Exit Strategy

At France Télécom, Battle to Cut Jobs Breeds Odd Tactics

Company Offers Money, Advice On Starting New Business If Employees Will Leave

Mr. Thibault Opens a Winery

By Leila Abboud

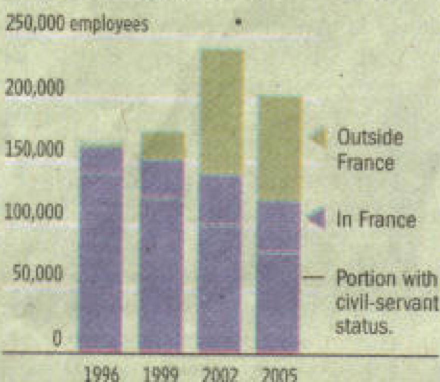
PARIS—Sébastien Pellegrino fulfilled a lifelong dream when he opened his own cafe near the Louvre in May. He and his business partner, Raphael Carrasco, worked 20-hour days to get Oustaou Café off the ground, scrubbing the dingy interior of what used to be a Chinese takeout joint, painting the walls red and designing the menu.

Sébastien Pellegrino

The pair got a lot of help from an unlikely source: their former employer, France Télécom SA. The world's fifth-largest telecommunications company gave Messrs. Pellegrino and Carrasco, who used to work in the mobile-phone division, money to buy equipment for the kitchen and furnish the bar. It helped the two men draft a business plan and apply for bank loans.

France Télécom has funded about a thousand such projects. The company is an extreme example of the struggle by many European businesses to stay competitive amid restrictive labor laws. Formerly a 100% state-owned phone monopoly, France Télécom is trying to convert itself into a pan-European Internet and mobile-phone company. But it must navigate a technology revolution with a work force that is almost impossible to reduce by layoffs. Two-thirds of France Télécom workers have civil-servant status that guarantees them a job for life, and the rest are protected by strict French labor laws.

To encourage voluntary departures, France Télécom has subsidized a magician, backed the opening of a scuba-diving shop in Martinique and sent a promising baritone to opera school. It also persuaded public-sector employers such as schools and fire departments to take thousands of its workers.



If the business ventures fail in the first three years, the budding entrepreneurs can return to the company. "You would not believe the number of pizzerias and other little businesses France Télécom gave birth to last year," says Olivier Barberot, senior vice president

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France Télécom Uses Odd Tactics to Cut Jobs

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for human resources.

The experiment has proved successful so far. Only one in six projects has failed since it began three years ago, according to the company, and it hopes to expand the program. Other French companies, including oil giant Total SA, the drug company Sanofi-Aventis SA and Electricité de France SA, are also trying the approach.

The efforts are hardly a panacea for France's employment woes. Unemployment has been stuck in the neighborhood of 10% for a decade. The rules that protect employees from being fired make private-sector employers wary of hiring. The public sector employs nearly a quarter of the work force. Earlier this year, the French government proposed to loosen some rules on firing but was forced to abandon the idea after huge street protests.

France Télécom has struggled for more than a decade with its oversized work force. Telegraph and telephone services were operated directly by the state from the 1800s. It was only in 1988 that the government's telecommunications arm was formally turned into a company. Even then, the government decided that those already at France Télécom would remain civil servants, with all the rights thereof—a job for life, a generous pension and the ability to refuse transfers outside one's home region.

As the government prepared to list France Télécom on the Paris stock exchange in the mid-1990s, it realized that the company's 162,000 workers in France were far too many. But stripping them of their civil-servant status could set off street protests, cripple the nation's communications and foil the privatization.

The government devised a huge and costly early-retirement program, an approach used successfully at other companies. France Télécom workers could leave at age 55 or older and be paid 70% of their annual salaries until they hit the normal retirement age of 60, at which time they would receive normal pensions from the French state. As an incentive, those who left at 55 would also receive a one-time bonus worth 60% of one year's salary.

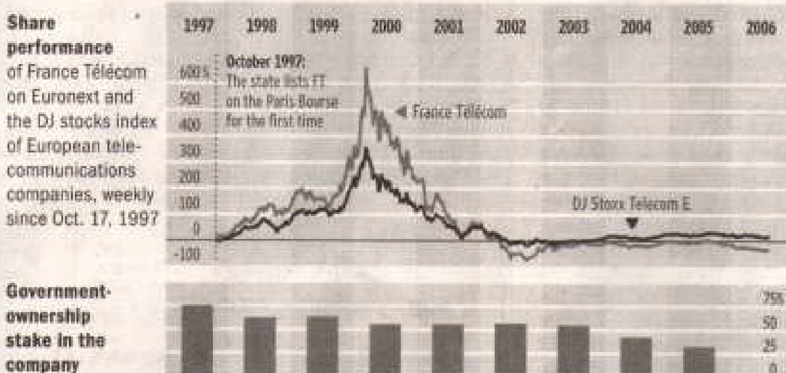
The scheme was opposed by France Télécom's biggest unions. One of them calls itself "anticapitalist" and believes the company should be renationalized. The deal survived when one union, Force Ouvrière, supported it, on condition that it last 10 years and be written into law. "We thought that if we didn't negotiate to get the best deal possible then, we'd end up with mass layoffs being forced on us later," said Pascal Courtin, a leader at Force Ouvrière.

France Télécom set aside the funds—€8 billion ($10.18 billion), or some €200,000 per retiree—in 1996 when it was still fully owned by the state. Management knew that once the company was privatized, shareholders were not likely to agree to such an expense.

The plan led to 34,600 departures by the end of 2005, and the company expects another 4,000 or so employees to leave this year, when the program ends. Today, about two-thirds of the company's 120,000 workers are civil servants. Unions recently asked the company to prolong the early-retirement program for an additional year, but France Télécom said it was too expensive. The company is now negotiating a smaller program with unions. Instead of allowing workers 55 and up to retire while still receiving the greater part of their original salary, the new approach would have people work half-time and keep some of their wages.

French Evolution

The French government has reduced its stake in France Télécom as the company recovers from the telecoms bust earlier this decade.



Sources: Thomson Datastream; the company

With the technology bull market raging in October 1997, the state put about 25% of its shares in France Télécom for sale. The company was caught up in the telecom boom. Its share price skyrocketed, and it went on an international acquisitions spree.

But the euphoria didn't last. France Télécom couldn't pay for acquisitions with its own shares because the government didn't want to lose control over the dilution of its stake. (The government still owns slightly less than a third of the company.) Instead, France Télécom racked up €70 billion in debt. France's telecom market was opened to competition, allowing consumers to choose among multiple mobile-phone and fixed-line operators for the first time.

Although the bursting of the telecoms and tech bubble hit national carriers in many countries hard, France Télécom took an especially heavy blow. From peak to trough its stock lost more than 95% of its value. A new team of executives was brought in to dig the company out of its debt mountain. As they tried to cut costs and generate cash, they realized the early-retirement program wasn't enough to curb labor expenses.

France's rigid labor laws, however, left little room to maneuver, even for workers at France Télécom who didn't enjoy civil-servant status and theoretically could be fired. Unlike in the U.S., where contract language is left to a company and its employees to negotiate, the French government defines contract terms that cover all workers. Unless employees are demonstrably incompetent or steal something, they rarely are fired because the process is expensive, slow and lawsuit-prone.

Technology changes were fast making many old jobs at France Télécom obsolete. The company needed younger workers with experience marketing high-tech gadgets, not an army of engineers. But because layoffs were difficult, the company was putting many employees in make-work jobs.

In the Marseille area, improved automation meant Christian Giabicani wasn't needed as a technician. For a time he became manager of a 20-person call center handling customer complaints and trying to sell products, where his staff included a former cleaning lady and an ex-chauffer. "I found it very painful," says Mr. Giabicani, 53, now a union organizer at France Télécom.

"A normal private company would have laid off workers and hired new ones," says Elie Cohen, an economist and former France Télécom board member. However, he says, "in France, you can't fire people just because your industry or technology is changing."

At an impasse, managers were forced to use their imagination. In early 2003, Mr. Barberot, the human-resources executive, and his colleagues sat down with officials at France's finance ministry. They mapped out a program to redeploy the civil servants at France Télécom to true public-sector jobs at city halls, hospitals and the like. France Télécom agreed to pay employees' salaries for the first four months and compensate them for up to a year if they took a pay cut in switching jobs.

Marie-Pierre Lapassat, a former France Télécom computer programmer, started teaching earth sciences at a junior high school in Toulouse six months ago. The company had earlier tried to turn Ms. Lapassat, an employee for nearly 20 years, into a saleswoman for corporate clients. She says she much prefers teaching.

Some 2,600 workers have left France Télécom for the public sector so far, and the company forecasts another 4,500 departures by 2008.

But even that wasn't enough for Mr. Barberot's team. They decided that France Télécom should encourage aspiring entrepreneurs among its employees. The company hired several dozen business people and former investment bankers as guidance counselors. It set up offices around the country where employees could go for help starting their own firms.

Thierry Roethinger, a serial entrepreneur who started a cleaning company and a computer-services firm, was handed the case of François Thibault, a France Télécom auditor. Mr. Thibault's family had long owned and cultivated a tract of grapes in Verneuil, in northeast France. Now he wanted help turning it into a viable producer of champagne.

The pair worked on a business plan for several months. "You can't confuse profits with revenues," said Mr. Thibault. "That's something I learned from Thierry."

A wine specialist was brought in to calculate how many acres the Thibaults needed to cultivate to produce an adequate number of bottles. The consultant advised Mr. Thibault to sell one-third of his first year's grape crop on the wholesale market rather than turning it into wine. Otherwise, he would have no income during the two years it took to produce the champagne.

Armed with a five-year business plan, Mr. Thibault persuaded a France Télécom committee to pay for a year-long course on wine production and give him the money for a tractor. The first bottles of champagne from Mr. Thibault's fields should be ready in September.

Mr. Barberot calls the screening intense and says about 10% of employees' proposals are rejected. "We have no interest in letting people go if we think they are going to fail," he says.

Despite the programs, France Télécom is still struggling to persuade investors it can be a champion of the Internet era. Many investors believe the company's work force is still far too big. The company is pushing new businesses such as music videos and television over cellular handsets and high-speed Internet for the home. But its old fixed-line business has faced greater-than-expected pressure from mobile phones and free Internet-calling services such as Skype. France Télécom's stock is down 20% this year as investors punished the company for two profit warnings.

Oustaou Café, meanwhile, is thriving. Mr. Pellegrino, 30 years old, who used to sell services to business clients at France Télécom's mobile-phone unit, now stands behind the cafe's long bar, serving cocktails and chatting with customers. During the World Cup soccer championship fans packed the bar to watch France vie for the title on a flat-screen TV. Mr. Pellegrino has big plans for the future: theme nights, cocktail parties and assembling a bunch of regulars.

"It's going even better than we had hoped," he says. "We're really happy."