PERSPECTIVES AND DEVELOPMENT OF EUROPEAN BUSINESS

Abstract
The term "European business" is recognized and accepted in order to explain the types of business and activities in Europe which have a cross-border character. The "language" of European business is most of all loyal to the open-borders operations and activities in an increasingly integrated European economic area. Different influences of the internal and external environment of the European business point to the scenario of the future changes in European business which encompasses several dimensions: changes in the socio-political context, in which business operations are conducted; the dimension of the management homogenization in Europe; the dimension of the management homogenization in the world. European business is an important factor of the European integration. By strengthening the common vision of management, a powerful integrative mechanism on the European level is created.

Key words: *business, management, Europe, globalization, international business, perspectives, development, business relations, business sectors, multinational companies*

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European business is a term denoting different kinds of business operations and different forms of companies within the European theatre. Family businesses, public companies, business partnerships, multinational and transnational companies are involved in European business if they conduct their activities within one or more European regions. In addition, European business includes all profit-oriented business activities which are conducted in any part of Europe. In other words, the term "European business" is recognized and accepted in order to explain the types of business and activities in Europe which have a cross-border character – which go beyond the national borders – and which are distinct from common domestic activities. It could be said that the "language" of European business is most of all loyal to the open-borders operations and activities in an increasingly integrated European economic area.

European business is increasingly recognized as an "umbrella" term which covers business operations and activities of all kinds and shapes in Europe. European business is precisely that: business in Europe. In its character it can be international or conducted within a single European market. It can be a small local bakery or an international car company, like Volkswagen with its operations in Germany, Spain and Czech Republic.

Even the constituent parts of Asian and American companies which are located in Europe are an integral part of European business. Apart from this, one of the primary aspects is how European business conducts its operations outside Europe with the aim of achieving strategic positions in international markets. The subject of separate research are new strategies, organization models, approaches to management, led mostly by the interest and needs of transnational operations with the aim of improving the competitiveness and successful management in 'new' Europe.

The term 'new Europe' itself requires an explanation. While the geographic identity of Europe has changed little, the continent has gained a completely new form since the end of the Cold War, with the emergence of new independent countries and post-Cold War architecture of peace.

New pan-European commercial and business operations, investment flows, in combination with the new European legal regulative and the expansion to new territories, brought radical changes in the social, technological, economic, political and business environment in Europe. A new union of European states was created parallel to the creation of new challenges, opportunities and threats for all actors. These changes have brought about the making of new European business environment.

Nowadays Europe is one of the biggest world markets, in terms of both its territory, population and consumer power, and the development and structure of its economic activities and business.

Although the national economic systems in Europe are fundamentally similar, the size and development level of the national economies are considerably different. The four most developed West European countries (Germany, France, Great Britain and Italy) account for around three-quarters of the EU gross national product and around 60% of gross national product of the whole Europe. These four countries, if we exclude the Russian Federation, are among the biggest European countries in terms of their population and the size of their territories. On the basis of these indicators, many would conclude that the decisions of “the great four” have a dominant influence in the European Union.

With its large population and developed economy, Spain has a significant influence and its economic development has recorded an outstanding increase since it joined the European Union. Numerous smaller European countries such as Switzerland, Norway, Luxembourg, Sweden, Denmark, the Netherlands, Finland and Austria can also be marked as rich European economies.

Income per capita in these countries is among the highest in European and in global terms, and so is the industry development level which is extremely high. A large number of these countries are characterized by very high levels of the population density, which is the case in Belgium and the Netherlands.

Standard measured by the GNP per capita is lower than the EU average in countries such as Greece, Portugal or the Central European countries. If we take a closer look at the Eurostat indicators, we can see the dominant position of Germany, whose production takes up around a quarter of the EU gross national product. This is not just the indicator of the high living standard for the German citizens, but it also points to the strength, power, and the leading positions of the German companies.

However, some regions in Europe have an extremely low GNP and a relatively high level of unemployment. If we compare the unemployment percentages (Eurostat), we can note a far greater unemployment percentage in the leading EU countries relative to Japan or the USA. The greatest level of unemployment is recorded in the Mediterranean countries: Spain, Italy, France, Greece, and the lowest is in Luxembourg, the Netherlands and Austria. Despite the different levels of unemployment, the European geoeconomic area is characterized by irregular regional development.

The data from the European Commission show that in ten wealthiest EU regions, the GNP is three times higher that in ten poorest ones. Thus, for instance, Hamburg, the richest region in the

European Union, has GNP that is 3.5 times higher than Germany's poorest regions Thüringen and Mecklenburg.

The greatest level of private activities and the richest regions of the EU economy are located in the South-East of England, in the Rhineland, across France, to the North of Italy and Spain. In contrast to these are the regions of the rural parts of Ireland and the Mediterranean countries, such as parts of Greece, Italy, Spain and Portugal.

European Business Environment

Any environment in which business operations are conducted is subject to a constant change. Modern European business environment is conspicuously fluid, dynamic, and changeable. The character of European business environment at the beginning of the third millennium is primarily marked by rapid changes. In the center of these changes is the increasingly intensive integration or 'Europeanization' of markets and the economic and business structures in Europe. As Nugent and O'Donnell note, "At the heart of this emerging European business environment is a fledgling European economy, in which national economies are increasingly interconnected and interdependent, in which national economic policies and policy approaches are increasingly co-ordinated, and in which the regulatory regime to which business is subject is increasingly European wide."[93] This view of the changes in the European business environment is valid today as it was in the early 1990s. Although we are not far from the making of the Single European Market, the EU countries have developed its character and created attributes of an entirely integrated market. The Single European Market stands at the center of the pan-European economic space and is the main link in the EU which gathers the associate and non-member countries throughout Europe.

Owing to the processes of cross-border corporate integrations, new models of integration and business cooperation, European companies gained a transnational character. The process of Europeanization has gained significance along with the globalization trends in the international business arena.

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[93] Nugent, N. and O'Donnell, R. (eds) (1994) *European Business Environment*, Macmillan, p. 1.

Starting from the role and importance of the European Union in the modern European business environment, we can identify the main features of the European business development:

- The Europeanization of the economic and political decision making;
- The consolidation and development of the Single European Market;
- The continuing process of the monetary unification (and the introduction of the forms of fiscal federalism);
- The making and development of European standards and their adaptation to the international standards;
- The strengthening of the domestic and international competition;
- The intensification and enhancement of the competition, in both industrial and services markets;
- The development of pan-European labour markets;
- The liberalization of the European market and incorporation of other European countries in the EU.

Distinct trends in development are concerned with the European strategic management and focus on:

- the improvement of various new forms of commerce and distribution;
- the quantitative and qualitative expansion of commerce and particularly investments;
- the globalization of markets and the enhancement of the competitive advantage.

All these trends of further development can be classified as external factors in the environment of the "European" business. Therefore, we can single out two levels of the external environment which influence the European business: the immediate environment and the remote environment. The remote environment of the European business comprises different political, technological, legal, economic, socio-cultural influences, and its close external environment consists of human resources, consumers, suppliers and competition.

The changeability of European business environment is best explained by Johnson and Turner, who note possible changes in the business environment of European companies, and offer three different levels:[94]

- *the national level*, where the creators of business politics are constrained by the European integration processes or by the internationalization of markets;
- *the European level*, where once fragmented markets have become integrated in one whole and where the processes of business and political decision making have become significantly strengthened;
- *the international level*, where infinite possibilities of the global business stimulate the greater international independence and where other actors, beyond the European borders, influence the formulation of the EU politics and business strategy of European companies.

THE STRUCTURE OF EUROPEAN BUSINESS

European Companies

There are a large number of different forms of business in Europe: small and large, domestic and international. Research points to the analytical framework of three basic variables of European business: size, sectors and ownership. By analyzing these parameters, we can examine different areas of business and business operations and activities in Europe.

Within the European Union there exist a great number of different types of business which differ from each other in terms of their size, structure and impact on the European economy. On the one hand, there are many small and medium-sized enterprises, and on the other hand, there is a much smaller number of very large companies which have an extremely big economic, political, social, and business influence and importance.

Despite the fact that the business in the EU countries is dominated by the private-sector businesses, public-sector organizations and companies can be found in all European countries, in the key areas of economy (for example – in defense, transportation, etc.)

In addition, in European business there are many public organizations, in which the state authorities have full, or majority

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[94] Johnson, D. and Turner, C. (2000) *European Business: Policy Challenges for the New Commercial Environment*, Routledge, p. 1.

ownership, but also thousands of private-sector businesses in which the state authorities have some influence or a minority share. Governments often retain non-controlling shares in private or privatized firms and increasingly often they support their influence through investments or the influence in particular sectors of industry.[95]

The last decade in Europe has been marked by dramatic changes in the control function of public companies. While the Central and East European economies have been engaged in wholesale privatization, as part of the transition process, the governments of the EU member countries continued the privatization of the state-owned companies. In the early 1990s approximately 15% of economic activities in the European Union were conducted by the state-owned companies. That figure is now reduced to approximately 10%. Between 1985-1995, France privatized $38 billion worth of public property. In late 1990s, the French government sold public companies such as France Telecom and Air France, whereas Great Britain sold British Airways and British Petroleum. While France, Spain, Italy, Portugal, Germany and Austria have retained a considerable share in a number of privatized companies, numerous companies in which the state had the majority share were wholly privatized.

In the strongest European business sectors: banking and insurance, chemical, pharmaceutical, electronic industries, telecommunications, food and beverages industry, metal industry, as well as motor, transport and tourism industry, great European multinational companies enjoy the reputation of the worldwide recognized companies with high competitive advantages. In global industries, and particularly in these sectors, 10 top largest and most successful European multinational corporations have emerged. On the global list of the top 200 companies, based on the global revenue, there are 67 European corporations, 23 from Germany, 19 from France and 14 from Great Britain. This information alone is sufficient to show the global picture of the strength, power and influence of European business.

The comparison of the best European companies is extremely complex owing to the various measures which are used, among which

[95] Worthing I., Britton C., *Business Environment*, Pitman, 1997.

are: sales revenue, profitability, the number of employees… Some of these parameters are the indicators on which the ranking of European multinationals is based.

Tables 1 and 2 are based on two different parameters, which are used to present the list of top 10 European multinational companies.

Rank (global)	Company	Nationality	Revenue ($ million)	Industry
1 (5)	Daimler-Chrysler	GER	159,986	Motor vehicles & parts
2 (11)	Royal Dutch/Shell Group	UK/NED	105,366	Petroleum
3 (15)	Axa	FRA	87,645	Insurance
4 (17)	BP Amoco	UK	83,566	Petroleum
5 (19)	Volkswagen	GER	80,072	Motor vehicles & parts
6 (21)	Siemens	GER	75,337	Elect./eng.
7 (22)	Allianz	GER	74,178	Insurance
8 (27)	ING Group	NED	62,492	Insurance
9 (31)	Deutsche Bank	GER	58,585	Banking
10 (35)	Assicurazioni Generali	ITA	53,723	Insurance

Source: Fortune Magazine

Figure 1: top 10 European companies, by global revenue (2000)

Rank (global)	Company	Nationality	Employees	Industry
1 (8)	Daimler-Chrysler	GER	466,938	Motor vehicles & parts
2 (9)	Siemens	GER	443,000	Elect./eng.
3 (12)	OAO Gazprom	RUS	368,900	Energy
4 (19)	Volkswagen	GER	306,275	Motor vehicles & parts
5 (20)	La Poste	FRA	306,000	Mail
6 (22)	Carrefour	FRA	297,290	Retail
7 (22)	Vivendi	FRA	275,000	Engineering & construction
8 (26)	Sodexho Alliance	FRA	269,973	Food & personal care
9 (27)	Deutsche Post	GER	264,424	Mail
10 (29)	Unilever	UK/NED	255,000	Food & personal care

Source: Fortune Magazine

Figure 2: top 10 European companies, by the number of employees

As parameters, Table 1 uses global revenue, whereas Table 2 ranks European multinational companies by the number of employees. Both rankings look different since different parameters are used.

It is important to emphasize that after the decade of primacy of Japanese and East Asian rivals in the high technology areas, such as the information technology, the hardware sector and the sector of telecommunication services, Europe has its champions on the global market, and the examples are Nokia, the Vodafon Group, etc. The profiles of 200 biggest world corporations shows that a number of European companies have an extremely strong competitive position in the global business. Some of the European companies which are ranked on the global list of top 20 world companies, as well as those which are not on this list, such as Daimler-Chrysler, Royal Dutch Shell, British Petroleum, BMW, Deutsche Bank, L'Oreal, SAP and Nokia are among the European companies which enjoy the greatest reputation around the world. These companies are characterized most of all by the strong management, effective leadership, good quality of products and services and effective global activities.

Business sectors in Europe

In the EU countries, the service sector comprises 68% of gross national product and 66% of employees are engaged in the service sector companies. According to the EUROSTAT data, the service sector is the home of a large number of European companies. It comprises 5.5 million companies from the retail, commerce and distribution sectors, plus 1.3 million of them from the hotel and restaurant sector („Horeca").

Table 3 shows that the distribution sector comprises one-third of all EU companies. It also shows that around one million enterprises are involved in transport and communication services in the European Union and around two million of them in other business services. These are companies involved in fields such as management consulting, computer and technical services, personnel training, advertising... Evidently, this sector is growing and developing rapidly. In addition, this table show that the European economy encompasses 11,3% of non-agricultural enterprises.

	Enterprises		Employment		Turnover		Employment share of SMEs
	Thousands	%	Million	%	ECU billions	%	%
Industry and energy	2,043	11.3	33.24	29.7	4,454	26.0	52.6
Construction	2,408	13.3	10.14	9.1	905	5.3	87.7
Trade	6,804	37.7	29.82	26.7	4,787	28.0	78.8
Transport and communication	930	5.2	8.16	7.3	715	4.2	46.6
Financial intermediation	326	1.8	4.70	4.2	4,347	25.4	28.3
Other business activities	2,062	11.4	10.25	9.2	795	4.6	68.9
Other services	3,477	19.3	15.46	13.8	1,107	6.5	73.2
Total	18,050	100.0	111.76	100.0	17,109	100.0	65.7

Figure 3: EU companies by sector of activities

The European economy can be said to have become predominantly service- and postindustrial-oriented economy. This is confirmed by the fact that the areas of service industry in West Europe employ around two-thirds of the total number of employees. European service economy comprises two elements: market and non-market services (such as, public administration, government, health and education). Most market-oriented services are in the areas of banking, insurance, distribution, transport, communications and business services.

The OECD Labour Force Statistics show the level of employment in European countries, in the areas of agriculture, forestry and fisheries (5%), industry (manufacture, energy, construction) (29%) and the service sector (65.2%). As an example, the northern members of the European Union have a greater share of employees in the service sector (over 70%). At the other end of the scale are Greece and Portugal, with around 60% of employees in the service sector.

The data show that trends in Europe support the hypothesis on the development of activities in the private sector towards the progress of the tertiary sector. Trends in Europe also show that knowledge is gaining a greater significance as a product, especially in the areas of IT, software development and biotechnology. Here we can also mention the media, telecommunication, medicine, financial services, and public administration. In these areas, an effective use and management of information is the key to success of the European companies.

European business relations: the EU, Japan, the USA

The US and Japan can be marked as the biggest and greatest business partners of the European Union. The business relations with these countries are among the most important goals of the EU foreign policy.

The idea of the 'new transatlantic market' has dominated the relations between the European Union and the USA. Among other things, this plan envisions the elimination of the mutual industrial tariffs starting from 2010 and the establishment of free trade between the EU and the USA in the service sector. The 'New Transatlantic Market' plan is being carried out under the auspices of Transnational Economic Partnership, signed between the European Union and the US in London in May, 1998.

Historically, the relations between Japan and the EU have been burdened by certain difficulties. Irregular balance of commerce to the benefit of Japan causes some tension, so the European companies seeking to export to Japan are confronted with a number of obstacles.

World business today is dominated by three main markets, Japan, the USA and the European Union; each is a dominant regional force and this can be designated as a 'triad'.[96] This line of thought is supported by the fact that Japan, the USA and the European Union together account for 47% of the world export and three-quarters of direct foreign investment. In 1997, 50.5% of direct investments was carried out in the 'triad' countries, and they accounted for 75.5% of all external direct investment in the world economy.

Over 75% of the production and sales in the areas of car, chemical, petrochemical, steel and other important industry sectors is concentrated within the triad. Thus, there is no doubt that their businesses dominate the world economy.

A characteristic of the 'triad' is also a high level of commerce and investments which are made within and across the 'triad' countries. Table 4 shows the commerce flows within the 'triad'. The USA display a trade deficit in relation to both the EU and Japan. While the EU has a small trade surplus in trading with the USA, we can notice a deficit in relation to Japan.

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[96] Ohmae K., „Managing in Borderless World," *Harvard Business Review*, May-June, 1989.

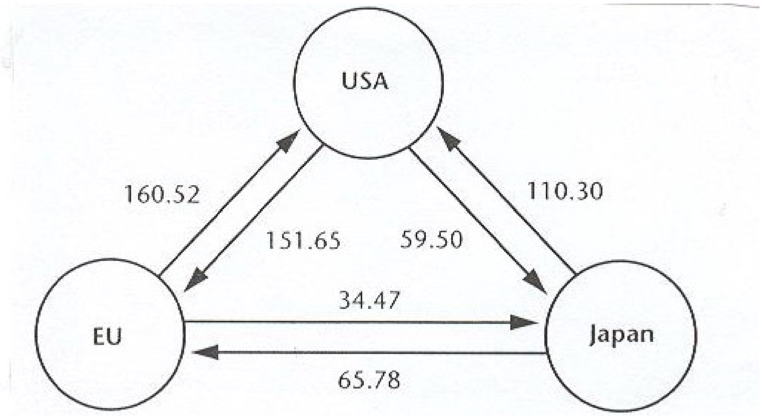

Figure 4 Trade flows within the 'triad' (in mill. of euros)
Source: EUROSTAT – comext, UN comtrade

The data from the Table 4 give a more detailed display of the investment flows between the EU and the USA, which amount to € 500 billion. These are the largest mutual investment relations in the world. The US entry investments to the EU amount to € 210 billion. The key US investors in the European market are: Ford, General Motors, IBM, Hewlett-Packard. Traditionally, a greater number of these companies' investment activities has been concentrated in a small number of European countries: France, Germany, the Netherlands, Great Britain.

European companies are the first on the list of all international investors in 41 state of the US, and the second in the remaining 9. The EU investments in the US are evaluated to around € 298 billion and are continually growing.

Although the Japanese investments in Europe are considerably lower in comparison to the US (Japan accounts for only 7% of total investments in the EU), this level is constantly growing. Despite the external barriers, the Japanese companies such as Sony and Hitachi have started their production operations in the EU. In 1993, the Japanese investments in the European Union amounted to € 20 million. In late 1996, they increased to € 31.9 billion and are still increasing.

Although the Japanese investments have been considered 'controversial' (the fear of the unknown, owing to the possible troubles for the domestic producers in Europe), they are generally welcomed. Direct foreign investments create new jobs, increase the capital market and the production capacities of the host country and bring them a greater revenue from taxes. The areas of greater unemployment, and the industries which were on the decline, have flourished with the inflow of Japanese investments. This is the case with some regions in Great Britain, such as parts of the North East or Wales, which have experienced great benefits from the main investment projects. Therefore, for instance, a Nissan factory or Toyota have provided direct or indirect possibilities of employment in two British regions. This explains the fact that the British not only appreciate the Japanese investments, but actively support them.

The perspectives of the development of the European business

Different influences of the internal and external environment of the European business point to the scenario of the future changes in European business which encompasses several dimensions:

1. Changes in the socio-political context, in which business operations are conducted
2. The dimension of the management homogenization in Europe
3. The dimension of the management homogenization in the world.

The changes in the socio-economic context include: the lowering of the government and trade union influences, harmonization of educational systems, harmonization of legislative systems, East European influences.

The dimension of the management and business homogenization in Europe means, most of all, the possibility of "mutual respect", tolerance and adopting the best characteristics from "each corporate culture" or management system, which leads to the greater degree of the European business harmonization. The tendency towards "mutual respect" is developed among European companies, and also among the companies from all three management models: the US, Japanese, and European model.

Edgar Morin argues that diversity is the main characteristic of Europe, but also its main original feature and he offers several definitions of the European environment:

‘Everything that simplifies Europe with idealization, abstraction or reduction, mutilates it.’

’To assemble is to bring together the widest range of diversities...’

’Combine contrasts so that they are inseparable.’

’The European Gordian knot, a pluralistic and contradictory unity.’[97]

Europe is characterized by diversity, but it is the diversity allowed in the times of political, social, and spiritual unity: the Roman Empire, the Christian Middle Ages, the Enlightenment, and the current European integration. These times of relative unity have left trace in the collective memory of the Europeans. They remind us that despite the differences, there are common values and the common European civilization.

A positive aspect of the European diversity is the adoption of a tolerant attitude towards the differences. Ethnic and linguistic differences, the mosaic of countries, regions and cultures, borders that are open, and yet exist everywhere, constitute the European environment which enabled the European companies to pursue a “course” of development, expansion, and gaining an international dimension in business.

European business is an important factor of the European integration. By strengthening the common vision of management, a powerful integrative mechanism on the European level is created. However, European business is not a “replacement” for individual national models. It would be unrealistic to expect the management practices to be completely homogenized within the European integration. In the past, the view of the universal management model was a predominant one. Nevertheless, the practice has shown that culture is stronger than method. However reasonable and sensible it is to believe that management methods are universal, it is equally necessary to emphasize that the management style largely depends on the culture and society of the given country. Each civilization has its own way of organizing the power – authority relations among the individuals.

The harmonization of management philosophies and practices, and the harmonization of the socio-political culture (on which the

[97] Morin Edgar, *Penser l’Europe*, Gallimard, Paris, 1997.

management and business practice is based) are significant factors of development of European business. The key question is not whether European business will be better or worse than other models. The point is that it has to be better adjusted to European values, European attitudes, European culture and to create a greater cohesion in competitive strategies of European companies.

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