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Mr. Jean Lavigne, president of Motorola France, on how France can attract more foreign direct investment

Introduction and Interview by Michael Segalla

Executive Overview

Mr. Jean Lavigne, president of Motorola France, is an engineer who has spent his career in the high-tech field, holding a series of senior management positions with DEC and Schlumberger before joining Motorola. He is a bona fide member of France's business elite and has a keen understanding of America and its business environment. In the following interview, he makes the argument that: France is often misunderstood by foreign business managers, has excellent, if somewhat hidden, policies of government aid to foreign research and development investment in France, has policies that produce one of the highest quantities of engineers and technicians in Europe, and is aggressively expanding outside of its own internal markets because this is the natural path for French firms.

Jean Lavigne was appointed as Motorola France Country Manager in November 1994. He is also president and CEO of Motorola SA and Motorola Semiconductors SA. Jean Lavigne started his career as a research associate at MIT's Electrical Systems Laboratory. He joined Schlumberger in 1964 and enjoyed a successful 23-year international career in a succession of operational roles spanning R&D, quality control, manufacturing, and general management.

In 1987 he joined DEC in Europe, where he was responsible for interconnect technology. He quickly moved to the position of European Manufacturing Engineering and Technology Manager and became a member of the Corporate Technology Task Force in charge of driving worldwide process technology strategies and investments. Through pan-European partnerships and technology standards interests, Jean Lavigne also became a member of DEC's European Government Affairs team. Fluent in two languages, he is a board member of many of France's top companies and is regularly sought after by government ministries.

Jean Lavigne is a graduate engineer, with a major in mechanical engineering, from Ecole Nationale Superieure des Arts et Metiers in Paris. He then received a master of science degree in electrical engineering from the University of Virginia and an MBA from MIT's Sloan School of Management.

Introduction

France is one of only three countries offering the world regular satellite launch services. With its TGV, it is the acknowledged world leader in high-speed train systems. It offers regular supersonic air service to the rich or hurried. Its nationwide Minitel computer network had a near 100 percent penetration into French household years before the Internet made its debut. Its medical research labs were the first to isolate the AIDS virus. Many of its businesses are global leaders in their markets and are so attractive that over 40 percent of the shares listed on the CAC 40 (the French stock exchange) are owned by foreign investors. France is also the number one tourist destination in the world. The quality of life that France offers to it citizens and visitors routinely ranks among the best in the world. The British, Dutch, and Germans are flocking to the southern French countryside to purchase summer country homes. In brief, France offers an exceptionally attractive environment.

So why does French competitiveness in attracting new foreign direct investment trail behind that of other European countries? Why does France have the largest outward foreign direct investment in Europe? Why do up to 25 percent of France's best trained business students leave to work abroad? These questions have begun to preoccupy the thoughts of many of France's top business and government elite. In order to have an insider's look at the issue, we asked Mr. Jean Lavigne, President of Motorola France, to share his perspectives on the competitiveness of France in attracting the world's business.

Many academics, business people, and special interest groups argue that there are enormous pressures pushing for a convergence of economic and management policies in the global marketplace. Even governments are beginning to take notice of these pressures and are certain to act to maintain the competitiveness of their countries. Is competitiveness, in terms of being a good location for business, France's biggest external problem?

Let me react first to your opening statements about creating a body of global policies. I think this is a very American view of the world. I was educated in America, at the University of Virginia and MIT, and spent ten years in the States. One of my children is an American, and I am very fond of the United States. However, I do not think that a set of universal policies is really being implemented. There is actually a tremendous movement to do the opposite. People do not want to feel that their individual cultures are being threatened, so now there is a buildup of tremendous opposition to that position. I see that the managers I know in all sorts of companies want to be very French-specific.

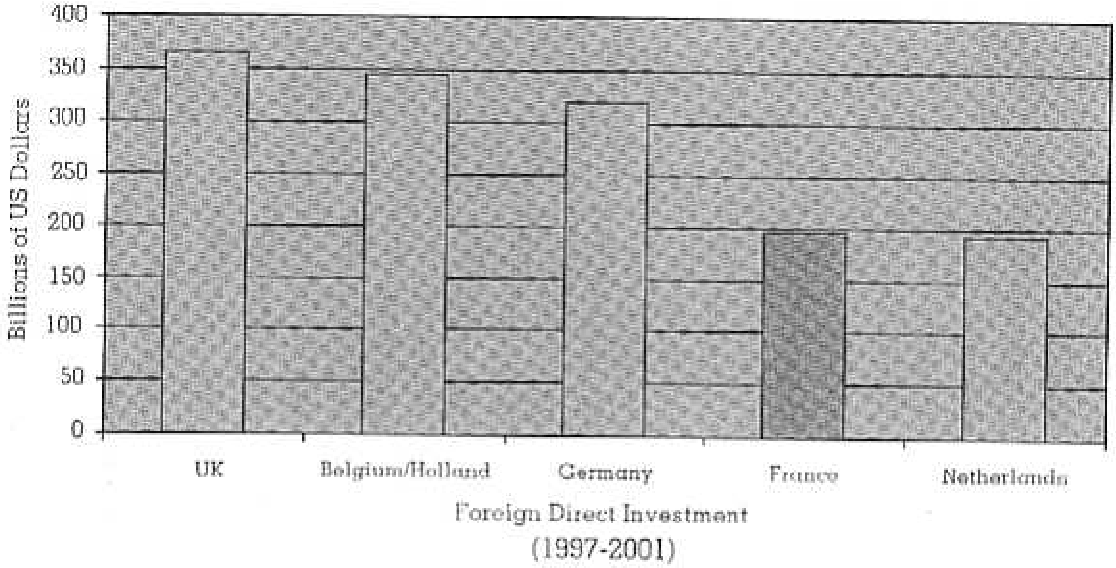
When you talk about France in the U.S. or about the U.S. in France, I think that there are a lot of misgivings and clichés. But let's go beyond the clichés. I think that the French people are very pro-American. The government and the media may be perceived as anti-American, which is just the opposite in Germany. That goes back to the Second World War. France and America have always been on the same side—forever. These things spill over into business and influence managers in these two countries. European managers value differences. We do not want to form the United States of Europe. We want to keep our cultures, and we even have regions that want to do that. Strangely enough, the flagship of pro-American culture in Europe, which could be the UK, is also the country that has several nations.

I think that the French people are very pro-American.

If you look at France through its press or even the British press, then you enter into a world where perception doesn't match reality. So when I meet managers from outside France, they usually come with the wrong ideas. Unless you have people who do understand the decision processes in the U.S. and the reality that is not perceived at first in France, it is extremely difficult to invest in this country because you are not talking about the same issues. Foreign companies have been very successful in France and have been here for decades, because once they are here and know how to run, they have pretty successful operations. The managers are extremely well-trained. France invests a lot in education, particularly for technicians, who receive superb training. The infrastructures have been functioning extremely well for decades. So there are lots of things which you do not see that make it successful. And then there are awful negative points which at first sight can stop you dead in your tracks, but there is always a way to negotiate around them if you have the skills.

So the perception is not the reality, although perception is reality. France is not a country where you work at the first level. The French are more sensitive to the first derivative than to the primary equation, to speak as an engineer or mathematician. So you must always go deeper into a plan or project.

Let's go past the stereotypes and look at numbers. According to accepted statistics, FDI into France trails far behind other European countries. Please look at this chart (Figure 1) of FDI investment from 1997 to 2001. At the same time, France is the EU leader in outward FDI, investing twice as much outside as the UK or Germany. It seems that companies that know France the best, French companies, are rejecting new investment in France in



Source: UNCTAD

FIGURE 1
Comparison of FDI into Selected European Countries.

favor of foreign locations where they can earn a better return on their money. How do you view this situation?

Yes that's correct. First I agree with those numbers; I have the same set. But let's put those numbers in perspective. France is a country of 60 million people, and with only 550,000 km^2 of land, that puts population density at only 107 hab/km, less than half that of Germany or the UK. And that's it! We no longer have the empire we used to have, any more than the British do. However, as I said earlier, French managers are extremely well-educated. They are well-traveled and have great ambitions. They, like the Dutch, whose economy is three times smaller, live in a limited internal market where the only way to grow their business is to go outside. I was speaking with Mr. Mestrallet[1] recently, and he confirms that there is not much choice. When you are the number one water company in the world, you have no choice. There is only so much water you can sell to the French; you must go outside. And, besides that, the second largest water company in the world is also French, so he really has no other options.

French managers are extremely well-educated. They are well traveled and have great ambitions.

So it is more a matter of developing markets, and the responses are not very much different than the U.S. policies just after the Second World War. Our outward FDI is very healthy; it helps develop a level of economic influence that we would not have otherwise. What would not be healthy is if foreign companies stopped investing in France. There are reasons for foreigners not to invest in France which the government ought to remove. There are still obstacles here. But again, the aggressive foreign investment by French companies to me is very healthy. The U.S. did that for many years, and I do not believe that anyone was complaining.

There are other figures widely discussed in France. During about the same period, 1997–2000, French companies created nearly 1.3 million jobs outside of France but only about 30,000 in France. Doesn't it send a clear signal to foreign companies that if the companies which know France the best are not going there, perhaps they should not either?

Yes, those numbers are right, but I do not think that, in the discussions we have had inside Motorola, that argument has come out. We just think the French companies are looking at their own specific situations. French companies have already saturated their local markets, but other companies coming here often compete in different sectors. When Motorola comes to France with the four leading technologies in semiconductors, we are not taking the place of anyone. These technologies do not exist, either here or anywhere else in the world, so we have chosen to install our plant in France. France created a law deregulating the telecommunications sector in 1998 that actually limits in-country investment by the large French telecom firms.

So either because of home-market saturation or government telecommunication deregulation, very large French companies have no choice but to invest outside of France if they want to grow. And I do not think that is bad, but rather pretty good. It offers careers for top-notch people, it allows non-French partners to get familiar with France, it creates employment in other countries, and it allows companies to bring their expatriates into France. I wish that expatriate programs were more active here. Unfortunately, all companies are cutting their expat programs, which is not a good policy. This has other negative consequences. For example, I told you that most French managers have a very high level of education. They are mostly from engineering schools and generally have at least two diplomas, something one hardly sees in the U.S. Many of them received extra training in the U.S. financed by various programs like the Fulbright Scholarship and then came back here to work. In those days, foreigners were not allowed to stay in the U.S. easily after schooling. However, this is no longer true. We are losing a great deal of talent to London, California, or the East Coast of the U.S. So we need to find better ways of bringing new and lost talent to France.

We are losing a great deal of talent to London, California, or the East Coast of the U.S.

Have government policies on attracting FDI been relatively consistent over the past several years?

Yes, in many domains. First of all in terms of the supply of talent, I felt very proud that I had no difficulty whatsoever in going abroad to work. I see many young people moving abroad, so the quality, of the education in this country, particularly in engineering, is absolutely outstanding. Our supply of scientists and engineers is the result of excellent training and educational policies. In 1996 I had the privilege of opening a research lab near Paris that now has nearly 80 scientists. Motorola's chief technology officer recently told the French Minister of Research that the French lab was the best of the 18 Motorola research labs in the world in terms of producing patents, new ideas, and proposals. In France, we have had an abundant supply of top-quality engineer-managers, for centuries. My alma mater was created over 250 years ago, and *Ecole Polytechnique*, France's top engineering school, was created by Napoleon. So we have a long tradition of placing a great deal of emphasis on educating our people at all levels.

This French policy produces outstanding performers, which companies recognize. We at Motorola reviewed our Toulouse semiconductor plant two years ago. We scanned 12 performance criteria for the 14 semiconductor plants we had in the world at that time, and Toulouse came in second and was nearly tied with the top one, a plant in Japan. This excellence is the result of the very broad technical background of the staff we have there. Producing very competent employees is one set of government policies we have in France.

The second set of policies has to do with government financial aid to companies. People don't like to talk about this, but we shouldn't be hypocritical. Financial aid does matter greatly everywhere, even in the U.S. I looked at the numbers recently and observed that IBM was able to set up their $300 million plus plant in New York state because they got a 26 percent package. That's 26 percent of the cost, which is more than you can get in many places in Europe, by the way. The French government, particularly for high technology which I know best, has had assistance policies which go back nearly 25 years with a research tax credit that is unique in the world. Companies can deduct 50 percent of their R&D activities, including facilities, equipment, and personnel, directly off their tax bill. This advantage is very attractive to foreign investors.

Now the previous government's Minister of Industry, Mr. Christian Pierret, went one step further. In France before that time, we had a business tax that was used to finance local community needs where the businesses were located. This was not actually very clever because it was taxing employment and investment. The previous government removed the part, called *taxe professionnel*, that taxed employment. Companies can now remove the employees assigned to development projects from the base upon which the tax is calculated.

In a study conducted by Jack Anderson of Ernst & Young's Paris office,[2] the top concerns of businesses about coming to France all dealt with issues of taxes—corporate taxes, payroll taxes, personal income taxes—and stock option treatments. But the French government can not simply change the tax structure overnight. Politically it is too difficult. Do you believe that

the government is simply offering a series of special tax deals or incentives to targeted firms or sectors? Are they seeking, in the words of Michael Porter,[3] to differentiate the market of consumers of French FDI and attract only a select group?

Yes! It is true that French governments have been in sensitive political positions for many years. In France the political right and left have been very evenly balanced for a long time. One side can not make too many changes without strong challenges from the other side. So special deals and tax breaks help solve this problem. But your political analysis is still too simple; other factors are also at work. You know Motorola, in partnership with STMicroelectronics and Philips Semiconductors, will invest €2.8bn over the next five years to produce the new generation of 300mm wafers near Grenoble, France. We felt, and I was very much involved in that reflection with our government, that it was very important to be in charge of our destiny in semiconductors for the next decades. It was OK as long as the technology was in the U.S. because we trust the U.S. At the end of the day, even after the inevitable squabbles of an old couple, we two countries like each other very much. We share the same values and origins. So we felt it was very important to bring this semiconductor project to France.

We had geopolitical discussions inside our company, with the French government, with the Italians, to a lower degree with the Dutch, and then we decided to form this alliance. Once we decided that it did make sense, we knew that since two of the major actors were French, we had as a given the value of our engineers. We also had their ability to negotiate with the French authorities and eventually Brussels to find a package as competitive as what we could find in China. I include Taiwan in China because it is only a matter of time. So I am not happy with the view that the French make special concessions only for local business reasons. They are also made in view of a strategy that goes way beyond simply the local package. So yes, we do make special deals, but we also have a strategy that goes beyond simply creating jobs that encompasses maintaining the ability to control and protect certain key technological sectors.

According to the same Ernst & Young study, the concentration of research and development centers and the quality of living in France are well recognized. Are these sufficient to pull companies into France, or are there other factors that make the country attractive to FDI?

If you look at investment that will remain in a country for a long time, there are two locomotives that pull in foreign investment. The first is research and development. Once your R&D begins to come to fruition, you want to transfer the know-how into volume production of services or products. This is always easier to do by transferring people. We are transferring four technologies from the U.S., and we will be moving some engineers from Austin, Texas to Grenoble. So once you have the research and development, the programs they spin off, either products or services, are easier to get off the ground if you go into production nearby. People speak the same language and have the same rules so it makes sense to keep it close. Keeping production centers near the research and development sites has been a French strategy supported by both the left and right governments for decades.

Keeping production centers near the research and development sites has been a French strategy.

The other locomotive is to attract top managers, and here France has failed, miserably failed, in attracting corporate headquarters. We tried several years ago to get a special government ruling to make France more attractive as a location for corporate headquarters and actually got one approved in 1998. But it was never implemented.

You know, we do not need to try to make big policy changes. It is just that senior managers are human beings. At the moment they make a decision to take a position for their company in country A or country B, they want to look at their personal situation. Countries like the UK and Holland have done a very good job in terms of having special policies for inpatirates. We do not have these policies in France since, as an egalitarian society, we think that everyone should be treated the same. But expatriates coming to France are not the same. They come, they stay here for three years, and they go back. Why should they give large chunks of money, which they will never recover, to the French social security system? We need and are going to push for a new set of policies for inpatriates. It will cover their social security, insurance, special taxes, education of children—we want more international schools. So a whole set of policies is needed to encourage the creation of corporate headquarters in this country, which we have not succeeded in doing at all. The last one created was probably Microsoft's, fifteen years ago. It has disintegrated—on paper it is still here—but the people are scattered all over.

We should be very frank and direct on that issue. If we do not meet the needs of international managers, they are just not going to come, period. If you look at the Tax Misery Index[4] published by *Forbes*, it tells you the truth. That is what you feel as an individual manager going into a country. So it is no longer a big set of policies or so forth; you are no longer selling your country; you are looking at yourself as the head of a family, and it is difficult. My wife and I have been married for forty years and have moved twenty-two times. It is pretty hard on the family, so if it is not worth the move, why should you make it?

If we do not meet the needs of international managers, they are just not going to come, period.

If the French government needs to make changes, who should be its target customers? Are there certain sectors or operations that would be easier to attract? Who are the customers of France?

My job is high technology. That is what I am knowledgeable about. Obviously I could talk forever about it, but I am not certain about the other sectors. As an example of what can be done, I believe that London has done a super job of attracting international talent in the finance sector. Regarding my own sector, I can say that not every country can produce the top engineers that the French *grande écoles* produce. I have had conversations with Motorola people in the U.S. who tell me that we are not selling enough over here. But within Motorola we are the only country unit that did not lose money last year. This suggests that for high-tech R&D operations needing excellent engineers who know how to make money (or at least not lose it), France is a good place to be. Firms in the high-tech R&D sector would be excellent target customers.

I think that multinational companies invest in a country for two reasons: to have access to a market, and to have access to brains and skills. Personally, for the past ten years, I have focused very much on having access to brains. France is a good place to find brains and talent.

Mr. Lavigne, thank you for taking the time to grant this interview.

Endnotes

[1] Gérard Mestrallet is the chairman and CEO of SUEZ which owns ONDEO, the premier water-related solutions provider with a presence in 130 countries. ONDEO supplies 110 million people with water and wastewater services, provides services to more than 60,000 industrial customers, and has built more than 10,000 water treatment plants world-wide. Last year ONDEO signed a contract with the city of Sanya (Hainan Province of the People's Republic of China) to supply potable water to the city's 200,000 inhabitants for a 30-year period.

[2] Jack Anderson, Partner, Ernst & Young, Paris. Author of the *Barometre 2002 attractive du site France*.

[3] Michael Porter, professor at the Harvard Business School, is perhaps the leading expert on international competitive strategy. At a seminar in Paris in September 2002, he outlined what he thought were the strategic mistakes made by companies during the 1990s. One conclusion of his discussion was that chasing after every customer may not be the best strategy. Rather, going after the "right" customers may produce more value for a company.

[4] Anderson, J. Forbes Misery Index of Taxation. *Forbes Global Magazine*, 27 May 2002. Available at *Forbes.com*.

Michael Segalla is professor of management and human resources at HEC School of Management in France. He is director of the European Managerial-Decision-Making Project. He won the AESC 2001 Research on Leadership Award for research on cross-cultural management. In 2002 he helped organize a presentation at the French Senate on the attractiveness of France for foreign direct investment. Contact: *segalla@hec.fr*.