

Gabriele Suder
& Johan Lindeque

DOING BUSINESS in EUROPE



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To David, the very European Chantal & Caroline, Ingrid & Rudolf, and the also very European PPM (Gabriele)

To my parents Lynn and Jan (Johan)

SUMMARY OF CONTENTS

<i>List of Illustrations</i>	xix
<i>About the Authors</i>	xxvii
<i>Acknowledgments</i>	xxix
<i>Online Resources</i>	xxxi
<i>Abbreviations</i>	xxxii
1 Introduction: The New European Business Environment	1
PART I EXPLORING THE EUROPEAN BUSINESS ARENA	17
2 Landmarks of European Integration: How History and Politics Shape the Business Environment	19
3 Enlargement and the Theories of Integration	65
4 Institutional Players: How the Rules and Agendas of the European Business Environment Are Set	113
PART II BUSINESS EUROPEANIZATION	157
5 The Europeanization of the Business Environment	159
6 The Europeanization of Business Management	206
PART III BUSINESS ACTIVITY FUNCTIONS IN THE EUROPEAN ENVIRONMENT	251
7 European Economics, Finance and Funding	253
8 Marketing in Europe	293
9 European Non-Market Strategy: Lobbying the Playing Field	335
10 Competing Internationally	373

PART IV CORPORATE CASES	415
The expansion of the Alibaba Group into the European Single Market	417
Airbnb: Disruption in an Increasingly Competitive European Marketplace	426
A Match Made in (Eco)Heaven: How Tesla Became Norway's #1 Selling Vehicle	432
The Irish Corporate Tax Bubble Close to Bursting: Apple and Pfizer	443
Ryanair: European Free Flight Plans?	454
Managing Emerging Market Acquisitions in Europe: Integrating the Acquisition of the German Preh GmbH by the Chinese Joyson Group	460
CSR in Europe: How to Keep the Family-Owned Enterprise Humming for a Thriving Economy	465
Internationalization of Lukoil: A Russian Push and Pull Strategy in Europe	480
<i>Glossary</i>	488
<i>Index</i>	496

CONTENTS

<i>List of Illustrations</i>	xix
<i>About the Authors</i>	xxvii
<i>Acknowledgments</i>	xxix
<i>Online Resources</i>	xxxii
<i>Abbreviations</i>	xxxii

1 Introduction: The New European Business Environment	1
1.0 The structure of this book	1
1.1 Chapter structure	4
1.2 Centrepiece: The idea of creating a ‘unified Europe’	5
1.3 The European ideal	7
1.4 Foundations and symbols	9
1.4.1 <i>The mystery of ‘Europe’</i>	9
1.4.2 <i>The European flag</i>	9
1.4.3 <i>The European anthem</i>	10
1.4.4 <i>Europe Day</i>	10
1.4.5 <i>The Euro</i>	11
1.5 Some basic terms and concepts	11
1.5.1 <i>Globalization</i>	11
1.5.2 <i>Europeanization</i>	12
1.5.3 <i>Multinational and transnational firms</i>	12
1.5.4 <i>The company typology</i>	13
Chapter review questions	15
Internet resources	15
References	16

PART I EXPLORING THE EUROPEAN BUSINESS ARENA **17**

2 Landmarks of European Integration: How History and Politics Shape the Business Environment	19
2.0 Introduction	19
2.1 How the European business environment took shape	20
2.2 The beginning of modern European supranationalism: the Schuman declaration	25

2.3	Understanding integration: where treaties take the market	25
2.3.1	<i>The first founding treaty: the Treaty of Paris (1951)</i>	30
2.3.2	<i>The impact of the treaty on business</i>	32
2.3.3	<i>The Treaty of Rome (1957)</i>	34
2.3.4	<i>The main objectives of the Treaty of Rome</i>	35
2.3.5	<i>The impact of the treaty on business</i>	35
2.4	The relevance of the European Free Trade Area (EFTA) and EU relations	37
2.5	From the 1970s to the end of the Cold War	40
2.5.1	<i>The Single European Act (SEA): key points</i>	42
2.5.2	<i>The impact of the SEA on business</i>	43
2.5.3	<i>The Treaty on the European Union (TEU) – Maastricht: key points</i>	45
2.5.4	<i>The impact of the TEU on business</i>	47
2.5.4	<i>The Treaty of Amsterdam: key points</i>	49
2.5.5	<i>The impact of the treaty on business</i>	49
2.6	From the CEE transition to today’s regionalized world	50
2.6.1	<i>The Treaty of Nice: key points</i>	50
2.6.2	<i>The impact of the treaty on business</i>	51
2.6.3	<i>No constitution for Europe? The Treaty of Lisbon: aim</i>	51
2.6.4	<i>The impact of the treaty on business</i>	52
2.7	From the GFC to Brexit and beyond	53
2.8	Résumé and conclusion	56
	Mini-case: The Digital Single Market: roaming tariffs and 5G launch study	57
	Mini-case questions	59
	Mini-case references	59
	Chapter review questions	60
	Assignments	61
	Role-play exercise	61
	Further reading	62
	Internet resources	62
	References	63
3	Enlargement and the Theories of Integration	65
3.0	Introduction	65
3.1	Six decades of European integration and enlargement	66
3.1.1	<i>Accessions to the EC/EU: integration and enlargement in historic perspective</i>	68
3.1.2	<i>EU disintegration and member state withdrawal: Brexit</i>	72
3.1.3	<i>EU integration and enlargement in a global perspective</i>	72

3.2	Integration theories	78
3.2.1	<i>Functionalism</i>	78
3.2.2	<i>Neo-functionalism</i>	79
3.2.3	<i>Federalism</i>	79
3.2.4	<i>Liberal intergovernmentalism</i>	79
3.2.5	<i>The meaning of integration theories</i>	80
3.3	European integration in perspective: the past, present and future	81
3.3.1	<i>Romania</i>	83
3.3.2	<i>The Western Balkans and Turkey</i>	85
3.3.3	<i>Iceland</i>	88
3.4	Enlargement: business opportunities and challenges	90
3.4.1	<i>Member states and the enlargement challenge</i>	90
3.4.2	<i>Small and medium-sized firms in the enlargement challenge</i>	94
3.5	Competitiveness in the enlarged market: leveraging benefits	97
3.5.1	<i>Adapting the value chain</i>	99
3.5.2	<i>Organizational structures for knowledge transfer</i>	102
3.6	Résumé and conclusion	103
	Mini-case: Greece: realizing the potential of the Single Market after accession – not everything is rosy	103
	Mini-case questions	106
	Mini-case references	106
	Chapter review questions	107
	Assignments	107
	Role-play exercise	108
	Further reading	108
	Internet resources	109
	References	110
4	Institutional Players: How the Rules and Agendas of the European Business Environment Are Set	113
4.0	Introduction	113
4.1	The institutions	114
4.1.1	<i>The European Commission</i>	115
4.1.1.1	Composition	116
4.1.1.2	Decision-making role	119
4.1.1.3	Opportunities for business interest engagement	121
4.1.2	<i>The European Parliament</i>	121
4.1.2.1	Composition	121

4.1.2.2	Decision-making role	123
4.1.2.3	Opportunities for business interest engagement	124
4.1.3	<i>The Council of the European Union</i> (formerly the Council of Ministers)	125
4.1.3.1	Composition	125
4.1.3.2	Decision-making role	126
4.1.3.3	Opportunities for business interest engagement	128
4.1.4	<i>The European Council</i>	128
4.1.4.1	Composition	128
4.1.4.2	Decision-making role	129
4.1.4.3	Opportunities for business interest engagement	129
4.1.5	<i>The Court of Justice of the European Union</i>	129
4.1.5.1	Composition	130
4.1.5.2	Decision-making role	130
4.1.5.3	Opportunities for business interest engagement	131
4.1.6	<i>The Court of Auditors</i>	131
4.1.6.1	Composition	132
4.1.6.2	Decision-making role	132
4.1.6.3	Opportunities for Business Interest Engagement	132
4.2	The EU ordinary legislative procedure	132
4.3	Implementing rules for the European market	136
4.3.1	<i>Legislative implementation tools</i>	138
4.3.1.1	Binding legislation	138
4.3.1.2	Non-binding legislation	140
4.3.2	<i>Legal decisions</i>	141
4.3.3	<i>Important sources of information</i>	142
4.3.4	<i>EU agencies</i>	143
4.3.5	<i>Budgetary tools</i>	144
4.4	Résumé and conclusion	147
	Mini-case: M&As in Europe: the case of Belgian AB InBev's acquisition of British SABMiller	149
	Mini-case questions	152
	Mini-case references	152
	Chapter review questions	153
	Assignments	153
	Role-play exercise	154
	Further reading	154
	Internet resources	154
	References	155

PART II BUSINESS EUROPEANIZATION	157
5 The Europeanization of the Business Environment	159
5.0 Introduction	159
5.1 The main impacts of Europeanization	160
5.2 The ideological background	161
5.2.1 <i>The main classic international trade and investment theories</i>	162
5.2.2 <i>The main contemporary international trade and investment theories</i>	164
5.2.3 <i>Implications for firms and industries of international trade and investment theories</i>	167
5.2.4 <i>Business realities of intra- and extra-European investment</i>	168
5.3 Choosing a location	172
5.3.1 <i>Determining European cross-border locations</i>	173
5.3.2 <i>FDI: Yielding benefits from market-serving, resource-seeking Europeanization</i>	177
5.4 Europeanization of the factors of production	179
5.4.1 <i>Labour and income inequality</i>	179
5.4.2 <i>Intellectual property in Europe</i>	183
5.4.2.1 Patents	184
5.4.2.2 Trademarks, industrial designs and other IPs in Europe	185
5.4.2.3 IP enforcement in Europe	186
5.4.3 <i>Capital</i>	187
5.5 The competitiveness of European manufacturing and service industries	188
5.6 Competition, competitive sectors and business-related common policies	190
5.6.1 <i>Common policies: competitive market structures and related costs</i>	192
5.6.2 <i>The Common Commercial Policy</i>	193
5.6.3 <i>Business-related policies: implications</i>	194
5.7 Résumé and conclusion	196
Mini-case: The European Sustainability agenda and shared value projects: the case of the Port of Antwerp	197
Mini-case questions	200
Mini-case references	200
Chapter review questions	201
Assignments	202
Role-play exercise	202

Further reading	202
Internet resources	203
References	204
6 The Europeanization of Business Management	206
6.0 Introduction	206
6.1 Does business management 'Europeanize'?	207
6.2 Intercultural management in Europe	208
6.2.1 <i>The relevance of identity</i>	211
6.2.2 <i>Synergy and diversity: the impact of communication</i>	214
6.3 The value of diversity	215
6.4 European negotiations	216
6.4.1 <i>Cross-cultural management and negotiations methodology</i>	216
6.4.2 <i>The large or small power-distance culture (PDI)</i>	218
6.4.3 <i>The individualist or collectivist culture (IDV)</i>	218
6.4.4 <i>The masculine or feminine culture (MAS)</i>	218
6.4.5 <i>High or low uncertainty avoidance (UAI)</i>	219
6.5 The impact of Europeanization on human resource management	222
6.6 Corporate culture and subsidiary management	230
6.7 European business leadership	235
6.8 Trust and diversity	237
6.9 Résumé and conclusion	238
Mini-case: Tesla: sustainability and the European subsidies question	239
Mini-case questions	242
Mini-case references	242
Chapter review questions	243
Assignments	244
Role-play exercise	244
Further reading	245
Internet resources	245
References	246
PART III BUSINESS ACTIVITY FUNCTIONS IN THE EUROPEAN ENVIRONMENT	251
7 European Economics, Finance and Funding	253
7.0 Introduction	253
7.1 Economic and monetary harmonization	254

7.1.1	<i>Economic and Monetary Union: the eurozone</i>	255
7.1.1.1	<i>A brief history of the euro</i>	255
7.1.1.2	<i>The benefits and consequences of the euro</i>	257
7.1.2	<i>The European Central Bank and macroeconomic conditions</i>	266
7.2	European harmonization efforts in finance and financial reporting	267
7.2.1	<i>Stock exchange consolidation</i>	267
7.2.2	<i>SEPA: the Single Euro Payments Area</i>	270
7.2.1	<i>International accounting standards (IAS)</i>	272
7.3	Financing doing business in Europe	273
7.3.1	<i>European financial markets</i>	273
7.3.2	<i>European bank financing</i>	274
7.3.3	<i>European venture capital and private equity</i>	276
7.3.4	<i>Business angels</i>	278
7.3.5	<i>The European Investment Bank</i>	279
7.3.6	<i>More sources of capital for established corporations</i>	280
7.4	Résumé and conclusion	284
	Mini-case: The privatization of European SOEs and the role of Chinese SOEs in the European energy sector	284
	Mini-case questions	287
	Mini-case references	287
	Chapter review questions	288
	Assignments	289
	Role-play exercise	289
	Further reading	289
	Internet resources	290
	References	291
8	Marketing in Europe	293
8.0	Introduction	293
8.1	Understanding European consumer behaviour	296
8.2	Assessing the product or service and the targeted environment	298
8.2.1	<i>Segmentation in Europe: targeting similarities</i>	299
8.2.2	<i>Political and legal conditions</i>	301
8.2.3	<i>Economic conditions, national income and quality of life</i>	304
8.2.4	<i>Demographic conditions</i>	306
8.2.5	<i>The future of marketing, the social agenda and its sustainability</i>	309
8.2.6	<i>Sociocultural conditions</i>	311
8.3	The Ps and AIDA: a marketing mix for Europe	317

8.4 The future of European marketing	324
8.5 Résumé and conclusion	325
Mini-case: Rosé marketing in Europe: is 'artisan tradition' disruptive?	326
Mini-case questions	330
Mini-case references	330
Chapter review questions	330
Assignments	330
Role-play exercise	331
Further reading	331
Internet resources	332
References	332
9 European Non-Market Strategy: Lobbying the Playing Field	335
9.0 Introduction	335
9.1 Lobbying and European opportunity networks	339
9.2 Historical and academic background	341
9.2.1 <i>The 'what and why' of EU lobbying</i>	341
9.2.2 <i>Who lobbies the European decision-makers?</i>	343
9.3 The practitioner's perspective	345
9.3.1 <i>The 'how' question</i>	347
9.3.2 <i>When is the best time to lobby?</i>	352
9.4 Where is lobbying most effective?	353
9.5 Resource factors in EU lobbying	356
9.6 The competition is open: European non-market strategy in action	359
9.7 Résumé and conclusion	362
Mini-case: Katoen Natie and its refugee policy	363
Mini-case questions	365
Mini-case references	365
Chapter review questions	366
Assignments	367
Role-play exercise	367
Further reading	368
Internet resources	368
References	369
10 Competing Internationally	373
10.0 Introduction	373
10.1 Europe in the current international business environment	378

10.2	Third country relations	380
	10.2.1 <i>Selected bilateral relations</i>	380
	10.2.2 <i>Selected regional and pluri-lateral relations</i>	393
10.3	The future of European business: ‘unity in diversity’?	404
	Mini-case: EU-Africa: Germany partners up with Kenya	405
	Mini-case questions	408
	Mini-case references	408
	Chapter review questions	410
	Assignments	410
	Role-play exercise	411
	Further reading	411
	Internet resources	412
	References	412
PART IV CORPORATE CASES		415
	The expansion of the Alibaba Group into the European Single Market	417
	Sofie Blondé, Lynn Van Oproy, Mathijs Wouters, Jenny Hillemann, Vrije Universiteit Brussel, and Gabriele Suder, University of Melbourne; editing co-authors: Gabriele Suder and Johan Lindeque	
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	Evelien Nauwelaerts, Steven Verwerft, Yun Jin and Jenny Hillemann, Vrije Universiteit Brussel	

Managing Emerging Market Acquisitions in Europe: Integrating the Acquisition of the German Preh GmbH by the Chinese Joyson Group	460
Rui Torres de Oliveira, University of Queensland and Daniel Rottig, Florida Gulf Coast University	
CSR in Europe: How to Keep the Family-Owned Enterprise Humming for a Thriving Economy	465
Christopher Stehr, GGS/Polymundo, and Stephan Hartmann, Osram	
Internationalization of Lukoil: A Russian Push and Pull Strategy in Europe	480
Andrei Panibratov and Bojan Pantic, Saint-Petersburg State University	
<i>Glossary</i>	488
<i>Index</i>	496

LIST OF ILLUSTRATIONS

FIGURES

2.1	Degrees of international integration	24
2.2	EU-28 imports and exports as a percentage of GDP by year, 2008–2015	54
3.1	Understanding the relationship between the EU, EFTA and EEA	71
3.2	Evolution of RTAs reported to the WTO 1948–2017	73
3.3	Europe foreign direct investment (FDI) performance map, 2005–2008	77
3.4	The European Union, with a focus on Romania, Turkey and Iceland	83
3.5	Percentage of SMEs by size class (employees) and selected sector of industry, in the non-financial business economy – EU-28, 2015 estimates	97
3.6	Percentage of SMEs engaged as subcontractors and contractors, EU-12 and EU-15, 2009	98
3.7	Distribution of SME subcontractors according to the geographical location of client enterprises (contractors), by subcontractor enterprise size and involvement in product/service and process innovations by SME subcontractors, 2009	99
3.8	Exemplary value chain	100
4.1	Organizing the work of the Commission	118
4.2	EP sitting order (election 2014/legislative period 2014–19)	122
4.3	The EU decision-making process	137
4.4	The EU budget expenditure, 2014–18 (% by allocation)	147
4.5	EU expenditure and revenue 2014–20: budget expenses for 2016	148
5.1	The evolution of trade theory	163
5.2	GINI index 2016 for European Union Members and selected non-EU States	180

7.1	Environmental taxes by member states and type as % of total environmental taxes in 2016	265
7.2	Euro area holdings of equity by geographical issuer counterparty	268
7.3	Share of MFI cross-border holdings of debt securities issued by euro area and EU corporates and sovereigns	269
7.4	Euro area 19 stock of listed shares for non-financial corporations	275
8.1	Information research for European marketers	298
8.2	A fundamental market selection process in Europe	299
8.3	People and perceptions for a marketing mix	300
8.4	Price level index for household final consumption expenditure (HFCE)	306
8.5	Population of the EU-28, 1960–2017	307
8.6	Price convergence – variation coefficient of price level indices of final household consumption expenditure, 2005–16	320
9.1	Evolution of registrations to the EU’s transparency register	337
9.2	EU lobbying toolbox	351
10.1	Leading traders and world exports of merchandise trade, 2006–16	375
10.2	Leading traders of commercial services	376
10.3	Evolution of EU trade in goods with China	384
10.4	Trade in services: world exports	390
10.5	Total merchandise trade of selected RTAs	394

TABLES

1.1	Staff headcount and financial ceilings determining enterprise categories	13
2.1	Main forms of European integration and their 2018 member states	20
2.2	The main forms of economic integration, their characteristics and examples	24
2.3	Differentiating positive and negative integration	26
2.4	The main European treaties established since 1951	27
2.5	EEC/EU membership by year of accession	38

2.6	Internal market EFTA and EEA membership by year of accession, and its FTAs	39
2.7	The three pillars	46
3.1	EU founding members and subsequent expansion	69
3.2	Selected non-European Regional Trade Agreements and economic integration projects	74
3.3	The diversity of governance indicators for new member states in the 2004/2007 enlargements	76
3.4	European Union candidate countries and accession negotiation status	82
3.5	Selected opportunities in selected enlargement markets	91
3.6	Residents in EU-15 countries originating from New Member States (NMS-8) countries	93
3.7	Prevalence, employment and value added indicators of non-financial business economy, by size class – EU-28 estimates in 2016/17	96
4.1	Council of the European Union presidency by country, 2011–20	127
4.2	EU institutional development and implications for business interest representation	133
4.3	Tools of the European Union for implementing decision-making outcomes	139
4.4	Overview of the European Union budget	145
5.1	Global Competitiveness Index 2017–18 rankings and 2010–11 comparisons	181
5.2	Four employment models operating in disharmony within the EU	183
5.3	Main competitiveness raising options in economic policy	190
5.4	Full-time employee average hours worked per week, 2010 and 2017 for selected EU members	195
6.1	European economic clusters by geography	223
6.2	Comparison of HR models in Europe	226
6.3	Comparison between CIS and European HRM practices	227
6.4	Multi-country diversity: impacts and value for the organization	228
6.5	Most common organizational cross-border structures in Europe	230
6.6	Measuring multicultural management skills	233

6.7	European corporate leadership profile	235
7.1	EU economies' GDP, GDP per capita and current account positions as a percentage of GDP	258
7.2	Price comparison in the EU at the launch of the euro: examples within the European market for consumers and corporations	260
7.3	Eurostat – top statutory income tax rates (%)	264
8.1	A general European segmentation table, adaptable as needed	301
8.2	The most important EU markings and labelling	303
8.3	Politico-legal challenges	304
8.4	Company responses to European markets	318
8.5	The AIDA toolbox	323
9.1	A conceptual matrix of structured institutional screening	341
9.2	Matching lobbying periods and applications	354
9.3	Matching resources and lobbying entry point choice	357
10.1	Worldwide exports of the EU by trade partners	375
10.2	A short comparison: the EU and the USA, and EU–US trade relations	392

BOXES

1.1	The European Union	7
1.2	EU member states: who are they?	8
2.1	Integrated market objectives	21
2.2	A definition of 'tariffs' in international trade	22
2.3	European integration founder declaration	25
2.4	Differentiating microeconomics and macroeconomics	34
2.5	The main recipe for market integration, European-style	35
2.6	Trade creation and trade diversion	36
2.7	The Common Agricultural Policy: a victim of its own success?	37
2.8	What is Eurostat?	40
2.9	Delors' cost of non-Europe	41
2.10	Delors' definition of the SEA main objectives	43

2.11	What the SEA created	44
2.12	Contextualizing the TEU	45
2.13	Integration triggers of cost efficiencies	48
2.14	The difference between a constitution and a treaty	52
2.15	The five integration scenarios of the <i>White Paper on the Future of Europe</i>	55
3.1	EEA: the EU and the European Free Trade Association	70
3.2	Deeper and broader (wider) integration	75
3.3	Long-term issues for Turkey	87
3.4	An example of transition impacts on companies	94
3.5	Moving ahead of accession	100
4.1	How the Treaty of Lisbon matters to decision-making	115
4.2	Exemplary CEC president and vice-president profiles	116
4.3	Organizing the work of the Commission	117
4.4	Myths about the work of the Commission	120
4.5	Complex dynamics of the European Parliament	123
4.6	The politics of member state representation in the EU institutions	124
4.7	Main objectives of the Council	125
4.8	Activities of the Court of Justice of the European Union	130
4.9	Brexit: UK politics and the EU budget	145
5.1	Actioning Europeanization: the ten top policy tools	161
5.2	Useful definitions	165
5.3	More definitions	168
5.4	Foreign direct investment directions	169
5.5	Possible dangers of Europeanization	171
5.6	Offshoring, outsourcing and insourcing	172
5.7	Country of origin rules	173
5.8	Offensive or defensive internationalization strategies	174
5.9	Main types of FDI and advantages gained from successful internationalization	175
5.10	Cross-border external entry decision variables	178
5.11	Europe's patent costs	184

5.12 Distinguishing competition, competitiveness and competitiveness	188
5.13 Long-term strategies for sustainable competitiveness	189
5.14 Trade policy instruments and types of intervention	194
6.1 Cultural meaning in the organizational setting	209
6.2 Fundamental elements constituting management culture	210
6.3 (Mis-)interpretations of terms written/expressed in English	210
6.4 Cross-cultural complexity: are these 'jokes' funny?	212
6.5 Expressions of cultural adherence	212
6.6 Value added combination of methodologies of training and experience	216
6.7 Hofstede's five cultural dimensions	217
6.8 European cultural dimensions: examples	220
6.9 A 'European tribe'?	221
6.10 Multicultural team management strategies in times of challenge	221
6.11 Aims of multicultural skills development	236
6.12 The skills of a global manager? A European opinion	238
7.1 Conditions allowing member states to join the eurozone	256
7.2 Testimonial from the ECB – SEPA for businesses	271
7.3 Aiming for convergence of accounting standards at an international level	273
7.4 EU funding: indirect support mechanisms	281
7.5 Crucial parts of a submission of proposals to an EU call for tender	282
8.1 Marketing strategies	295
8.2 Potential efficiencies	296
8.3 Market conditions	297
8.4 European marketing challenges	306
8.5 The marketer's sociocultural understanding	312
8.6 Testimony of Ricardo Monteiro, CEO Euro RSCG Group Portugal and CEO Euro RSCG Latin America, and Executive Committee Euro RSCG Worldwide	313
8.7 Developing a marketing solution for the target consumer	317
8.8 Marketing Strategies	318
8.9 Price difference exceptions	319
8.10 Combination of products and promotion packages	322

8.11 The 'must-dos' in controlling your advertising: a checklist	324
8.12 Getting your marketing mix right	325
9.1 Motivations for corporate government relations	336
9.2 Veolia in Brussels	338
9.3 Defining opportunity networks	339
9.4 Keys to long-term competitiveness	340
9.5 The origins of lobbying	342
9.6 Pressure groups in the EU lobbying process	343
9.7 Corporate lobbying channels	344
9.8 The role of a European lobbyist, public affairs manager or adviser	345
9.9 The European citizens' voice	345
9.10 SMEs and European lobbying	346
9.11 Lobbying techniques	347
9.12 Selected lobbying decision motives	348
9.13 Lobbying preparation checklist	350
9.14 Main levels of European lobbying	354
9.15 The three I's of influencing	361
10.1 China and the ceramics case: trade distortion	377
10.2 Preferred location of foreign affiliates for the top 100 developing economy MNEs	380
10.3 South Korean free trade	387
10.4 North Korea (DPRK)	388
10.5 An example of remaining trade issues in Europe: a case of 'Swissness'	389
10.6 The trade helpdesk	393
10.7 The Enterprise Europe Network	403
10.8 The much-coveted 'most favoured nation' provisions in FTAs	404

MAPS

2.1 A map of Europe, the European Union (EU-28) and the euro area	29
2.2 EFTA member states	30

2.3	CEFTA map	31
2.4	Map of the Visegrád Group	32
2.5	The Nordic Council, selected members	33
10.1	EFTA relations in Europe and abroad	392
10.2	Outward stocks of FDI, EU-28 end of 2015	397

GRAPHS

5.1	Strategic international strategy choices for Europeanization	170
5.2	Main internal location decision criteria	176
7.1	Use of internal and external funds by euro area across firm size	274
7.2	Debt issuance by euro area NFCS	275
7.3	Share of NFC debt issued in euro	276
7.4	Relevance of financing sources for euro area SMEs	277

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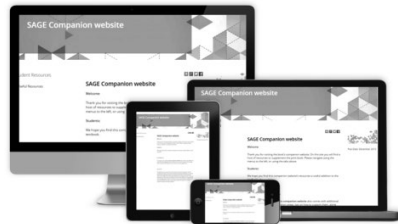
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ABBREVIATIONS

ACP	Africa, Caribbean and Pacific
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation Conference
ASEAN	Association of South East Asian Nations
B2B	business-to-business
B2C	business-to-consumer
Benelux	Belgium, Netherlands and Luxembourg
BOP	balance of payments
BRIC	Brazil, Russia, India and China
C2C	consumer-to-consumer
CAP	Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development and Stabilization
CCP	Common Commercial Policy
CEC	Commission of the European Communities
CEE	Central and Eastern Europe
CEFTA	Central European Free Trade Area
CELAC	Community of Latin American and Caribbean States
CETA	Comprehensive Economic and Trade Agreement
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CJEU	Court of Justice of the European Union
CMO	contract manufacturing organization
COMECON	Council for Mutual Economic Assistance
CoR	Committee of the Regions
CRO	contract research organization
DG	Directorate General
EAC	East African Community
EADS	European Aeronautic, Defence and Space
EBAN	European Association of Business Angels
EC	European Community

ECA	European Court of Auditors
ECB	European Central Bank
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDC	European Defence Community
EEA	European Economic Area
EEAS	European External Action Service
EEC	European Economic Community
EFTA	European Free Trade Area
EIA	Economic Integration Agreement
EIB	European Investment Bank
EIF	European Investment Fund
EM-MNE	emerging market MNE
EMS	European Monetary System
EMU	Economic and Monetary Union
ENPI	European Neighbourhood Partnership Instrument
EP	European Parliament
EPA	Economic Partnership Agreement
EPO	European Patent Office
ERA	European Research Area
ERDF	European Regional Development Fund
ESA	Eastern and Southern African countries
ESCF	Structural and Cohesion Fund
ESEC	European Sharing Economy Coalition
ESF	European Social Fund
EU	European Union
Euratom	European Atomic Energy Community
FDI	foreign direct investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	gross domestic product
GFC	global financial crisis
GNI	gross national income
GNP	gross national product

GSP	Generalized System of Preference
GVC	global value chain
HR	human resources
HRM	human resource management
IAS	international accounting standards
ICT	information and communication technology
IMF	International Monetary Fund
IP	intellectual property
IPO	initial public offering
IPR	intellectual property rights
KM	knowledge management
LAS	League of Arab States
LDCs	least developed countries
LSE	London Stock Exchange
M&As	mergers and acquisitions
MEP	Member of European Parliament
MNE	multinational enterprise
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NFC	non-financial corporation
NTB	non-tariff barriers
OECD	Organization for Economic Cooperation and Development
QMV	qualified majority voting
R&D	research and development
RoO	rules of origin
RTA	Regional Trade Agreement
SADC	Southern African Development Community
SEA	Single European Act
SEPA	Single Euro Payments Area
SME	small and medium-sized enterprise
SOE	state-owned enterprise
TEU	Treaty on European Union
TNC	transnational companies
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
UN	United Nations

UNDP	United Nations Development Programme
USA	United States of America
USSR	Union of Soviet Socialist Republics
VAT	value added tax
VC	venture capital
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

1

INTRODUCTION

The New European Business Environment

1.0 THE STRUCTURE OF THIS BOOK

Dear Reader,

Congratulations for choosing the third edition of *Doing Business in Europe*. This new edition is the fruit of the international success of the two previous editions. These have not only been used throughout Europe, but continue to be 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 the update of this book, strengthening its Europe and non-Europe perspectives to cover the needs of intra- and extra-European business teaching and training, focusing even more on business applications, adding even more diverse business case studies and examples, and further enhancing its support material online. The dynamic and changing nature of the European business environment, which has faced significant challenges over recent years, has again motivated us to publish this new edition. In order to remain consistent with the previous editions, the full texts of the last edition have not been completely rewritten, but rather the chapters have been updated, sometimes restructured and better adapted to the contemporary Europe. Also, a completely new set of shorter managerial and longer corporate cases is included in the book and on its web support.

The book is divided into four parts. Part I sets the foundations that define the Europe of today: an attractive yet challenging, and mostly – yet not entirely – mature market location. This European business environment is prominently distinguished by significant

regionalization, with a unique nature, which displays specific patterns of highly advanced market integration, which other macro-regions increasingly seek to replicate (Suder et al., 2018). Chapter 1 will explain the focus of the book on the European Union (EU), paying attention also to the other market groups and countries in Europe, including the European Free Trade Area (**EFTA**), the European Economic Area (**EEA**), the Central European Free Trade Area (**CEFTA**), and other groups and economies. The foundations of the European project today reflect past integration efforts that are valent in parts across the whole continent. The project's contemporary complexity stems from the frequent and rapid changes that the region experiences, due to its geo-economic and geo-political position and the ambitious and advanced nature of the related regional integration efforts across Europe and beyond (Suder et al., 2018). We add **Brexit**, the migration crisis, worldwide power shifts and much more into the study of this complexity.

Chapter 2, the first chapter of Part I, presents an overview of the main historic European landmarks. It discusses the evolution of the numerous treaties and how the European business environment has developed, through these treaties and related institution building, in response to changing conditions. The chapter is complemented by a review of the impact of specific 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 is expected to accept yet more new members in the years to come. 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 institutional 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 geo-political 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 spill-over 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 us to understand how 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 processes 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. Chapter 9, for this reason, 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 concluding discussion of globalization, regionalization and **Europeanization**. It situates *Doing Business in Europe* in the international context.

The last part of the book contains a number of corporate case studies related to the topics, models and concepts developed in the previous ten chapters. There are more of them also to be found on the book's online support page. The corporate case studies illustrate the realities for companies that compete in the European marketplace as it has developed, as it exists today and as it will evolve tomorrow. These cases demonstrate the crucial need for European and non-European companies engaged in doing business in Europe, to participate in pan-European and international activities. These longer corporate case studies allow you to draw on knowledge from across the chapters in the book, when you analyse their content and answer the case study questions, thereby developing an integrated assessment of the complexities and opportunities of doing business in Europe. This will add further to your understanding of how small, medium-sized and large firms, start-ups and multinationals, domestic and foreign firms, handle the many challenges and opportunities that have arisen from European integration, and how to best do business in Europe to benefit your future and that of your organization.

1.1 CHAPTER STRUCTURE

As with the first two editions, the overall objective of this text is (1) to provide you with the fundamental theories and concepts for understanding how business is done in Europe; and (2) to link these clearly to the European business environment. To this end each chapter starts with a clear statement of the intended learning goals for the chapter, before the main content is presented. In addition to the main text of the chapter, a number of additional learning aides are used, including tables, figures, testimonials and focus boxes; these provide more detailed and focused examples of the themes being discussed in the main text. Each chapter ends with a mini-case study related to the thematic focus of the chapter; with questions that you can answer using your knowledge from the chapter. Furthermore, at the end of every chapter, to support your learning of the content, you are provided with some broader chapter review questions, suggested assignments and a suggestion for a role-play exercise, as well as suggestions for further reading, Internet sources you may wish to explore, and a bibliography of literature. This design reflects the four learning modes discussed in the next section.

The end of chapter mini-case studies illustrate the way in which corporations experience the realities of the European business environment. The questions following each mini-case study ask you to apply your freshly acquired knowledge and to define the solutions that could be applied to that very case. Do try to answer the review questions after each chapter to make sure that you have indeed acquired the intended knowledge and are ready to go ahead with the next chapter; this is important because each successive

chapter builds on those before. Once you are satisfied with your answers to the review questions, you are encouraged to consider doing one or more of the suggested assignments, to apply the knowledge you have gained. Where possible, you may then consider using this knowledge to simulate the issues covered in the chapter with your fellow learners using the suggested role-play exercises. Finally, the Internet resources guide leads you to websites on which you can find valuable information about the chapter topics; these are there to help you with your assignments. To reduce reading time, if necessary, you may want to ignore the text boxes; this may happen under the precondition that you are already well experienced in the field of management and do not look for applied examples from elsewhere. Don't forget that a wide range of resources can be found on the companion web pages for this book.

1.2 CENTREPIECE: THE IDEA OF CREATING A 'UNIFIED EUROPE'

The idea of creating a 'unified Europe' to maintain peace and 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 Dubois¹ proposed a European confederation that was to be governed by a European council, while in the nineteenth century Victor Hugo² 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! (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 c.1600 to c.1800 and colonialism shaped societies and their economic and social functioning. The term

¹Dubois 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.

²Hugo was not only a renowned poet, novelist and dramatist, but also a senator under the Third Republic.

'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* (1904 [1776]), where he analysed 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. The majority of European countries have joined together to create a unique organization for this purpose: the European Union. 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 regional integration in the world, which is flirting closely with the temptations of **political union**. The EU member states have created a Single Market that marries competitiveness with specific 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 (by gross domestic product – GDP), 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 THE EUROPEAN IDEAL

The European idea and its ideals 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 regional economic integration. It is a market grouping of more than 27 European 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 nine out of ten EU citizens feel that it is extremely or very important to help others and to value people for who they are, while more than eight out of ten 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 seven out of ten 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. This diversity is of course at the same time a significant source of opportunities as well.

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). Croatia subsequently joined in 2013, to bring membership to 28 countries. In an unprecedented decision, the UK in 2017 initiated Article 50 of the Lisbon Treaty, after 44 years of membership, to begin the process of leaving the EU. Membership is expected to grow, however, with planned or expected membership of the Western Balkan countries over the next decade, representing up to six potential new member countries.

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