Vive la différence!

Executive summary

- A local bank should be the first port of call for UK treasurers expanding into France, but beware: the bank/corporate relationship in France differs greatly from that in the UK.
- France's bureaucracy and 35-hour week are seen as barriers to trade, but the statute-based legal system and a diminishing language barrier makes commercial ties easier.

France and the UK are developing extremely close economic and commercial ties. France is the UK's third largest export market (nearly €30bn in 2004) and France exports even more to the UK (around $42bn in 2006), making it one of the most intense cross-border trading relationships in the world.

Such volumes mean that companies from both countries have established representatives, sales operations, branches and subsidiaries across the Channel, often successfully. The successes have come from an acute understanding of the key differences in treasury and legal practices between the two economies – and from adapting and embracing those differences. Although the differences can at first seem frustrating to UK corporate treasurers, with a good local partner – and an understanding of the rationale behind the differences – the frustrations can be easily and favourably resolved. Indeed, practices that UK treasurers may think arcane or unfathomable, on explanation become logical and favourable to their aims.

BANQUE DEALINGS A good local partner means a good local bank. All the major European countries remain dominated by their domestic banks following their own local banking practices and France is no exception. But there are key differences. One is that even small French companies maintain accounts with a large number of both national and regional banks. They also spend a great deal of time and effort maintaining these relationships. UK treasurers tend to assume that multiple accounts mean multiple reconciliations, and immediately look to streamline what looks like overcomplicated banking arrangements for their French subsidiaries – a move that normally meets resistance in France.

The reason for the resistance is that French companies see banks as commodity service providers, which limits their loyalty to a single provider. They maintain relationships with all the larger French banks and divide the business quite thinly – usually on the basis of price. To the French, the UK system of core partnerships with just one or two banks is too favourable to the banks. They would rather have them competing furiously for every aspect of the business.

The UK treasurer's preference for deep reciprocal banking relationships stems from a desire for support when trading conditions deteriorate, or during an event-driven challenge such as an acquisition, and may have something to do with our creditor-favoured insolvency regime (see below). The French insolvency regime is more favourable to the debtor – and thus the corporate – perhaps shifting the balance of power and reducing loyalties.

CASH MANAGEMENT COMPREHENSION UK treasurers also need to be aware of technical differences with the bank clearing system and cash management structure. There are three core issues.

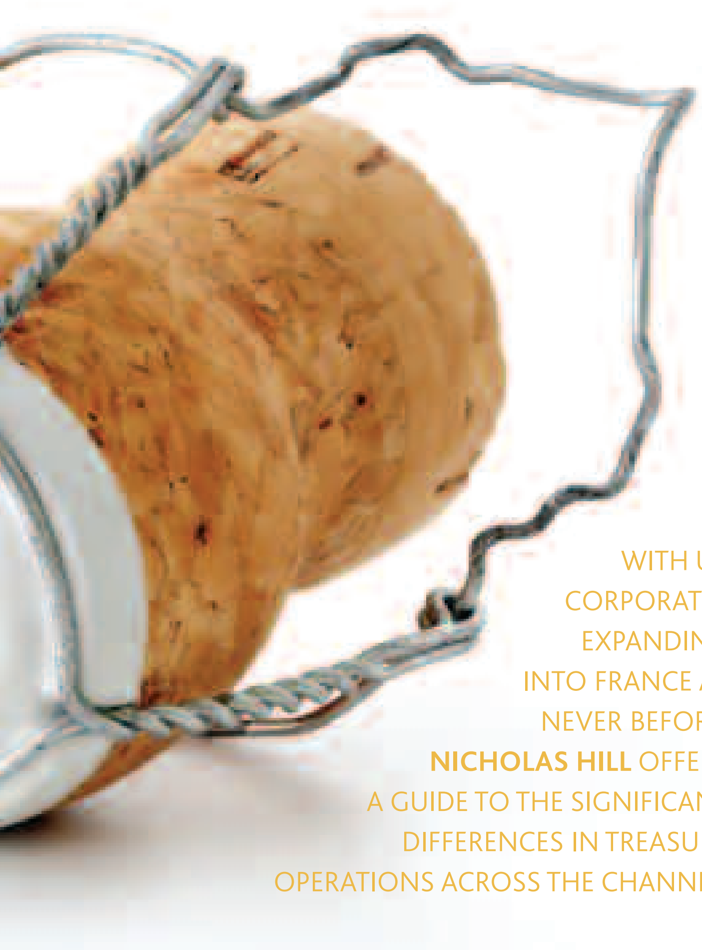
First, historically the French bank clearing system has not allowed notional pooling of balances in the same way as jurisdictions such as the UK, Belgium, the Netherlands and Spain. However, since March 2005 French law has allowed interest on credit balances, bringing the notional pooling in France into line with other European jurisdictions.

Second, some UK treasurers are concerned by the lack of certainty of value dates in France – fund payments can be erratic and delayed payments are value-dated for date of arrival unless challenged – and suspect it is merely a device for French banks to ensure relationships remain profitable given the climate of thin pricing for their products.

This is simply a misunderstanding between UK and French practice. French regulators impose very strict controls on their domestic banks. In practice, most basic banking transactions are processed free of charge. While the approach to value dating is certainly different than in the UK, the intent is neither malicious nor underhand.

The third difference to bear in mind also concerns value dates. While the UK system is 'cash same day, others T+2', the French system operates on a backdated T+1 system, which is retrospectively calculated quarterly. This offsets any criticism about value dates, as at the end of the quarter things tend to balance out. Yet many UK treasurers – especially in the retail sector – feel that the loss of a day's value on cash, coupled with the uncertainty of value dates on the larger payments, makes balancing the overall cash position of the group more difficult.

Natixis is a French bank and our view is that the most successful UK treasurers operating in France are those running a zero balancing or notional pooling system in France, at the same time putting modest operating facilities in place at a local level with the central cash pooling bank. Via the daily SWIFT 940 link into the central cash management system (usually their UK clearer), treasurers are able to tap into their French balances through their home electronic banking system. They can then work with their French colleagues to establish what is available for transferring back to the UK and what is needed for cover. Then, when necessary, they can use SWIFT payments with guaranteed value dating to send these back and forth.



WITH UK CORPORATES EXPANDING INTO FRANCE AS NEVER BEFORE, **NICHOLAS HILL** OFFERS A GUIDE TO THE SIGNIFICANT DIFFERENCES IN TREASURY OPERATIONS ACROSS THE CHANNEL.

LEGAL ISSUES French law is largely statute-based (dating back to the Napoleonic code) whereas much of English law is case-based common law. In practice, French legal documentation tends to be easier and shorter as it relies on the common code, while English legal documents have to deal with every eventuality.

In respect to commercial law, a key difference in emphasis is reflected in insolvency law. English law leans towards the creditor; French law leans towards the debtor – a possible explanation for those weaker corporate/bank relationships. Indeed, changes to the insolvency law from January 2006 strengthened the hand of corporates – allowing them to borrow as part of a recovery plan with the new loans considered in preference to existing bank debt.

Recent research by Standard & Poor's ranks France as the weakest of the insolvency regimes studied (France, the UK, Germany, Italy, Spain and the Netherlands) in terms of enforceable security rights for lenders. This makes France the most favourable regime for corporate borrowers. The most striking 'problem' outlined by Standard & Poor's is the right of French commercial courts to make virtually all crucial decisions without any creditor input, although the new law has improved the situation for bank lenders (though not bondholders).

Employment law is certainly tighter than in the UK – not least the introduction of the 35-hour week and the fact that French employees can be costly (and sometimes difficult) to remove. Certainly, France lacks the hire and fire culture of the US and the UK. Indeed, for US and British investors, this is perhaps the biggest barrier of all to investing in France.

The 35-hour week also raises some practical issues. Most French managers find it difficult to comply with this legal stipulation and instead bank the extra time they work each week for lengthier summer holidays – usually in August. This fits in with the continental culture of taking annual holidays in one lengthy block, rather than the frequent but shorter breaks of the Anglo-Saxon countries. With an awareness of this cultural difference, however – and with good planning – UK treasurers should be able to prevent the suspension of progress on key projects over these periods.

A further employment difference concerns profit sharing. Any company with more than 50 employees is obliged to set up a scheme to pay a set proportion of annual profits back to staff. Although many British firms have similar schemes (such as Save As You Earn), in France it is a legal requirement, and can come as a shock to UK companies. Yet in practice the profit-sharing issue is relatively easy to overcome. One route is to outsource the issues of complying with regulations, dealing with tax issues and administering the individual staff funds.

RÉGLEMENTATION Doing business in France undoubtedly involves more form filling than in the UK. Land registration is one example. The process entails nine separate forms and procedures compared with the UK's two, and takes on average 183 days compared with 21 days in the UK – a process that can cause difficulties for small businesses relying on property as security for bank borrowing.

Indeed, the French attitude to bureaucracy is perhaps the aspect of French business life that UK treasurers find most mystifying. Yet, as a South African working for a French bank in London, I think I have gained some insight into both the French and British attitude in this respect. The French have a strong sense of formality and a deep respect for academic credentials and due process. They also understand and respect hierarchies.

And this aspect of French business culture can provide practical benefits for business. One treasurer I know says that although the debating and consultation process takes longer in France than elsewhere, the quality of the decisions is better, and the subsequent buy-in to execution stronger, which makes for a smoother process in the long run.

This fits well with the French culture of being extremely logical and methodical in their thinking. French business people respond well to a well-argued point. Meanwhile, the British tend to be less formal in many ways – having increasingly adopted the US style of open management. In the UK the focus is on solving problems quickly. And this outweighs the niceties of using the normal chains of command or, in many cases, making the best long-term decision.

LINGUA FRANCA What used to be one of the greatest barriers to doing business in France – the language – is rapidly disappearing. French business is adapting well to the emergence of English as the global business language. Most people at management level speak English to a highly proficient level, and for companies that are subsidiaries of British companies, there is an expectation that English is the common language.

Yet the French remain understandably passionate about their beautiful language – making use of a few inexpert phrases from your school O-levels is a sure-fire way of building rapport and winning the approval of French business colleagues.

A final practical point – and one perhaps universally applicable – is that more can be achieved in a one-hour roundtable discussion face-to-face than in a series of lengthy telephone calls and email chains. So my advice to all UK treasurers with French operations, or who are thinking of investing or expanding in France, is to get on the train or plane and go in person. It is closer than you imagine.

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