Introduction: The New European Business Environment

1.1 Centrepiece: The idea of creating a ‘unified Europe’

The idea of creating a ‘unified Europe’ to maintain peace and to create a common European culture has resurfaced repeatedly over European history, although the ideal of a united Europe has its origins in classical philosophical thinking. In the fourteenth century, for example, Pierre Dubois proposed a European confederation that was to be governed by a European council, while in the nineteenth century, Victor Hugo envisaged a political, federal Europe, uniting nations and unifying people. In a speech to the French National Assembly on 1 March 1871 he said:

*Plus de frontières! Le Rhin à tous! Soyons la même République, soyons les États-Unis d’Europe, soyons la fédération continentale, soyons la liberté européenne, soyons la paix universelle!*  

Through industrialization and the evolution of trade across frontiers over centuries, nations came to expand their knowledge of different economic systems and trade mechanisms. The end of the feudal system, the mercantilist era from c.1600 to c.1800, and colonialism shaped societies and their economic and social functioning. The term ‘mercantilism’ originates from the Latin word *mercari*, meaning ‘to run a trade’, and from *merx*, meaning ‘commodity’. It sets the scene for the economic and political interest in internationalization. Mercantilism ideologically underpinned cross-border trade long enough to leave its mark driving exports rather than imports, in so far as a country needed a positive balance of trade to gain more precious metals (gold and silver), and determining that governments introduced tariffs that would inhibit other countries from gaining an economic advantage. The political economist Adam Smith, who is generally considered the father of economics, popularized the term in *The Wealth of Nations* (1776) where he analysed the exchange mechanisms that drive economies – and indeed, every economic system embraces some exchange activity.

The appeal of harmonious trade for economic growth and welfare developed increasingly from the mid-eighteenth century onwards: more than the dream of peace and stability

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* ‘No more borders! The Rhine to all! Let’s be the same Republic, the United States of Europe, let’s be the continental federation, let’s be the European freedom, let’s be the Universal peace!’
across peoples and nations, the idea of welfare through profitable economic relations was easier to share among all peoples. Adam Smith’s book set the foundations for a classical trade theory that evolved strongly on European grounds, and that was complemented in later years by the mainly Anglo-Saxon school of international business research, which analysed transactions and investments of corporations across borders. It is important at this stage to recognize that the convergence of Europe stems from a basis of economic and philosophical history, and that during the twentieth century this convergence led to pressure on states that had seen their power and sovereignty erode to the benefit of regionalism and globalization. International trade relations thus became key to the fulfilment of the European idea and ideal.

In Europe, economic and political integration have been driven by one predominant fundamental objective: ‘Keeping peace among nations’. Interaction between people and their economies has indeed maintained peace for longer than in any other region of the world. Certain European countries have joined together to create a unique organization for this purpose: the European Union (EU). An organization of states, not a confederation, nor an organization of the types generally known in international relations, but rather the most advanced form of economic integration worldwide that is flirting closely with the temptations of political union. As such, the Member States have created a single market that marries competitiveness with certain social ideals (welfare, human rights, equality and many others). The European market place is both the driver and the stimulus of Europe, as it has shaped and is being shaped by the European ideal. It represents the largest economy in the world, the largest trading partner and the largest donor of development assistance.

This market offers opportunities to those corporations that recognize the pros and cons of convergence, and that make the most out of the diversity of cultures, languages, business practices and management styles. At the same time, the challenge for the European institutions is to maintain European developments close to its citizens and to balance a productive economy with social welfare.

The objective of this book is to prepare future managers to face up to the resulting challenges and opportunities for doing business in Europe – a Europe enlarged and deepened through continuous integration. Whether you will be working in a local, a European or an international company, you will be confronted with the issues dealt with in this book. Globalization and Europeanization expose any company operating in or dealing with Europe to those challenges of diversity.

In this introductory chapter, we take a brief look at attitudes among citizens and at some European foundations and symbols, and then introduce some terms and concepts that have a bearing on discussions later in the book.

### 1.2 Europe: For European citizens and abroad

The European idea and ideal are centred on the citizen and her/his welfare. It is driven by economics and politics, in symbiosis with European competitiveness and its role in the world.
Box 1 The European Union

The EU, originally known as the European Economic Community (EEC) prior to 1993, is a highly advanced form of economic integration. It is a market grouping of more than 27 countries that reinforces the economic wealth of its members not only through barrier-free trade, but also through many other coordinated activities such as a common competition policy, internal and external trade policy, research and development policy, industrial and social policy, and so on. The creation of a central European bank and the adoption of a common currency, the euro, significantly contribute to its singular nature in the world. The EU operates as one economic unit in international trade negotiations.

The EU therefore regularly studies the attitudes of its citizens. Among the statistics that are found in these surveys, it is noteworthy that more than 9 in 10 EU citizens feel that it is extremely or very important to help others and to value people for who they are, while more than 8 in 10 believe that it is important to be involved in creating a better society. These societal values are strong in each Member State.

At the same time, EU citizens seem to appreciate specific identity and traditionalism. Nearly 7 in 10 want to live in a world in which people live by traditional values. We are a long way from a standardization or homogeneity of the peoples of Europe; for business, this is where challenges of values and diversity unfold.

Box 2 EU Member States: Who are they?

The EU comprises the following 27 Member States: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Germany, Greece, Finland, France, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands, United Kingdom (UK).

Is there a European identity among citizens? Again, EU statistics, as well as student surveys conducted by the author at several business schools, illustrate that the majority of EU citizens feel to some extent ‘European’, in particular those who travel or work across frontiers, while they preserve a strong feeling of adherence to particular roots and culture. Eurostat (the Statistical Office of the European Communities) notes that this feeling of adherence differs greatly among countries: people in Luxembourg are most likely to feel themselves to be European only. This is much higher than in any of the other countries and
Figure 1  On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy works in your country?

Source: European Commission: Eurobarometer Interactive Search System Satisfaction with national and EU democracy, CEC April 2004 (EB61)
can be explained by the high proportion of citizens from other EU countries that reside in Luxembourg. Nonetheless, there are seven other countries where people who feel to some extent European are in the majority: Italy, Spain, France, Belgium, The Netherlands, Austria and Germany. In the other EU countries, people who identify exclusively with their own nationality are in the majority, although in Portugal, Ireland and new Member States, this majority is very small. In the UK, Sweden, Finland, Greece and, to a slightly smaller extent, Denmark national identity is very strong. The strong adherence of Europeans to the values related to democracy is an essential part of the identity that drives integration. Figure 1 summarizes public opinion on the matter, and reflects a need for the EU to make further progress in that field.

A spring 1997 Euro barometer study surveyed young Europeans aged 15 to 29. This sample is interesting because it represents future employers and employees and decision makers in all spheres of European society. The survey found that 25 per cent felt that the presence of foreigners added to their country’s strength. These figures were reconfirmed through a 2001–5 survey of Europeans in several business schools. When asked which areas the EU should prioritize in the next five years, the key issue for these future business and political leaders was employment closely followed by research and development in new technologies (see Figure 2). In regard to the general image of the EU for young people, the results indicate that it represents:

- the freedom to move within the Member States;
- a better future;
- a better economic situation.

Very few young people felt that the EU represented negative elements, such as too much bureaucracy or the loss of cultural diversity, or that the goals of the EU were unrealistic. We
can legitimately conclude that Europe has made unprecedented progress towards its ideal of peace, political and economic stability and welfare, and that this progress has shaped a reality for citizens, politics and economics that more often than not is fully assumed in its diversity.

1.3 Foundations and symbols

1.3.1 Why ‘Europe’?
In Greek mythology, Europa was the daughter of a king of Tyre in Phoenicia. Zeus, attracted by her, transformed himself into a white bull, seduced her, and ran away with her on his back to the sea. He took her to the island of Crete and, after revealing his true identity, made her the island’s first queen. The semantic root of the name ‘Europa’ is to be found in the word ‘ereb’ (dark) – the European continent as seen from Phoenicia was located towards the west where the sun sets. The kidnapping of Europa is a frequently represented motif in Antique arts. The continent of Europe is now called Europa in all Germanic and Slavic languages that use the Latin and Greek alphabet. Also, Isis was often represented standing on the crescent moon, with 12 stars surrounding her head.

1.3.2 The European flag
The European flag (see Figure 3) is the symbol of the EU and of Europe’s unity and identity in a wider sense. In ancient Greece, the number 12 stood for harmony. Traditionally it symbolizes perfection, completeness and unity; thus the circle of 12 golden stars represents the ideal harmony between the peoples of Europe. The number of stars is not dependent on the number of Member States. The flag therefore has remained unchanged since the beginning of 1986, regardless of EU enlargements. The European flag is the only emblem of the European Commission. Other EU institutions and bodies complement it with an emblem of their own.

1.3.3 European anthem
The Hymn of Joy from the Ninth Symphony composed in 1823 by Ludwig Van Beethoven was adopted by the heads of Member States and governments in 1985 as the official European anthem.

Without words, in the universal language of music, it expresses the European ideals of freedom, peace and solidarity. The anthem does not replace the national anthems of the Member States but is symbolically celebrating the values shared by them: United in diversity – along the EU’s motto. The anthem can be heard on [http://europa.eu.int/abc/symbols/anthem/index_en.htm](http://europa.eu.int/abc/symbols/anthem/index_en.htm)
1.3.4 9 May – Europe Day
On 9 May 1950, Robert Schuman presented his proposal for the creation of an organized Europe, essential for a prosperous post-war European future and peace between nations. The Schuman declaration is considered to be one of the great landmarks of European integration. Today, 9 May is ‘Europe Day’, a symbol, along with the single currency (the euro), the flag and the anthem, that supports the shared identity of the EU. It is a day of activities and festivities across Europe, celebrating political and economic stability and integration. More information on Europe day can be found online at http://www.europa.eu.int/abc/symbols/9-may/gallery/2005/index_en.htm

1.3.5 The euro
The EU and its unity are also symbolized by the introduction in 2002 of a single currency, the euro, that replaced the currency of participating Member States. This was the result of a long process that began in 1969 and was spread over several stages. The preliminary stage, between 1969 and 1993, saw the development of the European Monetary System (EMS), the transitional stage, between 1999 and 2001, the official launch of the euro on 1 January 1999, and the final stage, in 2002, the introduction of coins and bills for circulation.

1.4 Some terms and concepts
Before you begin to concentrate on the forthcoming chapters, it is necessary to define several terms and concepts that will be used throughout the text.

1.4.1 Globalization
In the context of this book, the term of globalization means the compression of time and space that increases the frequency and duration of linkages between any given actors in the international environment. This implies a complex structure of integrated activities, mainly economic, but also those driven by political, environmental and geopolitical considerations. The compression of time translates into a high sequence of interaction between any of the given actors; for example, impacting on the rapidity of orders over the Internet or of how long it takes to have a product delivered. The compression of space results in a geographical proximity with countries (and thus markets) that appeared very far away some decades ago. The major advances made in transport and in information and communication technology are at the origin of much of this. Therefore, these sectors play an important role in the competitiveness of sectors and markets.

1.4.2 Europeanization
Europeanization is a term that is used in two senses. The first implies the European integration of economies and the development of common policies of EU Member States. Hence, Europeanization is considered here as an advanced case of globalization. Thus
the impact of Europeanization in this context can be measured via the importance of EU internal and external trade compared to non-EU – countries and market groupings such as NAFTA (North American Free Trade Agreement). For example, the Organization for Economic Cooperation and Development (OECD) regularly publishes relevant data.

Secondly, when used in connection with business corporations, Europeanization deals with advanced forms of organization that reflect (a) the diversity of markets and cultures; and (b) the diversity within companies as well as in the scope of their operations. One example of a Europeanized firm is Eurocopter, the leader in military helicopters and part of the EADS (European Aeronautic, Defence and Space) group. The company was established in 1986 by a French and a German aerospace leader, and is now a truly European company in terms of shareholder nationality, partners, employees and management. It has taken what it has learned from trading in the European market and developed it into an international competitiveness.

1.4.3 Multinational and transnational firms

International business operations are transactions across borders that may be pursued via different forms of corporate structure and types of transaction, depending on the relation of risks and returns that are expected from investments in those transactions. They may encompass exports and imports, licensing, franchising or subcontracting, outsourcing and offshoring strategies, direct foreign investment into joint ventures, or greenfield investment. The basic definition implies that cross-border activity is different from domestic trade. Therefore, an organization with substantial foreign investment may take the shape of a multinational enterprise (MNE), that is, a corporation that has its headquarters in one country but operates also in others. An MNE is typically engaged in the active management of its offshore assets. Another commonly used form of organization is the transnational company (TNC), defining a firm that coordinates and controls operations across borders through an organizational design that allows for local responsiveness. These firms are typically well adapted through a structure and strategy that responds relatively easily to the changing external business environment, and evaluates the particular advantages of locations at any given time.

1.4.4 The company typology

Large organizations interest us in terms of their ability to profit from Europeanization and to adapt organizational structures and business functions to cross-border networks of decision making, coordination, control, knowledge management and quasi-institutionalization. However, small- and medium-sized enterprises (SMEs) play a particular role in the European business environment: 99 per cent of companies in Europe (i.e. 23 million firms) are SMEs. The European Commission defines SMEs as ‘enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro’ (Article 2 of the Annex of Recommendation 2003/361/EC, see also definitions in Table 1). We will frequently refer to the role of SMEs and to the importance of flexibility, innovativeness and trade diversion to SME management.
It is also important here to distinguish between a private and a public sector company. A private company cannot offer its shares to the public and restricts the right to transfer them. On the other hand a public company is owned by the public. There are two uses of this term. It may indicate a company that is owned by stockholders who are members of the general public and is traded publicly. Ownership is open to anyone who has the money and inclination to buy shares in the company; government often owns a minority of shares. A public company may also be fully or mainly owned by a local, regional or national government. Employees may take stock options. For instance, in Belgium between 70,000 and 75,000 employees have received stock options since 1999 and almost all of the 20 largest Belgian corporations (BEL20) operate stock option plans. In Germany they were introduced in 1997 and by 2006 over two-thirds of companies included in the German stock index (DAX) were running employee stock option programmes. In France, approximately 50 per cent of all quoted companies and 95 per cent of the companies use stock option plans.

The main European directives on employee participation introduced pan-European structures for a range of business and employment issues in multinational companies over a certain size operating in the EU. Directive (2002/14/EC) sets a framework for informing and consulting employees and/or their representatives for all undertakings with at least 50 employees (or establishments with at least 20 employees) that are required to provide employee representatives with information and/or consultation on a range of business, employment and work organization issues. Directives 2001/86/EC and 2003/72/EC expand employee involvement in the European Company and in the European Cooperative Society – the new optional form of Europe-wide company set up under the European Company Statute. The directives add information and consultation structures, procedures and board-level participation (cf. R. Davletguildeev, Trade Unions Advisory Committee to the OECD Third Eurasian Roundtable on Corporate Governance, 29–30 October 2003, Bishkek).

The competitiveness of business depends on innovation, efficient knowledge management and entrepreneurship. In Europe, the impact of multilateral decision making and policies on competitiveness is recognized by European and third-country business working across frontiers. The results can be measured by the attractiveness of the European market for foreign industrial location and investment, and is a subject of vivid debate in

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<th>Enterprise category</th>
<th>Headcount</th>
<th>Turnover and/or Balance sheet total</th>
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<tr>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ €50 million</td>
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<td>Small</td>
<td>&lt; 50</td>
<td>≤ €10 million</td>
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<td>Micro</td>
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<td>≤ €2 million</td>
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political and business circles. The main advantages are based on the European cost base, on taxation levels, on the availability of skilled, trained labour, on effective linkages between research/academia and the corporate sector business, and on the internationalization opportunities of European products and services. But the European business environment is also subject to the struggle between national interests and the efficiency of economic sectors vis-à-vis each other and the world. The EU is thus a microcosm of opportunities and challenges preparing you for global business.

1.5 Structure of the book

The book is divided into four parts. Part I sets the foundations necessary for doing business in Europe. This section, which follows this Introduction, begins with Chapter 2, which presents an overview of the main European landmarks. It discusses, the evolution of the numerous treaties and how the European business environment has developed in relation to them. The chapter is complemented by a review of the impact of certain treaties on business, and presents briefly the tools necessary for the successful implementation of European integration. While Chapter 2 illustrates the depth of integration of the European marketplace, Chapter 3 examines past, present and future waves of enlargement, and looks into the future of an EU with new Member States. The analyses are placed into the framework of integration theories that help us understand the diversity of approaches which Member States may have while striving for further integration. Where does Europe aim to go, why and by which manner? Waves of larger European integration appear to foster trade creation but may also cause trade diversion. What opportunities and challenges does enlargement bring with it? Chapter 4 studies the framework in which European policies are negotiated, streamlined, debated and decided: the institutions and its main actors. The main actors are identified and the key roles highlighted.

Part II is divided into two chapters. Chapter 5 provides a clear understanding of the causes and effects of globalization and the related issues for European and international firms in achieving competitive advantage in increasingly integrated markets. This chapter proposes two complementary perspectives for this analysis. Internally, the single market represents the opportunities that come with the most highly integrated economic grouping worldwide, that is, a business environment that has evolved into a complex but ever-increasing opportunity network for business activity. Externally, the EU is a major actor in the international geopolitical environment, and plays a particular role in globalization. What is this role? What is the implication of this role for international business? What impact does this internationalization have on European firms of different sizes and sectors? Chapter 6 demonstrates how management and knowledge are becoming central to the strategic focus of European firms. In all Member States, distinct management styles, cultures and structures, and resulting management and HR issues can be identified.

Part III focuses on essential ‘business activity functions in the European environment’. European economies are characterized in particular by the common policies and the
harmonization of rules that attempt to maximize the benefit gained from trade and financial integration through risk-sharing, spill-over of macroeconomic fluctuations as well as product and consumption co-movements. Chapter 7 shows how economic harmonization raises fundamental issues to business and business creation in Europe. Chapter 8 develops the marketing perspective that helps businesses operate with the knowledge of the methodology necessary for approaching and managing marketing in the large European environment. European diversity makes marketing a product or a service at the European level both challenging and worthwhile. But hidden or subtle differences in pricing, consumer attitudes, specific buying processes, cash flow management, the structure of distribution and communication, settling legal differences, and the practice of arbitration also make marketing on a European scale more difficult. The European arena offers opportunities for economies of scale, but requires a sound knowledge of European lifestyles and consumption patterns, the buying process, and the typology and segmentation of the European markets with appropriate marketing strategies and techniques.

Another essential business function in today's Europe is that of public affairs management and lobbying. An increasing number of public and private organizations are represented at the European institutional level: for this reason, Chapter 9 explores lobbying networks, and analyses the arena, players and competition in the decision-making game. It illustrates the most recognized methods to have your business heard in Brussels, Strasbourg and Luxembourg. This is where your business environment is shaped, and competitiveness either strives or fails. International competitiveness is the key issue covered in Chapter 10. The chapter examines relations of the EU with its trading partners, and places issues of international competitiveness into a concluding discussion of globalization and Europeanization. It places Doing Business in Europe into the international context.

The last part of the book contains case studies related to the concepts developed in the previous chapters. The case studies illustrate the realities of companies that compete in the European marketplace as it has developed, as it exists today and as it will evolve tomorrow. Their cases demonstrate clearly the need to participate in European and international activities.

Throughout the chapters, the objective is (a) to provide you with the fundamentals of theory and concepts; and (b) to link these clearly to the business environment. Every sequence is followed by an evaluation of the impact on business. Short case studies illustrate the way in which corporations experience the realities of the European business environment. The questions after each case study ask you to apply your freshly acquired knowledge and to define the solutions that may be adapted to that very case. Testimonials reflect the intimate thinking of business people as regards the issues raised within each chapter. Finally, the web guide leads you to websites on which you can find valuable information about the chapter topics, and are there to help you for your assignments. Do try to answer the review questions after each chapter to make sure that you have indeed acquired the knowledge, and that you can now go ahead with the next chapter, as the chapters build on each other. Also, the book concludes with case studies that illustrate a variety of business challenges and asks the relevant questions that are crucial for 'doing business in Europe'.
Review questions

1. **What** knowledge is a key to success for a company doing business in Europe?
2. **Explain** the ideal of Europe.
3. **What** role does European integration play for business?
4. **Vice versa,** **what** role does business play for European integration?
5. **Why** does Europe need symbols?

Web guide

**General information**

http://europa.eu.int Gateway to the EU: activities, institutions, documents, services, etc.
http://www.europa.eu.int/information_society/index_en.htm Europe’s information society
http://europa.eu.int/abc/index_en.htm The EU: Panorama, treaties, etc.
http://www.europa.admin.ch/eu/expl/uebersicht/e/#1 The EU in brief.
http://www.sme-union.org/ SMEs in the EU.

**Public surveys – European citizens**

http://europa.eu.int/comm/public_opinion/index_en.htm public opinion towards the EU.
http://europa.eu.int/europedirect/ answering services to European citizens concerned by phone.
http://europa.eu.int/comm/public_opinion/cf/index_en.cfm select a trend question and find the related study made by the EU.

Notes

1 Royal advocate of the *bailliage* in Coutances. He was not only an important figure in France’s war against Pope Boniface VIII but also the creative force behind a project to restore Jerusalem to the French king, Philip IV.
2 Renowned poet, novelist and dramatist, but also a senator under the Third Republic.