15 % of Time Warner in 1993 and two years later, Edgar Jr. convinces the clan to resell his 24% in the giant of chemistry Dupont to purchase Universal studios in 1995 from Matsushita Electric, constrained to forsake because of problems occurred between Japanese and American management. When he became CEO of the group Seagram, he noticed that Universal was too small and that his dream was even larger. In Paris, he met the man who he would like to be: Jean-Marie Messier. At that time, the dream of Jean-Marie Messier was the foundation of a company that "could be the world's preferred creator and provider of personalized information,

entertainment and services to consumers anywhere, at any time and across all distribution platforms and devices"[5]. In his press conference of October 13, 2000, Jean-Marie Messier, all radiant, declares that "the old Vivendi group died"[6] and thanks to the merger with Seagram, a French group enters the "forbidden city" of Hollywood[7].

Those events will weigh heavy on the future of Vivendi Universal. But, several other factors did nothing but complicated more the new configuration of the group.

First, since the merger with Seagram, VU management announced continuous bad financial performances; 13.6 billion euros losses in 2001 (in 2002, the losses reached 23.3 billion euros, basically because of the huge amount of depreciation recorded in the financial statements). The debts of the group reached a historical level (28.87 billion euros in 2001, without considering the contingent liabilities of the group). This was explained in part by the expensive acquisitions made by Messier (about 100 billion euros of assets) and by the insufficient sales revenues to cover the price of the new acquisitions[8].

Secondly, the bursting of the dot-com bubble shook the confidence of investors and the markets in the convergence strategy and in the opportunities it could create. The financial problems of its American competitor AOL Time Warner do nothing but sow more doubt about the relevance of the convergence model as exposed in the previous section. Messier had a very big challenge to prove the relevance of his vision, the coherence of his strategy and the quality of assets the group is purchasing.

Thirdly, rumors and short sales carried out at the end of June 2002 on Vivendi Universal stocks caused the vertiginous fall of the stock price[9]. On June 24, the CAC 40 plunged with 3.43%, finishing the day at 3669.24 points, its lowest level since

[5] Source: Time Magazine, July 5, 2002, "Person of the week: Jean-Marie Messier". See on http://www.time.com/time/
[6] Source : Le Monde, October 16, 2000 " Les cinq métiers du nouveau géant", on http://www.lemonde.fr/
[7] Source: L'express, June 22, 2000 " Vivendi Universal : Naissance d'un géant", on http://www.lexpress.fr/
[8] The Seagram wine and spirits business has been sold for 8.15 billion dollars.
[9] The stock lost 77% of its value only with the first 7 months course of 2002. Even after the resignation of Messier, Vivendi Universal stocks continue to fall to 11.61 euros on August 14, 2002, its lowest historical level.

September 21, 2001. This was due largely to the historical fall of VU stock which lost 23.31% during the day, with 18.75 euros and that of France Telecom. A day before the meeting of the board of directors on June 27, 2002, Messier was in a very bad position. That's why many specialists think that what happened was just orchestrated to push him to resign during this meeting[10]. Financial magazines and newspapers accentuated the wave of panic by propagating rumors.

Fourthly, besides the previous factors, we should highlight the determination of the board of directors to push Messier to resign as the unique exit scenario. They didn't seek for temporary financial solutions till the boost of cash flows from operations thanks to synergies from convergence strategy. The board had even obtained financial facilities from the group banks on June 28, three days before the resignation of Messier. Those negotiations are not difficult to be carried out as several banks, like Deutsche bank, Société Générale and BNP Paribas were too committed in Vivendi Universal and two directors of the group are honor presidents of two big French banks. But, it seems that all these arrangements were made only to one condition: The watchword was that Jean-Marie Messier had hidden the actual situation to the board and should resign[11].

JMM lost the support of his board since the meeting of March 6, 2002, when directors asked him to justify the colossal losses of 13.6 billion euros announced in 2001, ever reached by a French group in the past. But, the turning point was the pressure of the French Business Elite on several directors to reconsider seriously the demolition of the empire Messier built. Persuaded that the French group will never get the operational control of American assets, they would see them entrusted to American interests, while French preserving Vivendi Environment, in a word the old Générale des eaux[12].

[10] Source : Le Monde, June 26, 2002 " La Bourse de Paris au plus bas depuis Septembre 2001", on http://www.lemonde.fr/

[11] This should be analyzed in the light of the un-avowable objectives, something that will be clarified in the next section of the paper.

[12] Within sight of what occurred later on, we can say that this diagram was the spirit of the strategy of rescue of Jean-René Fourtou.

The next table (Table. 4) presents the composition of the board of directors of VU before the resignation of JMM[13].

Table 4- VU board of directors in 2001

Members	Positions
Jean-Marie Messier	CEO of VU
Edgar Bronfman Jr. (1)	CEO of VU Canada Inc
Pierre Lescure	CEO of Canal+ and Executive Officer of VU
Eric Licoys	Executive Officer of VU
Bernard Arnault	CEO of LVMH Moët Hennessy Louis Vuitton
Jean Louis Beffa	CEO of la Compagnie de Saint-Gobain
Edgar M Bronfman (1)	President of the Samuel Bronfman Foundation, Inc and of the World Jewish Congress
Richard H Brown (1)	President of the board of directors of Electronic Data Systems
Jean Marc Espalioux	CEO of Accor
Philippe Foriel-Destezet	Founder of Ecco
Jacques Friedman	CEO of UAP
Esther Koplowitz (1)	The first fortune of Spain
Marie-Josée Kravis (1)	Member of the US Secretary of Energy's Advisory Board
Henri Lachmann	CEO of Schneider Electric
Samuel Minzberg (1)	CEO of Claridge Inc.
Simon Murray (1)	Chairman of Simon Murray and Associates (BVI)
Serge Tchuruk	CEO of Alcatel
René Thomas	Honour President of BNP Paribas
Marc Viénot	Honour President of la Société Générale

(1) Foreign directors

To protect himself against any external threat, Messier adopted a rooting strategy. The size and the complexity reached by the group made it possible to Messier to preserve an asymmetry of information and to avoid any criticism of his management. Vivendi Universal became an actual black box.

First, he presented the bad financial performances as a logical consequence of the unfavorable economic situation, namely the bursting of the dot-com bubble and the attacks of September 11, 2001.

Secondly, he made Canal+ responsible for the bad financial performances of the group, pushing its CEO Pierre Lescure to resign on April 16, 2002. For that matter, the slingshot of Canal + employees and of trade-union representatives was a key moment for him as to weld the members of the board around him.

[13] This is the composition of the board of VU published in its 2001 annual report. Departures during 2002 throughout the crisis will be cited in the text.

Thirdly, when Jean-Marie Lepen president of the extremist conservative Front National party arrived to the second round for the presidential election in France, Messier used the political argument of the emergency to preserve the group concept and values. He opposed to the FN leader the opening philosophy of his group and convinced the members of the board that in these animated times; adding to ambient confusion was not responsible behavior.

Fourthly, he skillfully managed cultural differences of American and French directors. During the meeting of the board of directors in June, 27, 2002, while the stock price was declining, Bernard Arnault, the CEO of LVMH, one of the most faithful supports of JMM, had announced his resignation. Four other directors supporting until there Messier left in less than three months: Jean-Louis Beffa, René Thomas, Philippe Foriel-Destezet and Pierre Lescure. Benefiting from the isolation of Messier, American directors led an offensive against him by depositing a motion to revocate JMM and to advise Edgar Bronfman Jr. as his successor. Brandishing the French flag against the Bronfman family, Messier awaited this false step to re-solder provisionally the French directors, in the name of the French interests[14].

Fifthly, JMM tried to increase his interest in the group by purchasing stocks. During the autumn 2001, under the pretext of protecting the group against the risks of volatility on the stock exchange market after the attacks of September 11, 2001, and in spite of the criticisms made by the market authority body in France (COB)[15], JMM purchased 5.5% of VU stocks, for a total of 4.6 billions euros. This transaction protected JMM against his adversaries[16]. Then, to protect himself against any criticism, he neutralized the 2002 shareholders general assembly by imposing a 2% ceiling to vote.

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[14] See (Rebiere, 2004)

[15] As will be demonstrated later in the paper, the position of the COB is odd for its laxism especially that this question was reproached later to Jean-Marie Messier and to his chief financial officer Guillaume Hannezo, within the investigation carried out after by the AMF. See Decision of sanction of November 3, 2004 with regard to Jean-Marie Messier, Guillaume Hannezo and Vivendi Universal, on http://www.amf-france.org/

[16] The group succeeded in selling these stocks to the Deutsche Bank and Goldman Sachs with the price of 60 euros per stock. Source : Le Monde, July 2 2002 " Jean-Marie Messier: les six mois de chute", on http://www.lemonde.fr/

In spite of these tactics of rooting, JMM made numerous enemies along the way for multiple reasons.

First, he did not respect the promises held. To the high council of the audio-visual, he promised to keep financing the French cinema but he publicly declared that the French cultural exception do not exist any more. He committed to preserve the French interests in Vivendi Environnement, during the 2002 General Assembly. He even promised this to Jacques Chirac who clearly stated that Vivendi Environnement should remain French. In spite of multiple pressures exerted by the minister of Finances, Laurent Fabius, who declared publicly his concern, and by different political networks around André Santini (from UDF party and president of the trade union of water of Ile-de-France), Jean-Paul Delevoye (RPR and president of the association of the mayors of France), Jean-Marie Messier didn't hold his promises. Vivendi Universal continued selling its participation, to pass under the bar of 50% in its subsidiary[17]. When Messier tried to be received in the Elysée, Chirac declared that he was no longer one desirable person[18].

Secondly, Jean-Marie Messier made a mistake by spreading out his private life in Medias. He became the privileged subject in the French press and "people" magazines just like Sarkozy today. His presumed relation with the famous actress Sophie Marceau, her private A319 Airbus and his luxurious apartment in New York, were always prone articles of the magazines people.
He had been accused to be arrogant and social climber. In 2001, the revenues of Jean-Marie Messier were more than 5 million euros[19]. He imposed a calculation of his bonus on the basis of the growth of EBITDA and not of net income as the first is not affected by the weight of the group debts,[20] neither by the amortization of the goodwill.
When he moved to New York, he started giving multiple interviews, just like stars of the show biz, which was not conventional and well considered in France. The reportage of Paris Match on JMM in New York, entitled "ça tourne rond à Manhattan"

[17] VU sold 15.6% of the capital of Vivendi environnement on April 2002 and 12.7% on June 2002. At the end of the year, its participation in the collective services subsidiary was only of 20.4%.
[18] Source : Le Monde, July 2 2002 " Jean-Marie Messier: les six mois de chute", on http://www.lemonde.fr/
[19] He earns about 5123611 euros.
[20] Source: VU annual report of 2001, on http://www.amf-france.org/

in January 2002, showing him on in Central Park or in a kitchen with his American collaborators, was qualified by French business Elite as being worse taste[21]. When Messier acknowledged to have made mistakes by exposing his life to Medias, he said that when he was 20 years old, he was very shy. Claude Bébéar retorted that at 45 years old, it is not any more time to make his teenager crisis[22].

Thirdly, since the creation of VU, Messier wanted to give the group a world dimension. Henceforth, he declared English as the official language of the group. He advocated for the adoption of the American business culture and declared an outdated idea, the beloved "French cultural exception," which is at the basis of the grants accorded by the French government to domestic filmmakers and artists. Such declaration, coming from the CEO of both the French public water services company and one of the French cultural pride, the pay-TV company Canal +, can only chock[23].

Finally, Messier had become the enemy number one for the Bronfman family. After numerous front attacks against him in American newspapers, the family changed its strategy of by attacking all the French management of the group. In addition to the two million dollars of losses on the investment carried out in the group, the family declared that it is still suffering from the fantasy of the French management of VU[24] and their national interests alibi. The family asked a group of American lawyers to inform French directors of VU that they risk a class action against them, if they continue to play the status quo.

The strategy of the family was veiled. The family continued cooperating with Messier while preparing with his adversaries to drop him from his position. On May 29, 2002, after the meeting of the board of directors held in New York, a committee was created to supervise the group governance devices. It was co-chaired by Edgar Bronfman and Marc Viénot, one of the French directors co-opted by Messier. In the same time, Samuel Mintzberg, representative of one of the two branches of the Bronfman family was in contact with Claude Bébéar. For several months, with the

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[21] Source : Le Monde, July 2 2002 " Jean-Marie Messier: les six mois de chute", on http://www.lemonde.fr/
[22] Source : Le Monde, July 2 2002 " Jean-Marie Messier: les six mois de chute", on http://www.lemonde.fr/
[23] Source: Time Magazine, July 5, 2002, "Person of the week: Jean-Marie Messier", on http://www.time.com/time/
[24] Source: The New York Times on July 7, 2002, "Bronfman Dynasty confronts its future". The article appeared after the resignation of Messier. See on LexisNexis Database on http://www.lexisnexis.com

support of some of the French directors of the group, known to be members of the clan Bébéar, in particular Jean-Marc Espalioux (Accor) and Henri Lachmann (Shneider), Bébéar had carried out a serious campaign against JMM.

On June 27, the French directors met discreetly in the head office of Alcatel after being informed by Moody's of its intention to bring VU to the level of junk bonds, after a recent incident of treasury[25]. During this meeting, Marc Viénot and Jacques Friedman, who supported JMM hitherto, changed camp. Serge Tchuruk, the CEO of Alcatel was the last director supporting Messier.
Finally, directors asked Messier to announce his resignation from his functions of CEO. They informed Matignon that there was unanimity within the board to replace Messier by Jean-Rene Fourtou. The choice has been approved by the cabinet of Jean-Pierre Raffarin. Jean-Marie Messier resigned on Sunday June 30, 2002, in condition to have a gold parachute of 20 million dollars to refund a loan of 25 million dollars contracted to purchase stocks of the group[26]. Jean-Rene Fourtou, vice-president of the board of surveillance of Aventis and a close friend of Claude Bébéar, has been designated to manage the catastrophic situation of the group. He has the reputation to be the architect of the reorganization of Rhône-Poulenc in the Nineties and to be a "Man of experience who has his career behind him". To save the group, Claude Bébéar took the responsibility of the committee of finances and Henri Lachman, CEO of Schneider, of the strategy committee.

The putsch is completely orchestrated and the members of the "*Club Entreprises et Cités*" occupy hereafter the board of directors of the group. Next table (Table. 5) shows the composition of the board of directors of VU just after the arrival of its new CEO Jean-René Fourtou[27].

[25] This incident pushed the group to sell its participation in the Vinci group whereas it was guaranteed to refund an issue of bonds in 2006.
[26] See (Rebiere, 2004).
[27] This is the composition of the board of VU published in its 2002 annual report. It is mentioned that 8 co-optations were subjected to the ratification of the mixed General Assembly of the shareholders of April 29, 2003.

Table 5- Vivendi board of directors after the nomination of Jean-René Fourtou as CEO

Members	Positions
Jean-René Fourtou to replace Jean-Marie Messier	CEO of VU, born in the south west of France, Close friend of Bébar with whom he manages finance affairs of UDF Party, former member of *Entreprises et Cités Club*, graduate of Polytechnique (X)
Edgar Bronfman Jr (2) Edgard Bronfman (2)	
Claude Bébéar to replace Bernard Arnault	Born in the south west of France, Former CEO of AXA, Founder of Institut du mécénat de solidarité and of Institut Montaigne and *Club Entreprises et Cités* in 1983, graduate of Polytechnique (X).
Gérard Brémond to replace Jacques Friedmann	Founder and CEO of Pierre et Vacances group, former member of *Entreprises et Cités Club.*
Bertrand Collomb to replace Jean Marc Espalioux	Chairman of Lafarge and President of the Association Française des Entreprises Privées (AFEP), Former member of *Entreprises et Cités Club*, graduate of Polytechnique (X), Corps des Mines
Fernando Falcó y Fernández de Córdova (1) to replace Esther Koplowitz	Chairman of René Barbier wine group
Paul Fribourg (1) to replace Marc Viénot	CEO of ContiGroup Companies Inc., member of the Council on Foreign relations and member of the board of directors of Park East Synagogue
Dominuque Hoenn to replace Bernard Arnault (3)	CEO of BNP Paribas
Gerard Kleisterlee (1) to replace Philippe Foriel-Destezet	CEO of Royal Philips Electronics Group
Marie-Josée Kravis (1)	Member of the US Secretary of Energy's Advisory Board and Senior Fellow of the Council on Foreign Relations
Henri Lachmann	CEO of Schneider Electric, former member of *Entreprises et Cités Club*, close friend of Bébéar

(1) Foreign directors

(2) The participation of Edgar Bronfman and Edgar Bronfman Jr. to any committees and Board meeting was suspended in May 2003 after notification by Jean-René Fourtou to the company counsels that Mr. Edgar Bronfman Junior, Vice Chairman of the Board of VU has informed him of his intention to lead a consortium of potential purchasers of the American group assets. Fortou added that it was verified that Mr. Edgar Bronfman Junior does not possess any recent and substantial information concerning this contemplated transaction. By the way, certain provisions of the agreements between the Bronfman family and the Company as well as the employment agreement between Edgar Bronfman Junior and a subsidiary of the Company in the United States had been suspended[28].

(3) Dominique Hoenn resigned in 2003

Since his arrival, Fourtou concentrated his efforts on the enhancement of the group profitability and its financial ratios. This led to a reconfiguration of the group: disposals of non-strategic assets and maintain of only the high added-value businesses. In three years, Vivendi Universal yield 24.6 billion euros of assets, and

[28] Source: Vivendi Universal Press release, May 21, 2003, on http://www.amf-france.org/

invest nearly 24.1 billion euros in other businesses[29]. The group was centered on Medias and the telephone.

As a consequence of this strategy, the group reduced first its net financial debt (total degearing of the group rises to 19.7 billion euros). Then, it became a central actor in the sectors of Medias and telecommunications. In 2004, Vivendi Universal concludes an agreement transferring to NBC 80% of its interests in Vivendi Universal Entertainment for a total of 10.2 billion euros. VU reduced with 5.3 billion euros its financial debt and received 20% interests in NBC totaling a value of 4.9 billion euros[30].

VU signed this agreement after giving up several bids, in particular the 20 billion dollars offered by the American billionaire Marvin Davis to purchase the studios, the audio-visual activity, the parks of leisure, the music and the plays. Many other giants tried to get the control of the studios. Barry Diller tried to get profit from the tax dispute with VU, and carried out, with the billionaire John Mallone, negotiations in order to obtain partially or completely the participation of the French group in the studios[31].

The disposal of the American assets closed the Messier episode. The control of the studios was strategic for many actors in the Media world; which explains tensions between shareholders and managers, current and potential shareholders and between managers themselves.

Using managerialist theories, it is almost impossible to understand the issue and even to see it. But, if we look to the story from a social class theory perspective, we can highlight the features of the struggle between "capitalists" who were simply behaving like "warring brothers". In the case of Vivendi Universal, if appearances plead for a control of the group by its management, this is not actually true. At the beginning, Edgar Bronfman Jr. was plugged by the dream of building a Medias

[29] During the second semester of 2002, Vivendi Universal yielded for 6.7 billion euros of assets, including 6.7% of Vinci for 291 million euros, 50% of Vizzavi for 143 million euros, Houghton Mifflin for 1.5 billion euros, Vivendi Universal Publishing for 1.3 billion euros, 20.4% of Vivendi Environnement for 1.8 billion euros, 10.7% of Echostar for 1 billion euros and well others. In 2003, 3 billion euros of assets was yielded, mainly Canal + technologies for 191 million euros, the Italian chain telepiù for 831 million euros, Comareg for 135 million euros and fixed telephony in Hungary for 315 million euros.

[30] Source: VU annual report of 2002, 2003 and 2004, on http://www.amf-france.org/

[31] See (Rebiere, 2004).

empire and for that reason he totally approved the bulimic acquisition policy of J2M till his resignation on December 7, 2001. Jean-Marie Messier was accused to be responsible of the financial difficulties once the family discovered the mistake undertaken by its prodigious child Edagr Jr., and realized the consequences of the frenetic policy of acquisition of Messier on their fortune, finishing by selling its famous collection of art in the biddings. But the question is whether 8% of interests are sufficient to control a corporation or a group? How was determinant the role of Claude Bébéar? These questions raise the complexity of control in Vivendi Universal and challenge managerialist assumptions. In the next section, the social class theory is introduced to enlighten the control issue.

Messier, the "nouveau riche", The Bronfman family, the "old guard", Bébéar clan, "the established elite" or the story of the "warring brothers"

In this section, we explain how the fate of Vivendi Universal has been conditioned by the typical control situation in which it was involved, besides the strategic mistakes and challenges exposed in the first section.

Since the separation between ownership and management in the new large corporation, the question of control became problematic and ambiguous. Managerialist theories claim that the ownership of large corporations has become dispersed among unrelated owners who are no longer involved in decision-making authorities. This was at the origin of the separation between ownership and control[32], which shifts from capital to organization (Galbraith, 1989), from a ruling class, "*the bourgeois class*" system composed by founding families, to managerial and/or technocrat personnel, to bureaucrats forming a new class of functionaries of capital, to "*Organization men*" (Dahrendorf, 1972). This move has been considered by many researchers as the origin of the transformation indeed the elimination of the former

[32] In terms of means of production in corporations (Marx, 1969)

"capitalist class", in other words it promotes the apparition of a sort of capitalism without capitalists (Dahrendorf, 1972).

For Max Weber (1995), the separation of managerial function from ownership doesn't mean the separation of control from ownership. Marxists think that non-owning top managers could act like owning ones. Management, or functionaries propelled by the organization as a bureaucracy (In France, they come essentially from high engineering schools such as Ecole Polytechniques), does not form *a separate and a cohesive administrative stratum* with identifiable interests that could change the locus of power, as defended by Zeitlin (1974). On the contrary, it increased contradictions which finally resulted in devoting the control of the owners. Some of the top managers and owners, having apparently different interests, could in fact occupy *a common "class situation"* (Weber, 1995) and participate in different ways to its direction (Zeitlin, 1974).

If the true unit of class theory remains more the family than individuals as defended by Shumpeter (1972), classes are produced, structured and perpetuated thanks to different institutions. Freely intermarriage could be considered as the keystone for the production of dominant classes of wealthy families who are jointly liable to keep back in the last instance power of decision. For this purpose "*a variety of specific institutions from debutante balls to select social clubs, resorts and assorted watering places, as well as the "proper" schools, colleges (fraternities, sororities, and "living groups"), assure their commingling and psychological compatibility – and therefore, differential propensity to intermarry. Protection of the family's property (and "good name"), which injects a further note of caution in the selection of proper marriage partners, merely increases this "natural" social tendency* (Zeitlin, 1974; p. 1109). This process is also what will make the class perpetuated in more of its own structure. In fact, relationships within the class, between individuals, families, elites, associations, articulations and differentiations between segments of that class heightens its cohesiveness and its capacity for common action and thus maintains its existence and domination.

While Max Weber (1995) defines control of the corporation as "what allows to an individual or to an identifiable group of proprietary interests to realize their objectives

over time because of a given structure of ownership and of inter-corporate relationships, even in presence of rivals resistance", Berle and Means (1982) stated that control refers to the actual power through the selection of the board (or some of the directors) or through the dictation to the management of the corporate policy. Control refers to the ability of determining the corporate strategy. Zeitlin (1974) shows that in practice, Berle and Means and many other researchers who are in the same vein, have deviated from this definition in favor of a more operational one; Rather than demonstrating control through strategic facts, they assumed that *once a cohesive ownership interest having at least a minimum specified proportion of the stock...disappeares, the corporation slips imperceptibly and inevitably under "management control"* (Zeitlin, 1974; p. 1090; italic added).

Zeitlin (1974) shows that Berle and Means (1982) conclusions, about the 200 largest US companies, suffer from several weaknesses in particular because of the irrelevance of proprietary control index they used. The 20% cutoff point used by Berle and Means (1982) and replaced by a 10% required minimum for proprietary control in many other researches and authorities reports, on the assumption that stock is since more widely dispersed, remains very questionable. Actually, it prevents from discerning different modalities of corporate control that could really exist and which are not easy to categorize (Zeitlin, 1974; p. 1090).

For the case of Vivendi, it is impossible to establish the control of the Bronfman family only by this criterion. It is more likely possible to demonstrate it with the use of Burch (1972) criteria, for whom, two conditions have to be met: first 4% - 5% or more of the voting stock is held by some affluent individual, second, they should be on the board of directors of the company over an extended period of time. Even if the following table (Table 6.) presents evidences that are in concord with those conditions, our ambition is to identify the locus of control, by drawing up the constellation of relationships around Vivendi Universal that gives the Bronfman family power to interfere when deemed necessary, and thus the actual decision of its policies and objectives.

Our analysis of "struggles for control" will be "structural" rather than "behavioral", as we will examine if "structural conditions" exist and allow the exercise of power, in conformity with Zeitlin (1974; p. 1091).

Table 6- % of the voting stock held by the Bronfman family and its presence in Vivendi Universal Board of directors[33]

Year	% of the voting stock held by the Bronfman family	Name of the family members present on the board of directors	Other directors on the board holding at least 5% of the voting stock
2000	8,34	Edgar Bronfman Jr Edgar M Bronfman Charles R Bronfman 5 other directors were representatives of the family interests **Total of directors: 20**	No one
2001	5,59	Edgar Bronfman Jr Edgar M Bronfman **Total of directors: 19**	No one
2002	4,24 Liberty Media Inc of John Malone has 3,5% of Voting stocks	Edgar Bronfman Jr Edgar M Bronfman **Total of directors: 12**	No one
2003	0,67	- **Total of directors: 10**	No one
2004	0,47	- **Total of directors: 12**	No one

Table Comments: Under the terms of the Shareholder Governance Agreement concluded on June 19, 2000 and for an initial period of four years, the family will get three seats in the board of directors as long as it will hold more than 75% of its initial participation, of two seats as long as it will hold between 50% and 75% of its initial participation and of one seat if it will hold between 25% and 50% of its initial participation. Under this agreement, the Bronfman shareholders are considered to act in concert like the same shareholder (VU 2002 annual report)[34].

For the purpose of our analysis, the question of control within a corporation like Vivendi Universal should be considered regarding the pattern of holdings and their evolution, the relationships between VU and other corporations and institutions, the forms of personal union or interlocking between corporate directorates and between the officers and directors and principal shareholding families. In the case of VU, we can notice three major groups of actors: Besides the Bronfman family, a powerful management in the person of Jean-Marie Messier and several directors supporting him, and finally the remaining directors who are in the clan Bébéar. The web of kinship relations binding apparently unrelated individuals forming this board should be analyzed and would be determinant to find out the locus of control. Moreover, the

[33] Source: Vivendi Universal annual reports, on http://www.amf-france.org/
[34] Source: Vivendi Universal annual reports, on http://www.amf-france.org/

"family sphere of influence" in the case of Vivendi, through various connections and a complicated structure of charitable trusts and foundations and other "eleemosynary arrangements" (Zeitlin, 1974; p. 1098), should be examined as it could explain some interactions with the board of directors and with other institutions having played a major role in the case. A small proportion of the stock in the hands of such a family carries different implications and potential of control than when held by a single individual with no other major resources and institutions to buttress his position (Zeitlin, 1974; p. 1098-1099). In a word, the institutional and the class structure in which VU is situated should be explored in detail.

The story of the warring brothers is based on two assumptions. The first is that owners and top managers occupy *a common "class situation"* (Weber, 1995). Common economic conditions and common experiences of this group lead to their organized actions as described above. The second is that bourgeoisie constitutes a "band of warring brothers", according to Marx. They have the same general class interest; a "brotherly" interest in maintaining capitalism and the exploitation of the working class. But, they compete with each other to put each other outside the business to get the greater share of the surplus.
The question we should ask is about the logic underlying their competition. For that purpose, we use the work of Palmer and Barber (2001) and the grid of lecture they applied to analyze the propensity of top managers to pursue diversifying acquisitions in the 1960s in USA, to have a better understanding of what happened in Vivendi Universal during its critical period. It explains the relation between "corporate elites"; the management (JMM), the Bronfman family and the board of directors controlled remotely by Claude Bébéar. It answers the question whether VU was actually controlled by its management (as stated by managerialist theory) or from outside the company, by its major shareholder, the Bronfman family profiting from a paradoxical situation.

According to Palmer and Barber (2001), corporate elites are actors having interests that arise not only from their position in organizations in accordance with institutional prescriptions but also from "their position in a multidimensional social class structure with regard to the extent to which they own the means of production (Marx, 1969)

and to their social status into which they are born, the educational credentials that they attain, and the social network ties that they forge with other elites. In that case, corporate decisions could be motivated by the will to improve their wealth and status. As stated by Palmer and Barber (2001), "a corporate elite member's position in the class structure determines his or her interests and capacities with respect to different corporate strategies and structures, contingent on the historical context" (Palmer and Barber, 2001; p.89).

Corporate elite members are not all the same. They could be distinguished with respect to their social status at birth. Those who are born into high-status families are referred to as the "old guard", while those coming from families of more marginal status are called the "nouveau riche". They are generally "self-made men" and "challengers". They pursue diversifying acquisitions strategies in order to increase their wealth and status.

The social status is then preserved and accentuated as descendents of high-status families gain admission to exclusive schools, attend exclusive organizations, social clubs and boards of directors offering embeddedness in social networks. "Corporate elite members who belong to many clubs and boards are the' most prominent and powerful members of the business community, sometimes referred to as the "*inner group*" of the capitalist class" (Palmer and Barber, 2001; p. 90, italic added).
Interlocks created between companies are very important as they offer access to understand the company and a control over people who hold the decision-making authorities.

Palmer and Barber (2001) noticed that the propensity to engage in diversifying acquisitions in the 1960s depends on the identity of the manager commanding the company. If they are well-networked challengers, who were central in elite social networks but relatively marginal with respect to social status, they will pursue active corporate acquisitions strategies provided that they are isolated from the resistance of "established elites", and free from the constraint of "owning families", the "old guard". In fact, the "established elite" is inclined to defend the existing order. They discourage diversifying acquisitions perhaps because they think that their firms and

interests become targets of such transactions. "Owning families", "the old guard" is less likely to benefit from these acquisitions. Those who are represented in top management become less averse as they can obtain "greater and more valued status and network embeddedness benefits from acquisitions-induced corporation growth" (Palmer and Barber, 2001; p. 108).

Jean-Marie Messier, J2M or J7M (Jean-Marie Messier Moi Même Maître du Monde et du Multimédia), is the incarnation of the "challenger". He was very well-networked. But, Messier was born in a family of marginal status in Grenoble in 1956. His grand father was an administrative agent and the other was a car driver. After studying at the École Polytechnique (X) from 1976 to 1980 and then at the École nationale d'administration between 1980 and 1982, Messier entered to the court of lords. He held several interesting positions at the French Economy Ministry during the 1980s and in the investment bank Lazard Freres in 1989, before arriving to the utility company "Compagnie Générale des Eaux" in 1994. After the departure of Guy Dejouany, he became the CEO of the company renamed Vivendi. Messier succeeded in constituting a true network thanks to his professional experience. The person who had a key role in the merger between Vivendi, Canal+ and Seagram, besides Guillaume Hannezo and Catherine Gros, was Eric Licoys who accompanied Messier since when he was in Lazard bank.

In spite of his successful career, Jean-Marie Messier remain a "*nouveau riche*" because he is not born into high-status families, who are commonly referred to as "*old guard*". Thus, when he started to run up against the interests of the owning family, and because of his relatively marginal social status, he was given up by his board of directors especially when they became the direct target of the family attacks. The board of directors in the case of VU represents the other major group, the "*inner group*" of the capitalist class. They represent the French capitalism established elite.

In France, in spite of Viénot reports on corporate governance, recommending the nomination of independent directors in order to avoid that few large shareholders and banks dictate their law. Rather, the endogamy practices continue to exist as about thirty people, coming from the same high schools of the Republic, attend the same

influence networks and society circles and by the game of pluralities of mandates in boards of directors, they control the largest companies of the CAC 40, the heart of the French economy[35]. For a matter of fact, 8 among them were members of the board of directors of Vivendi Universal during our period of study. Thus, the invisible form of capitalist bonds still exists and the networks of influence and co-optation are built around three large banks, BNP (Jean Louis Beffa, Saint-Gobain, Claude Bébéar, Axa, ...), Société Généralé (Serge Tchuruk, Alcatel, Jean-Marie Messier, Vivendi Universal, Thierry Desmares, TotalFina-Elf, ...) and Crédit Lyonnais (Jean-Luc Lagardère, Lagardère, Martin Bouygues, Bouygues, ...).

Analyzing the list of VU directors in 2001, the board was composed by 19 directors. Among the 12 French directors, only one was not considered in the clan Messier; Henri Lachmann, the former CEO of Schneider Electric. Henri is a close friend of Bébéar and of Jacques Chirac. Born in Colmar on September 13, 1938, his father is German, graduated from HEC (High commercial studies), he likes Rugby just like his friend Bébéar.

Fourtou, the new CEO, the rescuer, is a close friend of Bébéar. Like Bébéar, he is son of teachers and is born in the French south-west. He shares with Bébéar a number of common passions, among them gastronomy, wine and rugby, they are bound by more than thirty years of friendship[36]. Under the direction of Fourtou, Rhône-Poulenc was privatized in 1993. Among stable shareholders of the chemist group, we can find essentially Axa, the insurance group founded by Claude Bébéar. Fourtou was imposed by Bébéar to succeed to Messier in spite the pressure made by the corps of finance inspectors - relayed by Michel Pébereau from BNP – to place Charles de Croisset, chairman of the CCF. The putsch in VU was orchestrated by simultaneously Claude Bébéar and Jérôme Monod, advisor of the president Jacques Chirac.

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[35] In 2001, they cumulated about 160 mandates of directors, among them, we can quote: Bernard Arnault (LVMH), Patricia Barbizet (Artémis), Claude Bébéar (Axa), Jean-Louis Beffa (Saint-Gobain), Daniel Bernard (Carrefour), Michel Bon (France Telecom), Bertrand Collomb (Lafarge), Thierry Desmarest (TotlaFinaElf), Michel François-Poncet (ex-Paribas), Jacques Friedman (ex-UAP), Henri Lachman (Schneider), Jean-Marie Messier (Vivendi Universal), Gerard Mestrallet (Suez), Lindsay Owen-Jones (L'Oréal), Michel Pébereau (BNP Paribas), Jean Peyrelevade (Crédit Lyonnais), Didier Pineau-Valencienne (ex-Schneider), Baudouin Prot (BNP Paribas), Bruno Roger (Lazard), Edouard de Rouyère (Air liquide), Ernest-Antoine Seilliere (Wendel Investissement, MEDEF), Serge Tchuruk (Alcatel), Marc Viénot (ex-Société Générale) and many others. Source : Le Monde, July 19 2002 " Ce petit cercle d'administrateurs", on http://www.lemonde.fr/.

[36] Source : Le Figaro Economique, July 2 2002 " Jean-René Fourtou : un profil de redresseur", on http://www.lefigaro.fr/

Claude Bébéar is used to intervene in almost all the major deals on the French market. That is why he is known to be the godfather of the French capitalism.

Lachman, Fortou and Bébéar have many friends in common; Serge Kampf (founder of Capgemini and large expert of Rugby), Michel Pébereau (BNP Paribas), Thierry Breton (former CEO of Thomson and France Télécom), Daniel Bernard (former CEO of Carrefour), Gérard Mestrallet (Suez), Martin Bouygues and many other influent personalities. They usually meet in the opera and the theatre. Every winter, these bitten amateurs of rugby, are taken along by Serge Kampf and Pierre Dauzier (ex-owner of Havas), they rent private jets in company of the former champion Jean-Pierre Rives, to enjoy the six nations championship, and, every six weeks, they dine together.

Lachman, Fortou and Bébéar are also the hard core of the "l'Institut Montaigne", a pioneer think tank created by Claude Bébéar in 2000, after declining in 1995, the post of minister of the Economy proposed by Alain Juppé. Financed by private funds, the "Institut Montaigne" group CEOs, public personalities, academics and representatives of the civil society working on the major issues to which France and Europe are confronted, mainly as regards public policies. This caste groups thirty CEOs who control about 50% of the French market index CAC 40.

Few years before, in 1983, Bébéar, Lachman and other CEOs (Serge Kampf, Bernard Dumon, Vincent Bolloré, Jean-Michel Cazes, Gérard Brémond) created an association "Entreprises et Cités" to affirm the role of companies in the city. "Entreprises et Cités" was actually a club[37] grouping about thirty CEOs known to be "Giscardiens", or pro "UDF". These godfathers were leading the French financial capitalism, cherishing and serving the ideology of the market. The UDF party (the Union pour la Démocratie Française) was founded in 1978 by and for Valery Giscard d'Estaing. It is a confederation of various parties from the center and the non Gaullist line. The political party is based on democrat and Christians values.

[37] The association does no longer exist today.

A real solidarity exists between the members of the group "Etnreprises et Cités". In September 2002, Fourtou CEO of VU sells the interests of the group in Canal Plus Technologies to Thomson Multimedia for only 190 million euros. Many analysts think that the price was underestimated especially that few months later, Thomson Multimedia dismantle and resell Canal Plus Technologies with 110 million euros gain. Exchange of gifts between Fortou and Breton, two members of the club "Entreprise et Cités", describe some analysts.

If we examine the board of VU after the resignation of Messier, we count among the 8 French directors, 5 who were members of "Entreprises et Cités".

Based on this analysis, we can understand better what really happened in VU besides the strategic mistakes undertaken by its management. VU in the messier period was the theatre of conflicts between corporate elite members. Messier, the well-networked challenger, the megalomaniac who wanted to control the American studios, has been ejected by a powerful owning family "the old guard", which interests and control over the group were clearly threatened by its management. The interests of the family coincide with those of the French government and the established elite who is in charge of the good functioning and the protection of the French capitalism. Messier was not very French in his management and he was dangerous because to be just like a high-flying American CEO, he was ready to transform the established order. The threat of class action and its consequences on their reputation pushed Bébéar with the support of his clan, to orchestrate the exit of Messier during a weekend. One can wonder on the veracity and the reasons behind investigations carried out against Messier, in particular the one by the AMF (the equivalent of the SEC in France). It seems more instrumental as it served to fulfill a predetermined objective, especially when we consider the way how it ended. In the case of Vivendi Universal, banks played a dominating role as the group was presented like if it was going to live a financial debacle. However, the group was neither of near nor by far in a crisis of solvency, according to Michel Pébereau, president of BNP Paribas[38]. As mentioned by Zeitlin (1974), the relationships between the large banks and corporations are essential to the understanding of the

[38] See (Rebiere, 2004).

locus of corporate control. Corporations, banks and insurance companies are linked and form an actual coalescence of financial and industrial capital. Large banks and insurance companies frequently are themselves principal shareholders in the large corporations. The very same individuals and families may be principal shareowners in large banks and large corporations... A circle of persons who, thanks to their own possession of capital or as representatives of concentrated power over other people's capital (bank directors), sit upon the governing boards of a large number of corporations. Thus, there arises a kind of personal union, on the one hand, between the different corporations themselves, and, on the other, between the latter and the banks, a circumstance which must be of the greatest importance for the policy of these institutions since a community of interests has arisen among.

The question of control: The status of managerialist theories and the limits of the agency theory

The story of Vivendi makes clear that the question of control is not an attribute and is relative (Zeitlin, 1974; 1090). The collusion of interests on the background of contradictions, inherent to the institutional apparatus functioning, constitutes the leverage for devoting the control of the owning wealthy family. The "nouveau riche" status of Jean Marie Messier given up by his board of directors, representing "the established elite", was central in the displacement of the locus of control to the Bronfman's or "the old guard", in compliance with the conclusions of Palmer and Barber (2001). Even if all protagonists share the same capitalist class interests by exploiting increasingly the labor of others, each one compete with others to reduce to a greater extent the number of those who exploit the social wealth (Marx, 1969).

These conclusions corroborate the limits of managerial theory that claims the separation of ownership and control in the large corporations since the work of Berle and Means (1982) [39]. Not only, have managerial theorists conclude that top officers become capable of nominating an obedient board of directors, which turns into the

[39] Zeitlin (1974) presents a synthesis of researches confirming the conclusions of Berle and Means (1982) since its appearance in United States in 1932 and others questioning their empirical findings.

passive instrument of the management (Galbraith, 1989), they are also capable of perpetuating themselves in office and by the way of abrogating the control of proprietary interests, thus power no longer belongs to stockholders. This move has been considered by many researchers as the origin of the transformation indeed the elimination of the former "capitalist class".
The story of Vivendi confirms that the demise of capitalist classes is somewhat premature not only in the United States as suspected by Zeitlin (1974) but even outside.

Based on these findings, we should question the managerial discourse and its role in the process of legitimization of the new forms of capitalist accumulation since the emergence of large corporations. The answer is related to what is named by (Boltanski and Chiapello, 1999) as "the spirit of capitalism". The spirit of capitalism is "*the whole of beliefs associated with the capitalist order which contribute to justify it and to support it*" (Boltanski and Chiapello, 1999; p.46). The spirit of capitalism is therefore the justifying apparatus on which capitalism is based. The spirit is subtle and elusive. It changes according to the concrete forms taken by the accumulation of capital at a given time. Besides the central justifying pillars which are general and stable in the time (capitalism is the only system conferring material progress, efficiency and the exercise of political freedoms), capitalism must give justifications every time it is questioned and a requirement of justice is raised. Thus, the spirit must give tempting and exciting prospects for life, while promising moral considerations. For the purpose, the spirit integrates to capitalism what has been raised by its detractors, their critic. Instead of restoring the social justice requirement, the spirit "scrambles the cards" and makes the system undecipherable and illegible, by transforming the modes of surplus extraction (Boltanski and Chiapello, 1999).

According to Boltanski and Chiapello (1999), the "Organization" is the second form of the spirit of capitalism full developed between the 1930 and 1960, whereas the first was related to the figure of the Bourgeois and the Bourgeoisie values, in phase with the first forms of capitalism; the family. After the strong criticism of the Bourgeoisie hypocrisy, which marks the end of the first spirit of capitalism, based on the emergence of the large corporations, capitalism would liked to appear fairer and

bearer of new perspectives for all people some is their class or origin. As the new form for wealth accumulation is the "organization", and as the imperative was to attenuate class struggles, the new spirit presented capitalism without capitalists; shareholding is diffused and anonymous and the new corporation is totally controlled from inside. The new spirit of capitalism is organized around the key figure of the manager and the high qualified executive. It presents the "Organization" as the background offering to the young graduates (engineers and managers) a secure work and exciting opportunities to be able to change the world. This is central to guarantee to capitalism the commitment of those agents, who will monitor employees (other agents) thanks to a battery of financial indicators and budgetary controls to make functional departments subordinated to financial decision-making preserving the interests of (capitalists) principals. To resolve the potential infinite regress of those agents (managers and high executives), they are trained indoctrinated, socially assimilated and economically incorporated to the capitalist class (Armstrong, 1991).

To summarize, the new capitalism of large corporations is presented to be animated by a spirit of social justice, of enthusiasm and of security thanks to the existence of those "Organizations". Executives and managers become the spearhead of the new capitalism and a recipient of the capitalist class. To conclude, we should notice that the relation between capitalism and its spirit is complex. It illustrates well the idea of contradiction inherent and intrinsically related to capitalism. The concept of spirit of capitalism is founded on this contradiction since it guarantees the mobilization of initiatives which the capitalism process cannot activate by itself, and capitalism is continuously tempted to destroy the spirit which serves it, since it can serve it only by obstructing it (Boltanski and Chiapello, 1999; p.678).

Finally, the analysis of VU and ours findings are impossible to make within the framework of the agency theory. Although it is an anti-managerialist theory, it lacks conceptual framework to analyze the issue of control within a corporation and the complexity of relationships between different antagonists. Definitely, it is necessary to investigate the interconnections between shareholders, executives, directors and other corporations to locate the control of a given corporation (Zeitlin, 1974). Moreover, the agency theory refers to the criticized work of Berle and Means (1982)

about the modern capitalism evolution. The conclusions of Berle and Means are dangerous as they had led to imagine that "sovereignty" over property has been extended to the whole society through shareholdings. In defending the appearance of corporation as the shift to capitalism without capital, managerialist theories negate while preserving the capitalist system and re-create it in the process of abolishing it. They are especially occulting how does the new organization allow to a fewer number of capitalists to exploit and to accumulate social wealth. The agency theory contributes to the system reification by displacing attention from these crucial aspects by studying a body of alleged social facts, a sort of *pseudofacts* or things that are *ill-established* or *erroneous* and that are not actually facts (Zeitlin, 1974; italic added). By focusing on explaining how principals do control agents thanks to contracts they should conclude with them, agency theory occults critical aspects of power structure which became nebulous, movable and flighty (Zeitlin, 1974). To locate the ruling class in this new configuration, we must be conscious that "beneficial owners" are not the apparent "*nominees*", the "*street names*", the "*straws*" or simply the public who hold blocks of corporate stocks. The actual beneficial owners remain and continue to be hidden (Zeitlin, 1974).

In obscuring social reality by propagating and advocating a pluralistic conception of society which is no more than a parable, the agency theory is an instrument of the system reification (Lowe and Tinker, 1977).

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