EUROPEAN BUSINESS

EUROPEAN BUSINESS

SECOND EDITION

Neil Harris

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■ List of abbreviations

AIM	Alternative Investment Market
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ATM	Automated Telling Machine
BAT	Best Available Techniques/Technology
BPR	Business Process Re-engineering
BENELUX	Belgium, the Netherlands and Luxembourg
CAD	Computer Aided Design
CAM	Computer Aided Manufacture
CAP	Common Agricultural Policy
CD-ROM	Compact Disk: Read Only Memory
CEEC	Central and Eastern European Countries
CET	Common External Tariff
CIS	Commonwealth of Independent States
CIT	Communication and Information Technologies
COMECON	Council for Mutual Economic Assistance
COREPER	Committee of Permanent Representatives
CSFP	Common Security and Foreign Policy
DM	Deutschemark
DTB	Deutsche Terminbörse
EAGGF	European Agricultural Guidance and Guarantee Fund
EAP	Environmental Action Programme
EASDAQ	European Association of Securities Dealers Automated Quotations
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECB	European Central Bank
EC6	The 6 founding members of the European Union (see also EEC)
EC12	The 12 EC members before Austria, Finland and Sweden joined the EU
ECOFIN	The Council of Economics and Finance Ministers
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEA	European Economic Area

EEC	European Economic Community (see also EC6)
EFTA	European Free Trade Association
EIA	Environmental Impact Analysis/Assessment
EIB	European Investment Bank
EIF	European Investment Fund
EMCF	European Monetary Cooperation Fund
EMEA	European–Mediterranean Economic Area
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESC	Economic and Social Committee
ESCB	European System of Central Banks
ESF	European Social Fund
EU	European Union
EU12	The 12 members of the European Union before 1994 when Austria, Finland and Sweden joined
EU15	The present 15 members of the EU
EURATOM	European Atomic Energy Community
EUROSTAT	Statistical Office of the European Communities
EURO X Club	EU countries qualifying for membership of the single currency
FDI	Foreign Direct Investment
FEOGA	French initials for EAGGF above
FF	French Franc
Forex	Foreign Exchange
FMS	Flexible Management Systems
FN	Front National
FSM	Financial Support Mechanisms
FYROM	Former Yugoslav Republic of Macedonia
GATT	General Agreement of Tariffs and Trade
GDP	Gross Domestic Product
GDR	German Democratic Republic (former East Germany)
GFR	German Federal Republic (former West Germany)
G7	The Group of Seven Industrialised Nations
G8	G7 plus new member Russia
G24	see OECD
HRM	Human Resource Management
IBRD	International Bank for Reconstruction and Development (also known as the World Bank)
IGC	Inter-Governmental Conference
ILO	International Labour Office
IMF	International Monetary Fund
JIT	Just in Time
LDC	Lesser Developed Country

LIBOR	London Inter-Bank Offered Rate
LIFFE	London International Financial Futures and Options Exchange
MBO	Management Buy-Out
MEP	Member of the European Parliament
MNE	Multinational Enterprise
MRP	Materials Requirement Planning
MRP II	Manufacturing Resource Planning
NAFTA	North American Free Trade Association
NASDAQ	National Association of Securities Dealers Automated Quotations
NATO	North Atlantic Treaty Organisation
NIC	Newly Industrialised Country
NTB	Non-Tariff Barrier
OCA	Optimum Currency Area
OECD	Organisation for Economic Cooperation and Development (see also G24)
PAYG	Pay As You Go
PC	Personal Computer
PCA	Partnership and Cooperation Agreements
PEST	Political, Economic, Social, Technological
PESTLE	Political, Economic, Social, Technological, Legal, Ethical/ Environmental
PIA	Product Impact Assessment
PR China	People's Republic of China
PRP	Performance Related Pay
PTAS	Pesetas
QMV	Qualified Majority Voting
RES	Renewable Energy Sources
R&D	Research and Development
ROMP	Radical Office Mobility Programme
SEA	Single European Act
SEC	Single European Currency
SF	Swiss Francs
SLD	Democratic Left Alliance (Polish political party)
SLIM	Simpler Legislation for the Single Market
SME	Small and Medium Sized Enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats
TQM	Total Quality Management
USSR	Union of Soviet Socialist Republics (also called the Soviet Union)
VAT	Value Added Tax
VER	Voluntary Export Restraint
WEU	Western European Union
WTO	World Trade Organisation

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■ Preface

Since the first edition of this book was published in April 1996 the European business environment has experienced significant pressures for change, some of which have been internal to the EU. Most important has been the move to a single currency which has dominated much of EU thinking since the Treaty of Maastricht, including the Treaty of Amsterdam. Other pressures for change have related to attempts to complete the single market; enlargement of the EU to accommodate six potential new entrants, with five others on the sidelines in the more distant future; attempts to refocus social policy more on the issues of retraining and lifelong learning, particularly in the light of the problems of high and persistent unemployment in some EU countries; the growth of EU mergers – and many other issues. Within this environment operate European businesses, seeking to be innovative and to adapt to changing circumstances. The problems they face include developing new products and markets, implementing new technologies and the opportunities they bring and, for many European businesses, learning to stand on their own feet and develop a market focus after being privatised.

Indeed, another major debate in the EU in recent years has been over the extent to which economies need to be deregulated and liberalised. If the EU is supporting, through the EBRD among other organisations, the transfer of resources from the public to the private sector in Central and Eastern European countries then clearly it needs to look at its own constituent economies where state ownership and involvement in the manufacturing and service sectors has been significant. Partly this re-examination has been through the short-term expediency of raising funds and reducing expenditure to meet the debt criteria of Maastricht, but also it has been a response to a changing perception of the role of the government inspired by the liberal economy philosophy of the UK and US. This argues that government should help markets work as effectively as possible without being a major player in them, for example, through a large public sector and over-regulation. Privatisation clearly has been a key strategy for liberalising economies. The single market programme has helped deregulation, for instance through the articles of the Treaty of Rome relating to public procurement and as a spur to privatisation and the subsequent formations of cross-border strategic alliances in the telecommunications industry. However, there have also been

tensions between the UK and continental Europe over how labour markets might be deregulated. Inevitably this has also infringed on EU social policy, for example over the length of the maximum working week.

Other change agents have been external. The two most important of these have been the impact of globalisation and the increasing influence of communication and information technologies (CITs). With regard to the former, European businesses have increasingly to be examined not just within the context of the European Union but as players in a global market. This has occurred through the removal of barriers to trade in goods and services and movements of capital, partly through the rounds of negotiations to reduce tariffs held under the auspices of the former General Agreement on Tariffs and Trade (GATT) and now monitored by the World Trade Organisation (WTO), and partly through the development and growth of regional free trade areas such as the EU, NAFTA (the North American Free Trade Association) and ASEAN (the Association of Southeast Asian Nations). It has also been helped by continually improving communications such as the Internet, satellite and cable television and radio and digital broadcasting. Moreover, the speed of communication is such that events and reactions can now occur, particularly in financial markets, almost instantaneously. As such, what happens in the United States and in the so-called 'tiger economies' of Southeast Asia has a direct and immediate influence on the European Union and the businesses which operate within it.

This can clearly be seen with the implications for the European civilian and military aircraft manufacturing industries of the 1997 merger of US aircraft manufacturers Boeing and McDonnell Douglas (see Chapter 4). It can also be seen with the financial crisis of 1997–98 in Thailand and South Korea in particular and its effect, for the latter, in terms of its reduction in foreign direct investment to the EU and especially the UK. Within the EU the completion of the single market and the advent of the single currency have also acted as major stimuli to mergers, the creation of consortia and other strategic alliances. These are also explored in this book.

The very rapid growth of CITs is also influencing the European business environment. This shows itself, for example, in the changes now occurring in the financial services industry. The application of information technology has seen the growth of automated telling machines (ATMs) or cashpoints, the development of telephone banking and insurance, the near emergence of smart cards (capable of being recharged to authorise more spending from one's current account as well as recording many other personal financial details) and the ability for new providers such as supermarkets to offer checking (current) accounts, pension schemes, insurance and so on. CITs will increasingly enable limited numbers of workers to assume functions previously undertaken by many across many service sectors – as well as to create new jobs and enable existing workers to be more productive. This is already happening in financial services as bank and building society branches close and labour is shed – and this still has a long way to go. In the same way, now that payments methods seem relatively secure, the Internet will increasingly fulfill many of the functions previously

undertaken by local retailers. Indeed the information technology market research company IDC forecasts that, by the year 2001, the value of Internet retailing (or e-tailing) in Europe will be US\$15 billion in direct Internet sales, with a further \$11 billion in traditional sales and revenue generated through Internet advertising.

EU legislation can often have a significant time difference between when it is signed and when it comes into operation. To be consistent throughout this book main legislation is assigned the date when it came into force – hence 1987 is assigned to the Single European Act, although it was signed in February 1986. In the same way, before the EU came into force in November 1993 it was, from 1967, known as the European Community (EC); before that it was the European Economic Community (EEC). To be consistent this book assigns the appropriate name depending on the contemporary date of an issue currently being discussed.

This second edition of *European Business* seeks, therefore, to focus, among other things, on the issues identified above exploring the theoretical reasons for their development and evolution, and providing contemporary case studies as illustration. The author is conscious that material in this field dates quickly and so reminds the reader of the Macmillan website where he will provide a (reasonably) regular update on some of the latest developments in European business – this can be found at <http://www.macmillan-business.co.uk>. Any reader feedback on this edition will also be gratefully received. The author's e-mail address is neil.harris@solent.ac.uk.

As usual thanks are due both to colleagues and students at Southampton Business School where ideas and arguments have been explored both in the classroom and outside. Special thanks go to Ian Taylor of Media Resources for his excellent work on the diagrams in this text. Thanks are also due to Stephen Rutt and Susan Clegg of Macmillan Business for their much appreciated support and occasional nudge during my writing of this and to David Harris for his help with the proof-reading.

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NEIL HARRIS