Business Locations in FRANCE

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Country is still a top choice to set up shop

But there is growing rivalry with Germany as a destination for inward investment, reports James Boxell

resident Nicolas Sarkozy of France took a political gamble recently, when he told his countrymen they needed to be more like their German neighbours.

The two states are being driven ever closer together by the shared need to solve the eurozone crisis. But in a country with a strong sense of national worth and pride, Mr Sarkozy's comments will have

There are certainly aspects of the French economy, not least its first-class education system, where it scores highly in international rankings.

The image of the French, in other countries, is often informed by stereotyped views on their attachment to state handouts and the 35-hour working week and a readiness to strike should their benefits be challenged.

However, a recent report from Insead, a business school based at Fontainebleau, near Paris, pointed out that among advanced economies, the country is second only to the US in competitiveness (the level of productivity per hours worked).

It is also acknowledged as having a good infrastructure and a high standard of living.

Factors such as these explain why France remains the most popular destination for jobcreating foreign investment in Europe after the UK, though Germany appears poised to

According to the United Nations Conference on Trade and Development, using slightly different criteria, France is the fourth-biggest recipient of foreign direct investment after the US, China and Hong Kong, with \$57bn of inflows in 2010.

A recent "barometer" on the attractiveness of France from Ernst & Young, a consultancy firm, showed there were 562 job-creating ventures by foreign investors in the country last year, 6 per cent up on 2009. almost 15,000 jobs, it found, a 12



Rich pickings: a macaroon assembly line. Among advanced economies, France is second only to the US in productivity per hours worked Getty

Invest in France, a state agency in charge of seeking foreign investment, calculates that the number of new ventures last most successful years for year was in fact even higher. It attracting foreign interest. This led to the addition of says that the number of projects – after reaching a plateau

per cent increase on the year between 2007 and 2009, largely caused by the banking crisis rose 22 per cent to 782.

Regardless of which figure is used, 2010 was one of France's

There was a strong rebound in new projects from the US,

including: Amazon setting up a bulk of new investment, howlogistics centre in the Rhône-Alpes region; a new General Electric research and development centre for signalling tech-

tion of 300 jobs by Dell, the computer maker. Neighbours accounted for the

low-cost airline, opening a subsidiary in Midi-Pyrénées, and Bertelsmann, the German media nology near Paris; and the creagroup, adding jobs.

The problem for France, as for

ever, with Spain's Vueling, a

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Business Locations in France



Oldest city looks to high-tech clusters to boost development

Profile: Marseilles

Research has brought prosperity. The next step is to spread the benefits and tackle crime, says **Jennifer Thompson**

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rance's oldest city is having a This itself is higher than the 9.1 per regional initiatives, the Marseilles renewal projects in Europe.

The Euroméditerranée scheme will see the redevelopment of 480 acres of industrial land between the commercial harbour and the historic Vieux Port, which was founded by Greek traders more than 2,600 years ago,

It will bring new offices, housing, other amenities and the Museum of Civilisations from Europe and the Mediterranean (MuCEM) to the city.

The €7bn initiative began in 1995 and it is hoped most projects will be completed before 2013, the year Marseilles will be the European Capital of Culture – a tag that usually boosts the international profile of a city, attract-

ing tourism and investment. Expectations are certainly high. The Marseilles-Provence region already attracts 10m visitors a year and this number is expected to rise. Air France announced it is introducing 13 routes from Marseilles to destinations includ-

ing Istanbul and Moscow this autumn. The city's size, its location on the Mediterranean and inclusion in the high-speed train network - making it a three hours trip from Paris by TGV add to its attractiveness as a busi-

ness location Yet it remains beset by a negative image, with high levels of joblessness fuelling crime and drug trafficking.

"[The drug trade] is a parallel economy, with a lot of money, and it is very difficult to change the rules of the game," says Pierre Boucaud, editor of Marsactu, a regional news

He says the mafia has declined in importance, but the proliferation of smaller gangs with access to guns means the problem remains serious.

Unemployment is 11.9 per cent in the Bouches-du-Rhône, the départe*ment* of which Marseilles is capital.

facelift. Marseille, whose cent national average, but it soars in area is the second largest public 850,000 inhabitants also make it the poorest neighbourhoods – where it the second largest, is going adolescents can be paid up to €100 a estimated the sector could create up one of the biggest urban day to act as lookouts for gangs.

The political response has been to increase police presence, while insisting the situation is improving.

Claude Guéant the French interior minister, acknowledged recently that the number of homicides was still too high and pledged to strengthen operations to recover weapons, after a policeman was critically injured in a shooting.

Marseilles is also looking to economic development to help it cultivate a better image.

While traditional industries, such as shipping, remain vital, the technology sector has also created employment

'Microelectronics has been dynamic and start-ups in the semiconductor and biotech industries have created growth'

and carved out a niche in research. "Microelectronics has been dynamic in and around Marseilles and startups in the semiconductor and biotech industries have created growth," says Philippe Willemin, an analyst from PwC, the consultancy.

The city has earned a reputation for the quality of its research, thanks to its large number of "competitiveness

clusters". These are associations of private companies and public research centres that provide a focus for funding and are encouraged to work together, supported by regional authorities, which help with construction of facilities such as laboratories.

With its 10 clusters and further

Companies in the region, such as Gemalto, the smart card maker, say the initiatives are encouraging. "It's trying to mimic Silicon Valley in the US," says Philippe Vallée, head of

Gemalto's telecoms unit. There are plans to build on this further by merging three local universities in the coming year, in part to prevent separate laboratories compet-

ing for the same funds. "By regrouping the three universities into one, you create more critical mass, while having a single face helps when you work with outside part-

ners," Mr Vallée adds. For affluent workers transferring to the region, there are concerns over quality of life in the city, which tend to focus on the availability of high

quality housing and education. "Where to send your children to school – particularly if you transfer from outside France, and want a more international school - is what people care about," says Mr Vallée.

In parallel, there are worries that the most disadvantaged will not benefit from any rise prosperity.

Marc Tassel, director of the regional economic development mission, says: 'One problem is the competition to buy apartments. Another is that, even though there may be more opportunities, educated people will find employ-

ment instead of local workers. "Marseilles is not just an advertising campaign," Mr Boucaud says, adding it will be hard to develop tourism without improving unemployment and crime.

With the Euroméditerranée project and Capital of Culture title, the city appears to be taking steps in the right direction. The challenge is to ensure the benefits of development are shared by all.

Local politicians' national ties pave way for prosperity

Profile: Lille

Unity at home also helps boost the city's profile, finds **Jennifer Thompson**

Martine Aubry chose a former goods station in Lille to announce her intention to compete on the Socialist ticket for the French presidency next year.

The selection of the Gare Saint Sauveur by the veteran lawmaker - perhaps best known as the minister who brought the 35-hour working week to France – was symbolic: the building's conversion into an exhibition space and trendy restaurant is a clear indication of Lille's progression from depressed industrial centre to sophisticated city that attracts a steady flow of tourists as well as investment from multinationals.

While this template for transformation is one often attempted by former industrial powerhouses as they seek growth from service industries and tourism, the revival of Lille has been more successful than most.

Although Ms Aubry later lost the Socialist nomination to François Hollande in the opposition party's primary ballot, the renaissance of the city of which she has been mayor for decade is an example of how astute decisions made at a local level have costered its economic regeneration.

The city has become a hub for secfors such as retail, information technology and food.

The strategy has been simple: create excellent infrastructure and facilities, and business is likely to follow. The approach has been successful in attracting inward investment, with 70 large companies having a presence in

It is difficult to judge, however, whether its experience can be replicated elsewhere. Analysts cite the particular context of the highly educated workforce, thanks to its numerous universities, engineering and business schools, which provide a draw for service-based and IT activities.

"One of the reasons that it is a dynamic region in terms of its economy is that it is a ville universitaire [a university town] with a lot of students," notes Philippe Aerts, a Lillebased analyst with PwC, the consultancy. He notes that the region has a strong profile in the digital industry, Culture in 2004. being home to many companies that specialise in video games and 3D com-

puter work, for example. Others point to excellent transport links, most notably its Eurostar station and place on France's TGV (highspeed train) network. A fundamental ingredient has been the city's location in the north-east of the country.

This has allowed it to act as a hub in the densely populated triangle between Paris, London and Brussels, facilitating access to the 78m people living within 300km of the city.

Lille is also exceptional in that Ms Aubry and her predecessor have occupied prominent roles on the national stage. The history of close links to to pave the way for prosperity.

national politics has been "very effective in defending the case of Lille". notes Marc Lhermitte, analyst at Ernst & Young, the consultancy.

He cites the example of Pierre Mauroy, former mayor of the city and prime minister under President François Mitterrand in the 1980s, who was a leading advocate for Lille to obtain a place on the TGV network.

Lille is also an example of how local authorities have benefited from the wider process of decentralisation that has taken place in France over the past 30 years, using their greater freedom to leverage the city's natural strengths.

'There is a history of politicians working together in Lille," Mr Lhermitte adds. "It has allowed the city to transform itself from a small regional capital of a distressed area, to the centre of a triangle between London, Paris and Brussels. This can be seen in the way two

layers of local authorities - the town council and Lille's communauté urbaine, the administrative body responsible for economic policy in the wider area, have collaborated.

While their responsibilities differ in scope, both Socialist-led authorities have placed creating a favourable environment for business at the heart of economic strategy.

"We have a very ambitious policy of economic development and our urban

The city's location has allowed it to act as a nexus in the densely populated triangle between Paris, London and Brussels

programmes create all the conditions for the return of industry to the heart of the metropolis," explains Pierre de Saintignon, deputy mayor and vicepresident of the Nord-Pas de Calais regional council.

This has largely been achieved by the formation of specialised business parks, such as Euralille, one of France's main office parks, and Eurasanté, a park specialising in biological and health research.

Another area of co-operation between the two authorities has been to foster tourism in the city, after it won the title of European Capital of

is an established activity, and, while it does not necessarily fall within the town council's scope, the authority nevertheless devotes a portion of its budget to promoting tourism and economic development, says Mr de

The local authorities have inaugurated a programme of regular cultural events to ensure the city maintains its profile as a cultural destination.

Lille has certainly benefited from a particular set of advantages. But it also offers a primer in how a distinct and ambitious vision of a city's strengths can be used at a local level



Local champion: Martine Aubry has overseen a decade of regeneration

Country is still seen as a popular choice for setting up shop

Continued from Page 1

its European neighbours, is how this strong performance can be maintained, given the worries sparked

by the eurozone debt crisis. "People are extremely cautious," says Dominique Barbet, head of market economics at BNP Paribas, a French bank. "The downturn after 2008 was so sharp and so sudden that people are primed to be prepared

for bad times. David Appia, chief executive of Invest in France and the country's ambassador for international investment, concedes that uncertainty in the European Union is a concern among some potential investors.

involves parties that have not yet invested, he says. His international team has seen neither a noticeable decline in interest nor any cancellations of projects.

"We are in 20 countries around the world, and the number of contacts has remained very high, at least comparable with last year,"

Mr Appia says. "We've been able to detect a comparable of number potential projects and we haven't yet detected any negative evolution that might be related to the debt crisis... the situation, I really don't

Beyond the immediate education ministry.

However, this only worries around the debt crisis, France has to answer a launch a €35bn programme longer term question about how it can meet the increasing competition from Germany in the fight to attract foreign money.

The government has certainly not been idle.

A decision to introduce generous tax breaks for research and development has been hugely popular with overseas companies, leading to a more than doubling of the number of foreign-owned R&D centres in three years.

R&D at the subsidiaries of foreign companies accounts Whether this will remain for 22 per cent of all such spending in France, according to the country's higher

public investment, known as le grand emprunt, has also gone down well, according to Ernst & Young, which found in a recent poll that this increased the country's attractiveness for 62 per cent of foreign investors.

Some €11bn has been earmarked for higher education and training, further boosting the quality of maths and science gradu-

Another €7.9bn has been set aside for technical and scientific research in areas such as biotechnology and nanotechnology, €4.5bn will be spent on supporting the country's nas-

And the decision to cent digital economy (see just 19 per cent in Ger- bours, which account for tion equipment maker, Yto, Page 4).

Nevertheless, France is still held back the high welfare costs for companies doing business there.



Varin: cost of a worker has risen much less in Germany

In a commentary in the Ernst & Young barometer, Philippe Varin, chief executive of Peugeot, the carmaker, points out that in 10 years, the hourly cost of a worker has risen 31 per cent in France, compared with

many, even though the French worker still takes home less pay.

Echoing Mr Sarkozy's comments about the need to be more like the Germans, Mr Varin says the country needs a "new social pact to put industry at the heart of French growth".

The biggest worry about high social costs is that they act as a deterrent to investors from all-important China and India, which tend to favour the UK and Germany for their European bases.

This will be a particular problem if, as feared, the European debt crisis curinvestment from France's continental neigh-

two-thirds of its inward investment – or indeed from the US.

Mr Appia says more work is being done on courting the Bric nations. The number of projects coming from China, in particular, is increasing, with 35 last

As a result, China has taken over from Japan as the biggest Asian investor in France.

He points out that periods of crisis can also encourage overseas investment, as foreign companies - notably from the cash-laden Brics hunt for bargains and

access to new markets. He cites the example of a Chinese farm and construc-

which recently stepped in to guarantee the future of a tractor-making plant, saving more than 200 jobs and promising to create another 400 through a new R&D centre. But with the Ernst &

Young survey of foreign investors showing that only 31 per cent think that France will become more attractive over the next five years, against 47 per cent for Germany, it is clear that the president has work

With more than 20,000 foreign companies employing more than 2m people doing business in France, this is something the coun-

Paris basin retains its pulling power

Ile-de-France

The region makes the most of tax breaks, writes James Boxell

reappearance of Marks and Spencer on the Champs Elysées after a 10-year absence has caused quite a stir in the past few weeks, with eager Parisians queueing up to reacquaint themselves with the sensible underwear and upmarket ready meals of the UK retailer.

This minor Christmas sensation is just part of a large rebound in inward investment in 2010 and 2011 in the Paris and Ile-de-France region, still by far the most popular area of the country for subsidiaries of foreign companies

Widely trailed though it was, the return of the British stalwart was not the most notable foreign shopping franchise to arrive over the past couple of years. That honour must go to Japan's Fast Retailing, owner of the Uniqlo chain of clothing shops

Its outlet in the Opera shopping district close to the Galeries Lafayette department store has been mobbed with Parisians, who have always been well supplied with homegrown luxury brands such as Hermès but less so with the more "affordable" fashion options epitomised

The recent success of Abercrombie & Fitch of the US, a teen fashion brand, also on the Champs Elysées, and this month's opening of the city's first Banana Republic outlet, another US label, is testament to the appetite for cheaper clothes.

Fast Retailing's arrival is seen as particularly welcome by the agencies charged with securing inward investment to the Parisregion, because the Japanese group has also decided to set up its European headquarters in Ile-de-France, creating 450 jobs.

The Paris Region Economic Development Agency points out that such decisions made 2010 a record year for foreign compa-



Galeries Lafayette in the Opera shopping district: Parisians have always been well supplied with homegrown luxury brands but less so with more 'affordable' options

with 243 arrivals. These investments are expected to generate 8,415 jobs over the next few

However, the immediate future is looking far less certain because of the eurozone debt crisis. Natacha Valla, chief economist at the Paris office of Goldman Sachs points out that the eurozone is looking ever more likely to enter "a period of recession at the turn of the nies setting up operations there, year, followed by a prolonged

period of weakness", which will but we are confident because inevitably have an impact on investment.

However, Jean-Claude Detilleux, head of the development agency, says that at the end of September the number of arrivals appeared to be keeping pace

"The economic outlook is tough, but during this period the Paris region has remained attractive," he says. "We hope there is no rupture as in 2008,

companies are better prepared

Mr Detilleux says the most obvious evidence of caution is inward that investment "projects are slightly smaller in size, because business leaders are careful and they are postponing their hiring to some extent".

On top of the arrival of retailbenefit more than most from

France's tax breaks on research and development, the most generous in Europe.

The crédit d'impôt recherche allows companies to claim 40 per cent of their R&D costs as a tax credit in their first year of operation, 35 per cent in the second and 30 per cent in the

This has led directly to R&D centre in Ile-de-France, cre-

ating 200 jobs. Computer Sciences Corporation, the US IT services provider also decided to expand its French headquarters in the region, leading to 300

additional jobs. In 2010, a third of all foreign set-ups in the region were by IT and other service companies, in part thanks to the R&D tax break. Financial services groups Google, the internet search also made up a large number of ers, the region has continued to engine business, setting up an arrivals, despite the travails of the country's leading banks.

The recent granting of greater independence to universities, which gives them freedom to form commercial ties with business, has also added to the region's allure.

It has seven business and research clusters, involving sectors ranging from medicine to financial innovation.

One less-known fact is that the aeronautics sector around Paris is similar in size to the famous "aerospace valley" near Toulouse.

US companies made a strong comeback in the region in 2010, contributing the largest number of arrivals, followed by the UK.

France as a whole has struggled to attract similar numbers of projects from China, as have other leading European nations, but the number of Chinese ventures in the Paris region exceeded those in Germany for the first time last year.

ICBC, the Chinese bank, chose the Boulevard Haussman for its European hub.

Transport infrastructure in traffic-snarled Paris is a problem but the €35bn grand projet of Nicolas Sarkozy, the French president, appears to be moving forward despite some opposition from local politicians.

The biggest part of the plan is the improvement of underground train links between important business and residential areas such as Versailles and Charles de Gaulle airport.

Existing metro and suburban train lines are also to be spruced up and extended to encourage the regeneration of suburbs, while companies such as France Télécom are building offices in the northern suburb of St Denis. Mr Sarzkozy also wants to have 70,000 homes built a year.

Paris can still rely on its beautiful boulevards and, to a lesser extent, its way of life to make it desirable.

A recent Ernst & Young poll of foreign investors found that more than one in five thought it was the most attractive continental European city, second only to London.

But, Mr Detilleux concludes that the success of the gigantic transport infrastructure project will be "essential for the region of Paris and for investors".

State streamlines funding system for small companies

Entrepreneurship Agencies will take a more co-ordinated approach, writes

The nickname says it all known as the "armed wing of the Treasury", France's Caisse des Dépôts et Consignations plays two crucial roles: safeguarding deposits in state-regulated savings accounts and helping to finance the country's most promising small and medi-

Founded in 1816 and housed in a grand limestone mansion in Paris that overlooks the Seine towards the Jardin des Tuileries, the CDC has helped to anchor the French economy for almost two centuries.

There is, however, a relatively new kid on the block. The FSI (Fonds Stratégique d'Investissement), France's state-backed strategic fund, was investment launched in 2008 to help companies amid the global financial turmoil.

The current eurozone crisis will amplify its importance: French banks, which are being pummelled as the debt crisis intensifies, are shedding assets to shore up capital – a measure likely to put pressure on funding for

While officials say they have not noted an increase in companies looking for state funding to support enterprise, they point to the challenge of ensuring that public channels in the European Union's largest country by area remain clear and accessible.

"SMEs are not usually [found] in central Paris but in the regions," says Jean-Yves Gilet, head of the FSI.

He says that when the FSI looked at the system of funding for SMEs, it appeared to be too complicated and did not facilitate quick decisions.

It was this realisation that prompted an overhaul in the relationship between the CDC, the FSI and busi-

used the occasion of the FSI's third anniversary last month to announce a streamlined process to make the availability of state funding clearer to local employers.

Jennifer Thompson Entitled FSI-Régions, its aim is to counsel SMEs on whether debt or equity financing is suited to their needs and how to obtain it, also monitoring while projects to check whether the outcome has been successful. A single representative will act on behalf of the CDC, FSI and Oséo, the state bank that specialises in small business. um-sized enterprises (SMEs).

In partnership with Oséo, which already has a strong regional presence, the project was also given a further €350m to invest as a fillip "to show we're bold", explains Mr Gilet.

'We are a motor of capital in France," he adds. "Our responsibility is to help the entrepreneurs find the right way.

The move highlights the increasingly close relationship between the FSI, which takes minority stakes in

the €20bn equity it has built up since 1816.

"There is no lack of tools, but they needed to be gathered under a single brand or umbrella," a CDC insider

But the French state is also looking beyond public institutions to help SMEs diversify their sources of financing.

NYSE Euronext, the secu-

'There is no lack of tools but they needed to be gathered under a single brand

rities exchange operator, has introduced initiatives to give SMEs easier access to capital markets, after working with René Ricol, a national credit mediator appointed by President Sarkozy to help persuade banks to restore or grant loans to businesses.

"The ecosystem dedicated SMEs with the potential for to SMEs is suffering and growth, and the CDC, we need to attract investors

The CDC has helped anchor the economy for two centuries

President Nicolas Sarkozy which invests in small busiback to this segment," says nesses via funds based on Marc Lefèvre, head of European domestic listings coverage at NYSE Euron-

> Measures implemented in 2010 include improved advice for issuers and a reduction in the minimum amount of private placements required for admission to NYSE Alternext, the market designed for

The project's success can be measured by the big rise in the number of companies listing: while just two listed in 2009, the figure had risen to 24 the following year.

NYSE Euronext now plans to build on this by developing a pan-European offering for trading corporate bonds, designed for listed and unlisted SMEs. and raising awareness among entrepreneurs about the benefits of listing.

It is harder to gauge the impact of the FSI. Mr Gilet says it is too soon to evaluate the profitability of its investments and that it has a longer-term horizon for returns than a typical private equity fund. It is similarly difficult to

assess the effect of the crédit d'impôt recherché, France's generous research tax credit that was spared in the recent budget measures, although analysts acknowledge that it plays a part in attracting inward investment.

Marc Lhermitte, an analyst at Ernst & Young, the consultancy, says: "Our tax experts at the European level rank the most competitive tax credit in Europe and it is considered a powerful incentive.'

What is clear, however, is the critical importance the government attaches to nurturing its most promising SMEs, regarded as a motor of growth in the most challenging of economic cli-

"In the past 10 years, 2.8m jobs in France have been created, and 2.3m of these were from SMEs," says Mr Lefèvre. "SMEs are innovation, growth and employ-

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Grenoble-Isère is often compared to Silicon Valley. While the analogy is flattering, it fails to reflect the diversity of the local economy. Home to 469,000 jobs in 2011, Grenoble-Isère boasts a young population (33% of residents are under 25) and a highly-qualified workforce, with one of France's highest concentrations of engineers (9%). High-tech industries like microelectronics, nanotechnology, software, embedded systems, chemicals, healthcare, and renewable energy play a key role in the Grenoble-Isère economy, while traditional industries like food, textiles and plastics continue to thrive. All

of these industries share a common thread - innovation - and their vitality has helped make Isère France's second-leading source of patent applications.

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Government agencies in Grenoble-Isère are committed to fuelling the local economy, working with manufacturers to roll out policies that promote value creation and attract investment. Whether Once known

by providing funding for innovation or supporting mostly for its natural the expansion of a particular industry, Grenoble-Isère's policy- of innovation for makers have built a culture of collaboration that is unique in

France. For example, the recent Grenoble-Dresden alliance will propel Europe's micro- and nanotechnology industry to the forefront of today's global economy. Local government also spearheaded efforts to bring international research instruments to Grenoble. The Institut Laue-Langevin (ILL), the European Molecular Biology Laboratory (EMBL), and the European Synchrotron Radiation Facility (ESRF) have made the city an international centre for the advanced study of

- Nature magazine

This strong government backing has convinced market leaders like Caterpillar, Schneider Electric, Pomagalski, STMicroelectronics, ARaymond, Becton Dickinson, HP, Xerox, Siemens, and Rossignol to make Grenoble-Isère their home. They - and many other companies - continue to invest heavily in manufacturing here. In recent years Grenoble-Isère has attracted billions in capital investment across all industries. Microelectronics in particular has seen substantial investment, with the Crolles 2 Alliance and Nano2012 initiatives representing \$2 billion in CapEx and €4.3 billion in R&D spending.

However, government support for economic development is far from limited to local efforts. The French government is also playing a role in driving innovation and business competitiveness through research grants and tax incentives. Grenoble-Isère will receive €387 million in economic stimulus funding for basic physics, biotech, healthcare, mathematics, and nanotechnology

research. This influx of funding will help local businesses grow and beauty, Grenoble-Isère stay competitive. France is becoming a centre also offers innovative • companies Europe's most academia and industry. attractive tax regime, with tax credits of 40% of total R&D spending the

first year, or 80% for R&D conducted in partnership with publicly-funded research centres.

A recent article in *Nature*¹ summed up the trend that is today shaping the Grenoble-Isère economy: "Once known mostly for its natural beauty, Grenoble-Isère is becoming a centre of innovation for academia and industry". And Grenoble-Isère's exceptional environment at the foot of the French Alps simply adds to the appeal. The area offers a quality of life capable of attracting – and keeping - top talent, essential to staying

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competitive in today's economy.

1. Katharine Sanderson, "France: Peak of potential". Nature 478 (2011) 547–548. 2. L'Entreprise 304 (2011) 46–47



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Big and small complement each other

Enterprise size

James Boxell says multinationals are important sources of business and talent for start-ups

France is making great efforts to improve the chances of success for its small and medium-size enterprises, a known area of weakness compared with rivals such as Germany.

Putting in place initia-Lagarde, the former finance minister who took up the post as head of the International Monetary Fund this year, the government has announced a number of measures to simplify the fewer of them. environment for its SMEs.

make their administration of its goods to the outside

easier and cut their running world, this needs to change.

stung into action by figures showing that Germany, with its famous Mittelstand of family businesses, has about 10,000 medium-sized companies with an average workforce of 984.

France, meanwhile has just 5,000 midsized employers with an average workforce of 538

About a third of German workers are employed at SMEs, while in France it is 21.5 per cent.

with between 20 and 99 workers, make a third of their sales from exports.

In France too, the smaller companies are often big tion and the quality of life. exporters. There are just far

For a country that is It hopes that this will desperate to sell more France.

As one French govern-The country has been ment official says: "It's time we realised that French business does not begin and end with the CAC 40" - the

> largest listed companies. Despite this desire to improve the lot of smaller businesses, the attraction of the corporate behemoths for foreign investors cannot

stock market index of the

be disregarded. In a recent poll of foreign investors carried out by Ernst & Young, the consultancy, the presence of large In Germany, a quarter of industrial groups was one tives begun by Christine the smallest companies, of the top five reasons people found the country attractive, along with factors such as good international accessibility, educa-

Indeed, many of the world's largest companies headquartered in

According to the 2011 For-

tune Global 500 list of the world's biggest companies by revenue, it was home to the headquarters of 35 of the top 500.

This put it behind the US, Japan and China, but ahead of its European rivals Germany and Britain - home to 34 and 30 respectively.

'It's time we realised that French business does not begin and end with the CAC 40'

Xavier Niel, the country's most successful entrepreneur in recent years, recently bemoaned the fact that so many of the country's leading companies are more than 20-years old.

He compared this with the US, where more than half the top 100 companies have been around for fewer than 20 years.

But according to the French agencies charged with bringing in foreign companies, this mix can add to the country's attrac-

They say overseas investors are often drawn to the sense of security that comes with an industrial roll-call of names that are leaders on world markets – such as Airbus, the aircraft manufacturer, Renault, the auto group, GDF Suez, the world's leading power generator by sales and capacity, and Michelin, the tyre

David Appia, chief executive of the Invest in France Agency and the ambassador for international investment, says the big multinational groups in the country are seen as big customers. potential

because of the number of subcontractors and partners they use.

They also act as global ambassadors, he says, because their "network of overseas relationships is likely to make it easier for foreign companies to be at ease in the French market".

But it is equally important that they act as a magnet for the 71 technology and business research clusters around the country, which are doing so much to bring research and development spending to the country.

"I'm not underestimating the role of start-ups and SMEs in specific niches of technology and excellence," Mr Appia says.

"But, clearly, the presence of big companies in a number of clusters is essential because they bring resources, brains and money.'

Cuts to save economy may anger voters

Belt tightening

Jennifer Thompson on how much room the government has for manoeuvre

"The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing," said Jean-Baptiste Colbert, Louis XIV's finance minister.

Shrewd words, but not those of a man facing a tough fight to win over a beleaguered electorate 156 days before the country goes to the polls.

Amid an intensifying eurozone debt crisis and sputtering growth, France must reduce its deficit.

However, the language used by Nicolas Sarkozy, the president, when he gave a big televised speech in Toulon recently on France's position, painted a delia country that could reject "the exclusive choice of growth by embracing a more upbeat strategy of "work, effort and controlling our expenses"

But Mr Sarkozy is fighting a war on two fronts.

He can cast an intensifying eurozone sovereign debt crisis as an opportunity to "tell us the way forward to rebuild", but is desperate to avoid a downgrade of France's cherished triple-A sovereign credit rating on more flexible on part-time his watch.

Socialist initiatives such as the 35-hour working week, describing them as "grave faults" and out of step with current economic pressures, yet polls consistently suggest he will be trounced by François Hollande, his Socialist rival.

is of critical importance, for nique Barbet, head of marboth France and Europe: ket economics at BNP Parimaintaining the highest credit rating not only lower borrowing means costs for the country, but reinforces its role in helping with wider eurozone rescue efforts.

France is one of only six European countries to hold the coveted rating.

Yet observers say that policymakers, constrained by political considerations, will put the breaks on any serious retrenchment in public spending, thus limiting the government's room for manoeuvre.

"There are not many policy options they can hope for in the next six months," says Marc Lhermitte, head of the international location advisory service in Europe at Ernst & Young, the consultancy. "We are in a particular year, which does not help us see with as much clarity as we would hope

So far, policymakers have opted for emergency budget measures. The first set of austerity measures, unveiled in August, will fall on corporations and the wealthy.

Aiming to raise up to €12bn in extra revenue by the end of 2013, they include a temporary 3 per cent tax that will be levied from this year on all incomes above €500,000.

Gains on property investments, excluding primary residences, will be taxed more heavily, raising some done it," he says.

€2.2bn in additional reve-

The country made bigger strides when it announced in early November a €65bn package of tax increases and spending cuts to be spread over five years.

Business was once again a focus: companies with turnover above €250m will pay an extra 5 per cent tax in 2012 and 2013.

But measures included bringing forward by one year to 2017 the introduction of the increase in the minimum retirement age, from 60 to 62, and cuts in government spending, including on state medical services.

More broadly, analysts at Moody's, the rating agency, have praised Mr Sarkozy's administration for instigating public pension reforms.

Nevertheless there are worries that the action does not go far enough.

"Corporations tell us that the debt level is worrisome, and the fact that more than cately optimistic picture of half of gross domestic product is dedicated to public spending is too much," says austerity" and rectify its Mr Lhermitte, adding that public deficit and anaemic similar attempts to reduce public debt in the UK and Germany have been per-ceived by investors to be more visible.

"There is a reduction of spending and while this adds up to some savings, it is not enough.'

Others say that labour initiatives could be used effectively in the coming months.

"One possibility is being work, by encouraging He might take a swipe at employers to keep staff on



Barbet: unskilled priced out of the market

Addressing the first issue reduced hours," says Domibas, the French bank. "It's a strategy that has worked in Germany."

Keeping people employment would mean they still receive part of their salary. It would also minimise the impact of distributing unemployment insurance. And companies and workers would be in a stronger position when the economy picks up.

Changing the country's relatively high cost of labour to boost competitiveness and attract investment could be another strategy. "In France, unskilled workers are priced out of the labour market," Mr Barbet adds.

France's minimum wage, which edged up this month, now stands at €9.19 an hour, one of the highest in Europe, although this issue is unlikely to be addressed in the near future. What is certain is that

French policymakers will tread a difficult path between providing reassurances on the eurozone while wooing their domestic electorate. The words of Jean-Claude

Juncker, Luxembourg's prime minister and the president of the eurogroup, the body that brings together the area's finance ministers, will ring uncomfortably true. "We all know what to do.

It's just we don't know how to get re-elected after we've

given its commitment to

increase the amount of elec-

tricity from renewable

sources to 23 per cent by

In line with the rest of

the developed world, France

has seen a sharp increase in

Education produces the 'geeks' for dotcoms

Digital economy

James Boxell discovers a new generation that is shaking off France's staid business image

entrepreneur of recent gard. years, probably knows ness in a country not usually recognised for its ability to foster innovation.

The owner of Iliad – which has revolutionised high-speed internet provision in the country and aims to do the same with mobile phones – started at the age of 19 supplying adult entertainment services on Minitel, the country's

early rival to the internet. He now leads a company with a €5bn market value, whose Free brand is challenging the country's big, established telecom operators. As a result, he is well placed to comment on the country's chances of success in playing a significant part in the development of the global digital econ-

Mr Niel warns that France needs to do more to build young, high-technology companies – an area in which it lags far behind the US - so they reach the size of the older, established companies in more traditional industries.

But he also stresses that France's difficulties in this field have nothing to do with a lack of entrepreneurial spirit.

'You have hundreds of young people who want to create their own businesses," Mr Niel says. "So France is a good place to be an entrepreneur, like Germany, England and Spain. It's probably not as easy yet, but we are getting

Indeed, Mr Niel's is not the only upbeat story among French hightech entrepreneurs.

Marc Simoncini also made a success of his Meetic online dating site: Pierre Kosciusko-Morizet set up the popular PriceMinister website, a rival to Amazon; while high standards and rigour of its some people describe as being too year.

the online designer brand retailer vente-privee.com, founded by Jacques-Antoine Granjon, has been an international hit.

Indeed, a recent report from McKinsey, the management consultancy, says that, while France is not exactly in the vanguard of developed economies when it comes to the internet - unlike avier Niel, the most Sweden and South Korea, and French even the UK - neither is it a lag-

Matthieu Pélissié du Rausas, a more than most about what it senior McKinsey partner in Paris takes to build a technology busi- and one of the authors of the report, says: "If you look at the size of the internet economy in France, it is about 3.2 per cent of gross domestic product, which is not insignificant. It is about the same level as education, but more than agriculture and energy. It's starting to be significant.

"France is a 'middle-of-the-pack' country [among the most developed economies, which is great news in a way, because we are still in the race, but there is still room to improve.'

The government is playing its part, as it seeks to foster innovation and the development of a digital economy.

A significant part of the country's €35bn fund to "invest in the future" has been earmarked for the internet, notably €4.5bn that will be spent on building a very high-speed national broadband

The politicians have also won praise for the country's tax breaks on research and development, which have been a factor in the record numbers of foreign companies investing in the coun-

The e-G8 forum in Paris last May, presided over by Nicolas Sarkozy, the French president, was also deemed a success.

It was attended by Barack Obama, the US president, and attracted prominent delegates from the dotcom world, including Mark Zuckerberg, the chief executive of Facebook, helping to show the French public that this was an industry to be taken seri-

One of the areas where France has a distinct advantage is in the



education system, which help make the country attractive to foreign investors.

'What we believe is a real asset is the quality of our maths and ing us to produce engineers and the 'geeks' that you need to

'The quality of our maths and science education is helping us produce all the "geeks" to design these new services

design these new services," explains Mr Pélissié du Rausas. However, there are still criticisms about the weak links between the world of business

and France's universities – which

"closed" - although this is something that the government is taking steps to improve.

There are also suggestions that the country could do better if it science education, which is help- rationalised the number of technology "clusters" – geographical areas that foster a particular expertise or technology - to pro-

vide a greater focus. Nevertheless, despite fears about the impact of the eurozone crisis, optimism still surrounds the development of the digital economy, particularly the benefits for small and medium-sized enterprises (SMEs) and local econo-

To take one example, Olivier Bernasson created Pêcheur.com as a fishing blog in 2000.

It now employs 30 people in the village of Gannat in the Auvergne region and sells more than €10mworth of outdoor equipment a

Eric Hazan, a McKinsey partner who helped to write a separate report on France's digital economy, says: "There are many examples of small companies in the regions that through the use of digital technology are exporting more and developing more.

"If you take the SMEs with the

highest usage of web technolo-

gies, basically, they export twice as much as the others; they grow twice as quickly as the others; and they create twice as many jobs as the others. For France which, along with other western countries, is strug-

gling for sources of growth, the internet could provide an answer. It is estimated the internet contributed 18 per cent of French GDP growth in the five years to

As Mr Hazan concludes: "We think it is a no-brainer to use the internet as a growth engine."

Overseas investors are not just here for the engineers

Growth areas

James Boxell reports on a 40 per cent rise in projects in the service sector

France may be known for its industrial heritage, but it has recently seen a big increase in the number of foreign companies investing in business services and

software. According to Ernst & Young, the consultancy, seven of the top 10 foreign job creators in the country

providing software, distribution, or services to com-

Accenture, a consultancy, created 875 jobs, while Technologies, an software group, hired 300 staff. Amazon, an online retailer, was not far behind with 277 extra jobs.

Overall, there was a 40 per cent increase in foreign projects in business services, compared with the previous year.

One in five foreign-created jobs in France last

year was in that area. The worry, say analysts, is that much of this expansion was connected to the

last year were involved in return of a certain amount of growth to the French and wider European economies. With many economists

now predicting a return to recession in the eurozone, there are fears this will have an impact on business

The problem also comes from the type of outsourcing services that France hopes to foster.

It is trying to tap into demand for "nearshoring" of back office jobs by its European neighbours, who want to outsource but are unwilling to send the more specialised, sensitive and high value jobs to emerging markets or eastern Europe.

However, if western Europe's economy stays in the doldrums, there may well be fewer back office jobs to outsource and greater pressure to shift more of them

to lower-cost countries. It is also worth stressing that while services are increasing in importance, foreign companies are still largely interested in the country for its manufacturing and engineering.

David Appia, chief executive of the Invest in France agency, says: "The number of projects in services keeps growing. We had 250 of them last year, so it is clearly becoming more important, but manufacturing activities remained predominant, which is good news for a country in which industry is such a strong part of what we do." Invest in France says

France is trying to tap into demand for 'nearshoring' of back office jobs

there is also evidence that foreign investors are continuing to invest in French plants, despite competition from cheaper locations in central and eastern Europe, because of the skills and

education levels of the French workforce.

The agency says one large US company is putting the final touches to a new investment after deciding that France's support for a local plant had lifted its productivity to such a degree that it offset the far cheaper labour costs in

eastern Europe. "When you have a highly sophisticated plant, you need the proper people to run it," Mr Appia says.

Such outcomes will be welcome to the French treasury, when it looks at the importance of foreign investment in manufactur-

According to the latest ble energy - particularly available data from Insee, the national statistics body, foreign industrial subsidiaries provide jobs for a quarter of the industrial workforce and generate a third of turnover.

Ernst & Young estimates industry accounted for 57 per cent of the jobs created by foreign investors last year, an 8 per cent increase on the previous year.

One worry is that many of these jobs were created in the carmaking industry, often the first to suffer in a

recession. An area where the couning to analysts, is renewa-

renewable investments in recent years, but there is a feeling it should do more. It is pioneering offshore wind farms but there has been disappointment about

the lack of support given to the photovoltaic industry. If France is to maintain

the strong attractiveness of its industries, a more try could do better, accord- enlightened policy looks