1.1 The structure of this book

Dear Reader,

Congratulations for choosing the second edition of Doing Business in Europe. This new edition is the fruit of its predecessor’s international success. It has not only been used throughout Europe, but has also become the reference text in this field in leading universities and training institutions throughout the Americas, in Australia, Asia and many other places in the world.

Great attention has been given to this book and its support material, including the Doing Business in Europe podcast series. This new edition is supported by the European Union’s Lifelong Learning – Jean Monnet Programme. The many crucial changes taking place in Europe over the recent years are the reason we decided to publish this new edition. In order to remain consistent with the first edition, the full texts of the original have not been completely altered but the chapters have been better adapted to the new Europe with case studies and examples updated and sometimes replaced.

The book is thus still divided into four parts. Part I sets the foundations that define the Europe of today: a continent with a highly mature and integrated market. Chapter 2, which follows this Introduction, presents an overview of the main European historic landmarks. It discusses the evolution of the numerous treaties and how the European business environment has developed in relation to these. The chapter is complemented by a review of the impact of certain treaties on business, and it briefly presents the tools necessary for the successful implementation of European integration. Chapter 3 then examines past, present and future waves of enlargement and looks ahead to the next steps for a European Union that may accept more new members. The analyses are placed within the framework of integration theories: these help us understand the diversity of motivations that Member States may have towards further market integration, i.e. their willingness to work together in various fields. When European integration makes progress, it appears to foster trade creation but this progress may also cause trade diversion: what does this mean for business interests? What are the opportunities and challenges that come with integration? Chapter 4 studies the framework within which European rules and policies are negotiated, streamlined, debated and decided: it explains the institutions and main actors, and their impact on business in Europe.
Part II is made up of 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 analysis. Internally, the Single Market opens up opportunities that come with the most highly integrated economic grouping in the world: a business environment that has evolved into a complex but ever-increasing network of opportunities for business activity. Externally, the EU is a major actor in the international geopolitical environment, playing a particular role in globalization. What is this role and what are its implications 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, we can identify distinct management styles, cultures and structures, which result in various management issues.

Part III focuses on essential ‘business activity functions in the European environment’. European economies share a certain number of common policies and harmonized rules. This integration of policies attempts to maximize the benefit that economies and corporations gain from trade and financial integration (it also serves to minimize the effects of crisis) because members share the risks and spillover effects of macroeconomic fluctuations, and experience production and consumption co-movements. Chapter 7 then shows how economic harmonization raises fundamental issues for business and business creation in Europe, and examines the particular characteristics of European economics, finance and fund-raising. Chapter 8 develops the marketing perspective that helps businesses operate with the necessary methodology to approach and manage marketing in the vast European marketplace. European diversity makes the marketing of 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, legal differences and the practice of arbitration, etc. also add to the complexity of European marketing. The European arena offers opportunities for economies of scale, but requires a sound knowledge of European lifestyles and consumption patterns, 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 that help companies make their voice heard in Brussels, Strasbourg and Luxembourg. This is where the European business environment and rules are shaped and, thus, where competitiveness either thrives or fails. International competitiveness is the key issue covered in Chapter 10. The chapter examines European trade relations with the main trading partners, and places issues of international competitiveness within a
1.2 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 throughout 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 europée- nne, soyons la paix universelle! (No more borders! The Rhine for all! Let’s be the same Republic, the United States of Europe, let’s be the federation of the continent, let’s be European freedom, let’s be Universal peace!)
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 circa 1600 to circa 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 economic and political interest in internationalization. Ideologically, mercantilism underpinned cross-border trade for 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 to prevent 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 analyzed the exchange mechanisms that drive economies – and, indeed, every economic system embraces some form of exchange.

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 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 in Europe, and that was complemented in later years by the mainly Anglo-Saxon school of international business research, which analysed corporations’ cross-border transactions and investments. It is important at this stage to recognize that the convergence of Europe stems from 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 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 that is neither a confederation, nor an organization of the types generally known in international relations, but rather the most advanced form of economic integration in the world that is flirting closely with the temptations of political union. The EU Member States have created a Single Market that marries competitiveness with certain social ideals (welfare, human rights, equality and many others). The European marketplace 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 institutions of Europe is to maintain European development while staying in touch with 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 both the challenges and the 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. Every company operating in or dealing with Europe is exposed to the challenges of globalization and Europeanization.

In this introductory chapter, we take a brief look at attitudes among citizens and at some European foundations and symbols. We shall then introduce some of the terms and concepts that have a bearing on discussions later in the book. The glossary at the end of this book makes reference to further definitions.

1.3 Europe: for European citizens and abroad

The European idea and its ideal are centred on the citizen and her/his welfare. These are driven by economics and politics, in symbiosis with European competitiveness and the role of Europe in the world.

Box 1.1: The European Union

The EU, originally (prior to 1993) known as the European Economic Community (EEC), is a highly advanced form of economic integration. It is a market grouping of more than 27 countries that promotes the economic wealth of its members, not only through 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 negotiations about international trade.

Because of this concern with citizen welfare, the EU regularly studies the attitudes of its citizens. It is noteworthy that more than 9 out of 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 out of 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 traits and traditionalism. Nearly 7 out of 10 want to live in a world where people live by traditional values. We are a long way from any standardization or homogeneity of the peoples of Europe; for business, this is where the challenges of values and diversity come into play.
Box 1.2: EU Member States: who are they?

In 2007, the EU comprised 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 and the United Kingdom (UK).

Is there a European identity among citizens? 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’. This is particularly the case for those who travel or work across frontiers, however at the same time 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 ‘European’ only. This is a much higher rate than in any of the other countries and 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, the majority of people identify exclusively with their own nationality, although in Portugal, Ireland and the newer Member States, this majority is small. National identity is very strongly felt in the UK, Sweden, Finland, Greece and, to a slightly lesser extent, Denmark. Europeans’ strong adherence to values related to democracy is an essential part of the identity that drives integration.

When asked which areas the EU should prioritize in the next five years, employment and stability are regular ‘firsts’, closely followed by research and development in new technologies. Young people especially appreciate the freedom and ease with which one can travel (mainly visa-free) from one European country to another. Very few young people feel that the EU represents negative elements, such as too much bureaucracy or the loss of cultural diversity, or that the goals of the EU are unrealistic. Rather, young generations adhere to the benefits of cohesion and multiculturalism in Europe.

We can legitimately conclude that Europe has made unprecedented progress towards its ideal of peace, political and economic stability and welfare, and this despite economic and currency crises in the last decade.

1.4 Foundations and symbols

1.4.1 The mystery of ‘Europe’

Europe is not only a continent that is turning itself into one vast common market for companies. It has a rich history and shared culture, much of which is anchored
in Greek and Latin roots. In Greek mythology, Europa was the daughter of the 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 ancient Greek and Roman arts. The continent of Europe is now called Europa in all Germanic and Slavic languages that use the Latin and Greek alphabet.

1.4.2 The European flag

The European flag 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, this number symbolizes perfection, completeness and unity; thus the circle of 12 golden stars represents the ideal harmony between the peoples of Europe. Also, the Egyptian goddess Isis, representing fertility and compassion, was often represented standing on a crescent moon, with 12 stars surrounding her head. The number of stars does not depend on the number of Member States. The flag has therefore 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.

1.4.3 The 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 symbolically celebrates the shared values encompassed in the EU’s motto: ‘United in diversity’. The anthem can be heard at: http://europa.eu/abc/symbols/anthem/index_en.htm.
1.4.4 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, and its significance for business will be discussed in Chapter 2. 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://europa.eu/abc/symbols/9-may/decl_en.htm/abc/.

1.4.5 The euro

The EU and its unity are also symbolized by the introduction, in 2002, of a single currency, the euro, which 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, saw the official launch of the euro on 1 January 1999; and the final stage, in 2002, saw the introduction of coins and bills for circulation. The euro will be discussed in detail in Chapter 7.

1.5 Some basic terms and concepts

Before you start to read the forthcoming chapters, it is necessary to define some terms and concepts that will be used throughout the text.

1.5.1 Globalization

In the context of this book, globalization refers to a compression of time and space which 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, it impacts 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, some decades ago, appeared very far away from each other. The major advances made in transport and in information and communication technology are at the origin of many of the characteristics of globalization. These sectors play an important role in the competitiveness of sectors and markets.
1.5.2 Europeanization

Europeanization is a term used in two senses. The first implies the European integration of economies and the development of common policies of EU Member States. Here, Europeanization is considered 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). An example is the Organization for Economic Cooperation and Development (OECD) which regularly publishes relevant data.

The second meaning of Europeanization is used in connection with business corporations. It 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 French and German aerospace leaders, 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 this into international competitiveness.

1.5.3 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. These 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 also operates 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); this defines 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 a location at any given time.

1.5.4 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 the definitions in Table 1.1). 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 private and public sector companies. 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; the 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, stock options were introduced in 1970 and, presently, approximately 50 per cent of all quoted companies and 95 per cent of 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. Davletguiideev, Trade

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Headcount</th>
<th>Turnover</th>
<th>Balance sheet total</th>
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<tr>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ €50 million</td>
<td>≤ €43 million</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ €10 million</td>
<td>≤ €10 million</td>
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<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ €2 million</td>
<td>≤ €2 million</td>
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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 businesses 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 political and business circles. The main advantages are based on the European cost base, taxation levels, the availability of skilled, trained labour, effective linkages between research/academia and the corporate sector business, and 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.

REVIEW QUESTIONS

1. **What** knowledge is key to success for a company doing business in Europe? Imagine that you want to set up your own company – why would this be different in Europe (as compared to another part of the world of your choice)?

2. **Explain** the ideal of Europe. Do you think that an ideal like that of the EU is still valid today?

3. **What** role does European integration play in business? Would business in Europe support the EU falling apart, and turning back into national states only?

4. Vice versa, **what** role does business play in European integration?

5. **Why** does Europe need symbols?

INTERNET RESOURCES

General information on the European Union: The EU in brief:
http://europa.eu/abc/index_en.htm

Europe’s information society:
http://ec.europa.eu/information_society/index_en.htm

EU news from *European Voice*:
http://www.europeanvoice.com/

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(Continued)

The EU – panorama, treaties and more:

Gateway to the EU – activities, institutions, documents, services and more:

Public opinion about European enlargement – European citizens:
http://www.europarl.europa.eu/enlargement/briefings/41a3_en.htm

SMEs in the EU:
http://www.sme-union.org/

Some EU history:
http://www.answers.com/topic/history-of-the-european-union

Gabriele Suder’s Doing Business in Europe video series (on the SAGE companion website at http://www.sagepub.co.uk/suder2e and YouTube)

Notes

1 Dubois was a royal advocate of the bailliage in Coutances. He was not only an important figure in France’s war against Pope Boniface VIII but was also the creative force behind a project to restore Jerusalem to the French king, Philip IV.

2 Hugo was a renowned poet, novelist and dramatist, but also a senator under the Third Republic.

Bibliography