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# **SPIN-OFFS<sup>i</sup> BY EMPLOYEES IN FRANCE**

A STUDY FOR THE O.E.C.D. LEED<sup>ii</sup> PROGRAMME

REPORT

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## **FOREWORD**

The study on which this report is based made use of interviews and a questionnaire.

Interviews were conducted with Human Resources Directors, heads of government institutions (Chambers of Commerce, the *Agence pour la Création d'Entreprises* [Agency for Business Start-ups] and research institutes), government representatives and union representatives.

A questionnaire, made up of 30 questions, was sent to around 180 companies in France in the private and public sectors. About 50 responded, of which 22 replied affirmatively<sup>iii</sup> (14 from the private sector, 8 from the public sector, 20 large companies and 2 SMEs).

## **ACKNOWLEDGEMENTS**

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# INTRODUCTION

The present study aims to take stock of developments in the area of spin-offs by employees in France. Provided that it is implemented with honesty and integrity, it has much to recommend it to employees and companies: it enables companies to develop a spirit of initiative and facilitates “peaceful” staff turnover. Even though it would, by definition, be difficult to apply on a large scale, there is a place for the judicious use of this method, as part of managerial practices promoting flexibility in organisations and personalised methods of managing the workforce.

Since it was first used around 1975, the definition of a spin-off has changed:

- Traditionally, a distinction was made between “forced” spin-offs, used as part of redundancy schemes, and ongoing measures to support individual employees’ projects.
- Some people have suggested the notion of strategic spin-offs (sometimes likened to ongoing spin-offs) to describe policies aimed at establishing networks made up of affiliated companies.
- D. Thierry, a specialist in the area and rapporteur of the first official report on the subject (the Bertherat Report of 1989), suggests approaching the subject by distinguishing between individual business start-ups (setting up one’s own business in a particular field, without any ties the original company), focused business start-ups (using specialised technologies), and business start-ups brought about by companies undergoing restructuring<sup>1</sup>.

Although these categories are useful, they may not be easy to apply in practice, since companies’ policies have not always been clearly defined and may, in addition, vary over time and from region to region. Comments by personnel managers further highlight the fact that these definitions are not always applied and interpreted in the same way.

Furthermore, for the purposes of this report, we have used the concept in its broadest sense: encouraging spin-offs is defined as any type of support or encouragement given by a company to an employee or group of employees, with the purpose of helping them set up companies or independent business activities on a voluntary basis, at least in principle.

The subject will be dealt with in three sections:

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<sup>1</sup> See, in particular: “ Les pratiques externes d’essaimage dans les grandes entreprises françaises” by M. Descamps and D. Thierry in “Développements” No. 9, Dec. 1996.

1. Spin-off measures are currently undergoing major changes, creating the possibility of a more wide-spread use in future.
2. Major obstacles remain.
3. Spin-offs can be encouraged, provided that attitudes change.

# **PART ONE**

## **SPIN-OFF MEASURES ARE CURRENTLY UNDERGOING MAJOR CHANGES, CREATING THE POSSIBILITY OF MORE WIDE-SPREAD USE IN THE FUTURE**

The promotion of spin-offs has increased sharply in France over the past four or five years:

- Even though they are still mainly used as part of redundancy schemes, spin-offs are slowly but surely becoming part of management policy in some large French companies,
- Spin-offs are becoming more sophisticated, compared to the early days (“golden handshake”),
- They are winning over new proponents who were unaware of them, or thought of them as something foreign.

### I - SPIN-OFFS ARE BEING USED INDEPENDENTLY OF REDUNDANCY SCHEMES

The results of the company survey show that the situation has changed. Even though spin-offs are not exactly commonplace, the results confirm the trends observed in earlier studies<sup>2</sup>.

Some companies, which are already promoting ongoing spin-offs, are merely strengthening their commitment to using spin-offs to reach a balance between the company’s interests and the aspirations of those employees wishing to start their own businesses. This is the case at Thomson and Sanofi, where spin-offs have been judged a success (see annexes 2 and 5 for further details).

Other companies only became aware of this trend more recently, making spin-offs part of a dynamic personnel management policy, while taking the company’s strategic plans, its wish to reduce the adverse impact of changes in the industry, and employee expectations into account. One example of this is Schneider, which set up a detailed, ongoing spin-off plan in 1995 to stimulate risk-taking by employees. On a more general level, this approach, like that of Saint-Gobain, is aimed at stimulating local development by helping not only its employees, but also individuals who cannot be employed by the company (such as trainees) set up profitable new ventures.

Other initiatives follow the same trend, aiming to use spin-offs to anticipate changes in the company, together with other preventive measures. Companies like Alcatel are looking into the possibility of developing spin-offs as part of management planning for employment and skills (GPEC). Aerospatiale may also take this route during this difficult phase in its development (converting divisions into subsidiaries, incorporating Airbus, etc.).

The following table shows the reasons cited by the 22 companies who answered yes to our question (more than one answer was allowed).

The question was: “as practised in your company, do spin-offs appear to be a means of...?”

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<sup>2</sup> M. Descamps and D. Thierry, already cited; see also “Entreprise et Carrières”, No. 427, 24 to 30 March 1998.

<b>Reason given for spin-offs</b>	<b>Number</b>
<i>Turning employee projects into reality</i>	18
<i>Promoting a good image of the company</i>	7
<i>Enabling the setting up of affiliated companies</i>	5
<i>Outsourcing certain functions</i>	8
<i>Accompanying redundancy schemes</i>	11
<i>Accompanying lay-offs</i>	1
<i>Other</i>	2

The vast majority of companies that said that they promote spin-offs see it as a means of turning employees' personal projects into reality and to structure large-scale departures. Even though the answers are ambiguous, they may be taken as a sign that opinion may soon favour spin-offs as an ongoing process. The current situation is not, however, all that clear: only a small majority of companies that encourage spin-offs do so on an ongoing basis, either independently of redundancy schemes or, more frequently, in combination with such schemes.

Companies' perceptions are also changing with regard to the type of projects supported: in the past, only new business start-ups qualified, although they involve greater risk than acquisitions of existing companies. This is now starting to change and acquisitions of existing companies are being considered more often.

## II - SPIN-OFF MEASURES ARE BECOMING MORE SOPHISTICATED

Whether applied as part of redundancy schemes or otherwise, spin-offs are generally becoming more structured and detailed. This is true both in terms of the types of aid offered by the company and the methods used to support projects submitted by employees.

*1 - Increasingly wide-ranging and relevant types of aid are being offered by employers.*

Until a few years ago, aid was often limited to severance pay (the "golden handshake"), and possibly some brief training and varying degrees of financial support.

For the most part, this situation has changed, for a number of reasons<sup>3</sup>. More and more companies are adopting a multifaceted approach giving the spin-off candidate access to:

- Financial support, in the form of a subsidy, a low interest-rate loan or, more rarely, by taking an equity interest in the company. Guarantees are seldom provided, despite the financial leverage this may afford,
- Training specifically focused on starting and managing a business,
- In some cases, support may go as far as setting up a partnership, in the form of

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<sup>3</sup> An increased awareness amongst some Personnel Managers of the usefulness of support to spin-offs, more information available regarding success stories, pressure from unions, etc.



guaranteed turnover<sup>4</sup> or the transfer of technology.

The extent of the support offered depends on the type of spin-off: it is often relatively simple in the case of “forced” spin-offs, where it accompanies lay-offs. It is, on the other hand, more far-reaching in the case of ongoing measures and particularly in the case of a strategic spin-off plan intended to set up a network of affiliated companies (examples of this include companies as different as Snecma, a state-owned company, and Schneider).

The following table shows the breakdown of companies surveyed according to the type of spin-off policy and the number of different types of aid offered (included in the “redundancy scheme” and “strategic” category are companies which primarily or exclusively implement these types of measures. Two companies that clearly differentiate between their practices are counted twice).

Type	One or two types of aid	Three types of aid	More than three types of aid
Ongoing	4	5	7
Redundancy schemes	1	2	1
Strategic	0	1	2

Companies that promote spin-offs on an ongoing basis generally set up many types of aid, sometimes requiring the involvement of several entities, internal and/or from outside, effective over relatively long periods of time.

In some cases, this involves the setting up of projects that form part of the company’s general approach, where spin-offs are seen as a normal management practice, forming part of the company’s day-to-day operations. Paradoxically, for companies like Sanofi and Schneider, the success of spin-offs depends on their becoming standard practice-- which is not to say standardised.

The table below shows the types of aid offered by those companies surveyed that replied yes (22). Multiple replies were allowed.

Type of aid	Number of replies
<i>Financial aid</i>	16
<i>Technological/logistical aid</i>	8
<i>Help by outside firm</i>	2
<i>Training</i>	13
<i>Leave to set up a business</i>	5
<i>Mentorship</i>	1
<i>Guaranteed turnover</i>	4
<i>Other</i>	4

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<sup>4</sup> This point merits discussion. Some companies disagree with this practise, seeing any guarantee of orders as destructive to the spin-off, since it would then never become accustomed to free competition. Companies assisted by the CEA, for example, may not realise more than 20% of their turnover through sales to the CEA.

## *2 - Support measures have also been finely-tuned*

In addition to material and financial aid, measures to support entrepreneurs are being implemented, particularly with regard to micro-companies whose owners will be on their own once they leave the company. This necessitates a different approach to spin-offs, requiring far-reaching organisational measures.

Firstly, while Human Resources Departments remain responsible, by and large, for the management and implementation of spin-off policies, specialised departments are increasingly being set up and can, for example, be involved in converting sites or local development. These departments are either structurally or functionally linked to the HRD, autonomous or, less frequently, linked to management or the chairman of the company or organisation (Sanofi and La Poste). The existence of such a department can be seen as an indication that spin-offs are being closely monitored and that this is most likely an ongoing process, not one limited to periods of crisis.

More and more companies are also calling on outside firms: Renault, Cogema, Alcatel, La Poste, Snecma and the SNCF have all used outside consultants to advise the company and employees.

Companies promoting spin-offs are also mainly using specialised units, either in-house or from the outside, to interview candidates while maintaining confidentiality, and to provide an initial consultation that is shielded from the immediate concerns of reducing the workforce. This is an important point, since it enhances the credibility of spin-offs.

Personalised support is now viewed as more important than ever before-- companies have learned from their past mistakes and realised the importance of qualitative aid in the form of advice and specialised training. This is essential, because employees who start new businesses often do so in a different region, adding moving to a new region -- most frequently in order to return to the area where they grew up -- to the stresses of setting up a business.

Some companies which have recently implemented measures even consider advice to be the most important aspect—providing financial aid alone is not enough, or is nothing more than a pretext. La Poste, for example, has focused on screening projects and giving advice, while entrepreneurs are referred to lending institutions for financing.

It should be noted that some companies have put together extremely comprehensive materials aimed at creating awareness and informing candidates. They include Sanofi, Snecma, Schneider and Danone, amongst others.

It is rare, however, for company reports to include spin-offs. Only Hewlett-Packard does this, while Schneider is planning to do so sometime in the near future. Thomson draws up a separate report on its spin-offs.

Several shortcomings remain, however:

On the whole, follow-up of spin-offs is limited. It is practised by a minority of companies, and on a limited basis (regular telephone surveys or newsletters). Only a handful of companies extend the period of personal support: Sanofi, Air France and HP are amongst these. One of the problems is that the entrepreneurs are sometimes opposed to these measures (leading the CEA to practise follow-up only if with the employee's approval). Very few companies have regional follow-up units, Schneider and La Poste being exceptions to the rule.

It is even more rare to find a peer support and liaison structure, such as an "entrepreneurs' club". Sanofi has one, which publishes a yearbook that is very appealing and informative. The CEA also has an entrepreneurs' association, with the group's spin-off representative as its executive secretary. The SNCF is planning to set up such a structure. EDF in Ile de France also has an entrepreneurs' club.

Young retired managers may participate, sometimes spontaneously, in the long-term support offered to new businesses. An example of this can be found at Eurocopter, where, following a 1992 reduction in the workforce, managers at the company set up Amicopter, an association that has assisted 171 entrepreneurs since it was launched in 1995<sup>5</sup>.

⇒ Employees who return to the company are rarely viewed in a positive light. Most companies apply the legal time-limit and some state outright that they do not envisage the return of employees, even though they have an open, positive attitude to "peaceful" spin-offs. The choice is sometimes even put bluntly: either the employee takes leave and does not qualify for aid, or he or she receives aid but undertakes not to come back. The question remains whether this is necessarily a bad thing, since a guaranteed job to return to may reassure candidates when they leave, but it may also decrease their motivation to succeed in their business venture, with all the risk that this entails.

⇒ Spin-offs seldom form part of negotiations with employee representatives and are almost exclusively decided by the company's management. There are several reasons for this:

- The employer's desire to remain in charge of this measure, which cannot be made into a vested right,
- Unions' reservations about or rejection of a system that is associated with redundancy schemes because of the way it was used in the past,
- The difficulty of resolving issues within a framework that is too restrictive, where progress cannot be made without negotiations, which may well fail.

It is a pity -- although understandable -- that spin-offs do not form part of negotiations, as this could help make them more familiar to employees.

Of the companies surveyed, only Air France reported a company-wide agreement, while Atochem placed the focus on individual agreements with each employee.

Some companies, however, do report employee demand for this, including IBM, Hewlett-

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<sup>5</sup> See "Entreprise et Carrières" No. 421, 10 February 1998.

Packard and Thomson.

### III - SPIN-OFFS ARE REACHING NEW AUDIENCES

#### *1 - Some SMEs are showing an interest in such schemes*

Structurally, spin-offs are mostly encouraged by major companies with a large enough workforce to make it worthwhile for them to put a lot of effort into them, and with the resources needed to offer enough aid to act as an incentive.

However, smaller companies are increasingly becoming involved in spin-offs. An example of this trend is Pyrenecell, a company based in the Haute-Garonne region with a workforce of 300 in 1997. It encourages spin-offs as part of redundancy schemes and to help employees realise personal projects.

It is mainly SMEs from the high technology field or sectors undergoing rapid change that may need to use spin-offs to avoid overstaffing and deal with the personal conflicts that tend to arise during periods of rapid growth. An example of this is computer software companies such as Infogrames in Lyons, which has helped set up 25 new companies over the past few years and does not hesitate to invest in these companies.

#### *2 - The research field is moving toward spin-offs*

##### a) Problems affecting spin-offs in state-owned research centres

At least two factors are likely to influence the implementation of spin-off policies in the state-owned research field:

Firstly, there are psychological factors at work, and those related to their status as civil servants. Researchers have long had misgivings about setting up businesses, as a result of either the stubborn resistance of many researchers to applied research, or the lack of knowledge about the subject, since researchers have no general business training, and even less specific training in setting up businesses.

In addition, there are legal issues at stake, and those related to their position as civil servants. Inventions developed in a state-owned laboratory with the taxpayer's money belong to society as a whole, and the fact that most researchers in the public sector are civil servants means that they cannot at the same time be partners in private-sector companies.

Secondly, spin-offs from state laboratories are open to abuse. Aid may, in some cases, really be offered for scientists' personal projects, but it most often forms part of the laboratory's business strategy, allowing it to gain financial benefit from registering patents. Companies set up by outside investors using patents developed by a State laboratory could be classified as spin-offs. However, it is our opinion that only companies set up by researchers employed by the laboratory or at least by someone with a link to the laboratory, should be seen as spin-offs. This means, in particular, research partners, trainees and students.

Financial rewards for consultancy contracts and research contracts with outside companies

should not be defined as spin-offs.

b) The advantages of encouraging spin-offs in state-owned research centres:

This is, first and foremost, a cultural challenge. It is, quite simply, a pity to keep thousands of researchers out of the business sector. The profession can only benefit from its members having a better knowledge of the economic realities and those who no longer derive satisfaction from their research may wish to explore other avenues by setting up companies that will benefit from their scientific experience.

Another advantage is the potential new businesses hold for job creation and the economy. Even if businesses created through spin-offs are usually small, even micro-companies, it is not unusual for such a company -- the end result of a researcher's idea -- to have large production volumes and create many jobs. Comex -- world leader in the off-shore exploration field -- a spin-off of the *Centre National de la Recherche Scientifique* (CNRS) [National Scientific Research Centre] is one of the most successful examples of this.

c) Awareness levels are improving

The restrictions on civil servants being involved in spin-offs could be lifted in the near future. The previous government had been planning to submit a bill early in 1997. The bill was aimed at allowing civil service researchers to become partners in and directors of new companies with which they collaborated on a scientific or technical level. This authorisation would have been given for a maximum of four years by the Commission responsible for deciding if the spin-off was in line with the professional code of ethics. The bill was never debated, because of the dissolution of the National Assembly in the spring of 1997.

The notion of allowing civil servants from the government research field external mobility is, however, gaining ground. The report recently submitted to the new government by Mr. Henri Guillaume, deputy president of ERAP and former president of ANVAR (*Agence Nationale de Valorisation de la Recherche*) on innovation and technological research contains proposals on this matter. In particular, the report advocates making researchers available to companies on a part-time basis and authorising them to become company directors.

As a result of this report, the Minister responsible for research, Mr. Claude Allegre, announced -- at the *Assises de l'Innovation* held in Paris on 12 May 1998 -- that the French Parliament would soon consider a bill that would facilitate the setting up of innovative businesses by researchers and authorise them to become partners in existing companies.

More and more initiatives aimed at spin-offs are being set up on another level. This trend can, first and foremost, be seen in organisations that are already practising such measures and are now expanding on them. The Atomic Energy Commission (CEA) is a good example of this. It has had a system of encouraging new business start-ups for over ten years. The system consists of three aspects:

- Supporting the candidate,
- Allowing the candidate to return to the CEA in the event of failure,
- Providing unsecured, interest-free loans.

The results of such a policy are clear: 80 companies have been set up in ten years, of which 60 technology companies. These companies have a combined turnover of around FF 660 million and employ more than 1200 people.

The CEA nevertheless wants to expand its measures encouraging spin-offs in order to have an even greater impact on the economy. It is therefore aiming to increase support and follow-up measures and launch a seed-capital fund with industrial and financial partners (for more details, see annex 4).

Until today, the CNRS has followed a limited spin-off policy, notably aimed at developing new technologies. It estimates that 200 companies have been set up in this way, but that few researchers have actually left. A process was launched to design a system that would offer more efficient support to those researchers wanting to start their own businesses. A decentralised system based on business incubators is currently being implemented in the Paris, Bordeaux and Toulouse regions.

The CNRS is not currently considering direct financial investment in these new companies, rather, it is focusing on entrepreneurial training and setting up networks. The plan is based on an experiment in Helsinki, Finland.

The Pasteur Institute has also launched a spin-off programme: the 12 May 1998 issue of the financial daily, "La Tribune" reported on Hybrigenics, a company specialised in proteins used in manufacturing medicines founded by a researcher from the institute and three other scientists.

Some universities are launching similar programmes amongst their lecturers and students. An example is the Pierre and Marie Curie University (Paris VI) which started an industrial relations department several years ago. The department was set up to capitalise on contracts signed by the University's laboratories and has recently introduced spin-offs. These efforts should be seen as encouraging but insufficient, since the resources set aside and the results achieved are still limited.

### *3 - Military personnel are affected by spin-offs*

Since 1996, as part of the change-over to a professional Army, Navy and Air Force, organisations usually involved in retraining military personnel were reorganised and assigned different goals. The main aim of these measures is to facilitate the transfer of military personnel to the civil sector by supporting them in their re-entry onto the job market: motivational interviews, training, personalised support in some cases, as well as out-placement services for non-commissioned officers.

Two measures are specifically aimed at entrepreneurs:

- Interest-free loans of FF 50 000, in addition to the allowance paid to military personnel who leave the Army when their contracts expire,
- The 8 *Centres Interarmées de Réorientation* (CIR)[Inter-Service Reorientation

Centres], spread throughout the country, offer information on setting up a business and put candidates in touch with organisations that can offer them guidance (Business Chambers<sup>iv</sup> and others).

The fact that a military career does not really prepare one for starting a business may explain the fact that most of these people look for salaried employment. Nevertheless, a look at the French Navy reveals a number of “ongoing” entrepreneurs comparable to that of large companies: about 50 per year for a workforce of 45 000 military personnel.

The armed forces thus constitute a significant breeding ground for entrepreneurs, seeing that efforts to encourage spin-offs do not differ substantially from retraining in general. As a matter of fact, the specialised skills acquired by many technicians and engineers make it possible for them to start their own businesses in growth markets.

## **PART TWO**

### **SPIN-OFFS REMAIN LIMITED AND FACE MANY OBSTACLES**

In spite of the progress described in Part One, spin-offs are still little-known and do not exist in a large majority of companies. This may surprise some, seeing that several studies -- by specialised firms, chambers of commerce and other institutions -- have focused on this topic since the Bertherat Commission's report was published in 1989<sup>6</sup>.

#### I - THE EXACT SCOPE OF SPIN-OFFS IS UNKNOWN

##### *1 - Reliable statistics are often lacking at the company level*

⇒ The main reason for this is the problem of defining spin-offs, which employers often confuse with related measures, such as outplacement, or measures that only reflect some aspects of spin-offs, such as outsourcing. Other measures, such as employee subcontracting, are sometimes mistakenly equated with spin-offs.

⇒ Another reason is the absence of exact figures on spin-offs, either because they form part of redundancy schemes, because of a lack of interest on the part of the company, or because of the fact that the small number of workers affected does not justify keeping separate records.

⇒ Some groups favour decentralised structures that do not enable overall statistics to be kept.

⇒ The many different kinds of workers now found within a given company (employees with permanent contracts, short-term contracts, trainees, consultants, seconded staff etc.) makes transparency difficult. Employers generally prefer to restrict eligibility for spin-offs to permanent employees with several years' service, although the opposite scenario also exists, where temporary employees are most strongly encouraged to make use of these measures.

⇒ Another important reason is that some companies practice self-censorship, not wanting to make spin-off figures public because of the attitude of unions. Although unions may accept the discrete use of spin-offs, they usually oppose making the information public, because of the negative image that is still associated with spin-offs.

This reluctance is evidenced by the fact that few companies publicise these measures, and that they are very rarely included in company's annual reports.

*2 - It is also difficult to acquire complete, representative figures on spin-offs by government agencies*

The *Délégation Générale à l'Emploi et à la Formation Professionnelle* [General Delegation

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<sup>6</sup> "L'essaiimage", a report prepared at the request of the Ministry of Employment - March 1989.



for Employment and Vocational Training] only keeps statistics on spin-offs that form part of the redundancy schemes submitted to it. It is therefore difficult to come up with overall figures.

The *Agence Pour la Création d'Entreprise* (APCE) [Agency for Business Start-Ups] puts total spin-offs in France at 20 000 in 1997, of which 5000 were the result of ongoing spin-offs. This figure is merely an estimate, and should be treated as such. The actual figure is most likely lower than this optimistic estimate.

Whatever the figure used, spin-offs, and particularly ongoing spin-offs, seem to be on the rise. Nevertheless, even if we accept the figure of 20 000, it is clear that spin-offs are still used on a very limited basis.

## II - SPIN-OFFS ARE STILL VIEWED WITH A GOOD DEAL OF SCEPTICISM

### *1 - Firstly, by employees and unions*

Spin-offs still have a negative connotation attached to them, because they have long been associated with forced redundancy schemes. They are still too often imposed on, as opposed to chosen by, employees, inasmuch as candidates often fear that, by presenting their projects, they may be considered to lack commitment by their employers.

Another reason is that candidates for spin-offs have often spent the bulk of their careers in large companies and find it difficult to imagine life in a small company, where they would be responsible for all types of tasks.

Unions are generally unenthusiastic about spin-offs, either because they see them as part of redundancy schemes, or because they do not trust employers' sincerity, in the case of outsourcing. The claim that the system is open to abuse is made by the *Confédération Générale des Cadres* (CGC) [General Confederation of Managerial Staff], which nevertheless recognises that it can have a positive effect by stimulating independence and the creation of wealth, and by promoting regional development.

The CGC demands that a safety net be put in place, with a guaranteed right to return to the company. It has also expressed concern over the fact that employees who leave the company find that less favourable collective bargaining agreements apply to them.

The *Confédération Française Démocratique du Travail* (CFDT) [a French trade union] has also expressed reservations about mass spin-offs, because of the risk of abuse and the decrease in benefits that normally results from it. It favours individual spin-offs and the setting up of a network of companies, but stresses that the social benefits of employees who leave must be taken into account, regardless of the form their departure takes.

### *2 - By some companies*

The reasons given for not encouraging spin-offs vary. Apart from SMEs, which generally do not have the means or inclination to develop a policy of fostering spin-offs, major corporate groups give the following reasons for not promoting spin-offs:

- The absence of redundancy schemes and the existence of a stable workforce, which reflects the notion of spin-offs as a defensive measure. Spin-offs are seen as the exception rather than the rule, to be used in times of difficulty, and not in the absence of a need to reduce the workforce, or when faced with rapid turnover.
- Spin-offs are not suited to their industry. This attitude is especially widespread in the service sector, as well as in the banking and insurance sectors. It is more surprising, however, to find manufacturing companies such as those in the metallurgy sector using this as an excuse.
- Some state-owned companies cite reasons relating to their employees' status as civil servants, even though other companies from this sector, like La Poste and the CEA seem to have overcome these to launch spin-off plans.

Conversely, some companies that have resisted spin-offs until now are considering implementing them in the near future. Others have kept the door open and, while not encouraging spin-offs as such, consider that some measures, such as corporate foundations, could be a step in the right direction.

### III - THE REGULATIONS IN FORCE DO NOT ENCOURAGE SPIN-OFFS

#### *1 - The system governing the setting up of new companies by employees is too restrictive<sup>7</sup>*

a) With regard to regulations of general application, only two forms of incentives currently exist:

- Since 1984, labour law has provided for special leave for employees wishing to set up a company. Leave is granted for a period of one-year, renewable once. This measure is rarely used, however, since, for various reasons, companies generally prefer permanent departures. These reasons include: risk-taking by the employee, not wanting large numbers of employees to leave, the inherent paradox found in inviting employees to leave "voluntarily", while sometimes viewing them as deserters. The welcome extended to employees who return varies: they may be successfully re-integrated (the employer views the experience gained as an asset) or rejected (their departure being seen in a negative light).
- Since 1978, the General Tax Code has allowed a reserve to be set aside in connection with loans provided to employees starting a business. In 1996, this was extended to include equity investments. The measure is particularly complex: article 39 quinquies H of the Tax Code provides that a company may, subject to approval by the tax authorities, set aside a special tax-exempt reserve in the amount of low-interest loans made to businesses founded by its employees. The maximum per loan is FF 150 000 for a sole proprietorship and FF 300 000 for a limited company. Loans are for seven years, and the employee must provide matching funds. The reserve set aside is

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<sup>7</sup> For more details on this point, see the CNCE 1998 report and the June 1994 report by the CERAL (*Centre d'Etudes et de Recherche des Chambres de commerce et d'industrie Rhône-Loire-Alpes*).

limited to 50 per cent of the principal amount of each loan.

Because of its complexity (the recovery of the reserve is deferred), this measure is very seldom used by companies.

b) As for civil servants, the case of researchers has already been discussed and forms the basis of a proposed change in the law.

Moreover, all civil servants have the option of taking personal leave for a period of six years. At the end of this period they may either resign or rejoin the civil service. Civil servants wanting to set up a business qualify for two extra years. The system is particularly generous, compared to the private sector, but does not include any specific forms of aid (except in the case of military personnel, where it applies only in the case of permanent departure).

c) The *Conseil National Pour la Création d'Entreprises* (CNCE) [National Council for the Foundation of Companies] has just compiled a report<sup>8</sup> for the Government in which it outlines the limits of State spin-off incentives. Fiscal aspects, in particular, are emphasised seeing that one of the main problems facing employees starting a business is the lack of savings.

## *2 - The legal status of an employee starting a business does not encourage spin-offs*

Firstly, candidates and companies clearly have an interest in negotiating the terms of a lay-off. This allows for a tax-free severance payment, which makes this approach more advantageous to the employee than resigning. At the same time, it avoids the company having to pay a larger sum to make up for the tax bite. In addition, the terminated employee qualifies for unemployment benefits.

Secondly, an employee who sets up a company is at a disadvantage in terms of Social Security contributions, since an employee who resigns remains without Social Security protection for quite a long period of time.

An initiative by the *Caisse Nationale d'Assurance Maladie* (CNAM) for members of the professions is noteworthy in this regard. They wrote to companies likely to implement spin-off programmes in March 1998, to offer advice and inform them of the special features of the Social Security system governing self-employed workers.

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<sup>8</sup> Report by the Spin-off Committee of the CNCE - March 1998.

## **PART THREE**

### **SPIN-OFFS CAN BE ENCOURAGED, PROVIDED THAT ATTITUDES CHANGE**

The benefits of encouraging spin-offs seem clear, as illustrated by recent positive results. In order to succeed, however, spin-offs should become part of established management practices.

#### I - SPIN-OFFS CAN BENEFIT THE FRENCH ECONOMY

*1 - Spin-off programmes are generally seen as having succeeded, in spite of their limited use:*

⇒ The APCE estimates that companies set up through spin-offs have a five-year success rate that is higher than the national average. Even though based on estimates, it seems that success rates vary from 70% to 90%, depending on the field of business, as against an average that barely exceeds 50%. The same trend can be seen for the number of jobs created after three years by spin-offs (five per company as against three on average).

⇒ Figures reported by the companies surveyed that encourage spin-offs show the same trend. Employees who do not return to the company are considered to have succeeded in their business ventures. These figures are sometimes close to 100%. It is clearly difficult to verify these reports scientifically, but a majority of companies that have implemented spin-off programmes want to continue to do so, and are even expanding such measures. Most of these companies further stated that spin-offs are “beneficial and should be encouraged”, while only a few felt they are “not very beneficial”. None felt that they are “only a fad”.

#### *2 - Spin-offs benefit the companies which promote them*

Companies that support spin-offs maintain that they can help them improve their industrial relations, boost their image and even improve relations with the regions in which they operate (Saint-Gobain). At the same time, the newly-founded businesses are often involved in developing new products, and it is thus not seen as a reflection on the original company if the spin-off fails.

Companies which implement strategic spin-off programmes have clearly made them a part of their management practices and see spin-offs as a way to encourage growth and self-renewal in companies.

#### *3 - Spin-offs benefit employees*

Provided that they are seen as a “peaceful” measure, not only applied in times of job

cutbacks, and that certain rules are followed (the spin-off must be voluntary in nature, and confidentiality must be protected), spin-offs can prevent employees from feeling trapped in a job that they no longer find challenging, and improve company-employee relations (Sanofi). They offer employees a second chance and facilitate the transition, helping employees -- who are not used to taking on responsibility at that level -- in the difficult process of starting a company from scratch.

## II SUPPORT FOR SPIN-OFFS MAY BE ON THE RISE

Companies that were sceptical to begin with are now starting to show an interest in spin-offs. What is more, institutions are increasingly interested in becoming involved:

⇒ The CNCE, started in 1997, has set up a Commission on spin-offs. The commission compiled a report, soon to be submitted to the Government, stressing the importance of developing spin-offs and offering solutions to the legal and fiscal obstacles they face.

⇒ The Secretary of State for Small-and Medium-sized Companies has commissioned a specialised firm (RDE) to draw up a report (currently being drafted) to identify the reasons for the delay and propose avenues for reform.

⇒ In addition to companies that practice spin-offs as such, others have taken the core notion and integrated it into a broader approach, aimed at encouraging individual initiative. Sodexho thus speaks of “intrapreneurs”, while Générale des Eaux, though not wanting to launch a spin-off programme, set up a corporate foundation in 1995 to assist entrepreneurs regardless of whether they are company employees or not.

## III - A CHANGE IN ATTITUDE IS NEEDED FOR SPIN-OFFS TO BECOME MORE WIDESPREAD

### *1 - To succeed, spin-offs must become an integral part of management practices*

To counteract the negative image preventing the growth of spin-offs, which is a legacy of its misuse in the past, it is essential to reach a balance between the company's interests, and those of its employees. From the company's point of view, spin-offs must not be seen as yet another personnel management issue, but should form an integral part of management strategy. From the employee's point of view, spin-offs should not be seen as merely a way to make lay-offs more acceptable, or as a form of charity, but should be linked to a business project.

The ideal would thus be to achieve a good fit between some employees' aspirations to set up their own businesses, on the one hand, and the concerns of human resource managers on the other. It is not, however, easy to reconcile these two sets of needs since companies are generally not drawn to encouraging spin-offs. They risk losing their most enterprising employees, the cost involved, even if limited, is not justifiable if the employee's project is too far removed from the company's area of business. In addition, there is virtually no demand for spin-offs from labour unions.

And yet, the experiences of companies that have promoted spin-offs in line with their

management strategy show that it can be very positive. The first advantage is in terms of the atmosphere within the company. This is illustrated by Sanofi, where spin-offs are viewed in a positive light, since they offer employees an opportunity to consider making a change, without being forced to do so. At the same time, spin-offs are not held out as panacea, rather, they form part of the company's personnel policies, which are described as open and aware of the importance of individual choice.

Another advantage is that employees interested in spin-offs learn many skills. Spinning off is like a crash course in independence, which can benefit the whole company by improving its adaptability and bringing about positive changes in the areas of employee training, organisation, and relations with superiors.

Adopting a spin-off policy necessarily leads to development in these areas, as illustrated by the example of La Poste.

A company such as Sodexo, leader in the institutional food services field, does not encourage spin-offs as such because it is experiencing strong growth, rather, it says it aims to motivate employees to assume responsibility and become true "intrapreneurs". Even though spin-offs are not encouraged as such, the idea behind them is practised by promoting values that develop independence and may in that way lead to new business start-ups.

Thus, without claiming to revolutionise the way companies are organised, spin-offs can form part of progressive management practices. In this way, it is almost the natural consequence of other techniques encouraging flexibility and employee mobility.

## *2. The environment must be changed to facilitate spin-offs*

New business start-ups have been the focus of attention for some time now, but the general attitude in France is often described as reluctant. For employees, who are often thrown into the deep end and are more or less forced to start companies after having spent many years as a cog in the corporate machine, it is a very big step to take, even with assistance.

Certain legal aspects should be addressed, but it would be unwise to introduce broad legal reforms that no one wants. The notion of creating a separate legal category for spin-offs should be rejected, for at least two reasons:

- Spinning off is a good way to start a company, but there is no reason to create a separate category under the laws governing employment—the key issue is how to encourage start-ups.
- It is important not to overdo things, since creating a system that is too complicated may discourage companies who have just started to warm to the idea. A flexible approach should be used, focusing on the two or three key obstacles to be overcome (in particular the entrepreneur's status with respect to Social Security coverage).

In addition, it is a much better idea to encourage companies to encourage spin-offs by example and persuasion, since no law can take the place of employer involvement,

particularly with regard to follow-up on spin-offs.

a) Use the law to eliminate obstacles

Three points are worth mentioning with regard to moderate legislative reform:

- One of the main difficulties that has consistently shown up in reports since 1989 and is mentioned by all involved is the technical requirement that the entrepreneur's employment be terminated, for reasons explained above. This is a pity, because it taints the image of spin-offs, and constitutes something close to an abuse of the system.
- It would be better to create an intermediary position between having an employment contract and being self-employed. The measures that apply to government researchers could, for example, serve as a basis for this. The report drawn up in March 1998 by the CNCE suggests providing for a special case of co-ordinated severance applicable only when employees leave to start a business. The system would be the result of a compromise and the employee would qualify for unemployment benefits, particularly in the event that the business fails. This is an interesting proposal that needs to be more closely examined.
- In the same vein, the situation of the entrepreneur with regard to tax and Social Security contributions needs to be clarified. It is unfair for the entrepreneur's severance payment to be taxed if he or she resigns and is classified as self-employed from day one, while the law paradoxically allows the employee to return to the company within the same time period allowed for special leave to set up a business. It would be better if, for that period, the entrepreneur/employee could remain in the same category as before.
- It would also be a good idea to set up tax incentives for companies, seeing that the current measures are far too complicated. In particular, corporate foundations should be encouraged. They may in particular attract companies that do not wish to adopt an official spin-off policy, but want to offer their employees the same assistance as to other prospective entrepreneurs as part of a much broader approach aimed at local development. These would constitute "incidental spin-offs", which are to be encouraged, since the principal aim is to encourage individual initiative and not to impose a particular system.

b) Enhance awareness of spin-offs

- A more complete and reliable method of collecting statistical data should be set up, in view of the fact that the authorities and other key players lack the necessary information,
- Spin-offs should be dealt with in training courses aimed at future Human Resource Managers,
- The most successful programmes should be used in promotional campaigns

illustrating good practices,

- Setting up a monitoring body (or reconvening the ethics committee that was operated by the Assembly of Chambers of Commerce until 1995) may also improve awareness of this subject.

c) Facilitate the support and monitoring of entrepreneurs

Structuring support for entrepreneurs on a regional basis so as to better integrate them into the local economic fabric was advocated by the *Délégation à l'Aménagement du Territoire et à l'Action Régionale* (DATAR) [Delegation for Local Development and Regional Action] in 1994<sup>9</sup> and by the CNCE (1998 report, cited above). The idea is appealing, even though it would be difficult to apply.

La Poste emphasised this point in its measures set up in 1997 (annex 3) by selecting service providers in the various regions to monitor entrepreneurs.

One could imagine collective agreements being set up between companies (especially SMEs) and resource centres such as chambers of commerce and management consulting firms<sup>v</sup>. Such agreements may have limited success, however, since most companies prefer to remain in charge of the support measures aimed at their employees.

## CONCLUSION

In spite of some encouraging results, spin-offs are not yet well-established in France. Recent initiatives by the authorities and industry are a cause for optimism as are the increasing use of such measures by companies: spin-offs are becoming both more widespread and more focused<sup>10</sup>. Nevertheless, many obstacles remain and a clear, long-term commitment from the State, industry associations and the companies concerned is needed if spin-offs are to really take off.

Spin-offs will never be practised on a large-scale, nor should they be. They can, however, be brought out into the light of day for employees looking for new challenges and an outlet for their energies that will also broaden the economy as a whole.

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<sup>9</sup> “Politiques locales d'accueil des projets de création d'activités issues de l'essaimage” - report compiled by RDE for DATAR - January 1994.

<sup>10</sup> The Shell France initiative is a good example. Shell recently announced (“La Provence” of 28 April 1998) that it is setting up a fund totalling FF 100 million to help recently-founded companies set up shop at the Berre pond. Some of these new companies were started by Shell employees.



## ANNEX 1

### A FEW COMPANIES' SPIN-OFF FIGURES

THOMSON:	1 800 over the past 15 years	workforce: 46 000
SNECMA:	700 spin-offs between 1992 and 1997	workforce: 210 000
SEITA:	183 since 1987	workforce: 5000
COGEMA:	230 (date of launch not given)	workforce: 20 000
DANONE:	280 since 1993	workforce: 80 000
CHARBONNAGES:	134 from 1993 to 1997	workforce varied from 16 000 to 13 000
IBM:	2800 as part of mass lay-offs (outsourcing) 100 individuals (in 14 years)	
SANOFI:	800 candidates 230 entrepreneurs in 10 years	workforce: 12 000 in France
AIR FRANCE:	170 (ground staff) on mobility leave 400 (flight crew) on mobility leave 40 entrepreneurs group workforce: 45 000 (over 2 years)	
CEA:	150 spin-offs	workforce: 16 500 (over 10 years)

ATOCHEM: 2	20 since 1983	workforce: 33 500 the world over
SCHNEIDER:	70 spin-offs	group workforce: 24 000 in France (over 3 years)
LA POSTE:	450 contacts 150 applications processed or being processed	workforce: 310 000 (over 2 years)
SNCF:	34 spin-offs Special programme for young people (since early 1997)	workforce: 165 000

## ANNEX 2

### SANOFI:

#### VOLUNTARY SPIN-OFFS

Sanofi is a subsidiary of the Elf group operating in the health, perfumery (Yves Saint-Laurent) and cosmetics (Yves Rocher) fields.

The Sanofi group employs 24 000 people, of whom 12 000 in France. Its head office is in Paris, and its production plants and laboratories are spread all over France, with a high concentration in the south and west.

The group voluntarily decided to develop a spin-off program ten years ago, seeking to create a positive attitude toward spin-offs. With the exception of a few take-overs that resulted in redundancy schemes accompanied by “forced” spin-offs, spin-offs are generally encouraged on an ongoing basis with the aim of integrating them into the company’s everyday life.

The reasons given by the company -- which implemented spin-offs of its own accord due to the personal commitment of its Chairman to this initiative -- are based on the following three points:

- The group is doing well: Sanofi is in the black and is recruiting (600 hires in 1997). Spin-offs are not encouraged as a way to reduce the workforce, but to show employees that they are not stuck, but are free to leave the company within the framework of a negotiated settlement. Staff turnover is a matter for concern, but creating a positive atmosphere in the company is of primary importance.
- Spin-offs form part of management practices: spin-off candidates are interviewed in confidence, which enables even those employees who do not really want to start a business, but feel the need to confide in a department separate from the HRD, to come forward.
- Spin-offs are good for the company’s image: the positive internal climate makes it easier to acquire other companies, the firm has a good reputation in the media and the company is proud to be supporting the business sector and employment: spin-offs have created 1,400 new jobs.

The way in which spin-offs are approached reflects Sanofi’s concerns, and aims to create optimal conditions to help ensure the spin-off’s success:

- a) Spin-offs are not kept secret: the internal newsletter regularly reviews the topic and some information is presented on the Intranet. A glossy spin-off yearbook is even published. At the same time, spin-offs are not publicised too much, so as not to create conflict.
- b) Applications are treated by the Corporate Affairs Department, distinct from the HRD and falling directly under the Chairman and MD. Candidates are interviewed confidentially, so that -- in the event the plan fails (candidates drop out in 3 out of 4 cases) -- neither the HRD nor management will know about it.
- c) Employees virtually have the right to spin off, which distinguishes Sanofi from other companies: except under special circumstances, a candidate's superior may not prevent him/her from leaving.
- d) A large range of assistance measures exist: these include financial incentives, logistics and technological support, ad hoc training, sometimes a guaranteed turnover and putting entrepreneurs in touch with other spin-offs so that they can learn from their experience.
- e) Follow-up of spin-offs is thorough and personalised: regular telephone calls, visits, the spin-off yearbook and joint meetings, for at least 3 years. This follow-up is well received -- one entrepreneur said she still felt that she was part of Sanofi, although she left a year ago.

It is because the group would like to maintain this family spirit that they are reluctant to regionalise the handling of spin-offs.

The company sees spin-offs as a success, both in terms of the company and employees: 230 people have set up spin-offs over the past ten years, resulting in the creation of 1,400 jobs.

Spin-offs appeal to those between the ages of 27 and 40 in particular; 38% are managers and 62% white- and blue-collar workers. It is important to note the high percentage of business acquisitions (a third in all), mainly involving pharmacies and other related professions.

All business sectors are involved: spin-offs were broken down as follows in 1997:

commerce:	34%
services:	32%
skilled trades:	14%
professions:	4%
agriculture:	6%
manufacturing:	10%

In addition to laboratories, pharmacies, and other businesses related to their original occupations, many more creative examples exist: a bilingual nursery school, an actor, a business supplying artificial indoor climbing walls, a mobile bottling plant for Bordeaux wines, etc.

The Sanofi experience is recognised by specialists in the field: Mr. Christian Frechin, Director of Corporate Affairs, who has responsibility for spin-offs, has served as Chairman of the Spin-off Commission of the *Conseil National de la Création d'Entreprises* since 1997.

## ANNEX 3

### LA POSTE: ASSISTED BUSINESS START-UPS

La Poste implemented measures aimed at stimulating business start-ups (launched in 1997 after an 18 month maturation phase) based on the premise that, even with no input from the La Poste itself, a steady stream of its employees set up businesses anyway: around 600 workers per year in 1995, or 2 out of every 1000 postal workers, out of a total of 300 000. Employees returned in 50% of cases, sometimes under difficult conditions, with the entrepreneurs facing a career setback, and often a personal one as well.

To prevent these employees from becoming “welfare cases”, a project aimed at encouraging business start-ups, handled by the AVIP (*l'Agence pour la Valorisation de l'Innovation Participative*) and reporting to the Chairman, was initiated in 1995. The agency is responsible for bringing the most innovative projects coming from employees to fruition, in order to improve quality, both internally, and with respect to the service offered to the public. It is further charged with local development and, since 1997, with providing support to businesses started by La Poste workers.

The project was approached in a professional way with the help of the *Agence Pour la Création d'Entreprises* (APCE) and management consulting firms. Innovation is the watchword and it has a strong social orientation.

The system is officially recognised, with unions having been informed without, however, playing any role in running it. In view of La Poste's special legal status (classified since 1991 as a “public operator” employing both civil servants and contract workers), a balance has to be maintained between the need to inform potential entrepreneurs and the need not to offend traditionalists.

The initial aim of the project is to assist motivated would-be entrepreneurs by guiding them and offering advice, without doing the work for them, and without providing financial aid -- for that they rely on personal savings and bank loans. Entrepreneurs are, however, more likely to succeed in obtaining a bank loan, as they receive help in putting together a professional application.

The organisation set up as part of the AVIP to encourage employees' personal projects testifies to this philosophy. It consists of only 8 people (out of a workforce of 300 000): a department head, a communication manager, 3 facilitators and 3 operational agents who deal with the provinces and people from the Overseas Territories wanting to return there.

The three facilitators meet with employees who want to submit projects, each handling

around 70 applications. Their career profiles are interesting: one is a psychologist from La Poste, one worked for the Chamber of Industry and the APCE, and the other for a management consulting firm.

Applications are screened in several phases, and only the most highly-motivated applicants are chosen. The process is confidential and based on personalised advice. A toll-free number can be dialled to make initial contact and request an application form.

The candidate is then invited to meet with a *Conseiller Mobilité et Orientation Professionnelle* (CMOP) [Mobility and Job Orientation Adviser]. These specialists are available on an ongoing basis to meet with workers who are considering career moves outside the traditional avenues for career advancement. There is at least one specialist for each department. They are able to identify those experiencing problems, who can be given guidance in changing jobs within La Poste.

If the CMOP feels that the candidate is motivated, a meeting is set up with a facilitator. The project is then looked at in more detail, with the help of a decision-making grid and dedicated software.

Serious candidates are referred to outside organisations for support: the AVIP does not intend to replace specialists in the field and wants to strengthen these collective networks, not compete with them.

Depending on the region, the outside “service provider” may be a Chamber of Commerce, a management consulting firm, a retraining organisation, etc. Their role is to assess entrepreneurs’ skills and help them finalise their applications, without doing the work for them.

The final approval stage involves getting the opinion of an auditor, on the one hand, and a surety company on the other. Approved applications are then submitted to the banks.

No direct financing is currently offered by the employer. This matter will be examined by a financing committee charged with deciding on whether to offer personal loans for this purpose.

The cost of processing an application is estimated at FF 50 000. Entrepreneurs are also monitored for 5 years by chartered accountants paid by La Poste.

The initial results of the project are satisfactory, according to the AVIP. In April 1998, 200 applications were being handled, out of 500 applications received in 1997. Estimates are that half of the original applicants will actually start a business. The aim is to achieve a success-rate of 85% after 5 years.

Most projects involve very small companies concentrated in the trading sector.

## ANNEX 4

### SPIN-OFFS AT THE CEA AND PROPOSALS FOR STIMULATING NEW BUSINESS START-UPS IN THE FIELD OF TECHNOLOGY

*N.B.: This article was written by the C.E.A. for presentation to the D.G. XIII of the Commission of the European Communities. We would like to thank Mr. Guy Crespy, of the Advanced Technologies Department at the C.E.A. for permission to reproduce it.*

This article describes the programme implemented by the CEA to encourage spin-offs, an assessment of its success over the past 10 years and a few proposals, based on our experience, to develop initiatives aimed at new business start-ups applying technological research findings.

#### **1. The programme**

The CEA's programme to encourage business start-ups has been in operation since 1986 and consists of three measures:

- Support offered to the spin-off candidate to carry out his/her project: paid training period (up to three months), access to outside consultants and follow-up by the director overseeing spin-offs.
- "Room for error": the entrepreneur may ask to rejoin the CEA for a period of between 2 and 3 years, depending on the type of company founded.
- An interest-free, unsecured "loan on trust" to give the entrepreneur to secure sufficient equity capital. Loans vary from FF 50 000 to FF 250 000. The amount may, under exceptional circumstances, exceed this limit if the technology developed is of particular interest to the CEA. Loans are usually repayable over 5 years, after a grace period of 3 to 5 years.

The programme is managed by the director overseeing spin-offs with the aid of an assistant in each of the CEA's 9 research centres and an ad hoc committee (that includes well-known figures from the venture capital arena).



As regards patents, if the entrepreneur uses a patent that the CEA no longer uses, the right to use it is generally transferred free of charge. If, however, it involves a patent that is being used, the right to use the patent for a particular purpose is transferred in exchange for consideration similar to that required when rights are transferred to industrial business partners (patent royalties, in principle not involving cash payments in this case).

Except in rare cases, the CEA does not take an equity interest in the new companies. Staff members may acquire a minority interest in new businesses after informing their managers of their intentions. These staff members are then excluded from signing any contracts between the new company and the CEA.

An association of spin-offs maintains contact between the various entrepreneurs, and carries out one-off joint actions (e.g. exports).

## 2. **Results**

Over the past 10 years, 80 companies have been set up, of which 60 in the field of technology. These companies have a joint turnover of around FF 660 million and directly employ more than 1 200 people.

Only 20% of entrepreneurs have asked to return to the CEA. Eighty per cent of the companies set up are still operating, either independently, or after having been taken over by another company.

## 3. **Insights**

- The results obtained are encouraging on a qualitative level, but need to be expanded quantitatively, in order to have a visible impact on the economy.
- The measures implemented facilitated the process for researchers who probably would have attempted to set up their own companies in any event. The challenge is to inspire other researchers to do the same, or at least to encourage new ideas that can be used by entrepreneurs, whether from the research centre or not.

In order to achieve this, we plan to explore four issues:

- Improve the security of the entrepreneur: It takes between 3 and 5 years to establish the viability of a technology company developing a new product for a world market. The right to return should be extended to 4 years for technology companies.
- Encourage the emergence of ideas, even if the person who has a good idea does not want to start a company. Setting up a regular competition of ideas for new products and innovative services with close management involvement and extensive publicity for award-winners and the ongoing involvement of a few research managers as “advocators” of the

programme.

- Providing for financing that stage of the process that is no longer paid for by the laboratory and not yet financed with venture capital (feasibility study, survey of potential clients). Launching a seed capital fund with financial and industrial partners.

The “Emertec” fund should be set up in the course of 1998 with a proposed endowment of FF 160 million (in stages). All projects of a technological nature will qualify (engineering, micro-electronics and micro-technologies, advanced materials).

- Creating local involvement to have a knock-on effect = New initiatives will lead to other initiatives because they serve as example and create markets for new entrepreneurs.

For this to happen, several requirements need to be met:

- Research and university centres should be competent and open to industry co-operation (existing partnerships). Research managers should be involved in the programme (in-house advocator acting as “new technology angels”).  
Existence of incubators and incubator malls, or similar structures.
- The presence in the region (economic area) of industrial players, leaders in their sectors, that co-operate with local research centres and are keen to become advocators, if the technologies being developed interest them, by taking a risk on new products/services offered (outside advocators or “industrial angels”).
- Mutual support between spin-offs (advice, services, joint export measures, etc.). An initiative of this nature is being implemented in the Rhône-Alpes region and more specifically in Grenoble, focusing on two topics:
  - Digital
  - Bio-technologies, in particular those concerning information technology (imaging, bio-chips, etc.)

4. **Initiatives** that may be implemented at the European level to promote the start-up of new technology companies.

Supporting and contributing to seed capital and venture capital funds.

Supporting the setting up of a homepage (on the Internet) detailing experiences involving new business start-ups in various European regions = exchange of information about successful practices, information on available technologies, search for entrepreneurs, handbooks, etc.

We are planning to set up an Intranet, with Grenoble as focal point, linking the various local players concerned. This Intranet could set up links with comparable organisations in other European regions.

## ANNEX 5

### THOMSON -- ADVANCED SPIN-OFFS

The Thomson-CSF group is a world leader in the business, civil and defence electronics fields. In 1996, its turnover exceeded FF 36 billion and it employed 47 000 people, 28% of them outside France. The group consists of more than 160 companies, of which more than 100 in France.

Fifty per cent of its sites in metropolitan France are in the Paris region, with sites in the provinces spread between the western, central and south-eastern parts of the country.

The group has been encouraging spin-offs for a long time, and for at least 15 years in a structured way. Many reasons are given but, with the exception of redundancy schemes where they are used as in many companies, two aspects stand out:

- Spin-offs supporting individual projects that form part of the company's management policies, aimed at achieving smooth staff rotation,
- Strategic spin-offs or focused spin-offs developing new technology, used in conjunction with redundancy schemes.

Spin-offs are encouraged on an ongoing basis by Geris, a unit that forms part of the HRD, but is managed independently. This unit was a *Groupement d'Intérêt Economique* (GIE) [Economic Interest Grouping] from 1984 to 1997, and has just been converted into a limited company (*société anonyme*) by merging with Geris-Consultants.

The Corporate Affairs Department is closely involved in this policy, which is well received by employees. The unions are neutral with regard to start-up assistance, but oppose mass spin-offs.

There are more individual spin-offs at Thomson than at most other companies surveyed: between 100 and 150 people per year. Between 1993 and 1996, 629 applications were handled, 254 spin-offs were realised and 405 jobs created as a result of assistance to entrepreneurs.

Reflecting the group's geographic areas of operation, 70% of applications are from the Paris region, the typical entrepreneur being a 42-year old male. A large variety of projects are submitted, including in the trading, manufacturing and service fields, and in the professions..

Few entrepreneurs return to the company, especially since those who take leave to set up a business do not qualify for financial aid (which is fairly widespread).

There are many forms of aid, including advice, financial aid (loans), logistics support, training by Geris and sometimes a guaranteed turnover. Would-be entrepreneurs are often given time off (fully paid) to make business contacts, see their bank and comply with the applicable administrative requirements.

There are no restrictions in principle regarding the type of project submitted, but, for practical reasons, Geris gives preference to business activities that are related to that of the company. Candidates are guaranteed confidentiality, and, absent some early friction, management generally cannot prevent someone from leaving.

The informational materials distributed by Geris are clear, interesting and complete. A leaflet setting out the business start-up assistance measures in a straightforward manner was recently sent to all group employees with their payslips.

Geris offers follow-up for those who request it. Follow-up can continue anywhere from a few months to a few years, depending on the nature of the project, and can take several forms, from a simple phone call to intensive follow-up.

The company sees the spin-off policy as a success overall.

It is important to point out an original feature of the Thomson measure: for the past ten years, the group has been organising a yearly business start-up contest, open only to staff members. It offers prizes totalling FF 1 million, of which FF 300,000 for the winner (employees may enter in teams). The competition has been very successful, and has led 40 teams to start businesses, thereby creating 500 jobs.

One of the most startling successes to come out of the competition is Picogiga, specialised in gallium arsenide treatments for the micro-electronics sector.

Outsourcing, together with individual spin-offs and the contest, have led to the creation of 2,700 new jobs since 1985 (2 600 in the early stages and 5 300 by late 1996). Thomson cites the example of Gemplus, the leader in the smart card market, which now has 2700 employees as compared to 50 when it was founded in 1988.

## **LIST OF PEOPLE CONTACTED**

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## Translator's notes

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<sup>i</sup> This is the English term supplied to us by OECD for *essaimage*.

<sup>ii</sup> We assume that the French is correct, and that “Leeds” was not meant.

<sup>iii</sup> French unclear. We assume it means the 22 replied that they practiced employee spin-offs.

<sup>iv</sup> Please check the OECD data base for *chambre consulaire*. Not in Eurodicatom or any other of our dictionaries.

<sup>v</sup> There is a network of around 100 so-called “Boutiques de Gestion” in France – they are, in fact private, non-profit consulting firms specifically aimed at assisting entrepreneurs starting a business.