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PART I

Understanding the context of Europe's business environment

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CHAPTER 1

Introduction

CHALLENGES TO LEARNING ABOUT THE BUSINESS ENVIRONMENT OF EUROPE

The business environment of Europe is dynamic and exciting for companies and their managers, and for students of business who learn about them. For scholars, the topic presents interesting areas of research with respect to the region's strengths and weaknesses relative to other parts of the world. It is also of interest to European policymakers and government officials seeking to improve the economic welfare of their constituents. And of course, the subject is fascinating for the casual but curious observer trying to make sense of newspaper headlines, and tourists who notice different products, currencies, and shop opening hours. In short, there are many reasons why one might want to learn more about business in Europe.

This can be a difficult subject to present clearly and understand well, and so requires a multi-level perspective and interdisciplinary approach. There are several reasons for this. First, Europe is a region under pressure to be both homogeneous and heterogeneous – more similar while maintaining distinctive local characteristics. The tension between reducing differences across national business environments, while maintaining the variety that makes Europe unique, will be one of the region's greatest challenges in the twenty-first century. In the 1950s, the founders of the **European Union** (EU) believed that economic integration could be the engine by which closer political cooperation would be achieved, thereby reducing the likelihood of another devastating continental war. Thus, one of the fundamental objectives of the EU is to bring together the region's countries into a "common market" by, for example, "harmonizing" national policies and regulations and reducing national barriers to the free movement of goods, services, capital (money), and people. The rationale is

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that, if countries become more intertwined economically and socially, war becomes too costly and unpalatable. But this process is a double-edged sword for business. For competitive companies seeking new markets, the elimination of barriers to entry in neighboring countries is beneficial. It allows them to find new customers, diversify their production and operations base, and secure alternative sources of financing. For less competitive firms, the removal of national barriers will lead almost certainly to an intensification of competition – and perhaps even their own demise. While most economists would argue that this is a good thing, since competition should (at least in theory) provide better goods and services at lower prices, what is good for the whole may not be good for individual parts. Threatened companies, workers, and other stakeholders, including democratic governments whose tax revenues and likelihood of being re-elected depend on the survival of some of these less competitive businesses, often mobilize to resist these European-level forces. Instead of one uniform business environment, Europe is a hybrid consisting of the EU's forces of convergence and the resistance presented by the differences across the region's many countries.

Similar homogenizing forces are exerted from an international level, too. "Globalization" is almost certainly the most talked-about international phenomenon of the past twenty years. While globalization is notoriously difficult to define, most people claim to know it and its effects when they see it. The International Monetary Fund (IMF)'s often-used definition of globalization is "the growing interdependence of countries world-wide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology."[1] So the forces of globalization include international organizations like the World Trade Organization (WTO), which seeks to reduce trade barriers across the 159 (and counting) countries that comprise its membership, as well as smaller groupings like the G20, comprising nineteen advanced and emerging market countries and the EU, that provide opportunities for world leaders to discuss economic and financial concerns. They include think-tank type groups like the World Economic Forum, which brings together business and political elites to discuss policy issues of mutual interest. Technological innovations like cell phones, satellite communications, Facebook and other social media, and the Internet also play a major role in globalization. The forces of globalization also shrink distance for business and their critics (such as non-governmental organizations, or NGOs) alike. And, of course, globalization's forces are carried out by the day-to-day actions of manufacturers, service providers, and financial institutions large and small.

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The combined forces of European regional integration and globalization represent homogenizing pressures. Yet forces of heterogeneity shape contemporary Europe, too. Some of these latter pressures are reactions to the former. As non-European firms make deeper inroads into the region, some Europeans view this as a threat to their economic well-being. The increased competition presented by Japanese automobile companies, a surge in clothing imports from China, and the pervasiveness of the Microsoft Windows computer operating system, among numerous other examples, worry many Europeans that their companies, jobs, and even culture and identity are threatened. Thus, some national governments implement policies to protect domestic industries from the pressures of globalization, or at least to try to slow down the process.

Part of the reason for doing so is in response to public pressure. Eurobarometer is a part of the Commission of the EU that has conducted public opinion polls of member country citizens since 1973. These surveys provide a good understanding of how Europeans view political, economic, and social issues at various points in time. A 2008 survey, which was conducted near the beginning of the current economic crisis, focused on globalization themes.[2] Among the findings were:

- ★ When Europeans hear "globalization," the first image that comes to mind to 41 percent of them is the "relocation of some companies to countries where labor is cheaper." Only 16 percent think of "opportunities for domestic companies in new outlets."
- ★ Only 22 percent of Europeans believe that globalization protects them from price increases.

An extensive 2010 survey of globalization, conducted during the early stages of Europe's financial crisis, showed that many Europeans continued to be skeptical of the benefits of this phenomenon.[3] Among this survey's findings:

- ★ 60 percent feel that globalization increases social inequalities.
- ★ 62 percent agree that "globalization is only profitable for large companies, not citizens." Agreement with this view ranged between 45 to 81 percent in every EU country except Malta.
- ★ Only 41 percent of Europeans agree that "the EU and the US have the same interests when dealing with globalization," and even fewer – 23 percent – have this view with respect to China. This is rather surprising when one considers that the US and China are the EU's largest trading partners.

More recent surveys from 2012 revealed that Europeans' views of globalization, if anything, have become even more skeptical.

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- Only 51 percent believed that globalization "is an opportunity for economic growth." There is wide variation on this view, ranging from 23 percent of Greeks holding this view to 79 percent of Danes.[4]
- 65 percent believe globalization "requires common global rules or 'worldwide governance'".[5]
- More Europeans (42 percent) believe that globalization represented a threat to employment and domestic companies than those (40 percent) who view globalization as a good opportunity for national companies thanks to the opening-up of foreign markets. In only seven EU countries (Denmark, Estonia, Finland, Germany, Malta, the Netherlands, and Sweden) did more than half of respondents regard globalization as an opportunity for indigenous companies.[6] (See Table 1.1.)
- Only 42 percent feel that the EU "helps to protect European citizens from the negative effects of globalization." A slightly higher 47 percent agree that the "EU enables European citizens to better benefit from the positive aspects of globalization".[7]
- 63 percent feel that the EU has sufficient power and tools to defend its economic interests in the global economy. Yet only 33 percent believe the EU has acted effectively to combat the economic crisis.[8]

Similar polls by the BBC, Financial Times/Harris, German Marshall Fund, Pew Research Center, and WorldPublicOpinion.org, among others, report similar views.[9] While there are, of course, good reasons not to rely exclusively on opinion polls in making public policy decisions, political and business leaders are well aware that moving too far or too quickly in a direction perceived by the public as too pro-globalization could result in strong – perhaps even violent – resistance, with electoral and economic consequences that could reverse many of the gains to date (see Figure 1.1). It is important to note that there are variations in these views across Europe. In general, northern Europe, particularly the Scandinavian region (including Denmark, Finland, and Sweden), the Netherlands, and Germany, are more enthusiastic about globalization and the opportunities presented by international business, trade, finance, and exchange, whereas the Mediterranean region (including Greece, Italy, Spain, Portugal, and to some extent France) are more wary of these global forces and skeptical of the benefits they may offer for domestic companies, job opportunities, and economic growth. Most of the Central and Eastern European countries that have joined the EU since 2004 are somewhere in between. As will be discussed in subsequent chapters, such a diversity of national views, and the constraints these place on national governments, makes it difficult for the EU to

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Table 1.1 European views of globalization (percent in agreement with statements)

	Globalization represents a good opportunity for (nationality) companies thanks to the opening-up of markets (%)	Globalization represents a threat to employment and companies in (our country) (%)	Do not know (%)
Austria	41	47	12
Belgium	37	57	6
Bulgaria	40	32	28
Croatia	46	41	13
Cyprus	26	59	15
Czech Republic	36	50	14
Denmark	72	21	7
Estonia	52	28	20
Finland	52	40	8
France	25	65	10
Germany	53	36	11
Greece	28	64	8
Hungary	31	54	15
Ireland	46	29	25
Italy	29	48	23
Latvia	27	53	20
Lithuania	42	27	31
Luxembourg	47	40	13
Malta	51	25	24
Netherlands	68	24	8
Poland	41	32	27
Portugal	31	44	25
Romania	29	33	38
Slovakia	49	39	12
Slovenia	42	46	12
Spain	35	33	32
Sweden	68	27	5
UK	45	37	18
EU 27*	40	42	18

*Croatia was not a member of the EU when the poll was conducted.
Source: European Commission. 2012. *Standard Eurobarometer 77: Tables of Results*. May (http://ec.europa.eu/public_opinion/archives/eb/eb77/eb77_anx_en.pdf).

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Figure 1.1 Greek protestors. Greek protestors demonstrate against job cuts and tax hikes imposed by their government in response to pressure from the European Union and International Monetary Fund.

reach a consensus among its member countries in crafting a unified response to globalization.

Opposition even arises to the homogenizing forces of European integration. For example, while most transnational businesses lobbied for a common European currency to reduce the cost of currency exchange, many citizens (especially in Germany) were opposed to Economic and Monetary Union (EMU) that allowed for the introduction of the Euro. Many smaller businesses, particularly those in the service and retail sectors, also opposed EMU, since they had almost exclusively domestic customers but still would bear the financial burden of converting cash registers, financial records, and price tags to accommodate the Euro. Similarly, while there are strong arguments made for harmonizing various tax rates across the EU, countries with lower taxes have resisted efforts to do so, since lower than average corporate taxes have helped countries like Ireland and Latvia attract high levels of foreign investment (and retain the operations of domestic companies), and they regard "harmonizing tax rates" to really mean "raising tax rates". Other forces of heterogeneity stem from culture, language, and history. For example, no matter how much European integration takes place, and how far barriers are lowered to allow workers to find employment outside their home country, few Greeks will choose to leave the sunny Mediterranean to work in Finland. Other Europeans see the globalization of media, particularly through the US film, television, and entertainment industry

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as a threat to national cultures and even language, since French, Italian, and other European media groups cannot compete with Hollywood's economies of scale. And one does not have to walk far in many European cities before the number of McDonald's and Starbucks stores become too numerous to count. Government leaders, sensitive to vocal constituents who argue that their country's economy is intertwined with the country's culture, history, and identity, often resist the homogenizing pressures by either implementing national policies that run counter to globalization's forces (such as restrictions in some countries on shops opening on Sundays), or working within the EU to slow or halt initiatives promoting deeper integration and harmonization (as in the opt-outs that the Czech Republic, Denmark, Ireland, Poland, and the UK secured for themselves during the negotiations leading up to the 2009 Lisbon Treaty).

Taken together, the forces of homogenization and heterogeneity can help explain the complexities of the European business environment. On the one hand, Europe is one of the richest regions of the world, with some of the most competitive national economies in the world, and with some of the largest and most successful companies in the world. On the other hand, Europe sometimes can be seen as a region trying to cling to what remains of past glories (economic and global power), with political and business leaders taking steps to protect industries that, on a simple market efficiency basis, should no longer be protected, and with national governments administering socioeconomic policies that may very well lead to a deteriorating business environment. Understanding the dynamics of the European business environment requires an appreciation for the effects that these countervailing forces have on the region.

A second reason why a holistic approach to describing Europe's business environment is difficult to present is that it requires a multidisciplinary perspective. The idea for this book derives from two decades of teaching international business, EU, and political economy courses to undergraduate, MA, and MBA students enrolled in business schools, political science departments, and international studies programs. It has become apparent that there is a knowledge gap among students and a publication gap among scholarly books and college texts on business and European studies. In the first instance, business students seem to have little understanding of, or appreciation for, how European history, politics, culture, and institutions have shaped the region's business environment. Business school curricula tend to be rather narrow, with the focus on building marketable skills in areas such as accounting, finance, marketing, and supply chains. Few schools integrate the liberal arts, social sciences, and humanities into the business curricula. At the same time, students of international or European studies are rarely familiar with business issues and terminology, the

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roles that firms play in policymaking, and the impact that government policies have on corporate decision-making. It does not help that liberal arts colleges and business schools often operate as intellectual silos, even on the same university campus, with little interaction between faculty and students on research, curricular issues, and pedagogy. Professors typically enhance their reputation by publishing in discipline-specific rather than interdisciplinary journals, and administrative hurdles often discourage students from taking courses outside their home college. The purpose here is not to change the structure of higher education. That would take far more than one book to do. The parochialism of academic departments within universities is a fact of life, although some progressive universities are trying to change this. But one of the principal objectives of this book is to bridge this knowledge gap among students.

With respect to the publication gap, there is neither an academic book or textbook on the market today that aims to fulfill this need or tries to connect EU and national level dimensions of the business environment, nor is there a book that can speak simultaneously to business and international/European studies students and scholars in a language that readers of both can understand. While the narrow, single disciplinary approach to research and publication is the norm within most university academic units for promotion and tenure, it is not helpful for those topics (like the business environment of Europe) that simply cannot be fully understood within one disciplinary lens or silo.

Finally, the business environment of Europe is difficult to explain because Europe is difficult to explain. If one were to play an image association game with the word "Europe", there would likely be at least three things that come to mind. One might be the region bordered by the Arctic Ocean to the north, Atlantic Ocean to the west, Mediterranean Sea to the south, and any number of boundaries (perhaps the Ural Mountains in Russia) on the east. A second image might be the EU. In fact, in many instances, "EU" seems to be shorthand for Europe, even though the organization does not yet (if it ever will) include important countries like Switzerland, Norway, Iceland, some of the countries that comprise the former Yugoslavia, and (depending on one's geographic image of Europe) Belarus, Moldova, Russia, Turkey, and Ukraine (among others). Nonetheless, the combined population of the EU's twenty-eight member countries totals over 500 million people. Yet a third image of "Europe" is that of a collection of unique countries. One reads about the histories of countries with their kings and queens, wars and revolutions, artists and writers, and foods and scenic regions, or visits them on holiday. But these diverse images make it difficult to explain the business environment of Europe since one could write a book on the subject from each of these three perspectives – and perhaps others. This book

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