And the New Economy Winner Is...

The European Union is emerging as a formidable competitor among world economies, thanks to an aptitude for cross-border management and an ease with cultural diversity.

by Stuart Crainer

The driving force behind the New Economy is clear. Stock market fluctuations aside, the force is with the United States. In economic terms it is the colossus, and its success is not simply admired. The ways in which it organizes and manages its enterprises are emulated with enthusiasm. The British Empire bequeathed a bureaucratic civil service; the United States' legacy may well be its economic and business strategy and management prowess.

Nowhere is the emulation more apparent than in the countries of the European Union. Companies throughout Europe have for decades accepted the American management model as *the* management model. Business heroes are largely Americans. American success stories are devoured in Europe.

Photography by Brad Wilson


Europe

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America's economic system receives much the same adulation from abroad. Its embrace of free markets, low taxation, and the individual pursuit of business achievement are the apotheosis of unfettered capitalism. The arrival of the New Economy has simply made this more apparent.

Comparisons between the vibrant American economy and the European economy tend to leave Europe lying weak in the shade. Indeed, Europe is often regarded as a risible competitive laggard, locked in a spiral of burdensome taxation and welfare costs, looking anxiously toward the United States for inspiration.

Now, however, there are signs that Europe is coming into the sun with a distinctively European approach to long-term competitiveness. Rather than acting as a timid emulator of everything American, Europe is forging its own competitive disposition in today's world of global commerce.

At its best, new European management is founded on the embrace of the "single market" concept, an aptitude for cross-border management, an ease with cultural diversity, and a belief that business is founded on relationships. These values and European nations' steady movement toward economic integration find fertile ground in the current economy.

In addition, the overall context for doing business in Europe is changing. A tradition of sociopolitical consensus continues to support welfare spending in many countries. At the same time, an increasingly entrepreneurial and business-oriented culture is emerging. Political machinations aside, ideas, products, capital, and people now move more freely in a single market. The practicalities of pan-European commerce have been simplified through European Union regulations and the introduction of the regional currency, the euro. The creation of a United States of Europe is unlikely, but as its domestic markets expand, Europe increasingly benefits from some of the advantages of scale traditionally enjoyed by the United States.

Ce n'est pas l'Amérique

Still, European countries have not changed their spots. Europe is in many ways the antithesis of the American economic and business model. Despite all the books, the education programs, and the wide reach of American corporations, Europe is not the United States. It does not organize its businesses as the United States does, manage them in the same way, or have an American-style entrepreneurial culture. Europe may dream of being more like America, but, as a region, it can appear hidebound by a combination of culture, history, and habit.

The European Commission's Industry Council has identified key areas that must be addressed to improve Europe's competitiveness: the environment for business startups; access to financing, especially for small- and medium-sized enterprises; promotion of innovation; use of information technology; and training and lifelong learning.

The European High Level Expert Group on the Intangible Economy is among the groups recently comparing Europe with the United States. This panel of European and American consultants and academics concluded that "in almost all areas that impact on the attractiveness of Europe as a place to do business, the U.S. environment is at least 100 percent more attractive than the [European] Community." In some critical areas, this rises to 500 to 600 percent, for example: New MBA graduates (400 percent); company startup costs (200 percent); company startup time (600 percent); patenting costs and time (500 percent); availability of early-stage venture capital (500 percent); exit realization after taxes (100 percent).

Europe remains wedded to an economic, social, and political model that emphasizes high taxation and social responsibility compared with the U.S.'s stress on individual achievement and Social Security protection. The average tax burden throughout the Organization for Economic Cooperation and Development (OECD) was 37 percent of Gross Domestic Product (GDP) in 1998. In the European Union it was 41.3 percent, whereas in the United States it was 28.9 percent.

Certain economic comparisons suggest Europe still perpetually lags the U.S. From 1991 through 2000, the U.S. annual real GDP growth led that of the European

Exhibit 1:
Global Competitiveness: Rankings by Country

	Ranking 2000	1999	1998
Finland	1	2	2
U.S.	2	1	1
Germany	3	6	4
Netherlands	4	3	3
Switzerland	5	5	9
Denmark	6	7	8
Sweden	7	4	7
U.K.	8	10	5
Singapore	9	12	10
Australia	10	13	15

Source: The Global Competitiveness Report 2000, Oxford University Press

Union by 2 percentage points or more, according to Standard & Poor's DRI Research Services. But that growth gap may be diminishing. In 2001, Standard & Poor's expects 3.1 percent GDP growth for the European Union versus 3.6 for the U.S.

A variety of other measures of Europe's long-term economic performance are also encouraging. According to the Global Competitiveness Report for 2000, the most competitive nation on earth is not the mighty United States, but Finland. Indeed, apart from the United States (ranked second), the top eight countries are all European. (See Exhibit 1.)

Furthermore, corporate return on capital achieved by companies outside the financial sector is higher in Finland (17 percent), the U.K. (12 percent), and Norway (12 percent) than it is in the U.S. (9 percent). The renaissance of Scandinavian economies is especially eye-catching. Norway's projected budget surplus for 2001 will be close to 15 percent of GDP. Finland boasts a number of high-tech hot spots as well as hot companies like the wireless telephone star the Nokia Corporation. Sweden also has a burgeoning New Economy sector and is home to internationally successful corporations such as the home furnishings retailer Ikea and global telecom giant Ericsson.

Sweden's revival is such that it is easy to forget that its currency was devalued at the beginning of the 1990s, and that it has had a social democratic government for all but nine of the last 68 years. Indeed, it is a classic example of a European country that has reinvented itself without shedding its long-term commitments to taxation and welfare. The Swedish corporate tax is 28 percent, and taxes still account for 52.1 percent of GDP.

Sweden is not alone. Across Europe, high-tax, high-welfare economies are prospering. France, for example, has a host of regulations protecting the rights of employees. Its entrepreneurial track record is limited, and it was never a particularly enthusiastic convert to the Anglo-American model. Indeed, the French retain a liking for bureaucracy, August vacations, long lunches, and leaving their offices at five. Only 10 percent of French full-time workers work more than 46 hours per week — versus 32 percent in the U.K. The French government introduced a 35-hour workweek in 1999. A study carried out by *Fortune* magazine found that it takes six minutes to register a new business in California; six weeks in France.

Yet, despite all this, the French economy is doing rather well. Unemployment has fallen below 10 percent. Employment expansion is now faster in France than in the United States. Likewise, in areas of the U.K., particularly in the Thames Valley, unemployment is minimal, and staff shortages are now acute.

In Ireland, this economic momentum is even more apparent. Between 1990 and 2000, the Irish economy grew by 80 percent in real terms. Now, after centuries of seeing its talented people emigrate, Ireland is recruiting foreign labor to work in its people-starved industries.

The Stockholm Effect

On a street corner in downtown Stockholm, across the road from Humlegården Park, the Lydmar Hotel is small and apparently inconsequential. But walk through the Lydmar's doors and you find yourself in the heart of one of the most vibrant economies in Europe. The hotel's unremarkable downstairs bar, a late-night jazz venue, is crowded with the great and the good of the Stockholm "digerati." Men and women dressed in black engage in intense and loud conversation. Cigarette smoke — from their American branded cigarettes — fills the air.

Among those contributing to the atmosphere is Jan Lapidoth. A striking, tall, white-haired figure, Mr. Lapidoth has played a leading role in two waves of Scandinavian business success. In the first, he was a vice president of the Scandinavian airline SAS when it was exuberantly turned around by then-CEO Jan Carlzon (also a Swede and one of the few European business leaders showered with American-style adulation for his success).

Today, as a publisher, investor, and consultant, Mr. Lapidoth is a leading light in the emergent Swedish economy, one who clearly sees his country's sources of strength. "Our enthusiasm for the New Economy is due to the openness of a small nation, combined with a reasonable understanding of English, that allows influences from abroad to take root quickly," says Mr. Lapidoth. Sweden's technological prowess, Mr. Lapidoth also notes, comes from a historically high level of domestic investment in military hardware: "We built our own planes, designed our own telecom equipment, and even wanted to build our own atomic bomb. To do so, we needed to be in close contact with all the new technical movements around us."

Sweden continues to embrace technology with enthusiasm. Some say it is the leading information technology country in the world. This has not happened overnight: There has been long-term government support for technology — for example, tax breaks for employees buying a computer, following such initiatives as free Internet connections for students and programs to give young children access to PCs.

It also helps that Swedish businesspeople have practiced Internet startup–style management for decades. Swedish companies emphasize consensus and negotiation. Hierarchies are minimal. "We're very conscious of results but not who did it. We don't need as many heroes," explains one manager.

The Swedes have also retained a healthy skepticism toward the latest management fashions. "Swedes are generally very suspicious of ready-made ideas or solutions," note Ingalill Holmberg and Staffan Akerblom of the Stockholm School of Economics. "New ideas are better stated in quite general and vague terms initially, in order to invite others into the process."

International perspective is another hallmark of Swedish management. For example, management rotations through foreign subsidiaries have long been regarded as important learning opportunities and a sign of accomplishment. Swedish companies transcend boundaries in ways few others can manage. In part, this is a function of the population — just 9 million people. Exports account for 40 percent of Sweden's GDP.

The international success of Swedish business is exemplified by the unlikely example of Vin & Sprit AB (V&S), a state-owned company that exercised a monopoly for most of the 20th century. When its monopoly was finally lifted, 300 competitors flocked to the market. One would expect the company to have been consigned to history. Instead V&S owns Absolut, one of the world's most valuable brands. Such is the company's success that a book of Absolut's advertising campaigns sold a staggering 150,000 copies. Absolut, the fifth-largest spirits brand worldwide, is the No. 1 imported vodka in the United States, with 60 percent of the market. And the winner is the Swedish government — in 1999 V&S brought in SEK 230 million ($25 million) for the Swedish treasury. Ironically, this is the same government that has one of the most restrictive alcohol policies in Europe. (For more on Absolut, see page 135.)

V&S has succeeded largely because of its commitment to being boldly different. State-owned monopolists are not usually renowned for their capacity to take risks or be imaginative and innovative. V&S is well-known for having done those things. Its ad campaigns and the clever extensions of the Absolut brand have cemented its reputation for shrewd brand stewardship.

Senior management at V&S say state ownership is really irrelevant in assessing the dynamics that drive this company. "Whether it is state-owned or not is not really an issue. We operate like any other company," says Göran Lundqvist, chief executive of Absolut. Formerly with Unilever, Mr. Lundqvist hasn't detected any difference in behavior between his past and his current employees.

Analyzing the brand's international success, Mr. Lundqvist suggests that there is no blueprint, but believes that the major factor is that Absolut considers the United States its home market. "Perhaps that's the secret. Sweden is where we manufacture and make decisions, but we grow from the U.S. out into the world," he says. "To do so, you need an information network and research that keep you abreast of what's happening in the market. You have to be very local when you speak to consumers, and respect them. We treat all of our consumers with respect."

In the mold of a great many Scandinavian executives, Mr. Lundqvist has been educated abroad; he is a graduate of Ohio State University and very comfortable with American ways of business. "We find it easy to work in the United States. It is very straightforward and uncomplicated. We are interested in end results, just like Americans. It's just that our ideals are different."

European Management Skills

The management and leadership skills seen in Sweden are widely evident in Europe, and are broadly those required in an environment in which competition is global and technology is driving a 24/7 business pace. The United States is supremely equipped to be a high-speed innovator, but Europe may actually be better equipped to provide the steady guidance all companies — both startups and traditional companies in transition — need to surmount short-term obstacles and sustain growth. In addition to Europe's aptitude for global management and its relative ease with dealing with multiple cultures, European managers, in general, believe deeply in the importance of relationships.

Europeans' advantages over Americans in international management stem from simple geography, which enables most Europeans to travel to different countries and experience a variety of cultures. In Europe, many businesspeople often commute to other countries, and consumers routinely cross borders to vacation or shop. In doing so, Europeans deal routinely with multiple languages and customers, and confront infamous cultural idiosyncrasies and stereotypes such as the French's arrogance, the Britons' colonialist character, and the Italians' disorganization. (Of course, exposure does not necessarily breed insight, but at least it gives the opportunity.)

By contrast, it is possible to work in the U.S., never set foot outside its borders, and remain largely unaware of different cultures. This is beginning to change in the business world as many immigrants from Southeast Asia, Eastern Europe, and Central America become successful entrepreneurs. It is notable, however, that although the U.S. is the most popular destination for immigrants, the inflow of immigrants is larger in nine European nations relative to the total population of the destination country.

Europe clearly has an advantage in the global economy, where sensitivity to other cultures and the ability to work in teams is increasingly important. In recent years, European comfort with diversity appears to have grown even more. Nowhere is this more evident than in the sports arena. A soccer game between two of London's most famous teams, Arsenal and Chelsea, still stokes ancient rivalries to their historical intensity. Yet the teams are managed by a Frenchman and an Italian. Of the 22 players, only a handful are British. The rest are a potpourri of nationalities from throughout Europe and beyond.

The situation is similar in corporate headquarters. Unilever, headquartered in Rotterdam, has an eight-member executive committee whose members are drawn from the U.K., Ireland, the Netherlands, France, India, and Indonesia. Similarly, the Swiss–Swedish conglomerate ABB Group has long required that its managers "have an exceptional grasp of differing traditions, cultures, and environments." At one time the company's supervisory board of eight included four nationalities, and its executive committee went one further with five. Former CEO Percy Barnevik summed up the company's view as: "Competence is the key selection criterion, not passport." Now more European (and American) multinationals are encouraging a global makeup among their senior leadership. Mr. Barnevik is on the board of the General Motors Corporation. The Texan Marjorie Scardino has made the reverse journey, to become chief executive of the London-based media group Pearson PLC.

Europeans are also adept at regarding business as a series of relationships. The importance of these associations can be seen in the behavior of European venture capitalists, who are more likely to invest in an individual with the expectation that a long-term relationship will be

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created. Relationships are viewed by Europeans as more critical than expectations of returns on the investment. American venture capitalists take a comparatively hardheaded view.

A Changing Context

These aspects of the European business environment are not new; managerial skills and attitudes are forged by cultures over time. What is changing is the context in which they are practiced. The New Economy demands more consensual and culture-based management skills. It is built on relationship-dependent initiatives like cooperative strategies and strategic alliances, for which European managers appear well equipped.

In Europe, attitudes toward business are changing, too. Traditionally, business has had a nebulous role. Businesspeople are not lionized. Indeed, European entrepreneurs may be more likely to be celebrated as marginal eccentrics than commercial geniuses. Business is one aspect of society rather than its driving force. And business failures are not accepted as easily as they are in the U.S.

Although European attitudes toward failure will take time to change, the infrastructure for entrepreneurs is increasingly suitable. Most notably, financing for startups is more widely available through a variety of avenues. "People are now realizing that what we produce and sell is moving the economy. There is increasing recognition of the importance of business," says Absolut's Mr. Lundqvist. Americans are now noticing that Europeans are becoming more favorably disposed toward business and more entrepreneurial than was previously the case. "We celebrate entrepreneurs," says American author John Naisbitt. "It's okay if you fail — you're respected for trying. The U.S. nourishes entrepreneurs because of competition. States compete like crazy to get people to start a company."

The European venture-capital market is also expanding. According to the European Venture Capital Association, in the first six months of 2000, a total of 12 billion euros ($11.5 billion) was invested in 3,664 companies. Of this, 29 percent was allocated to the high-tech sector, representing investments in 1,700 companies. Extrapolating from these figures, which cover 51 percent of Europe's private equity houses, total venture-capital investment for the first half of 2000 could have been as high as 23.5 billion euros ($22.6 billion). If the level of investment was sustained in the second half of 2000, it would total 47 billion euros ($45.1 billion). This contrasts with a 1999 European venture-capital investment of 25.1 billion euros ($26.7 billion), suggesting a rise of 87 percent.

Private investors, so-called business angels, are also growing in number. The U.K. has led the way in the use of business angels in Europe, where they are steadily increasing in popularity — 110 Business Angel Networks now operated in Europe, with 50 in the U.K. alone. According to the National Business Angels Network (NBAN), there are about 180,000 such angels in the U.K. investing approximately £500 million ($724 million) a year in 3,500 businesses. The NBAN calculates that angels make 10 times as many investments in startups and early-stage businesses as do venture-capital funds.

More and better routes to early-stage financing are backed by the development of other elements in an entrepreneurial infrastructure. Alternative investment markets such as Germany's Neuer Markt, France's Nouveau Marché, and the U.K.'s Alternative Investment Market (AIM) provide financial markets for smaller companies.

At the same time that Europe is more readily embracing commercial values and affording business greater recognition, long-held social values remain solidly in place. The success of Sweden and other European nations suggests that high taxation need not be an impediment to economic success. Instead of being a disadvantage, Europe's costly social welfare systems are now often viewed as an advantage. "It's not despite welfare, but because of it that Sweden has developed well," says the country's prime minister, Göran Persson.

European social policies are backed by a system of values that rejects exclusion and inequality and that accepts the legitimacy of state intervention and active labor market policy. "In the United States, if you fail it is regarded as your own fault. In Europe there's a different perspective. If someone has failed there is a sense that society has failed. There's a sense of community," says Karl Moore, coauthor of *Foundations of Corporate Empire*, a faculty member of Canada's McGill University, and an associate fellow at Templeton College, Oxford University.

These European values, skills, and perspectives are increasingly evident and supported by a political and economic infrastructure. The countries of the European Union possess a new coherence. European regulations that further enable pan-European competition and the development of the euro will add to this.

Can Europe Compete?

Paradoxically, however, Europe remains fragmented and in all likelihood always will be. The politics of the euro, expansion of the European Union, and any pan-European initiatives remain tortured. Europeans rarely speak with a single voice on any one issue. Instead, there are a host of voices in different languages. In fact, difference remains Europe's most notable feature. There is an enormous difference between the Danes and Swedes of the north and the Spaniards of the south. For all of Europe's diversity management skills, the ability to reconcile and capitalize on differences remains one of the region's greatest challenges.

To some extent, the answer to the question of whether Europe can compete comes down to self-assurance. "There has been a collapse of European confidence over the last decade. It is closely related to the ascent of Wall Street. It will change when that changes," says John Kay, one of the U.K.'s leading economists and first director of Oxford University's Saïd Business School.

To succeed, Europe has to take the areas in which it excels and build upon them in a fully supportive business environment. It must learn from the United States but forge its own identity. Says Karl Moore: "There are cultural things that don't translate from the United States to Europe. One size doesn't fit all. The important thing for Europe is to copy some aspects of American culture and to put a European spin on them."

The American model is powerful, but if Europe is to succeed, it must consign its reliance on, and veneration of, the American business and management model to history. After all, exports to the United States account for a mere 2.3 percent of GDP in the European Union. Furthermore, as Mr. Kay notes, "The notion that there's nothing worthwhile in the European business tradition is mistaken." Among other things, he points to the pivotal role of English merchants in the historical development of trading economies. He could also point to the role of Adam Smith, John Stuart Mill, and John Maynard Keynes in the development of economic theory.

Europe stands alone, and its future competitive strength will rely on a newfound ability to respond in a fast-changing business world. Throughout much of the last century, it has effectively ducked these issues through its willing embrace of American ideas, role models, and best practices. Now, the need is for genuinely European approaches, European thinking, and European best practices. These will not provide a single all-embracing European perspective — just as there is no United States of Europe. Instead, they will provide a host of approaches and answers. The European ability to harness the area's diversity and complexity in pursuit of a common goal is liable to be tested as never before. The prize has never been greater or nearer. +

Reprint No. 01204

Resources

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