It is Impossible to Overdo Luxury: French Variety of Capitalism and its Contribution to Luxury Market Presence

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IT IS IMPOSSIBLE TO OVERDO LUXURY: FRENCH VARIETY OF CAPITALISM
& ITS CONTRIBUTION TO LUXURY MARKET PRESENCE

By
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A thesis presented in partial fulfillment of the requirements for completion of the
Bachelor of Arts degree in International Studies at the
Croft Institute for International Studies
Sally McDonnel Barsdale Honors College
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University, Mississippi
Spring 2018

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Abstract

This study seeks to explain the dominance of French companies in the luxury fashion industry. The study aims to prove that France’s unique model of capitalism contributed to the strong position of French luxury fashion. By using the theoretical framework of the varieties of capitalism the study analyses France’s variety of capitalism, the evolution of the French luxury market, and ultimately compare how French luxury fashion firms fit the needs of the luxury fashion industry. Ultimately, the findings indicate that while the history of French fashion is the cause for its dominance until the postwar period, the French variety of capitalism after the postwar period aided in the continued dominance of the French luxury fashion industry.
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The term luxury is unavoidably synonymous with the French. From Louis XIV's Versailles, to Coco Chanel, to the world's current largest luxury brand — Louis Vuitton — the French not only do luxury well, they do it better than the rest of the world. France currently occupies three spots on the top ten list of leading global powers of luxury goods, and ten spots out of the top one hundred in total. France is tied with the U.S for total share of companies in the top ten, but the three French companies — LVMH, Kering, and Hermès — outsold the American top three companies by over 14 billion US dollars. France holds the highest revenue share (23.9 per cent) of Top 100 luxury goods sales, and Moët Hennessy Louis Vuitton (LVMH) brought in three times the revenue of its closest competitor — Richemont SA, which is based out of Switzerland.¹ All of these statistics culminate to the easy conclusion that France knows luxury. What these statistics do not explain is the question of why France does luxury so well.

This thesis seeks to answer the question of what explains the extremely strong position of French companies in the global luxury product market. The study will focus on the luxury fashion industry, a typical sector of the luxury market, in particular. The purpose of this project is to determine if (and how) the institutional framework of France's economy helped cultivate a dominant presence in the global luxury market – with special attention to after the post-war period – and to explain how the institutions of political economy within France’s particular variety of capitalism work with regard to the French luxury industry. The study aims to identify a causal relationship between French institutions and a thriving, and even world-dominating, French luxury industry. Due to

the extensive size and diversity of the luxury market, the study will focus on the luxury

*fashion* industry to provide a narrower focus.

The first chapter will act as an introduction into the varieties of capitalism

approach to comparative political economics and seeks to define the two major varieties

as well as demonstrate the existence of France’s own distinct model. The section will also

explain how the French model has changed since the postwar period.

The second chapter will provide necessary background information on the
development of the French luxury fashion industry. The third chapter will focus on

defining the needs and behaviors of the luxury fashion industry as a whole and will

compare the ways that three example companies (each representing one of the three

separate varieties of capitalism) meet the needs of the luxury fashion industry.

The final chapter will consist of an analysis of France’s variety of capitalism’s

contributions to France’s status as a leader in the luxury fashion industry. The study will

analyze the four dimensions (industrial relations, vocational training, interfirm relations,

and corporate governance) of the French variety of capitalism and how each dimension

may or may not have contributed to the growth and strength of the French luxury fashion

industry during and after the neoliberal period. Chapter four will ultimately demonstrate

that the evolution of the French variety of capitalism aided in the growth of the French

luxury industry and in sustaining France’s status as the international leader of luxury

fashion.
Chapter 1: Defining Varieties of Capitalism (Literature Review)

The study of comparative political economy has evolved over time. In the early 2000s, Peter Hall and David Soskice pioneered the varieties of capitalism approach, making a huge impact on the field. The varieties of capitalism literature is a firm-centered approach to comparative political economics that examines four dimensions of an economy: vocational training, corporate governance, interfirm relations, and industrial relations. The four dimensions determine which of the two specific types of capitalism the economy falls in to: liberal market economies or coordinated market economies. Bowman states that Hall and Soskice’s four dimensions of a variety of capitalism stem from the need to answer a specific set of problems.

How much should workers be paid? Who will be paying for employee training? Where will investment capital come from? To what degree will employees have input into the firm’s major decisions? How will new products and technologies be developed?2

The key to the approach is that the focus is on the manner in which different forms of capitalism go about meeting certain needs. The framework assumes that firms are rational actors which strategically pursue their own interests.3 The method with which specific capitalist economies go about answering these problems decides the economy’s variety of capitalism. The true key to the varieties of capitalism framework is not only the

2 Bowman, J. (2014). *Capitalisms compared*. Los Angeles, Calif. [u.a.]: SAGE [u.a.]. p 22
four dimensions that define the capitalism, but it is also the complementarity between the four dimensions that makes an economy part of a specific model.

The first dimension, *industrial relations*, concerns how businesses deal with employees and how, in turn, employees deal with businesses. Hall and Soskice explain industrial relations as

…how to coordinate bargaining over wages and working conditions with their labor force, the organizations that represent labor, and other employers. At stake, here are wage productivity levels that condition the success of the firms’ rates of unemployment or inflation in the economy as a whole.\(^4\)

Essentially, industrial relations deal with wage determination and employee representation within the firm. It examines the role of the firm, trade unions, and the role of the government in these decisions.

*Vocational training* involves a two-sided problem. First, businesses require a workforce with sufficient skill levels that the businesses believe will be of an advantage to their companies for an extended period of time. Businesses also hope that the employees that the business trains/invests in the training of will stay within the company. On the other hand, the worker must decipher which skills are most profitable to learn and how much one is willing to invest in attaining the skill. Vocational training deals with who will pay for training and in what manner the training will occur. Training can involve not only the company level, but also the sector-level and even the entire

\(^4\) Hall & Soskice 7
economy-level beyond that. An entire-economy level of training resides in cases where the entire population is educated to a certain point, as with state mandated public grade schooling.

The concept of interfirm relations is easily deduced from the label. Interfirm relations focus on the connections between an enterprise and other enterprises with special regard to suppliers. The problem faced in interfirm relations is deciding from where companies are sourcing materials. The interfirm relations dimension seeks to explain “the relationships a company forms with other enterprises, and notably its suppliers or clients, with a view to securing a stable demand for its products, appropriate supplies of inputs, and access to technology.” Interfirm relations can also deal with the sharing of technology and of information across firms and how institutions go about that sharing.

Corporate governance answers the problem of how companies will finance various projects. The corporate governance dimension deals with where money is coming from, whether it is government funded, privately funded, funded by investors, banks, etc. The other side of corporate governance is how investors are encouraged to invest. For instance, a government might offer certain protection to the investors in order to promote investment in industry. Outside of financing, corporate governance also concerns who has the right to participate in company decisions and who has access to board of directors.

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5 Hall & Soskice
6 Hall & Soskice
7 Hall & Soskice
**Liberal Market Economy Model**

The first of the two main varieties of capitalism outlined by Hall and Soskice is termed *liberal market economies*. From World War II through present day, liberal market economies are capitalist economies that are more *market* driven economies, meaning that the relationship between firms and other institutions are based predominantly on market relationships. Liberal market economies’ strength is in their flexibility. Hall and Soskice explain that relationships in liberal market economies consist of “an arm’s-length exchange of goods or services.” Liberal market economies are based on competition and formal contracting that are a response to price signals within the market. Examples of liberal market economies include the United States and the United Kingdom.

Industrial relations in liberal market economies are dependent on market relationships. Employees in liberal market economies are viewed exclusively as labor inputs rather than as relationships, and therefore, labor markets are extremely fluid. Due to how fluid the labor market is, coordination over the entire economy is difficult. Instead, the emphasis lies heavily on macroeconomic policy and competition in the market to control inflation and wages.

Organization of the labor force focuses on the relationship between the individual and employer. As a result of the fact that the management has a lot of power within the business, unions are not extremely prevalent in liberal market economies. Managers are concerned that strong unions will be detrimental to the authority of the manager. Top

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8 Bowman 27  
9 Hall & Soskice 8  
10 Hall & Soskice 30
management typically has a great deal of autonomy over the firm, especially in regard to hiring and firing workers. There is no legal obligation for firms to create representative bodies for workers. That being said, the fluid nature of the workforce in liberal market economies means that workers can just quit and move on if unsatisfied.

Vocational training in liberal market economies focuses on higher levels of general skills. Due to the fluid nature of labor markets, firms in liberal market economies are less willing to invest in training workers in specific skills only to have them move on to another firm. In order to compensate for the fear of employee loss, higher levels of general education are common in liberal market economies. Firms do give some specific vocational training, but it is typically in-house and less based in apprenticeship as is the case in other models. The higher emphasis on general skills also mean that adding on specific skills can subsequently be less costly.\textsuperscript{11} However, it is worth noting that the lack of direct apprenticeship does result in a skill set that never quite matches the level of coordinated market economies.

Liberal market economies’ interfirm relations are based on standard market relationships and enforceable formal contracts. Technology is developed within individual firms, rather than in collaboration with other firms.\textsuperscript{12} Industry standards are based on competitive races between firms for market dominance.\textsuperscript{13} Technology transfer across firms is found through the fluid labor market, meaning that scientists and engineers move from company to company bringing knowledge with them, and thus spreading the technology and information. Companies protect information by heavily

\textsuperscript{11} Hall & Soskice 30
\textsuperscript{12} Bowman 25
\textsuperscript{13} Bowman 25
relying on the licensing and the sale of innovations to stimulate the transfer of technology between firms. Due to the fact that information is essentially sold from firm to firm, strong patent laws are essential in the liberal market economy model.\textsuperscript{14}

Corporate governance in liberal market economies depends on outside investments to finance projects. Decisions to invest are based entirely off of publically shared information because inside information is not easy to find in liberal market economies, and governments keep a close eye on interactions to avoid potentially fraudulent insider trading. Bowman says that liberal market economy corporate governance systems make funding new ideas easier for entrepreneurs because capital is fluid in liberal market economies. Firms must be diligent in regard to both current earnings and the price of the firm’s shares on equity markets to ensure investments. Liberal market economies are receptive to constant mergers and acquisitions, including hostile takeovers in some cases.\textsuperscript{15} Also, boards of directors consist of only management and shareholders.

\textit{Coordinated Market Economy Model}

The second of the two main varieties of capitalism is the coordinated market economy model that is less market-driven and more focused on the coordination of non-market factors. Non-market factors mean that coordinated market economies cultivate and focus on \textit{relationships} between firms.\textsuperscript{16} Examples might include contracts that are

\begin{footnotes}
\footnote{Hall & Soskice 31}{Hall & Soskice 31}
\footnote{Hall & Soskice 27}{Hall & Soskice 27}
\footnote{Hall & Soskice 8}{Hall & Soskice 8}
\end{footnotes}
incomplete, relational-based contracts, networks that exchange information between firms, and heavier reliance on collaboration both within and in between firms.\textsuperscript{17} The strength of coordinated market economies stems from “the deep skill level of their workers and their ability to produce high-quality products”\textsuperscript{18} Countries like the Scandinavian countries, Switzerland, and Germany exemplify the properties of a coordinated market economy.

According to Hall and Soskice, coordinated market economy industrial relations “rely on highly skilled labor force given substantial work autonomy and encouraged to share the information acquired in order to generate continuous improvement in product lines and production processes.”\textsuperscript{19} However, wage coordination helps businesses avoid poaching, because firms cannot entice workers via higher salaries than the industry as a whole negotiated.\textsuperscript{20} Employees are not seen as just labor inputs like in liberal market economies; employees are valuable assets to be taken advantage of and cultivated.\textsuperscript{21} Workers and managers recognize that cooperation is necessary to reach common goals.\textsuperscript{22} In terms of wage determination, typically separate organizations represent both sides – worker and employer – and act in each side’s interests. It is important to note that both sides get a seat at the proverbial table in coordinated market economies.

Long term labor contracts are par for the course in coordinated market economies in the dimension of industrial relations. The long-term contracts mean that labor is tied to one job and firm for an extended period of time, thus the labor market in coordinated

\textsuperscript{17} Hall & Soskice 8
\textsuperscript{18} Bowman 27
\textsuperscript{19} Hall & Soskice 24
\textsuperscript{20} Hall & Soskice 24
\textsuperscript{21} Bowman 26
\textsuperscript{22} Bowman 26
market economies is not as fluid as in liberal market economies. While liberal market economies rely on movement of employees to share information and technology, coordinated market economies “facilitate inter-company relations of the sort that facilitate the diffusion of technology across the economy.”

Coordination displays itself in the dimension of interfirm relations through the collaborative nature of firms in dealing with technology share. According to Bowman “firms are more likely to be involved in joint research consortia or other kinds of joint ventures that involve sharing technology.” Whereas in liberal market economies insider trading carries a high level of concern, countries with coordinated market economies can allow more coordination between firms because insider trading is made obsolete. Insider trading is when a person uses otherwise confidential information to his/her own advantage when trading on the stock market. Coordinated market economies do not have to worry about potentially illegal conspiracy that carries a fraudulent intent, like insider trading, because information is readily available to all parties.

Coordinated market economies require highly skilled workers with firm-specific skills, and as a result vocational training is of great importance. Workers need to know that an apprenticeship will result in advantageous and secure employment, and on the other side, firms that are funding training need to know that workers that they train will both learn usable skills and also will not be “poached” by companies that do not make

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24 Bowman 27

equivalent investments in training.” Coordinated market economies combat poaching by establishing lasting connection between employees and the firm and by having similar salaries, produced by industry-wide wage determination. As a result, labor is not as fluid in coordinated market economies as it is in liberal market economies, and firms are less likely to invest in employee training in vain.

Corporate Governance in coordinated market economies focuses on “patient capital”, finance that is not entirely dependent on publicly available financial data or current returns. Patient capital makes it possible for businesses to retain skilled workers and for firms to invest in things that may only turn a profit in the long run. The system works in coordinated market economies because of the networks between workers, who are responsible for technological innovation, and managers that allow for the sharing of information. The networks are links between firms that facilitate information transfer, and the networks are built on perceived reliability of the firms. For a firm in a coordinated market economy, establishing a reliable reputation is essential to maintaining networks and thus to remaining profitable. Firms carry out joint research projects and include representatives on the supervisory boards of one another to facilitate these networks. The system resembles insider information in some respects. Coordinated market economies depend on reputation above all else in the department of corporate governance.

Companies in coordinated market economies are not limited to just the buying and selling of shares for financing. Activities can be funded internal from retained

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26 Hall & Soskice 25  
27 Hall & Soskice 22  
28 Bowman 25
earnings of the firm and not necessarily from external finance. Even in the case of external financing, firms under the coordinated market economy model are more likely to turn to bank loans than to the stock market. The finance system of coordinated market economies also adds labor and banks to the company board.

**French Model (State-Enhanced Capitalism)**

Coordinated market economies and liberal market economies are the two established, agreed upon varieties of capitalism according to the varieties of capitalism framework. However, not every country with a capitalist economy falls in either a liberal market economy or a coordinated market economy model. Several countries, like France, do not conform to either framework. Instead, these countries have other characteristics that set them apart from the prescribed set. Debates and opinions on a third model for the varieties of capitalism framework have ebbed and flowed throughout the years. It would seem no third group has emerged because the members of the outlier’s group share a key factor in common: the country’s forms of capitalism do not have enough in common with each other.

Still, the methods that these countries approach each dimension of capitalism does not align enough with liberal market economies or coordinated market economies enough to classify said country under one of the two existing categories. Experts like Vivien Schmidt and Bob Hancké argue that modern France, an example if not the example of a capitalist state that does not fall under either variety of capitalism, has its own distinct

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29 Bowman 25
variety of capitalism. Schmidt, Hancké, and other scholars acknowledge the postwar era in particular was a period within the varieties of capitalism framework that recognized three distinct models of capitalism: liberal market economies, coordinated market economies, and state-led market economies (i.e. France). Table 1 displays the core differences between the postwar French variety of capitalism and the two accepted varieties.

**Table 1 Varieties of Capitalism Compared**

<table>
<thead>
<tr>
<th></th>
<th>Liberal Market Economy</th>
<th>Coordinated Market Economy</th>
<th>French Dirigiste Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Rule</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policies towards business</td>
<td>Liberal</td>
<td>Enabling</td>
<td>Interventionist Director</td>
</tr>
<tr>
<td>Policies toward labor</td>
<td>Arbitrator</td>
<td>Facilitator</td>
<td>Organizer</td>
</tr>
<tr>
<td><strong>Business Relations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interfirm Relations</td>
<td>Competitive, contractual, individualistic</td>
<td>Co-operative but loosening of networked relations</td>
<td>State-led</td>
</tr>
<tr>
<td>Finance Sources</td>
<td>Capital markets</td>
<td>Firm, Banks, Capital Markets</td>
<td>State mediated</td>
</tr>
<tr>
<td>Goals</td>
<td>Shareholder values</td>
<td>Stakeholder values</td>
<td>National political-economic priorities</td>
</tr>
<tr>
<td><strong>Industrial Relations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management-labor Wage bargaining</td>
<td>Neutral</td>
<td>Cooperative</td>
<td>Adversarial</td>
</tr>
<tr>
<td></td>
<td>Radically decentralized</td>
<td>Coordinated</td>
<td>State-controlled</td>
</tr>
</tbody>
</table>

*Table 1 adapted from Schmidt 2003*

During the postwar period, France was considered a *dirigiste*, state-led economy. *Dirigisme* is defined as the state control of economic factors, and the postwar period of French capitalism was strictly *dirigiste*. At its peak, one third of manufacturing during the postwar period in France was under state control, though not in the same context as
communist states like the USSR.\textsuperscript{30} The aim of the state was “to direct economic activities through planning, industrial policy and state-owned enterprises, in addition to all the ways the other states promoted business, while it administered the rules itself, as often as not through the derogation of the rules in favor of business”.\textsuperscript{31}

Industrial relations under \textit{dirigisme} saw the state as a powerful actor. The state organized wage bargaining and acted as a mediator or an enforcer in cases where business and labor were unable to negotiate. By controlling the negotiation, the state thus control wage rises as well. Social conflict played a large role in labor, but the labor unions did little to affect actual change.\textsuperscript{32}

Vocational training under \textit{dirigisme} was very poor as most workers in France were either considered low or unskilled.\textsuperscript{33} Labor policies led to low-waged, poorly trained labor and high production costs.\textsuperscript{34}

The state control extended to interfirm relations as well by mediating the terms of interfirm relations and setting “medium-term corporate strategies through planning and industrial policy.”\textsuperscript{35} Suppliers in the postwar era were primarily self-interest focused small firms that concentrated on themselves, rather than the connections to larger firms.\textsuperscript{36} The \textit{dirigiste} state underwrote a lot of investment, and prompted product innovation in

\textsuperscript{31}Schmidt 2003; 529
\textsuperscript{32}Hancké 309
\textsuperscript{33}Hancké 308
\textsuperscript{34}Schmidt 2003 533
\textsuperscript{35}Schmidt 2003, 529
\textsuperscript{36}Hancké 309
strategic areas, specifically areas owned by the state, like electricity, railroads, and telecommunications.\textsuperscript{37}

The state aided traditionally undercapitalized businesses by underwriting investment in those industries. The state would accept the liability and demand no financial return as long as goals of the state were being met. The specific goals varied, but, typically, qualifying for investment would mean maintaining certain employment levels or increasing production in strategic areas chosen by the state.\textsuperscript{38}

Corporate governance in the postwar era was a mix of direct and indirect state control. Direct state control entailed direct ownership of the industry or firm by the state. Indirect state control came from state-centered credit system and a planning apparatus that was handled by a small elite group of government officials. Industrial credit was also directed by the state.\textsuperscript{39}

Pre-WWII France’s variety of capitalism fit firmly in the state-led category of the Hall and Soskice framework. However, the wave of liberalization that hit European economy as a whole in the 1980s meant that each variety of capitalism had to adapt to the change of the system. When the postwar years moved into the neoliberal era of the 1970s and 1980s all capitalist models saw a shift towards liberalization of markets, and France responded to the shift by drastically reducing the role of the state. France evolved by decentralizing the economy, moving away from the strong state-led model of the postwar period, and in to the modern state-enhanced system. As shown in Table 2, French variety of capitalism took a turn away from the state and toward a more firm-led system in many

\begin{flushright}
\textsuperscript{37} Schmidt 2003, 540
\textsuperscript{38} Schmidt 2003, 530
\textsuperscript{39} Hancké 309
\end{flushright}
respects. Vivien Schmidt explains how France “sought to direct economic activities through planning, industrial policy and state-owned enterprises, in addition to all the ways the other states promoted business, while it administered the rules itself, as often as not through the derogation of the rules in favor of business”\footnote{Schmidt 2003, 529} The new system aimed at increasing the role of firms while still protecting business from potentially harmful effects of the market.\footnote{Schmidt 2003, 533} In France, investment is not driven by financial markets as strongly as it is in other models.

Schmidt refers to the current French model as a state-enhanced variety of capitalism that has evolved from postwar *dirigisme*. State-enhanced means that the state still has significant influence over the economy, but the state no longer directly controls to the extent that was common of the postwar era. The past few years have seen moves away from heavy handed state-led capitalism and towards a more firm-led, state-enhanced variety.
Table 2 Evolution of characteristics of the French variety of capitalism

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Policies towards business</td>
<td>Interventionist Director</td>
<td>Newly “enhancing” Much more liberal but still seeks to influence</td>
</tr>
<tr>
<td>Policies toward labor</td>
<td>Organizer</td>
<td>Newly bystander, ‘moralizes’</td>
</tr>
</tbody>
</table>

**Business relations**

<table>
<thead>
<tr>
<th>Interfirm relations</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State led State mediated</td>
<td>Competitive, end of state mediation; autonomous</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Sources Goals</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>Firm, capital markets</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Industrial Relations</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Management-labor</td>
<td>Adversarial</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

| Wage bargaining | State controlled | Radically decentralized |

*French Model Industrial Relations*

The state still plays a substantial part in French industrial relations. However, wage bargaining is extremely decentralized compared to the *dirigiste* era. In the new system, ownership of large firms in particular tends to be concentrate large shares to a few shareholders. A more concentrated share ownership in French firms means CEOs have more autonomy because the CEOs experience more freedom from markets than liberal market economy counterparts. On the other hand, according to Schmidt, CEOs in France are “less constrained by boards of directors, networked relationships or the employees,” than CEOs in coordinated market economies. The strong position of CEOs translates to less employee representation in decision making within the firm.

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42 Culpepper 14
An increase in subcontracting through the outsourcing of production and services keeps the number of employees down and the flexibility up in French business. The firm-level takes on a more important role and firm-level bargaining is now especially important. Industrial relations in the French model are characterized by a greater focus on negotiation at the firm level and radically decentralized wage bargaining.\footnote{Schmidt 2003, 535} The late 1980s also saw a promotion of flexible hiring and firing for French firms and growth in the variation of pay that is based on performance rather than regulation.\footnote{Schmidt 2003, 535}

**French Model Vocational Training**

France has gone through a wave of upgrading generalist skills since the turn of the millennium. French workers tend to be more highly skilled, receive better training and better pay, and produce higher quality, less mass-produced goods. However, efforts to finance firm-specific training and to finance at the firm level were not effective post-

\textit{dirigisme}. As with the other dimensions, the state has taken a much smaller role as of late.\footnote{Culpepper 20} Small and medium enterprises have been the main focus of French vocational training policies, but since the removal of the \textit{dirigiste} state, France has struggled to promote firm-level investment for vocational training in these small and medium enterprises. However, larger firms have found some success in this domain by taking the high generalist education workers and using in-house, firm-financed training to the firm’s advantage.

**French Model Interfirm Relations**

\footnote{Schmidt 2003, 535} \footnote{Schmidt 2003, 535} \footnote{Culpepper 20}
Interfirm relations in France are defined by “a vertically integrated pattern based on large-firm dominance.”\textsuperscript{46} The majority of small firms in France make a significant share of their income by acting as suppliers to large firms.\textsuperscript{47} The relationship allows large firms to ensure quality from suppliers while it also gives suppliers a more stable demand and easier access to financing. The new interfirm relations lead to better productivity than was typical of the \textit{dirigiste} era.

The vertically integrated pattern of interfirm relations is based on large-firm dominance and has replaced the state-organized pattern of the past.\textsuperscript{48} The relationship between small and large firms allows the large firms to ensure improved quality of the products that the suppliers provide as well as the efficiency of the suppliers’ operations. The suppliers are able to have easier access to financing and stable demand from the large companies.\textsuperscript{49} Larger French firms aim to integrate suppliers both organizationally and technologically into the large firm’s own production systems, but also maintain and uphold policies developed by firm headquarters in Paris.\textsuperscript{50}

\textit{French Model Corporate Governance}

France has seen a hard move away from state leadership of businesses.\textsuperscript{51} Privatization and deregulation has led to the neutralization of labor (meaning strikes and general opposition has lessened) and the state is no longer investing in business as much as was common in the \textit{dirigiste} era. According to Culpepper, the state control of the

\textsuperscript{46} Schmidt 2003, 545
\textsuperscript{47} Hancké 309
\textsuperscript{48} Schmidt 2003, 545
\textsuperscript{49} Schmidt 2003, 546
\textsuperscript{50} Schmidt 2003, 546
\textsuperscript{51} Culpepper 9
The economic model has been reduced to “core areas of public service provision.” At one point in time French companies received investment capital from banks and loan allocation that was indirectly controlled by the state. The corporate governance in France has thus turned away from the state and slightly towards equity markets. The change was one dominated by private companies, rather than public actors, meaning that while equity markets do have a growing importance in investment in French companies, most investment comes from within the firm. Managers in France have more control over the governance of companies and, in some ways, are better off than both of their liberal market economy and coordinated market economy counterparts. CEOs in France are less subject to the rise and fall of financial markets than British, a typical liberal market economy, CEOs. In a typical coordinated market economy like Germany, CEOs are limited by relationships with other firms and their employees as well as their boards, but these limitations are not as prevalent in France. The use of cross-shareholding concentrates ownership and therefore concentrates power.

Vocational training across the three models ranks Germany as the highest investment in vocational training, followed by France, and then Britain coming in last with the lowest investment of the firms in vocational training. France maintains “middling investment in vocational training” France focuses production system based on medium skills, medium wages and medium product quality. France fosters a superior productivity rate than Germany as well as a higher employee skill level than the British.

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52 Culpepper 8
53 Culpepper 11; Schmidt 2003, 541
54 Schmidt 2003, 539
55 Culpepper 10
56 Schmidt 2003, 545
In regard to industrial relations, France is more like Britain; the French system is based more on market relationships than on coordination.\textsuperscript{58} France maintains a degree of flexibility for managers to hire and fire as needed. However, the state does retain the ability to “ease adjustment pains”\textsuperscript{59}.

As far as the dimension of interfirm relations is concerned, the French state’s attempts to moralize business made France a certain degree closer to the coordination and personal networks common in Germany, autonomous from the state, so a degree of competition, as is common under British markets, does remain\textsuperscript{60}.

In terms of corporate governance, France again is situated between the two varieties. The British have the highest level of financial market capitalization, the highest amount of take-over activity, the highest degree of internalization of finance and diffusion of share ownership.\textsuperscript{61} Germany has the lowest amounts of each of the aforementioned characteristics, while France ranks higher than Germany, but lower than the UK.\textsuperscript{62} Due to its ranking, French managers are allowed a higher degree of autonomy than either of their counterparts. Concentrated shareholdings protect French firms from hostile take-overs, but managers are also not as beholden to the networks that dictate

\textsuperscript{57} Schmidt 2003, 547
\textsuperscript{58} Schmidt 2003, 535
\textsuperscript{59} Schmidt 2003, 545
\textsuperscript{60} Schmidt 2003, 547
\textsuperscript{61} Schmidt 2003, 539
\textsuperscript{62} Schmidt 2003, 537
German manager’s decisions.\textsuperscript{63}

\textsuperscript{63} Schmidt 2003, 539
Chapter 2: French Fashion

2.1 Development of French Luxury Fashion

When an economist thinks of French products, the first thing that comes to mind in terms of exports is not fashion. Financially, France’s usual hard-hitters in the export business are focused in aeronautical construction, automobile manufacturing, and the pharmaceutical industry. However, if one adjusts the audience to the average American woman, the answer will be filled with images of high fashion.

The French government openly recognizes the importance of luxury fashion to both the French economy and the perception of France as a whole. Economically, roughly 130,000 French citizens work within the luxury fashion sector in France and France reports that 34 billion euros are made every year. However, the French Fashion Institute, IFM, claims that number is underestimated and the true value of fashion and fashion-related items (i.e. accessories and shoes) is closer to 150 billion euros. In an excerpt translated from the French government website emphasizes the importance of the industry as a large part of the economy:

> The luxury industry presents numerous positive externalities. It is an attractive factor for tourism and hospitality. It promotes artistic creativity in other sectors of the economy. It represents 5% of the communication expenditures in France. The demand is supported in the

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long term, especially internationally, and the cost-effective
framework is above average in the French economy.66

It is true that France’s system produced at least forty-two billion US dollars in
2016 alone, and the government is not wrong to deem it a cost-effective industry. Net-
profit for the top three French luxury fashion firms: LVMH, Hermès, and Kering, all
exceeded ten percent.

Couture is soaked into the very essence that is France’s image. France’s close
association to luxury started with the reign of the Bourbons. Several scholars make the
argument that luxury fashion actually started with the Sun King himself, Louis XIV.
Louis XIV knew that appearances mattered, that foreign emissaries would associate what
they saw in his court with a well-crafted perception of wealth in France. The Sun King
was a roi absolu, meaning his style of monarchy consisted of absolute rule over France.
In a move to consolidate his court and further centralize that power, Louis XIV moved
the French court twenty miles out of the city of Paris to Versailles. The king transformed
the once hunting lodge into a beacon of luxury that continues to astound visitors in 2018.
The king was also a keen fan of fashion and all it entailed: clothes, jewels, wigs, shoes,
everything. The king expected (or perhaps more accurately, demanded) a specific dress
code at his court. The emphasis on fashion and luxury in general was not merely an
affinity for vanity, however. The expectations and preferences of the king were for
political reasons.

Louis XIV, if nothing else, was a master of marketing. Louis used the palace and
his fashion to present the image of affluence. The king’s fascination with fashion grew

66 “Les Acteurs De La Mode Et Du Luxe”
beyond just his own court, however. He not only brought in and fostered a booming textile industry in France, but he placed the textile industry under the control of the government to ensure both the quality of products France sent out into the world and allow him to control profits.67

Four generations after the Sun King, King Louis XVI and his infamous wife, Marie Antoinette, continued on the Bourbon tradition of enjoying lavish luxury. Marie Antionette’s obsession with fashion was of particular note in this time period. The queen further displayed the ancien régime’s firm ties to fashion by hiring the woman responsible for the fashions of the time as her “Minister of Fashion”. Rose Bertin, her preferred stylist and dress maker of the time, held the position until the fall of the monarchy.68

In the century following the revolution, France retained its position as the premier of all fashion in world. Royals or no royals, Versailles or no Versailles, the world was still looking to France to define fashion, and the French government was still collaborating with designers. An example of that collaboration is the stereotypical basic French striped sailor shirt. France commissioned the design, inspired by a regional fashion house, to become the official uniform of the French navy in 1858. Later, just before the Belle Époque era a British man named Charles-Fredrick Worth changed the literal name of the game in fashion for generations to come. Upon moving to France and

opening his salon in Paris, Worth introduced the world to *haute couture*. The prestigious label, which this thesis previously explained originated in the 19th century, is given in the modern day only to those who meet a strict set of guidelines which include: “employing at least twenty persons in the production of clothes in the company’s studios, presenting for each season—spring and fall—a collection of at least seventy-five designs, presenting these collections with the help of at least three live models, and doing so in the house itself, in special areas designed for this purpose.” The *Fédération de la Haute Couture et de la Mode*, previously *Chambre Syndicale de la Haute Couture*, and a subsidiary of the Ministry for Industry, are tasked with approving firms to carry the label of *haute couture* every year.

In the *Belle Époque* era of France, the invention and continued existence of *haute couture* in France’s capital attracted countless seamstresses and tailors of the time to Paris. If these tradesmen wanted work, they had no choice but to go to where the work was, and the work was in Paris.

At the turn of the century France held fast to the status as the focal point of fashion while simultaneously forever changing the limitations of dress for women. The 1910s and 1920s saw the introduction of the legendary Coco Chanel and her new corsetless, freedom of movement attire for women. One could argue that Chanel simply moved with the times of sexual liberation, or that she pioneered the movement herself by making

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69 Morand
the clothes, women were on the move and they needed clothes that moved with them. Chanel provided the model that the whole world would follow.\footnote{Marie Claire, "A Brief History Of French Fashion", Marie Claire, 2015, http://www.marieclaire.co.uk/fashion/a-brief-history-of-french-fashion-34032.}

As of 1945 the newly formed Chambre Syndicale de la Haute Couture insisted on défilés de mode from each qualified couturier. The presentations of French designer’s lines drew international attention. Before 1950 France’s role in the global fashion industry was as “designer”. French houses innovated the style and then Americans (and other foreigners) reproduced them. Americans now had the ability to mass produce clothing, something not as common in France, but American entrepreneurs were not going to risk mass producing any clothing that was not approved by Paris first. They feared any in-house designs would not sell, but they knew anything that came out of Paris was a safe bet. Domestically, French copyright and patent laws protected designers’ work from such encroachment, but abroad, the laws could not be fully enforced.\footnote{Veronique Pouillard, "Keeping Designs And Brands Authentic: The Resurgence Of The Post-War French Fashion Business Under The Challenge Of US Mass Production", European Review Of History: Revue Européenne D'histoire 20, no. 5 (2013): 815-835, doi:10.1080/13507486.2013.833720. 815 - 830}

The new era of foreign mass production threatened France’s dominance in the fashion industry, though mass production was not the only problem that French fashion faced in the period immediately following WWII. German occupation and massive textile rationing in wartime caused many of the key French fashion houses, Chanel included, to close their doors. The French government’s hope was that creative industries like fashion would aid in the rebuilding of French morale and the economy after the war.\footnote{Pouillard 818} A few
years later, the image of “Swinging London” and its youth culture-centered fashion encroached on French authority to determine style.\textsuperscript{74}

France’s answer to foreign mass production and stylistic youth movement can be summed up by one man: Yves Saint Laurent. Yves Saint Laurent was the first French couturier to produce \textit{prêt-a-porter} fashion and his model demonstrated a new era of French fashion: keeping designs and brands authentic to their couture background while matching the production scale of the US.\textsuperscript{75}

Beyond Monsieur Laurent, the French government also tried to play its part in protecting the status of French fashion. The copyright and patent law was failing to protect designers, but in the early 1950s the Chambre Syndicale as well as some of the top French designers of the time began to push back against the “era of knock-offs”.\textsuperscript{76} People caught not adhering to the entrance fee of designer shows or reproducing material under copyright were taken to the highest-level courts in their respective countries of origin.

In 1973 the Fédération Française de la Couture formed and started \textit{Semaine de la Mode}, the institution that would come to be more commonly known as Paris Fashion Week. The first international fashion show was branded the Battle of Versailles, pitting five American designers – Oscar de la Renta, Bill Blass, Anne Klein, Halston, and Stephen Burrows – against five French – Yves Saint Laurent, Hubert de Givenchy, Pierre Cardin, Emanuel Ungaro, and Marc Bohan (who was the creative director for Christian Dior at the time).\textsuperscript{77} The show was on a scale above even

\textsuperscript{74} Stewart
\textsuperscript{75} Stewart
\textsuperscript{76} Pouillard 823
contemporary proportions, but it set the proverbial catwalk for major fashion events of the same variety.

### 2.2 Contemporary French Luxury Fashion

As previously established, French companies are a dominating presence in the global luxury market. The key to the success of French fashion brands like Louis Vuitton, Hermès, and Chanel is thanks to a multitude of factors, both in the internal structure of the brands and in external policies of the state. These factors include the use of savoir faire, attention to craftsmanship, and management of the specific French branding.

French luxury fashion firms are designated by a strong *savoir faire*. Savoir faire literally translates to “know how”, but in context of French *maisons du mode* savoir faire refers to a labor force that is extremely savvy in the luxury fashion industry, from basic level craftsmanship, to design, and on to the business end of production. Most importantly these firms are *led* by that savoir faire. It is the concept of savoir faire that makes the companies French. Companies like LVMH, Kering, Hermès, etc. are allowed by the new state-enhanced system of France’s model to use that savoir faire to their advantage. Quality is assured in France because savoir faire and the maintenance of savoir faire create a system to ensure that quality.78

The French have a dedication to craftsmanship that goes above and beyond even luxury standards. Training, perfecting of skills and design, and a commitment to high quality raw materials are all things that French firms pride themselves on. Part of France’s dedication to craftsmanship is seen in how the firms control quality.

Furthermore, France’s model for ensuring said quality means that French companies keep

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78 “Les Acteurs De La Mode Et Du Luxe”.
their cards close to home in order to keep a constant watchful eye over production. Companies like LVMH and Hermès pride themselves not only on housing corporate headquarters in Paris, but keeping production within French borders and raw materials supplied from French sources. For instance, seventy-five percent of Hermès’s production sites are within French borders, and LVMH employs 26,970 people—a sizable percentage of their workforce—in France alone.79

The close proximity of all levels of production gives French firms another benefit to producing luxury fashion. The proximity of the supply chain means that travel between these locations is much more seamless and cost effective than in a country that focuses more on outsourcing like the United States.80 In an industry where coordination and supply chain management is vital, the ability to go from each location to location is tremendously favorable.

The strong focus on craftsmanship is not only a characteristic of French luxury fashion, it is also what contemporary France uses to tie itself to luxury. As already established, dedication to craftsmanship is a key component of luxury. Many scholars attribute the creation of the concept of luxury to France, dating all the way back to the Sun King’s creation of a guild system to support luxury industry.81 France was also responsible for the creation of haute couture. For years France had such a strong control over luxury fashion because they controlled haute couture, the label that the world associates with luxury.

79 Moët Hennessey Louis Vuitton; Hermès
81 Brannigan 2
It was not until the end of the *dirigiste* era, when the introduction of “affordable luxury” started to develop that French companies were forced to start finding other ways to support their dominance in the industry. Even as those shifts, which we will discuss in depth in a moment, took place, French companies moved forward whilst holding on to their brand heritage. Essentially, France learned early on that the heritage of these *grands maisons* like Dior, Chanel, and Hermès gave the brands legitimacy, a legitimacy that only France can give.

Beyond just the specific modern conglomerates like LVMH and Kering, or broader brands like Christian Dior, Yves Saint Laurent, Chanel, Beauchamp, or Lacoste, France is also home to the modern Paris Fashion Week, considered the pinnacle of prestige in the fashion community. Twice a year fashion week takes over the city of lights and becomes a major thoroughfare for the city of Paris. Why do dozens of designers choose to model their collections in Paris every year? The world looks at Paris to see what it should do, and France has done a wonderful job making sure that they keep the world’s attention.

The rise in neoliberalism ushered in the first true challenge of French dominance in the luxury market field. Fashion was forced to react to the changes, but the needed changes were facilitated by changes happening outside of the fashion community.

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82 Brannigan 1
Chapter 3: Luxury

3.1 Defining the Luxury Fashion Industry

In order to understand the need to change for luxury fashion, an understanding of what constitutes luxury fashion and the needs of luxury fashion. Luxury fashion is a rather unique industry that must balance several factors in order to achieve success. First, to define luxury fashion. From a purely semantic standpoint luxury is defined by the Oxford dictionary as “a state of great comfort or elegance, especially when involving great expense.” Luxury evokes a sense of quality and exclusivity. On the industry level, the concept of luxury is a bit more difficult to define and can be added on to a multitude of sectors from alcohol to cars to fashion. Luxury can encompass several smaller sectors or act as a subsector to a larger industry, as in fashion.

The second half of the luxury fashion industry is the “fashion” portion. Going back to the Oxford dictionary, fashion is described as both “a popular or the latest style of clothing, hair, decoration, or behavior” and also “the production and marketing of new styles of clothing and cosmetics.” Like luxury, fashion represents a large umbrella that can encapsulate several smaller sectors like clothing, shoes, accessories, jewelry, leather goods, and more. Fashion can also be broken down into luxury, mass market, discount, etc. For the purposes of this study fashion can be broadly defined as what a person puts on one’s body and the industry that produces and promotes those items.

Combining the two words produces luxury fashion. As illustrated by the distinct nature of both words in the title of the sector, the luxury fashion industry is unique in and

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84 Oxford Dictionary
of itself. Vogue, a magazine that has made a business out of displaying luxury fashion, offers a rather comprehensive explanation of the luxury fashion industry.

Luxury is research, the chance to experience new routes, to find new and not predictable or already seen solutions. Experimentations are luxury. And it's a fortune finding them and being able to have them. There are for example dresses which really give you the feeling of luxury for the way they have been made, for the quality of manufacturing, whilst some other expensive and intricate work are just opulent. Same for jewelry, shoes, accessories. Craftsmanship is luxury. A product is luxe when it is handmade, tailored for few. Luxury meaning exclusiveness.\(^85\)

The luxury fashion market is distinctive from the broader fashion market in both who the firms cater to and the business model the firms follow.\(^86\) Of course, variation exists within the industry in some categories worth noting. One of the biggest differentiations comes in the ownership component of the business model. In terms of ownership there are typically three options for the luxury fashion industry: privately owned (or family owned), private equity funds, or multi-brand groups which are listed on the Paris stock exchange.


Another difference lies in the specialization of the business within the luxury fashion industry. A mono-business company might specialize in leather goods, shoes, *haute couture*, etc. Fashion houses are not particularly limited in regard to the choice of specialization, and to that effect the houses are not required to specialize; multi-business or multi-specialization is common.\(^{87}\) The existence of multi-business models where cross shareholding dominates the ownership structure is important to note due to the number of multi-business firms highlighted in this study.

### 3.2 Luxury Company Breakdowns

Throughout the remainder of the study several large luxury fashion firms will be mentioned and used as reference. Three of the six will act as the model example for the firm’s country of origin in the comparison analysis: Hermès for France, Hugo Boss for Germany, and Burberry for Britain. Before using the brands as a frame of reference for the various elements of a luxury brand, a brief overview of the three aforementioned brands (as well as three other French firms which are also referenced throughout the remainder of the analysis) is listed below.

**Louis Vuitton Moët Hennessey**

French company Louis Vuitton Moet Hennessey (LVMH) is the world’s largest and most profitable luxury conglomerate. The conglomerate is home to seventy “houses” in sectors ranging from wine and spirits, fashion, beauty, selective retailing, among others. This study will focus on the sector that the company labels “Fashion & Leather Goods”.

\(^{87}\) Paola V Capello and Davide Ravasi, "The Variety And The Evolution Of Business Models And Organizational Forms In The Italian Fashion Industry", *Business History Conference* 7 (2009): 1 – 12. [https://pdfs.semanticscholar.org/6639/e84245e413a00aaa8bab3353024238f74a5b.pdf](https://pdfs.semanticscholar.org/6639/e84245e413a00aaa8bab3353024238f74a5b.pdf).
CEO of LVMH, Bernard Arnault, is quoted on the company website as claiming that “Our business model is anchored in a long-term vision that builds on the heritage of our Houses and stimulates creativity and excellence. This model drives the success of our Group and ensures its promising future.” LVMH focuses on cultivating the strengths of each of their houses. The business model is based on what they call their “six pillars”: decentralized organization, organic growth, vertical integration, creating synergies, sustaining savoir faire, and balance across business segments and geographies.

Kering

Kering is another large luxury conglomerate. In 1999 the SA then called PPR obtained the Italian Gucci Group, a global leader in luxury fashion which includes brands like Gucci, Yves Saint Laurent, Alexander McQueen, Stella McCartney, and Balenciaga. Kering differs from the others in that the roots of the luxury fashion sector are not as firmly planted in France as they are in the cases of the other three French companies. Kering, too, believes in the power of the multi-brand model.

According to their annual report the goals of Kering include “building and developing a collection of powerful and complementary brands, prioritizing organic growth, create(ing) value across the group, and focus(ing) on environmental and social goals.”

Chanel

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Chanel differs from the other three French companies in that the *Maison de Chanel* is a privately-owned company. Founded in 1909 with the eponymous Gertrude (Coco) Chanel, the company flourished due to the creative genius of the creative head as well as venture capital contributed by Wertheimer family. The Wertheimer maintains controlling interest as of 2018.

*Hermès*

Hermès, like LVMH, also falls into the luxury group sector, but on a much smaller scale. Hermès itself is one house, whereas LVMH is made up of seventy houses. Hermès is involved in fourteen separate sectors of luxury, but the most profitable sectors are leather, ready-to-wear, and accessories. These three sectors are the three sectors that are applicable for this study.

At the heart of Hermès’s business model is its focus on craftsmanship. On the 2016 annual report executive chairman Axel Dumas spoke to the heart of Hermès when he said, “Loyalty to our spirit of work well done, the preservation of our know-how, and the importance we attach to its transmission are all factors that ensure our house is built on firm ground.”

The following two companies originate from two countries outside of France. The first, Hugo Boss, is German and was chosen on the basis that it is the highest performing German luxury fashion house. Hugo Boss provides an example of a company run under the coordinated market economy system. Burberry is the highest performing British luxury fashion brand, and acts as an example of a company run under the liberal market economy model. Hugo Boss and Burberry will act as comparisons to the French firms.

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90 *Hermès* 7  
91 Deloitte University 16
Hugo Boss

Hugo Boss is a German luxury fashion house, the German luxury fashion house for all intents and purposes. Hugo Boss is ranked twentieth in the world in terms of luxury sales by Deloitte and is the only German brand to broach the top fifty luxury companies.\(^9^2\) Founded in 1946, Hugo Boss is considerably younger than its French counterparts, and did not truly establish a firm brand until 1970. In 1985 Hugo Boss was listed on the German stock exchange. Initially a menswear-focused brand, Hugo Boss now focuses on a dual brand approach of men’s and women’s luxury fashion: the Hugo brand for women and Boss brand for men.

While the headquarters is in Metzingen, Germany, the company’s largest production facility is located in Izmir, Turkey, with over a quarter of their employees being located at that facility. The rest are primarily dispersed across Germany, Italy, and Poland. Production, meaning the actual making of the suits, takes place in Izmir and focuses on the production of particularly high-quality suits, jackets and shirts while the Metzingen location is a development-focused facility. The only way that the brand retains the “made in Germany” label is the made-to-measure suits which are produced in Metzingen.\(^9^3\)

Burberry

Unlike Germany, whose overall presence in the luxury fashion market is rather small, the UK occupies nine spots in the top one hundred luxury fashion groups. As a contrast to Germany’s relatively young company, the UK example of Burberry matches

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\(^9^2\) Deloitte University 16
France’s model in terms of the existence of a long-established brand. Founded in 1856 the British luxury powerhouse, Burberry, ranks eighteenth on the Deloitte luxury fashion sales ranking. The brand, as a whole, is more comparable firm to French firms than the German example. Burberry’s first focus in the nineteenth century centered on specialized outdoor wear, like the iconic trench coat – a design and innovative textile of the brand’s own making. In 1920 Burberry became a publically quoted company and has gone on to amass a revenue of over 3.8 billion US dollars in 2016.

With the extensive sense of heritage that comes with a brand as seasoned as Burberry comes the commitment to upholding that brand heritage. Burberry’s focus on brand roots mirrors that of the four French firms.

3.3 Needs of Luxury

In contemporary markets, success means knowing how to navigate several aspects of business. One study sums up the needs of the luxury fashion business with the observation that “fashion companies’ long-term success is based on a combination of stylistic, entrepreneurial, and managerial competencies.”

The most important needs of luxury fashion industry can roughly be categorized as how the brands harness creative talent, brand management, innovation, and the degree of vertical integration and competencies.

Harvesting creative talent typically deals with the higher level of design, like the art director of a fashion house. Modern day art directors are more than just the lead designer of a fashion house. Directors also manage the brand of the house as a whole and

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94 Capello and Ravasi 5
choose the direction that the house follows — both in style and in business during the director’s tenure. A growing importance has emerged for these art directors to act as a face of the house as well. Examples of the movement for directors to act as ambassadors are people like Tom Ford or Karl Lagerfeld.

It is common for art directors to more or less play what Vanity Fair refers to as a game of musical chairs between positions at the more prominent houses. After receiving a high level of general education as well as specific-to-fashion higher education, designers join long-established houses to learn and work under the financing and tutelage of experienced workers. Examples of the process are men like Yves Saint Laurent who served as Christian Dior’s protégé and eventual successor in the House of Dior before developing his own successful brand and house. A more modern example would be Michael Kors, who was brought into the fold of French house Céline after showing promise as an individual and ultimately went on to create his own wildly popular eponymous brand.

The ideal talent harvesting system is necessary because the system gives new talent room to learn and grow under the financial security of well established brands while the brands take advantage of new talent and both sides establish long term connections and loyalties that remain even as the talent moves from the company.

The ways in which a company handles harvesting creative talent is distinctive to the company, and often, by extension, the country of origin of the company. In France, LVMH closely follows the model for harnessing talent in the luxury fashion industry. Brands within the LVMH group hire talent in to subordinate roles under well-established

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directors, eventually place them as directors by their own right, and then ultimately give
the talent their own brand (reference the Yves St. Laurent example.)

Hermès, the French luxury giant, recruits talent by entering partnerships with
schools and putting “a strong emphasis on a long internal training process (incl. cultural
trainings such as the “Inside the Orange Box”).” Hermès attributes its long-term
relationships with talent to the brand’s investment in the talent itself, the cultural
recognition of savoir-faire the brand gives, and the brand’s commitment to empowering
artisans.97 In the case of Kering, the talent circulates within the Kering group.

Hugo Boss “is increasingly pursuing an active sourcing approach”.98 The firm
approaches candidates directly. Once hired, the firm identifies and develops employees
who show a certain degree of potential at early stages in their careers.99 In the higher
skilled sector that means programs like the brand’s partnership with Parsons: The New
School for Design in New York where “young talents in the area of fashion design are
supported in their career development”.100 For lower-skilled talent Hugo Boss connects
with employment offices local to the main production facility in Izmir Turkey to
specifically focus on bringing in local women employees.101

Burberry is different from both Hugo Boss and Hermès in that the company uses
enhanced training and development opportunities to seek out talent (and the retention of

99 Hugo Boss 2017, 68
100 Hugo Boss 2017, 68
101 Hugo Boss 2017, 68
talent). Burberry fosters a British-specific culture of recognition that focuses on roles across “retail, internal manufacturing and distribution in the UK.”

After the talent — like art directors — is harnessed, fashion houses must turn focus to the *brand* of the house. Often, the most successful fashion houses are those with a long-established brand and name like Chanel. It is the job of the art director to manage current branding to honor the house’s legacy and to keep up with the trends of the times.

Brand management deals with the engineering of garments, textiles, the aesthetics, and design of the brand.

French brand management is tied closely to its emphasis on heritage. Hermès is predominantly known in the luxury fashion community as the epitome of a luxury brand because of the diligence given to maintaining the heritage component of the Hermès brand. The secret to Hermès’s success lies in category segregation. Category segregation “involves confining iconic, core category products to high-end price ranges only, while focusing other product categories with lower price points on aspirational consumers.”

Hermès built a recognition for exclusivity by implementing category segregation on iconic items like the Birkin bag while maintaining lower priced items like scarves. Hermès also holds on to brand integrity by limiting third-party retail.

Hugo Boss is going through some difficulties in structuring their brand management to the extent that the current CEO has expressed interest in removing the

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brand from the luxury sector all together to focus on men’s premium fashion. Strides towards accomplishing that goal have emerged in recent months with the elimination of two of the firm’s brands and the departure of the creative director of the Boss women’s line.

The mid to late 2010s indicating a distinct shift in Burberry’s brand management. The 1990s and early 2000s saw a deviation from focusing on the history of prestige the brand is famous for. Licensing out the brand’s iconic check pattern became common practice, and the once revered brand was worn more commonly by the “lower” class than the typical target audience. The most recent decade, however, guided the fledgling brand back to its British luxury roots. Licensing deals were pulled, and Burberry now uses strong retail channels to maintain full control of the brand’s presentation.

To maintain relevancy, a major aspect of the fashion industry lies in the company’s ability to innovate. Stylistically, companies need to be able to keep up with trends as they happen and even anticipate or create trends when possible. However, keeping up to date with the times does not rest solely on the designers. Companies need to be able to gather information effectively, process it, execute plans, find the balance between the standard and specific differentiation, and, ultimately, source the product. Fashion moves fast, and fashion houses must move even faster. With the rise of the

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109 Iqbal
digital era, innovation is even more important today than it was twenty years ago. Digital technology ushered in big data and immediate connectivity between brands, their suppliers, and their customers. In the modern age, strides toward sustainability also play an important role in the perception of a firm’s level of innovation.

In 2014 Hermès was ranked thirteenth on Forbes’ list of the world’s most innovative companies.\(^{110}\) Perhaps the best example of that innovation is Hermès’s collaboration with Apple to create the Hermès band for the Apple watch. In doing so Hermès not only communicated to non-targets and expanded recognition, but also responded to the growing need for fashion to align with modern technology.

Hugo Boss is not ranked by Forbes, but that is not to say that innovation has no part in the firm. Hugo Boss is making strides to stay ahead of the curve technologically. Currently, the firm is experimenting with 3D virtualization and 3D printing to accelerate the development process within the Group. The Hugo Boss 2015 annual report also emphasizes the firm’s dedication to attending textile machinery fairs, practicing, and implementing techniques demonstrated at the fairs.\(^{111}\)

Despite being founded on the ground-breaking innovation of the breathable and waterproof fabric Gabardine, Burberry is not now, nor has it been ranked in the past on the Forbes list. Burberry is a leader in the digital innovation front, however. In the first decade of the new millennium Burberry adopted a predominantly digital marketing


strategy and eventual strong social media presence which have served the company well financially.

Along with the digital era, the modern climate of the industry has ushered in the need for a more vertical business model. Vertical business models constitute a consolidated business plan, meaning that several steps in the production process (i.e. sourcing raw materials, production, marketing, distributing) are handled by a single firm. Quality is of the upmost importance to the luxury fashion industry, and some companies have found that the best way to insure quality is to control the process end-to-end in order to ensure customer satisfaction. Coordination along every step of the value chain and through distribution is essential to all luxury fashion. Firms must investment in retailing but also coordinate retail with design, manufacturing, and the delivery processes.

French companies are vertically integrated by nature of their conglomerate status. Hermès prides itself on the high degree of vertical integration. Hugo Boss is not vertically integrated, and while Burberry is making moves back towards vertical integration, the house is still not on par with French counterparts.

The qualifications of a good luxury fashion firm lie in the firm’s ability to harvest talent, manage their brand, innovate, and utilize vertical integration. In order to meet these qualifications, the firms must have a fluid labor force – especially in regard to management. The firms also need to be able to attract talent by financial means, to insure quality through direct control of the value chain, to innovate ahead of the times, and to

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113 Capello and Ravasi 4
establish relationships. Fashion is a skilled labor industry from top to bottom. The CEOs and creative directors need the traditional education to manage the brand and financial affairs. Designers need the training to create the product, and even the lower skilled workers that tan the leather, sew the clothes, create the textiles, must have a degree of skill.

3.4 Meeting the Needs of Luxury

Now that the basis has been laid the study will compare how companies from within the three models (LME, CME, and French) carry out specific implementations of the qualifications. The two agreed upon models are represented by a company from the United Kingdom (a typical liberal market economy) and one from Germany (a typical coordinated market economy) are also included for comparative purposes. Hermès, Hugo Boss, and Burberry will be the key discussed examples. Hermès was selected as the primary French example in this section due to the fact that Hermès is closer in size and scope to Burberry and Hugo Boss than the two larger examples of LVMH and Kering. Hermès, while still technically a conglomerate, is composed of considerably fewer houses than LVMH or Kering. Chanel is a privately-owned firm as opposed to publicly traded like Hermès, Hugo Boss, or Burberry, and thus is not obligated to disclose financial information.

Companies need brand management, innovation, the ability to harness creative talent, and vertical integration in order to succeed in the luxury fashion sector. JN Kapferer, an expert in luxury branding, breaks down a list of “must-haves” for the success of a luxury fashion house. The list includes: “Do not delocalize production, communicate to non-targets, maintain full control of the value chain, maintain full control
of distribution, never issue licenses.”

The localization of production and communication to non-targets falls under the umbrella of brand management. Maintaining control of the value chain and of distribution constitutes the vertical integration necessary to a luxury fashion firm, as does the refrain from issuing licenses. Representation of the other two needs of luxury – harvesting talent and innovation – are not as easy to quantify. All successful luxury fashion houses attract creative talent, but in order to harness creative talent, some degree of retention is expected. Innovation is difficult to quantify, but the most popular representation of innovation is the annual ranking put forth by Forbes. Forbes ranks companies by what they call an innovation premium. The innovation premium is “the difference between their market capitalization and the net present value of cash flows from existing businesses (based on a proprietary algorithm from Credit Suisse HOLT).”

Table 3 examines Hermès, Hugo Boss, and Burberry to see if each company meets each of the needs of an ideal luxury model.

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114 Jean-Noel Kapferer, Kapferer On Luxury (repr., [Place of publication not identified]: Kogan Page Stylus, 2016).
Table 3: Comparison of Meeting Luxury Needs In France, Germany, and Britain

<table>
<thead>
<tr>
<th></th>
<th>Delocalize Production</th>
<th>Maintain Control of the Value Chain</th>
<th>Maintain Control of Distribution</th>
<th>Issue Licenses</th>
<th>Good Retention of Talent</th>
<th>Ranked on Forbes Top Innovators List</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ideal</strong></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>-</td>
</tr>
<tr>
<td><strong>France</strong> (Hermès)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Germany</strong> (Hugo Boss)</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Britain</strong> (Burberry)</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Creating a distinction between luxury fashion houses is simpler in the case of Hermès and Hugo Boss because in almost every qualification, France aligns with the ideal “laws”, while Germany strays from the ideal.

Burberry deviates from both the Hugo Boss example and the French example. Burberry recognized that the move away from Made in Britain ideals hurt them, so the firm is now moving production back to Britain. While Hugo Boss uses technicalities to keep the title of “Made in Germany”, very few of Hugo Boss products are actually produced in Germany. However, Hermès most closely aligns with the law because production never left France, nor did the firm relinquish control of the value chain or distribution.
Chapter 4: Connecting Varieties of Capitalism to Luxury Fashion

In the 1970s through the 1980s the fashion world and the economy experienced two simultaneous movements in France. The post dirigiste era and rise of the neoliberal ideals confronted the French economy, and the threat of mass market prêt-a-porter fashion was the first serious threat to French dominance of the luxury fashion industry since the inception of luxury fashion. France’s economy needed to react to the liberalization wave and French fashion houses needed to alter their time-tested mode de vie of French luxury fashion. The simultaneous shifts garnered a positive outcome for French fashion. The manner in which the French variety of capitalism diverged towards liberalization in the post dirigiste era helped French luxury fashion houses evolve to meet the needs of the new global luxury market.

The global luxury market was changing. A larger global upper middle class meant more people had greater financial means and wanted access to luxury goods. The introduction of affordable luxury saw a shift away from haute couture and towards high-end prêt-a-porter fashion. As established by Yves Saint Laurent, the move to prêt-a-porter in France needed to maintain traditional heritage of the brands but produce on a larger scale at lower prices. In order to accommodate that shift, French companies required something that would allow the companies to hold on to the commitment to brand heritage and craftsmanship but still be competitive with the new crop of foreign companies. The answer of how to accommodate the shift came in the 1980s when France’s two main luxury conglomerates began to emerge.

In 1987 the merger of Moët Hennessy and Louis Vuitton ushered in the era of conglomerates. Kering started the process of forming its conglomerate in 1989. These
massive luxury conglomerates are unique to France in the shared commitment to luxury fashion in particular. The only other conglomerate of the same magnitude of Kering and LVMH is Richemont in Switzerland, but the focus of Richemont rests mainly on jewelry with houses like Cartier running the show (It is also worth mentioning that Cartier itself if a French-originated brand, as well as over a quarter of all Richemont’s houses.)

The rising mergers and acquisitions activity allowed for the spread of cross-shareholding that the conglomerates depend on for their CEO’s autonomy. The cushion of brands sharing ownership of one another spread out the liability, so that the houses are able to take more risks.

A great example of how the takeover activity changed French firms is what one scholar calls the “arms race” between LVMH and Kering.\textsuperscript{116} The 80s saw an influx of takeover activity.\textsuperscript{117} In the French model, mergers and acquisitions stem from the competing pressures between the firms.\textsuperscript{118} In a business where competition is everything, France gave the two conglomerates the tools they needed to compete with the mass market potential of the US. The arms race drove mergers and acquisitions. The arms race also meant that greater transparency and annual reports were necessary, and that transparency is attractive to not only shareholders, but also potential collaborators in fashion.

Due to the intense focus on heritage, France is aware that the old brands, brands with recognition like Dior, Chanel, and Hermès, are the brands that should receive the most attention. As a result, the French do not focus as heavily on creating new brands.

\textsuperscript{117} Schmidt 2003, 540
\textsuperscript{118} Schmidt 2003, 541
That does not mean that they do not encourage the emergence of new talents. The new French system also meant that small and medium sized enterprises were getting some attention and room to grow previously not afforded to them. While France scaled back massive amounts of the state led system, the state did institute industrial policy that aimed at helping small to medium enterprises. In the fashion industry, examples of aid to small and medium enterprises constituted programs like the Institute for the Financing of Cinema and the Cultural Industries (IFCIC) that aim to help young designers get their first collections shown during Paris Fashion Week. IFCIC’s original intent was to act as a credit institution for financing cultural industries in France. The overall goal of IFCIC is to allow cultural and creative sectors to acquire bank financing. The corporate governance sector of the new French system allowed the financing of the new small and medium sized enterprises.

Luxury fashion is an industry marked by a necessity for coordination, and the shift of the 1980s increased interfirm coordination across France. The state can intervene, but puts importance on coordination above all else. The French system is characterized by the extent of co-ordination between the various parts of the value chain.

At the top of the luxury fashion industry hierarchy business side are CEOs like Bernard Arnault, Francois-Henri Pinault, and Axel Dumas (LVMH, Kering, and Hermès respectively) who were all educated in the most prestigious grandes écoles in France. Art directors and creative designers study at l’Ecole de la Chamber Syndicale, ESMOD, or Studio Bercot for undergraduate degrees and then go on to the Institut Français de la

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Mode (IFM) for graduate degrees in Fashion Design or Fashion Business. All of these programs are internationally recognized as being among the highest ranked fashion programs in the world. After schooling, there is a tendency for these designers to train under one of the already established brands like Dior, Givenchy, etc. The in-house training provided by the firms and French national education is crucial to spreading and maintaining French savoir faire. As for technically “lower skilled” workers like those responsible for the manufacturing of the physical pieces in suppliers’ companies like tanneries, textile production, and sewing, firms provide vocational training to keep production vertically integrated and to ensure quality. The vocational training of the French variety of capitalism aligns with the needs of the French luxury fashion industry.

Liberal market economies are focused on radical innovation. Coordination market economies are focused on incremental innovation. France lies somewhere in between both models. France does incremental innovation better than liberal market economies, but not as well as in coordinated market economies. France does radical innovation better than coordinated market economies, but not as well as liberal market economies. France specializes in neither radical nor incremental, but a lack of specialization is not necessarily a problem for the luxury fashion market. As a matter of fact, the lack of specialization in one or the other is acceptable because while innovation is essential, it is hard to pigeon hole luxury fashion as radical or incremental innovation. Being good in both rather than great in one, works to the industry’s advantage.

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121 Kapferer
122 Schmidt 546
Conclusion

France’s position in the luxury market is hard to ignore. French companies are not only at the forefront of the industry financially, but also at the forefront of the minds of luxury consumers across the globe. France’s cultivation of the concept of luxury is what started their position in the industry. The French government recognized the potential utility of luxury as a brand for the country and moved to promote luxury as far back as the Sun King.

In more modern times, postwar France was characterized by a strong state led variety of capitalism, but as the global shift of capitalism occurred in the 1980s, France was forced to evolve to a state-enhanced variety. The same time period witnessed the first true test of French luxury market dominance. The shift to state-enhanced variety of capitalism allowed the firms that already had a strong heritage of craftsmanship and a recognizable brand name to flourish in ways that other countries could not compete with. It is the combination of the history and the modern changes that gives French luxury its strength in the modern luxury fashion market.

Varieties of capitalism cannot explain why France became a dominant power, but varieties of capitalism does explain how French companies were able to maintain that dominance and change to compete with growing mass-production capabilities.
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