Lectra: the buoyant evolution of a global leader

by

Daniel Harari
Chief Executive Officer of Lectra

Overview

Based in France and employing 1500 people, Lectra raised its prices by 5% per year between 2007 and 2012, while its competitors lowered theirs, and yet still managed to increase its market share. What an adventure! Founded in 1973 by two brilliant engineers with very little management experience as Lectra Systèmes, it almost went out of business in 1990. The company's finances were in disarray and the shareholders were in disagreement, but one of them, an investor from the beginning – the Compagnie Financière du Scribe, founded by André Harari – had always believed in the company's potential. André and Daniel Harari therefore decided to recapitalize the company and took over its leadership. The company subsequently bounced back quickly, and then faced the 2001 crisis, the abolition of Chinese textile quotas in 2005 and the 2009 crisis. Steered by a management team who knew what they were doing, and relying on innovation and solid teams, Lectra emerged even stronger from these crises.

Report by Sophie Jacolin • Translation by Lectra

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I was born in 1954 in Egypt and arrived in France at the age of three. My parents had emigrated leaving everything behind them, including the company my father had founded. Watching them rebuild their lives from scratch, I realized from a very young age that education would be my salvation. Indeed, I attended the École polytechnique, HEC and Stanford University. I began my professional career working as the assistant to a portfolio manager (a man who prided himself on being the eighth largest taxpayer in France), who was a leading stockbroker at Meeschaert, in Paris. I soon felt that I was not fulfilling my potential, and Luc Meeschaert offered me the chance to run his management company. In short, from the age of 25, I have only ever been in charge. In three years, I increased company profits from 8 to 65 million francs in fees, and from 800,000 to 35 million francs in net profit before being dismissed for gross misconduct, on spurious grounds. I was therefore the highest paid École Polytechnique graduate of my year: at just 27 years of age, I was earning the equivalent of 600,000 euros annually.

The day I left, I decided I would never again work as someone else's employee. In 1984, I founded my own company, La Solution Informatique, then joined the venture capital firm my brother had founded, Compagnie Financière du Scribe. This company had invested in around twenty technology companies involved in the medical and information technology industries, including Lectra Systèmes, a company based in Bordeaux and specialized in fabric cutting software and machines.

Lectra 1.0: rescuing a company bled dry

One of my first achievements with my brother was signing a joint venture with Interleaf, an American pioneer in technical documentation management who put us in charge of developing their operations across Europe. This was on the condition that we sold this European division back to them after several years at a price based on profits. Three years later, profits were so exceptional that Interleaf could not keep pace... We finally reached a compromise and sold Interleaf Europe back to its American parent company.

Overview of a disaster

We continued with our venture capital activity. At the end of 1990, Lectra Systèmes was totally bled dry. My brother was the first shareholder to join its founders, brilliant twin engineers, three years after its creation in 1973. Together they drew up a business plan, identified customers and conducted the first round of investments. In 1986, the listing of Lectra Systèmes on the Stock Exchange was one of the biggest successes of the time… soon to be followed by a resounding failure. Swept away by the euphoria of market entry, the founders were allowed to advertise products themselves that weren't ready, causing discontent among customers. Profits were disappointing, shares fell sharply and the company was dragged into a downward spiral. Until then, Lectra Systèmes was reporting two- or even three-figure growth every year. At the end of 1990, the company reached the end of the road: costs were significantly exceeding sales and margins were dangerously low. In order to finance the company without losing control of it, the leaders deliberately invited a number of shareholders to invest. They were all prestigious but heterogeneous, either not knowing each other, or even disliking each another openly. None of them noticed how dire the financial situation had become, to the extent that, at the end of 1990, my brother and I had to launch emergency proceedings. It was our duty as directors and members of the Supervisory Board.

The Chairman of the Supervisory Board was a leading expert from Bordeaux. As for the founders, they were close to François Mitterrand, whose campaign they had supported and who had given his speech on French technology from their corporate headquarters. They were, however, careful to not upset the Mayor of Bordeaux, Jacques Chaban-Delmas. Suffice it to say, the difficulties experienced by Lectra Systèmes were a melodramatic episode in this small world.

In December 1990, my brother and I decided to give up our investment in Lectra Systèmes and advocated for voluntary liquidation. We were then called to the French Interministerial Committee for Industrial Restructuring (CIRI), where the General Secretary, René Maury, informed us that President Mitterrand did not wish to see Lectra disappear. The State, however, did not intend to invest in it. CIRI met with each member of the Supervisory Board to assess the situation. We were the last to be interviewed. «What a shame you're not manufacturers!» René Maury said to us: in his eyes, we were the only ones to speak insightfully about this company. So, my brother and I had a brief conversation and, within just a few minutes, we decided to change our careers.

Negotiating the last chance

At 5:00 p.m., we informed René Maury that we wanted to take over Lectra Systèmes. Our file was to be closed the following morning at 9:00 a.m. So, we spent the night there, and submitted our takeover proposal on time. The negotiation lasted twenty-three days and twenty-three nights and took place in the CIRI offices, since that institution was serving as an intermediary between the banks and the shareholders who were not talking to each other. On the twenty-second day, the date of the agreement was to be signed, nobody turned up. All the potential investors were in fact preparing to sign with another fund, subject to confirmation of the State's support – which never came. The following morning, the shareholders came back to us claiming to have mistaken the signing date.... However, our proposal had changed since the previous day, to their disadvantage. René Maury therefore had to fight to finalize the deal, taking advantage of the fact that half of these shareholders were from nationalized banks. In the end, the agreement was signed.

In the meantime, I had audited the company's accounts. The founders had predicted a 13-million-franc loss in 1990. After writing off as much as possible, this amount actually reached 60 million francs. The company incurred losses of 250 million francs, with 150 million in recurring losses. Moreover, its accounts were wrong: at the end of the fiscal year, the deputy CEO adjusted the inventory figures to achieve the result he was hoping for. The statutory auditors were duped. The balance sheet included 60 million francs of out-of-order equipment, cutting machines that dissatisfied customers had returned, and that the company had tried to sell to others. Moreover, Lectra Systèmes had to pay off a 100-million-franc fine for patent infringement that had not been characterized as posing the slightest risk to the Supervisory Board.

Lectra Systèmes' comeback relied on R&D and on the fantastic products designed by its engineers. Marketing was non-existent and the sales force was seen as an arm of research department. The company became the market leader in computer-aided design (CAD) for fashion, and had the advantage of offering software that made it possible to create ready-to-wear collections. It designed its own computers and operating systems as the equipment available on the market wasn't powerful enough. In the mid-1980s, it developed cutting machines, an area that had until then been dominated by an American competitor, which also eventually got involved with CAD. And yet, these machines were faulty and could not be sold: customers were returning them.

Compagnie Financière du Scribe and the other shareholders invested 80 million francs to recapitalize Lectra. We did not have a liability guarantee as nobody would grant one. Losing one million francs a day, we had just eighty days left before running out of cash.

1991-2009: Lectra 2.0, the recovery

Initially, I wasn't supposed to be the one running Lectra, rather I expected to merely be chair of the Supervisory Board. My brother and I intended to be majority shareholders in the company without being involved in its operations. This was in the hands of the founders and two other entrepreneurs involved in the venture. This organizational structure did not last three months. Noticing that the accounts had been tampered with, I parted company with the one twin brother who was leading the Group from Bordeaux. The second founder, who was coordinating the sales teams from Singapore, stayed a few months longer. On top of all this, one of the entrepreneurs retired, frightened by the complexity of the situation. After three months, I realized I had to take control of the company to lift it from this quagmire. In March 1991, I was appointed Chief Executive Officer. Prior to my arrival, a redundancy plan led to the departure of 450 people from a workforce 1,250.

I immediately met with the factory teams so that they could show me how they worked. Usually, the production plan was established at the start of the year, then divided into a manufacturing plan each week based on orders. The employees explained that they were having a good week because they only had 20% «negative inventory», i.e. stock identified as such in the computer… My astonishment was understandable: how can you follow the manufacturing plan when, by definition, items are missing? That's when I learned that the factory was only running a few days a week and that production was adapting to whatever components happened to be in stock, without following any program. There was no doubt that this company needed help to get back on its feet…

I then met with Lectra's customers, including those that had been there from the beginning – Saint-Laurent, Dior and Chanel. At Chanel, the employee responsible for managing sub-contractors occupied a position officially called «Lectra manager», as our software was essential to her job. There was such a stark contrast between the extremely erratic organization of the company and the attachment customers had to our products.

Salvaging the company

Once in office, I sized up the extent of the damage from one day to the next. I tasked a management controller with addressing what until then had been described as «special cases», i.e. everything that had been handled in anything other than a strictly typical manner. Our first challenge was to straighten out the accounts. We had to write off losses from 250 to 40 million francs in the first year, then 13 million francs the following year, before achieving a positive result for the third fiscal year.

I also imposed tight controls on expense accounts, as well as weekly tracking of accounts receivable. Today, all of our software and machines are delivered with temporary passwords. They belong to us until the customer has paid, and they stop working if the customer takes too long to settle the invoice. This method works wonders…

At the same time, we identified all the technical problems that the R&D teams were tasked with resolving. This enabled the company to collect the 60 million francs of accounts receivable that were owed for technical faults. However, as we had not paid our suppliers, we were still not able to produce anything, or generate sales. At the end of the day, the only sign of recovery that I could go by was the employee commitment: the more cars there were in the car park at 8:00 p.m., the more promising the outlook. Thanks to the unwavering commitment of the teams, working day and night, we managed to pull Lectra back from the brink.

New strategic momentum

This employee commitment is part of the management approach that I invariably apply, «democraship» (a blending of democracy and dictatorship, known as «*démocrature*» in French) – a term I borrowed from Claude Bébéar. This means that before making any decision, I opened an inclusive democratic dialog. Once the decision was made by whoever was responsible for it, it could not be contested. Everyone had to implement it. Every time I put a strategic plan into place, it was open for criticism and suggestions from my employees, and I discussed each of their objections with them. If they couldn't convince me, I knew the plan was sound.

This is the approach I took when I presented my recovery plan to twenty of Lectra's senior executives. I explained to them that if they did not agree, they were free to leave. Eighteen of them left the company within three months, and the other two within six months. A third of middle management followed their lead. The potential obstacles had disappeared. I rebuilt the teams by recruiting externally and promoting internally.

In 1993, I launched a three-pronged development strategy: to get involved in all sectors that use fabric and leather, including the automotive and furniture industries; to work on the entire product lifecycle from the first stroke of the designer's pencil through to a product's arrival on store shelves; to establish a worldwide presence. While Lectra had traditionally sold workstations and cutting machines, we needed to move towards selling complete solutions including training, maintenance and remote support.

Once again, this announcement caused unrest: opposition from many senior executives, the launching of emergency proceedings by the Works Council, the summoning of my brother by the directors of Compagnie Financière du Scribe, who were demanding my resignation… Perhaps I hadn't explained this strategy very well, a strategy based on coherent actions and synergy, not on risky diversification. I finally managed to win the support of my brother, the directors of Compagnie Financière du Scribe and most of the executives. We invested heavily in R&D and, in 1993, launched a new generation of cutting machines, followed by software in 1996, making us the world leader in 2000.

Then came September 11, 2011: in one day, we went from two hundred orders per day to none in just three weeks. Business stabilized three months later, at two thirds of its previous level. In 2009, history repeated itself: the crisis hit us hard. The fashion and automotive markets fell by 3%, our customers' sales were down by 30% and Lectra's new system sales down by 60%. Fortunately, our business model included a share of recurring revenues. That's what enabled us to survive.

Lectra 3.0: from 2009 onward

Shaken by the 2009 crisis, I decided to rebuild the strategy from scratch, based on one fundamental question: why does a customer choose Lectra over its competitors? The answer lay not so much in our technology, but rather in the experience and knowledge that we had acquired over time and that we bring to our customers who have very diverse operations.

Little by little, we restructured our business model. The project was refined during debates that I had with my teams, using the concentric circles approach: starting with my brother, then the directors, followed by the management team, senior executives, sales representatives, consultants and engineers. The result was a bullet-proof strategy, basing our value proposition on expertise and technology, certainly, but also on a new third foundation, change management. Often, customers turned to our technologies when they were seeking to implement far-reaching changes in their organization. They needed our support to ensure their success.

Another crucial choice: should we have capitalized on the abolition of textile quotas in 2004 and relocated to China, as almost all of our competitors did? We expected that Chinese manufacturers would purchase our technologies on a massive scale. In reality, they were happy to exploit the appeal of cheap labor to attract American and European customers. For three years, three Lectra employees looked into the possibility of relocating part or all of our factory and research to China. They found that it would save us 28% on our cost prices. At the time, we were already achieving a margin of 30% on machines. It would therefore have doubled. A further argument was that our competitiveness might be hampered by the rise of the euro against the dollar, the currency used by all our competitors.

Our shareholders unanimously called for a relocation, as did a significant number of executives, with the exception of those in Bordeaux. However, I just couldn't accept the idea. The morning I had to announce my decision, I ruled that we would stay in France. It seemed unthinkable to me to change Lectra's DNA in that way and to lose employees who had been dedicated to the company for twenty years. Interestingly, today our cost prices are 25% less than what they would have been in China...

As the shareholders who were unhappy with this decision had turned their backs on us, we used our cash to buy back their shares on the Stock Exchange and invest in technology. I was convinced that innovation was what would win us the battle. We needed to move upmarket. In the middle of the crisis, I decided to increase our prices by 5% a year, equivalent to 30% between 2007–2012 knowing that, in the previous democratic meeting, staff had recommended a price cut of the same magnitude. Indeed, this was the way our competitors were going. For my part, I was ready to sacrifice market share in order to increase margins and resilience. Paradoxically, this strategy enabled us to expand our market presence. We succeeded in showing our value.

From our portfolio of 23,000 customers, we decided to devote all our energy to the top 3000, and half of this energy to just 300 of them. We accepted orders from the others but they didn't monopolize our attention.

Today, Lectra's recurring revenues cover 82% of its overhead costs before the year even starts. The gross profit margin reaches 75% on average, with activity equally divided between machines, services and software. Every machine sale generates a margin two and a half times greater than that of our competitors, in absolute value.

Our net cash flow is positive (60 million euros), and we have a negative working capital requirement. We had a record year in 2015, with 240 million euros in sales and 20 million euros in income after taxes. All of this after having invested just 50 million euros over four years in order to recruit two hundred employees.

Discussion

When the ship goes adrift

Question: *Do you understand why Lectra Systèmes fell into decline at the end of the 1990s, after having been a global leader?*

Daniel Harari: The founders were brilliant engineers who developed astounding products, but they were certainly not business leaders. They were dreamers and mistook their dreams for reality, to the point of not seeing things for what they were. With their oversized egos, they would not accept responsibility for any mistake – leading to, among other things, a ruinous lawsuit for infringement that they could have easily avoided if they hadn't been so stubborn. Added to that, they knew nothing about the financial world, and the support of a high-ranking political network reinforced their feeling of impunity.

The founders kept 34% of the capital for themselves so that they could block any decision. They fostered divisions among the shareholders to maintain control, ultimately hindering the company's growth.

Q: *When you arrived, were the employees aware of this decline and did they expect bold decisions? How did they welcome you?*

D. H.: I was lucky to arrive after the implementation of a collective redundancy plan. The teams had already been audited. During the following three years, only executives left, either because they didn't like my approach or because they were incompetent. Those who stayed believed in my strategy. The rest of the workforce were right behind me, convinced that I had saved their jobs and that I would do my best to turn the business around. During the recovery period, none of the employees that I wanted to keep left the company. The team was highly committed and mobilized, especially when I offered a third of them promotions.

Marketing, the Holy Grail of technology companies?

Q: *In the early stages, how did you turn around the R&D department, which no longer seemed capable of providing high performance machines?*

D. H.: Marketing was at the top of my agenda. One of our young employees, who had launched Lectra's Japanese subsidiary, convinced me of the need to redesign the cutting machines and equip them with a new user interface. Indeed, our machines were more like instruments of torture. I put the launch of the latest generation, which R&D had recently developed, on hold. Needless to say, this decision was not well-received…

I also implemented the lessons of one of Golub's laws: when a project is 90% complete, there is still 90% of it left to do. In other words, we underestimate the size of projects by 10% and realize too late that they are nowhere near completion. The Lectra R&D teams were trapped in this dynamic. I told them that there was no way the company would spend all it had on uncoordinated innovations: from now on, I would lay out a general direction for the engineers to follow. I had all technical faults listed and documented. Every week, I went through them line by line with the team. At the same time, we launched a very thorough research plan, took some risks and invested in research.

The real power was entrusted to subsidiary owners who fully understood local needs, rather than to the executives in Bordeaux who had a limited understanding realities in the field.

All of this enabled us to launch a revolutionary machine in 1993 that was user-friendly and fully functional. After having been driven by research, we had reached the second stage of maturity for technology companies, where the sales take priority. At this time, however, we were not able to reach the ultimate stage: marketing. Researchers and sales representatives have one thing in common: they are full of conviction, at risk of sinking into singlemindedness. Marketing, on the other hand, is open to listening and questioning, much better qualities, in my view, but too often stifled by sales teams and engineers who see them as a weakness. It's a struggle therefore to make your mark, even though it's the key to a response modeled on market expectations.

A distributed «democraship»

Q: *How does your «democraship» approach translate into everyday life? Do your teams know when they have the right to criticize and when they no longer have a say in the matter?*

D. H.: My inner circle of managers is entirely accustomed to my way of working. With them, I don't need to clarify the procedure. Executive Committee meeting discussions prior to a decision being made are also confidential, to ensure that employees do not know about potential internal conflicts. For the most part, I begin every meeting by stating whether or not we are in a democratic phase. If so, I encourage employees to criticize me and allow salespeople to contradict members of Executive Committee. There is no hierarchy during this period. This consultation is very healthy. Once a decision is made, you have to commit to it. Any divergent position is banned, even if it appears to be a better solution, as it undermines the unification of forces moving towards a single goal.

I don't keep all of the decisions to myself, however, and I delegate some of them to my senior executives. In these situations, I only give an advisory opinion and do not call the final decision into question, even if I don't like it. «Democraship» is therefore, in some respects, a distributed model. It can even be adopted by product or project managers, to whom I assign full responsibility for successfully running an assignment and managing a budget. I make it clear, however, that they must conduct a democratic exercise and listen to any objections before making a decision. Admittedly, they are answerable to me, but I never criticize their decisions. This is a fundamental principle: if you give an employee the power to decide, you have to accept their choices.

Q: *You have taken certain decisions that have gone against the unanimous opinion of employees and shareholders. Do you feel a certain sense of excitement in opposing the majority view, and isn't that dangerous?*

D. H.: I have never made a decision that I thought was dangerous. I have always preferred solutions that seem to be relevant and sensible. There is nothing comfortable about going against the tide, quite the opposite in fact. In 2009, when I was directly responsible for seventy people, I had meetings scheduled every half hour, and each one was a battle for me. On three occasions, I ruled against the general consensus: when I implemented the 2.0 strategy, when I increased prices, and when I abandoned the idea of relocating to China.

I have never regretted a decision, even if, in hindsight, it proved to be a bad one. Not making a decision would have been more dangerous. When the time comes to make a decision, I do so taking all of the available information into account. That is the role of a leader.

Q: *Is this way of working compatible with the changes brought about by new communication tools that open up cross-functional lines of communication an increasingly global and divided company?*

D. H.: We tried out new technologies some five or ten years ahead of other companies. In 1990, Lectra already had global email. I insist that any decision-making process is committed to paper, whether in email or minutes of meetings. «Democraship» can be found in the email chains in which all our entities around the world participate. If a discussion merits further exploration we organize a videoconference, a system that we have had for over fifteen years. All in all, technologies facilitate «democraship» and not the opposite. They allow me to interact with people throughout the world.

Our workforce includes some fifty nationalities. When I took over Lectra, it was already making 80% of its sales outside of France. This figure is now 92%. Our teams in Bordeaux are familiar with the cultural particularities of our customers and colleagues worldwide, and know how to welcome them while respecting their culinary customs or religious taboos. It is important that they feel at home. In no way do we position ourselves as a French company whose headquarters dictate its laws to the world. In a spirit of «democraship», I can delegate a decision to the boss of the Chinese subsidiary, even if it does not just apply to their territory. When we meet in person, we have a different, more human kind of relationship, as technical and managerial subjects are handled on a daily basis by videoconference or email.

On the lookout for global trends

Q: *While you have driven Lectra to rapid growth, is that because you identified emerging trends that were likely to become major vectors of growth?*

D. H.: One of our teams is dedicated to market intelligence. We saw the arrival, years ahead, of the globalization of the car, and knew that this industry would increasingly use leather. We anticipated that the United States would recover from the crisis faster than other countries, and that China would be a major market.

We provide our customers with this expertise. Therefore, rather than participating in trade shows, we prefer to organize seminars dedicated to analyzing the industries our customers operate in, market trends or macroeconomic matters. For example, we explored the transformation of China from a producing to a consuming country, and the impact that would have on the fashion and automotive industries. Seven years ago, 75% of the clothes produced in China were exported and today this same amount is sold in the domestic Chinese market. In just a few years, this country became the world's leading consumer of fashion goods. By 2020, more cars will be sold in China than in the United States and Europe combined. Furthermore, salaries double every three years in China. When growth slows down, Chinese manufacturers will see their margins shrink forcing them to make some hard decisions that are likely to affect our customers and us as well.

Though we rarely participate in trade shows, the last time we did so (in China, appropriately enough), we held a press conference that attracted mass media attention, dedicated to the «Made in China 2025» manufacturing plan launched by the Chinese government and focused on connected technologies. We demonstrated how Lectra could help fashion companies respond to it. This presentation received widespread media coverage.

Lectra also supports the «Fashion and Technology» Chair, created by ESCP Europe, who have just conducted a study on the phenomena of relocation and offshoring. The results of this study showed that the only current trend in the fashion industry is multi-shoring. In a context where market globalization is a given, the battle is won either by technology – information technology offers a worldwide common language – by having a proprietary production tool that ensures consistency, no matter where in the world it is, or by having sufficient power to impose production standards on sub-contractors. This analysis led us to fundamentally rethink our organization.

The notion of sectoral markets is the way forward. Every company does its best to achieve global operational consistency, regardless of where it is located. For example, a subsidiary of Johnson Controls (which has a 23% share of the global car seating and interiors market) operates in the same way whether in China or Romania, but differently from a subsidiary of its main competitor, Lear. This globalization phenomenon led us to customize our automotive strategy by account, applying a globalized management concept to each one. In the same way, our marketing strategy is adapted to every client. In fashion, on the other hand, approaches and visions are more local, requiring us to adopt a territorial concept.

When developing the Lectra 3.0 strategy, I was also inspired by the game theory method. In this sense, the decision to go upmarket came from simple reasoning. All clients had identified two key players in our field, Lectra and Gerber, the others representing a fairly undifferentiated mass. If this perception persisted, we were sure to lose: being American, Gerber enjoyed a superior reputation, in spite of our position as leader. Our strategy involved affirming our positioning by providing the highest quality, sending customers seeking unbeatable prices back to our low cost competitors. Gerber found itself in an uncomfortable and somewhat unattractive position of offering the best quality-price ratio, but not much else. That is how we managed to get around them.

Q: *China, which will soon represent 30 to 40% of the global economy is home to leading universities, and will undoubtedly develop considerable R&D potential. As such, is China not one of your potential competitors?*

D. H.: We have the advantage of having in-depth knowledge of the very specific jobs that apply to our technologies in the fashion and automotive industries. A new Chinese entrant would find it difficult to acquire these two elements. They will not give priority to entering a niche market but will favor technologies with big markets. In the short term, we don't see Chinese companies investing heavily in our area. That will happen sooner or later. Perhaps we should open research centers in China. The fact remains that China is currently our biggest market. We are working with them every day.

Q: *What is your perception of the United States?*

D. H.: The recovery of the United States appears to be stable. On the other hand, we will not see reindustrialization in the United States, in either the fashion or automotive industry. In 2015, our strongest growth was in the United States. We partially renewed the team, revitalized it and appointed a boss who is familiar with this culture. For my part, I removed myself from any involvement with this subsidiary as I was finding it increasingly difficult to interact with the Americans. I found I could no longer take part in their talks, somewhere between reality and what they thought I wanted to hear. They embellished situations and hid problems. Another surprising development is that, for the last two years, American customers have been the slowest payers, whereas up until then that they had settled their invoices in a very timely manner. I entrusted the monitoring of our American subsidiary to someone more familiar with their way of working.

The joy of being an entrepreneur

Q: *Your first job, in venture capital, gave you a real appetite for enterprise. Would you now take the investment fund route at Lectra?*

D. H.: At the time, the venture capital business belonged to the business angels of today: we had limited funds, made up of our own money and that of private shareholders, and we were involved in managing the entities that we were investing in. We entered into a joint venture with the operational companies.

Currently, I would not accept an investment fund getting involved with Lectra. My brother and I hold 36% of the capital, the rest is publicly traded. We could be overthrown at any time, even though this is unlikely. Over the twenty-five years I managed a listed company, I learned to communicate with complete transparency, to announce good news as well as bad. That gives us credibility and allows us to maintain confidence, especially during difficult times. I am very comfortable with this system, but I'm not sure how I would manage a company that was in the hands of venture capitalists. I think their practices create a win-lose situation, in their favor. They may be of benefit when the company is starting from scratch and when the investor and founder create wealth together. Otherwise, what's a good thing for the first is not necessarily the case for the second. If Lectra were to decide to change its business model, by raising funds to bring about widespread external growth, for example, the picture would be different.

Furthermore, and even if we return today to more controlled systems, I have seen the venture capital world move towards a logic of fees that I don't like, and that seems more characteristic of mercenaries than business owners.

Q: *How do you explain the disenchantment among business school students for small- and medium-sized firms?*

D. H.: When I started out, the idea of managing an SME seemed to be a nightmare. However, I get indescribable enjoyment from controlling the destiny of a small company. I wouldn't become the Financial Director of a major industrial Group for anything in the world! France is disenchanted with its company leaders and entrepreneurs even if the attitude of young people seems to be changing in this respect. That said, I doubt that they will be sufficiently well-equipped to start up after leaving school. You need to have some experience and be ready to take some knocks and to endure some setbacks. A young entrepreneur might succeed in a business that does not need funding but, otherwise, he risks losing face with the financiers.

Q: *Are you prepared for possibly handing over the role of Lectra CEO?*

D. H.: My brother André, Chairman of Lectra, intends to retire within the next four to five years. As for me, I don't intend to hang up my boots for another ten to fifteen years. I don't want to think about my succession. But I am confident the management team is robust enough to ensure the survival of the company should anything happen to me. After André has gone, I will be the head of a listed company with a 17% share of the capital. It will therefore be much easier to oust me than it is today. That's the game. But I refuse to plan for my succession, as the very thought would send me into decline.

Presentation of the speaker

Daniel Harari: former student of the École Polytechnique, graduate of the Institut Supérieur des Affaires (second year of the Stanford Business School MBA program); Vice President of the Société d'Etudes et de Gestion Financière Meeschaert (1980-1983); CEO of La Solution Informatique (1984-1990) and Interleaf France (1986-1989); director (since 1981) and Chief Executive Officer (since 1986) of Compagnie Financière du Scribe; Chairman and Chief Executive Officer of Lectra since 1991 following its takeover by Compagnie Financière du Scribe.