Harm G. Schröter
Editor

The European Enterprise

Historical Investigation into a Future Species

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Foreword

This book offers a broad overview of the topic of the European enterprise: It examines what the European enterprise is or might be, whether or not it exists, and, if not, if tendencies towards its emergence can be discerned or not. To indicate the results just briefly already: There is definitely a movement in that direction, one which has accelerated during the past few years; however, there is not a large numbers of firms which are taking part in this movement yet, and the movement is also characterized by cases of backlash and phases of stagnation.

There is probably only one characteristic of Europe on which all persons – readers as well as contributors – would agree: Diversity. Europe is more diverse than any other region of the world of the same size. The same holds true, naturally, for views on and perceptions of Europe. No single person is in a position to provide all different views simultaneously. Thus, in order to encompass this variation, the volume was designed as an effort of many: Its 20 different contributions were written by 26 different persons, representing 13 different nationalities, including the United States of America and Japan. As a counterbalance to this diversity, the introduction provides a general focus and the conclusion the common results of the combined efforts.

The issue of European enterprise is taken up using various approaches, means and levels: as single enterprise, as a group of firms during co-operation or merger, as branch of industry and so on. The impact of EU law-making is studied, as are institutions of business, such as chambers of commerce, and legal systems, like the recently created *societas europaea*. Several ideas on and definitions of European enterprise are provided and applied, since there is of course no single definition suitable for all purposes.

The book is the result of several conferences, meetings and presentations (Copenhagen [two times], Frankfurt am Main [two times], Glasgow, Helsinki, and Milan) as well as benefiting from various discussions with many colleagues and students. Here we take the opportunity to thank all of them! While unfortunately not all contributions to these conferences could be included, others have been specially commissioned to close strategic gaps. We also want to thank the organizers of the Copenhagen Congress of the European Business History Association (2006) and their counterparts in Helsinki, who organized World Economic History Congress (2006), for the opportunity to test our results in a broad public made up of critical

colleagues. We thank Ray Stokes, Director of the Centre for Business History in Scotland, Glasgow, for the improvement of our English, as well as the Norwegian Research Council and the Faculty of History and Philosophy at the University of Bergen for providing financial means. Last but not least we want to thank Franco Amatori, Director of the Institute of Economic History Università Bocconi, Milan, for so generously accommodating our starting conference.

University of Missouri Saint Louis — Harm G. Schröter
July, 2007

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Part I
General

The European Enterprise. Its Relevance and Problems

Harm G. Schröter

"If European integration is really to be achieved, there must develop European corporations" maintained the famous American economist Charles Kindleberger already in the 1960s.[1] And Professor Franco Amatori, from Italy's most distinguished business school, Università Bocconi, is convinced that "corporations are essentially the genetic code of European economic integration." But did this genetic code lead to European enterprise? Or is the genetic code of European economic integration empty? Is Europe to be constructed without Europeans? Of course not! In fact, the European Union has sought for decades to construct a European economy without a key potential actor: European enterprise. However, we can at least read books on the on it.[2] Firms even buy professional advice on it, provided by distinguished consultancies. All over the world we can get information or comments on European enterprise – except in Europe. The largest sceptics on this question are the Europeans themselves. Well-known scholars suggest the European enterprise never existed, and probably never will.

The question has been raised before; Bertrand Collomb, chairman of the largest construction firm in the world (Lafarge), asked in 1994: "Do we Europeans have our own special common ways of running a business? Are we different in this respect from our principal competitors – the Americans and the Japanese? Is there a European management model? How can we integrate the variety of management practices?"[3] Principally we will ask the same questions in this volume, but from a different point of view. Our approach is broader, neither confined to the question of competition, nor to management education, nor to a desire of active involvement into a change. As historians, concerned with change over time, we ask: Can we discern any development since the 1950s? On the one hand, how much common ground will we find on the basis of a pan-European perspective on enterprise, and how

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[1] C. Kindleberger, European integration and the international corporation, Columbia Journal of World Business, Vol. 1 No. 1 (1966), p. 68.

[2] Among first ones which published on the topic were Dyas and Thanheiser already 30 years ago (Dyas, Gareth P. and Heinz T. Thanheiser, The emerging European enterprise. Strategy and structure in French and German industry, London & Basingstoke: Macmillan, 1976).

[3] Collomb, Bertrand, Foreword, in: Calori, Roland and de Woot, Philippe (eds.), A European management model. Beyond Diversity, Prentice Hall: New York 1994, p. xix.

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much difference on the other? The purpose of our initiative is to collect (counter-) evidence on the question of the European enterprise: Does it exist, and why? Since when? Are there trends? Is it just fiction, and, if not, is it even measurable? Are the economic, political, legal, social, and cultural characteristics of the European firm distinct from the non-European enterprise? How can we define it? And last but not least – does this question or the answer to it matter at all in a time of globalisation?[4]

We know that the traditional relationship between national countries and "their" enterprises is under a process of decoupling. Several factors push in this direction, among them: the loss of semi-monopolies as foreign competition grew; the recourse to international capital markets; environmental issues; changes in the labour-market; shifts of paradigm on what conditions privately owned enterprise should exist; interference from the EU; and many others. To begin with, though, we single out nine reasons why the issue of European enterprise matters today:

1) *Actors*: Some economic actors take the existence of a European firm for granted. Among them are firms which advertise themselves to be "European" (for instance e.on); consultancies, which provide advice for "European entrepreneurship" (e.g. Roland Berger & Partner); and scholars who analyse "European management systems".[5]
2) *Perception*: The rest of the world speaks and writes of European firms not on French, Spanish, or Dutch ones. While most Europeans consider the notorious Parmalat an Italian firm, *The New York Times* labelled it "indisputably European".[6] What are the differences between perceptions inside Europe and outside of it?
3) *Law*: The EU has created considerable institutional change, as well as some new institutions, for instance, a European patents register, and more recently the *societas europeae* (SE) as a common form of law. Did this create similar structures,

[4] Does the question about the character of enterprise in Europe matter at all? Firms exist for making money, not for waiving a national or any flag, so why bother about the issue? These misgivings have been raised at several conferences. Here we will present only three several out of reasons: 1) the reasoning mentioned is not correct; firms exist in a political environment. For instance, in 2006 an Arabian firm was for political reasons not allowed to buy US-port authorities, and in the same year *Gazprom* was used as a political tool in the hands of the Russian government. Firms simply do not exist without environment. 2) If firms feel no longer bound to political structures, concepts such as the competitiveness of nations become meaningless, because in this case neither *politics* nor *nation* would have meaning to enterprise any more. Or should governments consequently stop making economic policy as the former CEO of Deutsche Bank suggested? (The best and the only possible policy is to act according and not against the market.) 3. For the sake of the existence of our capitalistic system, firms need to take into account stakeholders' interests. If they no longer would feel liable to stakeholders Karl Marx' old suggestion on private ownership of means of production will re-emerge (as it does already in Latin America). – Why should the majority of people tolerate that a small minority enriches themselves without sharing parts of it? Firms have to pay attention to their environment, and most are wise enough to do so.

[5] For instance, Whittington, Richard & Mayer, Michael, The European Corporation. Strategy, structure and social science, OUP: Oxford, 2000, or Lessem, Ronnie / Neubauer, Fred, European management systems. Towards unity out of cultural diversity, McGraw-Hill: London, 1994.

[6] *The New York Times*, 25.12.2003.

organisational patterns or behaviour within European firms? What are the effects of EU legislation and decision-making on enterprise?

4) *History*: During the 19th century, national economic integration created national firms. European countries abolished internal barriers of trade, such as local taxes, regional weights and measures, internal customs, preferential treatment, etc., and thus shaped a national market. With the exception of the UK and France, this happened during the first part of the 19th century. The second half was more characterised by growing intervention, such as regulation of labour, standards of construction, protection of property and achievements (patents, trade marks) and so on. Together, both processes changed local and regional enterprises into national ones. Large firms in particular were perceived, and they understood themselves, as national firms. For instance, Pirelli was an Italian enterprise, not so much a Piedmontese or a Milan one; Siemens was a German firm, not so much one from Prussia or Berlin. We could find lots of such firms in all countries. But, did fifty years of European integration create a European firm, or at least traces of it – as in the cases of nation-building?
5) *Theory*: Institutional theory suggests a homogenisation of organisations starting when a field is "well established".[7] Firms are well established in Europe, and so is their knowledge about each other by means of competition. Consequently suggests theory the emergence of European enterprise.
6) *Politics*: The last century was characterised by the emergence of large firms, which used to be national champions. These champions could rely on the help of their government, diplomacy, national banks and so on. However, for some time, national governments as well as national banks have become reluctant to protect such firms on the reason of nationality. Though there still are traces left of the traditional policy of interference into industry (France!) it is much less widespread. For economic and political reasons the national champion-strategy does not work any longer – is there really "a need for a Eurochampion strategy"?[8]
7) *Norms:* The EU has issued a great amount of rules and technical norms in order to harmonise products and services. When the latter become more standardised, this has profound repercussions on enterprise.
8) *Networks*: Today, technical networks extend beyond national borders. We may heat our flats with Norwegian gas or use electricity generated in France provided by cross-border networks. Companies, supplying us with such and other utilities, are bound to their border-crossing region of networks. They are by virtue of economic interest European companies.
9) *Globalisation:* This trend surely is a challenge to European structures, which are characterised among others by family enterprise, special relation between

[7] Powell, Walter W. and Paul J. DiMaggio, The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields, in: idem (eds.), The new institutionalism in organizational analysis, Chicago & London: The University of Chicago Press, 1991, pp. 63–82, p. 64.
[8] Hayward, Jack, Europe's endangered industrial champions, in: Hayward, Jack (ed.), Industrial Enterprise and European integration. From national to international champions in Western Europe, Oxford University Press: Oxford 1995, pp. 1–20, p. 3.

the state and enterprise as well as between the latter and banks, a co-operative mentality which occasionally includes even competitors, and last but not least a relationship between enterprise and its employees based on a balance between recognition of contradicting interests and co-operation. Will globalisation undermine this European profile, or will Europeanisation be an answer to globalisation?

Evidence against the European enterprise, at least some of it, is methodologically flawed: As long as we look for differences between European countries or regions in order to explain why managers, employees and customer react differently, we will find nothing but differences – as would happen, too, when taking Japan or the USA into consideration with the same method.[9] Whether one prefers the argument of market development or the historical one, or politics, or theory, or outside perception for that matter: The impact of nearly five decades of European integration on business is worth evaluating.

Problems start with the definition of a European firm. We will not go into detail and ask what a *firm*[10] is and what *Europe*,[11] but rather leave this to others. Usually European enterprise is addressed simply as enterprise situated in Europe.[12] Assuming a certain body of common characteristics, authors are content with a geographical definition. A third group of authors uses the term Europe, but does not raise any issues related to it,[13] a fact which we take as an indication that the issue

[9] See Whitley, Richard, Divergent Capitalism. The social structuring and change of business systems, OUP: Oxford, 1999; Idem (ed.), The Changing European Firm: Limits to Convergence, Routledge, London, 1996. Hall, Peter A and David Soskice (eds.), Varieties of capitalism: the institutional foundations of comparative advantage, Oxford: Oxford University Press, 2001. Another example is the contribution of Macharzina, Oesterle and Wolf, who in search of common European ground compared only European countries with each other (Macharzina, Klaus & Oesterle, Michael-Jörg & Wolf, Joachim, Europäische Managementstile – eine kulturorientierte Analyse, in: Berger, Roland & Steger, Ulrich (eds.), Auf dem Weg zur europäischen Unternehmensführung. Ein Lesebuch für Manager und Europäer, Munich: C.H.Beck, 1998, pp. 137–166).

[10] See the respective discourse which started with Coase, Ronald H., The nature of the firm, in: Williamson and Winter, 1991 (1937) and Penrose, Edith, The Theory of the Growth of the Firm, New York 1959.

[11] See Stråth, Bo (ed.), Europe and the Other and Europe as the Other, Peter Lang: Brussels, 2000; Malmberg, Mikael and Stråth, Bo (eds.), The Meaning of Europe. Variety and Contention within and among Nations, Berg: Oxford, 2002.

[12] E.g. Dritsas, Margarita and Gourvish, Terry (ed.), European Enterprise, Strategies of Adaptation and Renewal in the Twentieth Century, Athens, 1997. Whitley and Kristensen do stress that there is no such thing as a European firm, but still used the term in their title (Whitley, Richard & Kristensen, Peter Hull (eds.), The changing European firm. Limits to convergence, Routledge: London & New York, 1996).

[13] For example: Francesca Carnevali published a book titled "Europe's advantage". In the book she presents the importance of small firms in France, Germany, Italy, and the UK without using a comparative concept, or taking into account European countries apart from these four, or referring to the non-European world. While the book's subtitle is precise the main headline seems to be just a seller's appeal, an advertising which works because it plays with an un-reflected good-will connected to Europe. (Carnevali, Francesca, Europe's advantage. Banks and small firms in Britain, France, Germany, and Italy since 1918, Oxford, OUP, 2005).

of "Europe" is attractive beyond an assembly of countries from that area. Indeed, Europe is distinct from other parts of the world not only by virtue of geographical borders, but also by virtue of common issues in history, tradition, habits, values, etc. Perhaps this is why, when the European enterprise is addressed, the characteristics and the development of such common issues are very rarely referred to. Thus, a definition is not easily to hand. However, since we have ideas on what a *national* firm is – an enterprise doing most of its business in one country, based on stake- and shareholders mainly from the same country, while at the same time both the firm and its environment expect a certain degree of reliability and commitment in relationships with each other – we can as a first step project the same notions onto the idea of a European firm. Thus, we would expect a European enterprise to carry out most of its business in Europe, by means of primarily European workforce and management, stake- and shareholders, with a certain commitment to its environment. Of course, it is not necessary that all major issues of the firm concerned are European. For example, Vauxhall, Saab, and Opel are considered to be European firms, though they are owned by General Motors. Their European character has expressed itself through their workforce, management, main market, design and tradition, all of which have been primarily European – or are they instead British, Swedish, and German? In any case, our considerations are different from those of Jean Jacques Servan-Schreiber, a distinguished French politician, who in his book *Le défi américaine* suggested FDI from the United States in Europe would become a political challenge.[14] His definition of a (non-) European enterprise was based entirely on ownership. While he understood the above mentioned car producers as American, we count them as European because of their character.

On the other hand, multinational companies with investment in Europe need not be particularly European. For instance, the British glass-maker Pilkington, by making 80 percent of its turnover outside the UK, but more than 50 percent inside Europe, can be either understood as a British multinational company, or as a transnational firm whose traditional roots in the UK are already watered down. Does this make Pilkington a "European" company? Or should Pilkington instead be labelled "European", perhaps to a greater degree that the above mentioned car-manufacturers since its production is much more spread all over Europe than that of the car-groups? It seems quite difficult to define "European enterprise". Therefore the various authors in this volume will use different definitions for their specific purpose.

Is it enough to look for the seat of a firm, where it is incorporated? Research on transnational companies (TNC) has addressed this problem before, especially with the "free-standing" company.[15] Within Europe the seat of an enterprise seems less important than was previously the case. Some firms have moved their headquarters several times within a couple of years; for instance, the Finnish ship- and

[14] Servan-Schreiber, Jean-Jacques, *Le défi américain,* Paris: Denöel, 1967.

[15] Mira Wilkins & Schröter, Harm u. (eds.), The Free-Standing Company in the World Economy, 1830–1996, Oxford University Press, Oxford 1998.

machine-builder Wärtsilä Diesel moved in 1990 from Helsinki to Strasbourg, in 1998 to Zurich, and in 2000 back to Helsinki. There are more examples, which indicate that the place of registration is, for at least the past one or two decades, a less powerful indicator of a firm's national character than previously. At least this represents an intra-European perspective. The perceptions from outside Europe may disagree on this point, maintaining that there is a wide difference between shipping companies registered in, for instance, the USA or in Panama.

It seems that commitment to politics and stakeholders is one of the central issues that has to be dealt with in order to label enterprise. The traditional close co-operation between enterprises and the Japanese state, traditionally through the famous Ministry for Industry and Trade (MITI), is one of the characteristics which makes an enterprise active in Japan a Japanese firm. Though Toyota and others produce and sell about half of their goods outside Japan, they are still considered as Japanese. The reasons above all are their traditions, but also their commitment to Japan. As in Japan there are only a few "footloose" enterprises from the United States which have severed their national ties. A certain commitment of enterprise to "their country" is perceived by governments as well. US taxpayers' money should go primarily to US firms, an idea which, for instance, in 2006, included the reconstruction of Iraq or other strongholds of the US. This "natural" idea on the one hand is in striking contrast with liberal ideas of competition. In contrast to the US, a similar "natural" understanding is no longer at hand in Europe. Here it is the EU ("Brussels") which insists on opening up national tendering for state procurement to not only a national, but also a European, scale for the sake of European integration.

In our search for the European character of enterprise we will look into fairly straightforward economic issues such as styles of management. But "soft" distinctions such as culture, commitment or relationships have to be taken into account as well. Though we have not yet defined the *European firm,* we have established that it is a concept which involves not just economic and social, but also geographical, political and cultural issues, all related to Europe. The same problem occurs with a definition of *Europeanisation*. Again the term is used in literature when an issue becomes more "European" than before. Still, what does this mean? At this moment we should include all possibilities: a company enlarging its European market-share, percentage of stock-holders or work-force and so on at the expense of national ones, as well as the any intensification of a European profile or/and values (see below).

European Enterprises Today

There are more and more firms which incorporate "Europe" into their names, such as "Esprit Europa AG", mainly in order to prey on positive feelings connected with the word "Europe". But this surely does not create a *European enterprise*. Politics Professor Jack Hayward from Hull University has edited a volume which looks at a trend by which firms change from national champions to European or transnational

ones.[16] The contributors to his volume expressed their observation of a process by which firms in Europe undermine their traditional relationships to nation-states. But, in order to answer our question, we need evidence about what ways this trend may improve the respective firm's relation to Europe in particular, in contrast to becoming rather footloose transnational companies. Because ten years have elapsed since Hayward's publication, we may look for some of the predicted results.

Perhaps the easiest way to search for European enterprise would be to look at those firms which in the literature are often labelled as more European than others. These enterprises have often been created by cross-border mergers. We find quite a number of them in Europe. Among the most well known are Arianespace, Royal Dutch Shell, Unilever, or more recently ABB, Amadeus, Aventis, Corus, EADS/Airbus, Euronext, Eurotunnel, P&O-Nedlloyd (now Mærsk Line) and Opodo.

Critics may suggest that: 1) the above-mentioned list comprehends not only truly European firms but transnational ones as well; 2) some, such as Aventis or P&O-Nedlloyd, no longer exist; while 3) others more or less involve just two nation-states, not Europe more broadly. Indeed, in the 1990s, the European character of ABB was stressed: "ABB is a European company often recognized as one of the most pan-European and local European companies".[17] Fifteen years later, however, ABB characterised itself in this way: "ABB is a global leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. Our some 100,000 employees are close to customers in around 100 countries".[18] Furthermore, Royal Dutch Shell, and Unilever are firms with roots in and commitment to no more than two countries primarily; and some critics may suggest Airbus and EADS with 35 percent ownership in France and Germany respectively can be counted into this league as well. But how "European" must a company be? No national firm has distributed its sites evenly over any country; there are always regional points of strengths and weaknesses. American or Japanese companies concentrated in two or more regions in their respective country are understood as US or Japanese, not as regional firms. So why should we use a different scale for Europeans? In order to receive the label of the "European firm", it is not necessary to be active in all countries, though in more than one, of course. Finally, the collapse or take-over of a firm such as Aventis is simply an issue based on the nature of competition not a country or region. The remaining and interesting issue of the above mentioned enumeration is the fact that most companies mentioned have been founded during the last two decades.

We have concentrated on firms which were formed by a cross-border merger. Many such mergers have failed; we can recall examples such as the project involving Hoogovens and Thyssen (merged into Estel during the 1970s, and de-merged

[16] Hayward, champions.
[17] Turcq, Dominique, Is there a US company management style in Europe? in: Calori and de Woot, pp. 82–111, p. 106.
[18] ABB home-page, strategy (http://www.abb.com), January 31st, 2005.

afterwards), or the proposed merger of the formerly state-controlled telephone companies of Sweden and Norway, Telia and Telenor. In spite of such failures, the first impression is that there have been more such attempts of mergers during the last 15 years than before in the period between 1945 and 1990. This wave can easily be connected to the Single European Market from 1993 onwards. During the years 2000–2005, von Bredow monitored about 16,000 intra-European mergers and acquisitions, and about 7,700 external ones with a European partner.[19]

It has been suggested that the firms with the most clear and well defined European profile are those which were set up through foreign direct investments from outside Europe, such as General Electric, Mitsubishi, Sony or General Motors. "*Ford of Europe"* was already established as an entity in 1967, because the American parent company already at that time understood Europe as a single market, and no longer as a collection of countries. Ford of Europe "claimed to be the most European of all car-makers".[20] Indeed, the *Transit* model, constructed starting in the 1970s, was the first vehicle to be built based on the vision of a single (western) European market. Still, the claim that these companies are more European than others or that they became so earlier than others needs to be tested in comparison with others.

Of course, firms from any country which invested in Europe have the potential for becoming a European enterprise. Some even claimed to be such an institution. In 2006 Deutsche Bank, in spite of its name, advertised on its homepage: "We are a European global powerhouse . . ."[21] In the early 1990s, the German chemical company Bayer presented itself as a "European company". But since the second half of the decade it has dropped this attribute, stressing the global aspect. Bayer is just one example of the majority of companies registered in Europe which claim a national or a global identity in contrast to a European one.

A certain group of companies identifies itself primarily with Europe: utility-companies. The world's largest one, Electricité de France (EDF) claimed in 2005 to be "a European energy leader with a worldwide presence".[22] e.on, the largest provider in Germany, also stressed its European commitment, while Vattenfall from Sweden, Europe's fifths largest firm in this sector, presented itself as follows: "Vision: Vattenfall – a leading European energy company." It claimed that its "home-markets" are "Sweden, Germany, Finland and Poland".[23] RWE, Germany's number two utility, also presented itself as "One of the leading European utility-enterprises", a form of words which differs substantially from saying, for instance, that it was "one of the leading utility enterprises in Europe".[24] From a theoretical point of view,

[19] Von Bredow, Vendeline, Colbert versus competition, in: The Economist, The World in 2007, p. 114.

[20] Slater, Ian S., Ford. Ein amerikanischer Riese: Europäische Identität im globalen Kontext, in: Schmidt, Klaus (ed.), Corporate identity in Europe, Campus: Frankfurt / New York, 1994, pp. 87–98, p. 92.

[21] 07.06.2006, http://www.deutsche-bank.de/index_e.htm?ghpmeta=DEU_english.

[22] From EDF's home-page, January 25, 2005 (http://www.edf.com/index.php4?coe_i_id=33048).

[23] From Vattenfall's home-page, January 25, 2005 (http://www.vattenfall.de/).

[24] Taken from the original German language text, in which such issues matter. (From

it is quite open why the largest European companies of this sector all embarked on a European strategy. Investment as such cannot be a reason, as a comparison with, for instance, the oil industry shows. Whether physical networks through grids played a role in this strategy remains to be seen; we have a history of foreign direct investment into this sector since 120 years (electricity), or in the case of gas supply of even nearly 200 years, without networking of grids.[25] Maybe the strategy of our European utility companies has also to do with the general learning curve of multinational companies. They are quite new in this field of activity, and they have to be cautious because their investment is both extremely costly and extremely difficult to liquidate without losses. Transnational enterprises (TNEs) generally used to invest first in "nearby" markets in order to learn before they felt enough experienced to invest into what was perceived as far away.[26] This idea has at least to be evaluated against the background of the clear European strategy of these enterprises. Connected to this is the idea that firms can be more or less "European-minded".[27] However, such European mindedness is extremely difficult to evaluate.

A second branch of enterprise may be more "European" than might be expected: armaments producers. Decades ago NATO in vain suggested constructing a more co-operative and broadly based armament industry in Europe. But, more recently, cutbacks in armament policy after the fall of communism have put economic pressure on firms and governments alike to reduce costs through co-operation. The Euro-fighter is just the best known example. Rockets, helicopters, even traditional products such as armoured howitzers, can no longer be claimed to be entirely as the product of a single country. One of the best indicators of the "Europeaness" of the respective firms is exports. Because several countries are involved they have to agree politically on specific armament exports. Wherever such consent is necessary, one may look for processes of Europeanisation in related enterprise.

A third potential group would be cross-border regional enterprises. There are a number of so called "Euregions" where regional co-operation across borders has been fostered for many years, for instance Copenhagen-Malmö, around Basel, or in the triangle between Liège, Maastricht and Aachen. The relevant literature on this is mainly macro-economically oriented, with a few exceptions.[28] However, Michael

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RWE's home-page, January 25, 2005 (http://www.rwe.com/generator.aspx/konzern/strategie/language=de/id=36370/strategie-page.html) – The English version sounds slightly more ambitious: "RWE – a leading European utility company" (http://www.rwe.com/generator.aspx/rwe-group/strategy/language=en/id=38064/strategy-page.html).

[25] Clifton, Judith and Francisco Comín and Daniel Díaz Fuentes (eds.), "Transforming Public Enterprises", Palgrave, 2007; Hausman, Will and Peter Hertner and Mira Wilkins

[26] Schröter, Harm G., Foreign Direct Investment and Mentality: The Nearby Factor in Austrian, German and Swiss Investment, in: Pohl, Hans (ed.), : Transnational Investment from the 19th Century to the Present, Stuttgart, 1994, pp. 205–226.

[27] Pesmazoglou, Vassilis (1997), The European Union and the Firm: Modes of Interaction, in: Dritsas and Gourvish eds, *European Enterprise, p. 285.*

[28] For instance: Phelps, N. A., Multinationals and European integration. Trade, investment and regional development, London & Bristol, PA: Jessica Kingsley Publishers, 1997.

Porter, as an expert on competitiveness on a national basis, already in 1991 pointed out to the fact that, with small European nations, competitiveness as well as enterprise which represents competitiveness can hardly be measured on national terms any longer.[29] Thus, the importance of the nation-state is in decline compared to European structures.

Are There European Structures of Enterprise?

Internal structure can be an element by which European common characteristics can be expressed. Nearly all major firms have adopted the organisational M-form, they all use advice provided by consultancies, and so on; and thus they are becoming more similar to each other.[30] This is true, but since this is not a special European issue but a consequence of an ongoing process of Americanisation,[31] it expresses less the characteristics of a *European* than that of a transnational, global enterprise.

There are other structural indicators which speak for Europe, lobbying on a super-national scale for instance. Enterprises and their associations are the most important factor in influencing the process of political decision-making. For many years, the EU has been the primary source for economic policy or suggestions for lawmaking. Firms and their associations know all that, and consequently there are more bureaux of lobbyists set up in Brussels than elsewhere. In our context their structure is interesting: 1,221 bureaux of lobbyists had been registered in Brussels in 1995.[32] The largest number (307) came from international associations, while national associations amounted only to 88. The second largest number (193) represented bureaux of individual firms. The number of foreign chambers of commerce stood at 33, while that of national ones at 13. The relevant figure for international organisations of trade unions amounted to 19, and that of national ones to zero. We can take from this enumeration that firms which are active in Europe try to influence decision-making not so much via national, but more through common European, lobbying.

A third issue connected to publication on European enterprise is ill-defined "structures", which we might be better to term behaviour or cultural values. According to Klaus Macharzina, there are three groups of countries in Western Europe made up of firms acting on similar "structures", a Nordic group (Denmark, Finland, the Netherlands, Norway, Sweden), an Anglo-German group (Austria, Germany,

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[29] Borner, Silvio and Porter, Michael and Weder, Rolf and Enright, Michael, Internationale Wettbewerbsvorteile. Ein strategisches Konzept für die Schweiz, Frankfurt, M./ New York 1991.

[30] See Whittington & Mayer and the contributions to L'entreprise Européenne, special no. of Entreprises et Histoire, vol. 33, October 2003.

[31] Schröter, Harm G., Americanization of the European Economy, a compact survey of American economic influence in Europe since the 1880s, Springer / Kluwer: Dordrecht, 2005.

[32] See also in the following: Meller, Eberhard, Unternehmen und Politik im europäischen Umfeld, in: Berger & Steger, pp. 65–85, p. 74. The remainder was made up by pressure groups, such as Greenpeace, lawyers, consultancies, agents, and so on (see: ibid.).

Ireland, Switzerland, the UK), and the Romanic countries (Belgium, France, Greece, Italy, Portugal and Spain).[33] There may well be such groups, but their importance and the allocation of countries to the various groups may be questioned. Since the findings are based entirely on Geert Hofstede's publication, there might have been changes over time. We recall Hofstede organised the survey through which he gathered his material in the early 1970s. This information on behaviour, feeling and procedure is now in the meantime an entire generation old. Since all those who answered were mature managers in their field, there is probably nobody out of this group who is not retired in 2007. Though values change only over a rather long period, a new generation uses to own modified values. Thus, Hofstede's data constitute an important historical benchmark to which our world of today can be related. But his data can hardly be used for new findings without additional data.

It has been claimed European business is owned in a different way compared to others. The European speciality is a larger weight of family-ownership compared to stock-ownership. The same is due to certain types of government structures. For instance the holding company, a nearly extinct species elsewhere, has not only survived but is still flourishing in Europe, though "theoretically, it is economically far inferior to its rival, the classic multi-divisional."[34] However, one has to take into account the many European holding companies which act as super-governing bodies, directing several enterprises, each representing a multidivisional enterprise. For instance, the perviously mentioned chemical company Bayer reshaped itself into such an organisation in February 2005. It comprised Bayer HealthCare, Bayer CropScience, Bayer MaterialScience, Bayer Business Services, Bayer Technology Services, Bayer Industry Services, and LANXESS; all independent legal and multidivisional entities. Thus the structure of a holding needs not to be in opposition to the idea of a multidivisional enterprise. We have to be careful with the label "European" structure: "European" has to be in fact distinct from others – otherwise the label makes no sense.

Alexander Gerybadze, a professor of international management, suggested looking not only into structures, but also into processes. According to him, the "Europeanization of competences" is more important than the "Europeanization of the economy":[35] While the latter represents Europeanisation of established markets, proceedings and so on, the former points into the future by generating new opportunities in a Schumpeterian fashion. By exploring systematically where in Europe the largest potential for innovation is situated, where new markets emerge, where decisive competencies are allocated, and so on, enterprises may not only compete more successfully than others, but in parallel they would also lend a new quality to European integration. From a theoretical point of view, his suggestion is brilliant, of course. In reality however, firms have to invest in their place of choice. From that

[33] Macharzina, pp. 143ff.

[34] Mayer, Michael & Whittington, Richard, The survival of the European holding company. Institutional choice and contingency, in: Whitley and Kristensen, pp. 87–112, p. 87.

[35] Gerybadze, Alexander, Die Europäisierung von Kompetenz: Neue Organisationsmodelle für Forschung und Entwicklung, Produktion und Umweltschutz, in: Berger, pp. 225–249, p. 225.

moment onwards, they are bound to the location. Sunk costs, stakeholder relations and personnel will not allow the respective enterprise to move through Europe like a circus performing here and there, and staying only as long as the income is best. However, Gerybadze redirects our focus from European structures to the actors, European managers.

A European Style of Management?

Eberhard Meller, managing director of the association of German electricity firms VDEW, stressed a similar point to that made by Gerybadze: he maintained that *behaviour* leading to performance is more important than *structure* related to performance.[36] With other words, while hardware is a precondition, it is the software which is decisive; and software in our context means management.

The above-mentioned CEO Collomb maintained: "In the past, the history of Europe has deeply influenced our management practices; in the future the ongoing dynamics of European integration will probably accelerate their convergence through a process of reciprocal learning."[37] How do European managers behave? Most authors stress differences in behaviour. In 1967 van der Haas suggested Americans were not only better in managing "man-machine-systems", but that European managers acted emotionally, while Americans acted rationally.[38] Nurturing similar prejudices, Geert Hofstede expressed it this way: "Comparing Europe to North America, we find that: Europe is genetically more homogeneous, culturally more heterogeneous, North America is genetically more heterogeneous, culturally more homogeneous having gone through a melting-pot phase which Europe has never known."[39] Whether Europe has never known a genetic "melting-pot phase" is highly questionable, especially in the aftermath of several thousand years each with several waves of migration of peoples, and considering the many wars Europeans have fought among themselves, including all of what this entailed. But this is not our point. Cultural heterogeneity among European managers is Hofstede's argument. Others are pessimistic as well. Peer Hull Kristensen from Copenhagen Business School maintained: ". . . the nature of firms is embedded in the larger societal context of nations so that, despite conjunctural political reforms and prevalent market forces, a uniform firm-type is very unlikely to spread across European countries."[40] Since his topic was to look for "variations in the nature of the firm

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[36] Meller, p. 83.

[37] Collomb, p. xix.

[38] Van der Haas, H., The enterprise in transition. An analysis of European and American practice, Travistock Publications: London, 1967.

[39] Hofstede, Geert, Intercultural conflict and synergy in Europe, in: Hickson, David J. (ed.), Management in Western Europe. Society, culture and organization in twelve nations, Walter de Gruyter: Berlin & New York, 1993, pp. 1–8, p. 5.

[40] Kristensen, Peer Hull, Variations in the nature of the firm in Europe, in: Whitley and Kristensen, pp. 1–38, p. 2.

in Europe" one should not be surprised that he found ample evidence. In order to find homogeneity, one has to look not only for variety but for commonality as well. Another approach would be to compare not only European countries with each other, but also Europe with the rest of the world. Additionally, in both cases the question has to be raised of whether trends in Europe are aimed at more or at less homogeneity.

Ronnie Lessem, Director of Trans-Cultural Centre of Buckingham University, and his co-author Fred Neubauer showed more optimism. In their book on European management systems they underscored already in their title a trend "towards unity out of cultural diversity". They suggested in their survey that the number of national management styles could be reduced to just four: a "professional manager – North/Thinking", a "developmental manager – East/Intuition", a "convivial manager – South/feeling", and an "experimental manager – West/sensation".[41] They related these styles not only to managerial attributes and institutional models, but also to societal ideas and cultural images. While some issues fit nicely, for instance their "functional characteristics: North – control, East – production, South – personnel, West – salesmanship", others fit less comfortably: for instance, the northern characteristic of culture is suggested to be "Gallic"! Therefore, some of their findings remind one a bit of the Procrustean bed, where the giant either stretched persons until they fitted into it, or instead, cut off what was too long.

Less theoretically oriented, Hugh Scullion, Professor of International Human Resource Management at Strathclyde Business School, Glasgow, has pointed to staffing problems which hampered the development of enterprises along a more European dimension. "A survey of 440 executives in European firms claimed that a shortage of international managers was the single most important factor constraining corporate effort to expand abroad."[42] This particular staffing problem has been spotted for many years now. Today nearly all business schools offer a part of their programme as an introduction into international management, usually in English. One of the most distinguished initiatives was the creation of CEMS, the Community of European Management Schools. It was founded in 1988 by the management schools of the four universities ESADE (Spain), HEC (France), Cologne (Germany), and Bocconi (Italy), in order to offer the best of their students an additional international education. This initiative was started at about the same time as the above-mentioned survey took place.

In 2005, according to the homepage of the organisation, 2500 CEMS students were engaged in management at various levels, a number to be multiplied by the activities of the many more non-CEMS business schools.[43] The initiatives should have eased the above-mentioned shortage to some degree. In order to get an idea about the extent of change, one could explore how many foreign (non-national)

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[41] Lessem and Neubauer, p. 268.

[42] Scullion, Hugh, Creating international managers. Recruitment and development issues, in: Kirkbride, pp. 197–211, p. 198.

[43] Date: January 29, 2005. (http://www.cems.org/general/about/strategic_alliance.htm).

managers today serve in European firms in comparison to the previous decades. Since such data is not available, one could look into the board of directors as a first indicator of change. In any case we would expect a growth of international management to take place initially at the higher levels of management. Low- and middle-management can be satisfied locally, and it used to be the policy of all firms to try to employ mainly nationals in their respective country. A first glance gives the impression of a significant shift towards an internationalisation of the boardrooms of the largest European firms. But without a quantitative survey of change we have to be content with the subjective impression of it. At least we can take it as an indicator that, for the firms involved, Europe matters more in decision-making than before.

At first glance, it seems that in recent years foreign managers are more accepted on board-level than before. During the early 1980s only few top-executives were non-nationals, for instance The German Helmut Maucher at Nestlé, or the Italian Guiseppe Vita at Schering. Of course, TNEs based in more than one country such as ABB or Royal Dutch Shell had mixed boards, but they generally drew upon managers from just the two respective countries. The impression is that since the 1990s we have more interchange at the board-level within Europe. The Swiss Josef Ackermann became chairman at Deutsch Bank, Carrefour, the world second largest retailer was led by the Belgian Daniel Bernard, who was hired away from the German Metro. In 2005, he was replaced by Luc Vandevelde, another Belgian who previously headed Marks & Spencer. The Italian Corrado Provero, having been chief executive for communication at Peugeot, was succeeded by the German Bernd Schantz in 2005. At Renault, the same position is carried out by the Andrew Boyle from the UK. Since 2003 the second largest German supplier of electricity (RWE) is headed by Harry Roels, a Dutchman. Corus, the British-Dutch steel giant, now part of Tata steel, is headed by Philippe Varin, a Frenchman. The impression needs to be substantiated with further evidence, but it seems that the Single European Market made an Europeanisation[44] of boards desirable.

In a very pragmatic way the professors Roland Calori, Jean-Paul Valla, and Philippe de Woot, from one of the French *Grandes Écoles* and the University of Leuven respectively, tried to find out more about the European character of European firms. In close contact with the European Round Table of Industrialists, they asked 40 top-managers at the level of (Vice-) President and CEO of international companies active in Europe about their impressions.[45] Out of this survey "four major traits emerge[d]: 1) orientation towards people, 2) internal negotiation, 3) managing international diversity, 4) managing between extremes. And two minor

[44] Here understood just as a better mix of European nationals.

[45] Companies and persons in 1993: Agfa – André Leysen, Bosch – Hans Merkle, BP – Robert Horton, BSN – Antoine Riboud, Coca-Cola – Raph Cooper, Fiat – Umberto Agnelli, Fuji Bank – Keisuke Yoshitomi, Nestlé – Helmut Maucher, Nokia – Simo Vuorilehto, NTT – Kageo Nakano, Philips – Wisse Dekker, Pilkington – Sir Anthony Pilkington, Siemens – Walter Schusser, Texaco – Bob Solberg, Unilever – Floris A. Maljers, Volvo – Per Gyllenhammar, to mention only part of the group (Calori and de Woot, pp. xff.).

traits complemented the picture: 1) Product (engineer) orientation (vs. customer orientation), 2) a more intuitive and less formalized management."[46] They explained the differences in the following way: ad 1: people were considered as an integral part of the firm, not as a resource for profit like in the US, profit not being the all-encompassing aim, with an important relationship to welfare and social responsibility also being emphasised; ad 2: convincing people and obtaining their commitment is a major goal in management; ad 3: a high tolerance towards diversity when doing business abroad, respect for the country's culture and the ability to speak several languages; ad 4: a place in between US and Japanese patterns of management: Japan used to have a low turnover of staff, the US a high one, while Europe lay in between both poles. The same was due to the time-scale in strategic decision-making, the relationship with suppliers and customers, in-house training, and last but not least, team spirit versus individualism.[47] Thus, according to these top-level executives, European managers as well as firms behave differently compared to those from the USA or Japan.

Europe as a Single Market

The Single European Market is in force since 1993, but do firms in fact perceive Europe as a single market? Or do they still offer different goods and services in the respective countries? Or do they aim at the world market instead? Here we will deal only with customer-related products such as cars, cosmetics or food, but not with investment goods or trade in stocks. We remember Ford's 1990 attempt to produce a "world-car" (Mondeo), which should suit all customers. It was not the success Ford had hoped for; it seems the world market is too differentiated for these kinds of goods. On the other hand, the contrary has been claimed as well. Answering the question why European firms more or less failed in the field of electronics, Geoffrey Owen in *Entreprise et Histoire's* special number on the *European firm* put the blame for failure on the limited European market.[48] Scholars of TNE know that customers still like to connect a product with a national identity. This quest for national identity gives a sometimes strange impression. Everybody knows GE to be one of the most American firms, and it is sure a transnational one at the same time. However, in an interview, GE'S CEO for "Germany, Switzerland and Austria", Thomas P. Limberger, underscored that: "We see us as a German Enterprise, and want others to perceive us in the same way."[49] Surely "GE Deutschland, Österreich, Schweiz" has a very long way to go in order to achieve this goal. In our context, it is interesting that such a distinguished enterprise wants to be connoted in a

[46] Calori Roland, Valla, Jean-Paul, and de Woot, Philippe, Common characteristics: the ingredients of European management, in: Calori and de Woot, pp. 31–78, p. 31.
[47] Ibid. pp. 45ff.
[48] Owen, Geoffrey, Succès et échecs dans l'industrie électronique: les lecons ont-elles été apprises? In: Entreprise et Histoire, Vol. 33, Octobre 2003, pp. 57–75.
[49] Interview in Mobil (edited by Deutsche Bahn, Kommunikation), No 2, 2003, pp. 52–54, p. 54.

certain cultural context. This context matters. Though Nokia, Nestlé and many other companies produce more abroad than at home, many customers like to remember the initial Finnish or Swiss origin of the firm. But they no longer buy a product just because it is a national one. This represented one of FIAT's mistakes. For decades Italians had bought FIAT cars because they were Italian, and the company supplied more than 50 percent of the country's market. FIAT ran into troubles when its share of the home market shrank. In 2003, the share amounted to less than 30 percent, leaving about 10 percent each to PSA, Volkswagen and Ford respectively.[50]

What we can observe is a watering down of the national profile of an enterprise in many cases. The traditional label "Made in England" (France, Italy . . .) is sometimes replaced by the name of the enterprise, such as "Made by Bayer". In such cases the respective firms thinks that the new label will create a higher level of customer identity, that customers will trust the respective firm more than the respective country. For about a decade now, more and more firms are using the label "Made in EU", especially with regard to cosmetic or textile products. In cosmetics, trust is a most valuable asset of the trademark, and every word on the package is carefully considered. If producers of cosmetics choose the EU appellation rather than that of their country or name of enterprise, they must calculate a positive effect on the customer.

Still, the national link of products is important for customers. When enterprises are acquired by others, their trade marks and brands used to be kept because of their links to customers. Electrolux, for instance, the Swedish world market leader in white goods, owns very many other brands besides it original one; these include, for example, Zanussi and AEG. But Electrolux does not mix them with their own Electrolux brand in order to retain the goodwill of customers, who probably still think that they are buying goods from a firm situated in Italy, Germany and so on. Though we today find more often than before the label "made in the EU", especially with textiles and cosmetics, there are few brands or trademarks connected to Europe rather than a particular country. There is no such thing as a standard European customer. However, there are super-national groups in Europe, which are approached by a super-national European strategy. For many years now, Electrolux's strategy in selling its white goods has involved defining groups with similar income and consumption patterns, which are comparable within (western) European countries. Nation-specific differences have proved to be of third rank importance in this market. A similar development has been established in many fields of marketing.[51] Especially when it comes to consumer durables, consumption preferences of a middle-class family in Milan have become quite similar to those of a middle-class family in Antwerp, Glasgow or Vienna. Thus, European clusters of consumers have emerged.[52] European customers still keep in mind the origin

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[50] Information by PSA, January 29, 2005 (http://www.psa-peugeot-citroen.com/document/groupemarche/italie_en_20031087827089.pdf).

[51] Azimont, Frank and Seidel, Fred, Marketing und Vertrieb in Europa, in: Berger and Steger, pp. 201–224.

[52] Christian Scholz provides an overview over several approaches to study consumer pan-

of enterprises and trademarks, and they relate this information to images such as reliability, taste or design. But they no longer necessarily buy according to distinct national preferences.

Traditional national labour markets which are entirely independent from each other no longer exist. Legal equality was granted by the EU as one of "the four freedoms" long ago. But differences in social regulations, pension systems and insurance made it difficult to work abroad. Obstacles have been removed, and a tendency towards cross-border employment has emerged, which is no longer confined to exclusive groups such as doctors or engineering specialists. In 2006, cross-border recruitment was targeted. Stepstone, an employment agency working across Europe, reported a new development in its release "Recruitment Trends 2006", which is based on information from 2,100 personnel managers in Europe. Many European firms look for employees from abroad for two reasons: a lack of skilled workers, and/or to remain internationally competitive. A special pattern emerged; personnel from countries nearby were preferred. 70 percent of Norwegian firms looked for personnel from Sweden, and 50 percent from Denmark, while only 14 percent were interested in new French or Dutch employees. Belgian firms looked mainly to France (65 %), the Netherlands (55 %), Germany (37 %), or Luxembourg (33 %). German enterprise tried to recruit primarily from Austria (55 %) and France (37 %).[53] If this recruitment trend becomes substantial, it has a powerful potential for the emergence of European enterprise.

European Enterprise and its Stakeholders

Stakeholders are all persons connected to a firm who are not shareholders. Into the group of stakeholders count workers, customers, suppliers, people living in neighbourhood of a company, the community, political parties, states and so on – in other words: all who are affected by the activities of an enterprise without owning it.

The welfare state is one of the foremost issues in Europe, being more developed here than in other regions of the world. For quite some time, the welfare state has been under financial stress in Europe as well as elsewhere. The reactions to this stress have been different. In some parts of the world, severe cutbacks were carried out; the famous life-long employment in Japanese large firms is no longer reliable; and the observer might question whether, for instance, New Zealand can still be called a welfare state. There were cutbacks in Europe, too, but these were comparatively minor. There still is a widespread consensus – not only among social democrats, churches, and labour unions, but also encompassing enterprises and their organisations as well – on the fundamental desirability of the welfare state. It is by no means considered a dying species. Since the European welfare state is based in large part on the financial and organisational support of enterprise, this must entail a

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els in Europe (Scholz, Christian, Organisations- und Personalarbeit in Europa von operativer Oberflächlichkeit zur eurostrategischen Grundausrichtung, in: Berger and Steger, pp. 181–199).

[53] Die Welt, 06.06.2006.

special and distinct impact on European firms. European enterprise cannot exist and support the welfare state without repercussions for itself. One initiative to safeguard not only the welfare state, but to combine social commitment with competitiveness was that taken by President of the European Commission Jacques Delors in 1995, at precisely the time when the shareholder value wave was at its height in Europe. He launched CSR (corporate social responsibility), which became a network of committed enterprises. CSR in 2006 consisted of 60 leading multinationals, reaching out to a further 1,400 companies through 18 national partner organisations.[54]

What applies to the welfare state can be said about worker's rights in relation to their respective enterprises. A long-term comparison of worker participation revealed substantial differences between American and European interpretations of the issue. Of course, there were differences in Europe as well, but compared to US patterns, even the British understanding of worker participation definitely tended towards European interpretations. Three main differences in preferences have been established: 1) individual (US) versus collective focus (EU) – or put more sharply: personal enrichment or social justice, 2) material (US) versus immaterial ends (EU) – or more plainly: money or power, 3) worker participation as a tool of management (US) versus as one in the hands of workers – a management tool aimed at a better performance or a tool of worker's movement aimed at industrial democracy.[55]

True, our times are not favourable of worker's rights, and, during the last wave of Americanisation starting in the 1990s, even European management started to use worker participation as an instrument. Worker's rights are also under pressure from globalisation. Still, substantial parts of worker participation remain available in Europe, and continue to shape decision-making by management. For instance, all TNEs have to have a European Works Council, which at a minimum has to be informed and consulted about major changes in advance. The most extreme versions of worker participation, the Austrian and German types of co-determination, are certainly at risk. For two decades, the threat to labour unions came from all sides at once; from globalisation outside of the EU, within from mistrust from EU-partners (German *Mitbestimmung* does not enjoy a consensus within the EU as a whole), from Brussels through the new European type of enterprise (*societas europeae* – see below), and from a dwindling trust in unions generally. Neither European trade unions nor works councils have found an adequate answer to European firms.[56] While during the 1970s with its two oil-price shocks unions experienced an increase in membership, unionisation has fallen since the 1990s. It is unclear to what extent this was caused by globalisation or by the Single European Market.

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[54] See website: http://www.csreurope.org.

[55] Schöter, Americanization (2005) Chap. 7: pp. 193–204; Idem, La partecipazione dei lavoratori: idee americane ed europee, in: Imprese e storia, Vol. 29, 2004, pp. 71–99.

[56] Flecker, Jörn and Schulten, Thorsten, Arbeitsbeziehungen in Europa und die Zukunft des "europäischen Sozialmodells", in: Berger and Steger, pp. 103–136.

In spite of the pressure labour unions are exposed to, it will take time to water down the achievements of the worker's movement in Europe. The establishment of European Works Councils was not an achievement of a traditional strike-threat enforced strategy of the European unions. This sort of approach was tried during the 1970s and it failed.[57] In contrast, the successful strategy has involved political lobbying, especially in Brussels. Because enterprise received its desired Single European Market, unions were compensated with the European Works Councils. Most probably, this policy of compensation will go on, and consequently will affect the profile of European enterprise. A rather recent initiative in this respect was the suggestion of EU-President José Manuel Baroso, entitled the *Social Agenda*, on 2nd February 2005. He suggested European-wide collective bargaining and a greater role for unions in company decision-making, a suggestion which could have come directly from the Federation of German unions DGB (Deutscher Gewerkschafts-bund).[58] Of course, UNICE (Union des Industries de la Communauté Européenne) protested, and nobody expects a substantial change in the near future. However, movement within the EU is slow, and the issue with the works councils started in the same way.

Thus, today as in the future, European enterprise will be more influenced by worker's rights than its competitors in other parts of the world – making European firms distinctive in this regard at least. Last but not least, we can take the fact that the worker's movement has not yet found its answer as an indicator for the existence of that which we are looking for here, i.e. the European enterprise.

Finally the real possibility of a formally incorporated European enterprise was created through legislation to enable companies to adopt the form of the societas europeae (SE). It took several decades of negotiation, and, by excluding the tax issue, it represents a typical European compromise. But firms which are active in several European countries can register as SE. In 2007, it still remains to be seen to what extent enterprise will use this new form.

European enterprise is not just enterprise in Europe but enterprise with relation and/or commitment to Europe. Here we are not so much looking for the economic, as also for the political and social potential of such a type of firm. European enterprise also has a political dimension, and consequently we have to ask about the role of Brussels in the creation of it. Officials in the Brussels suggest the EU rests on three so called columns, economic policy, common foreign and security policy, and common justice. The first one is by far the most stable of the three, and it represents a macroeconomic approach. If they are not farmers, people in their day-to-day life do not feel affected directly to any great extent by the EU. Everyday-life comprises what people eat, how they live, schooling, pensions, health services, and so on. One of the most important factors is where they work, where people spend their most active time of the day. While in the former issues the EU can and should not interfere,

[57] Schröter, Harm G., European Integration by the German Model? Unions, Multinational Enterprise and Labour Relations since the 1950s, in: Olsson, Ulf (ed.), Business and European Integration since 1800. Regional, National, and International Perspectives, Göteborg, 1997, pp. 85–99.
[58] International Herald Tribune, February 10, 2005.

it has missed its chance on the last one. During the process of nation-building, local and regional enterprise became national firms, firms supporting the cause of their nation – besides making money, of course. We inquire here about to what extent EU politicians have exploited their unique chance of 50 years of European integration by using the genetic code of European economic integration, to generate a new type of European actor: the European enterprise?

European Corporations: Ownership, Governance, Strategies and Structures. A Review of Five Countries: United Kingdom, Germany, France, Italy and Spain

Franco Amatori and Andrea Colli

The focus of this chapter is on large firms, for which the convergence/divergence patterns in ownership and governance are more easily detectable. Thus (notwithstanding their well known relevance) a distinctive section of the European enterprise apparatus, i.e. the world of the small and medium-size companies and of local production systems will be left aside. Consequently, we will concentrate on the top section of each country's rankings of manufacturing enterprises by turnover, even if some of the data collected in the secondary sources we utilise refer to other rankings (e.g., the top *listed* corporations). We must say however that in general they overlap almost completely with the list of top corporations by total sales.

Definitions

We define *ownership structures* as the distribution of property rights among the shareholders of the firm. To simplify the whole argument, two dimensions are here considered:

a) the prevalence, inside a certain system, of concentrated or dispersed share ownership, or an intermediate position between these two categories;
b) the nature and identity of the controlling shareholders. For controlling shareholders we consider here those who can exert a significant influence over corporate life thanks both to their share ownership, but also thanks to other kind of personal influence. This is extremely important, since in the European case it is well known that the controlling shareholders quite often do not own the absolute majority of the capital. Thanks to sophisticated financial techniques, for instance, even large corporations have often been under the constant influence of individuals and families, even those with what are at times very small direct holdings.

In general, continental Europe (and the United Kingdom until at least the Sixties) has been characterised by a high degree of identification between ownership and

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control. Concentrated ownership structures have been in the European experience, the rule also in the case of State and foreign ownership.

For this paper's purposes, *corporate governance* can be broadly defined as

a) the way in which a corporation is governed according to the interest of the different subjects having a stake in it;
b) the way in which power is allocated and distributed inside the organization itself among those who participate in the corporate life.

As is well known, the relationship between *ownership structure* and *corporate governance* practices is very close, both in static and dynamic terms. Changes in the ownership structure directly affect the ways in which companies are governed and in which the interests of stakeholders are taken into account.

Issues

The analysis of ownership and corporate governance patterns in Europe deals basically with three relevant issues:

a) Homogeneities/differences in governance and ownership. To what extent is it possible to talk of an "European" model of governance and ownership? In an historical perspective, there are close similarities among the European countries – probably more than there are divergences, especially as far as *continental* Europe is concerned. However the differences should not be underestimated, since it is true that, at least when some key elements are considered (e.g. the extent of State intervention; the involvement of stakeholders in corporate governance; the nature of the main shareholders; the presence and the influence of institutional investors in corporate decisions), national specificities do emerge clearly. Consequently, as far as strategies and structures are taken into account, neo-institutionalists would stress the impact of national arrangements on prevailing organisational forms.[1]

b) Convergence/Divergence of governance and ownership. From a dynamic point of view, is it possible to detect, a tendency towards a more homogeneous model of ownership and governance in Europe? And, if so, what are the results of this convergence?

c) The relationship between ownership/governance and strategy/structure. The issue of ownership/governance is crucial in the understanding of the interaction between strategies and structures. Stakeholder groups may influence strategies,

[1] See Mayer, M., & Whittington, R. (2004): Economics, Politics and Nations: Resistance to the Multidivisional Form in France, Germany and the United Kingdom, 1983–1993, *Journal of Management Studies*, Vol. 41, Number 7, pp. 1057–1082, p. 1065. The two authors explicitly refer to Whitley, R. (1994): Dominant form of economic organization in market economies *Organization Studies*, 15, pp. 153–82, p. 155.

structures and efficiency of a corporation as well as of a national economic system, as Chandler himself notes in his account of the British relative decline. Current research identifies three ownership typologies which are not fully compatible with diversification strategies and multidivisional structures: personal/family, bank and State ownership.[2] Personal ownership resists the decentralisation and power delegation typical to the M-form. It also proves unable to deal with the complexity of diversification, as is clear from continental Europe's experience.[3] Banks resist divisionalization "on account of the competition that the multidivisional's internal capital markets provides to bankers' traditional role as prime allocators of capital".[4] Finally, the state – an historically relevant owner in Continental Europe – prefers organisational structures like the holding or the U-form, designed to enhance control and patronage opportunities.

Ownership and Corporate Governance in Europe. Research and Interpretations

Starting in the early Eighties, and coinciding with the growing interest in corporate governance issues, a considerable bulk of research has analysed in comparative perspective the ownership structure and governance patterns in the most industrialised countries of the world. The interpretative model adopted is based upon the identification of divergences among systems of corporate ownership and governance.[5] In this framework the differences among the European countries are not considered truly relevant. If compared to the Anglo-Saxon model, this makes continental Europe a relatively homogeneous entity adopting a "social-co-operative" model of capitalism consistent with concentrated ownership structures based upon families, state-owned enterprise and banks. Until recently, the basic features of the European model have been the institutional concept of the firm, the absence of a market for corporate control and a reduced role of the stock markets, a long-term orientation and relative stability of management.

This interpretation has dominated the scene for a while. More recently, a greater emphasis has been put on differences among, and the specificities of, national patterns. Broadly speaking, Continental Europe is characterised by at least two general models, the "Latin" and the "Germanic".[6] "Latin" countries (France, Italy, Spain)

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[2] Mayer, M., & Whittington, R. (2004).

[3] See Channon, D. F., (1973) *The Strategy and Structure of British Enterprise*, Macmillan, London; Dyas, G. P. & Tanheiser, H. T. (1974), *The Emerging European Enterprise. Strategy and Structure in French and German Industry*, London: Macmillan; Pavan, R. J., (1973): *Strategy and Structure of the Italian Enterprises*, unpublished diss.

[4] Mayer and Whittington 2004, p. 1062.

[5] Denis, D. K., & McConnell J. J. (2003): *International Corporate Governance*, ECGI Finance Working Paper 5.

[6] Weimer, J., & Pape, J. C. (1999): A Taxonomy of Systems of Corporate Governance, *Corporate Governance*, 7 (2), pp. 152–166.

would be differentiated from Germany and Scandinavia mainly by virtue of the nature of their most important stakeholders (the State and families *versus* banks and employees). As far as the financial side is concerned, the broad distinction between market-based (basically, the UK one) and bank-based (the European Continental) systems, does not give an adequate account of the historical features of different European nations. For instance, the Italian banking system was based on the presence of German-style universal banks only until the mid-Thirties, after which a mixture of short-term credit and self financing became more typical. In the French case, the relevance of the universal banks have been considerably lower than in Germany, while as in the Italian case, for a long time after WWII the most relevant section of the banking system was in the State's hands.

A more recent stream of thought focuses on a very different issue, i.e. on the existence (or non-existence) of dominant shareholders, on their nature and on the way in which they have been able to hold on to power.[7] In this perspective, the analysis of the national systems focuses on the way in which regulation affects the presence of concentrated ownership.[8] According to very recent research, the sole European country with a relatively low presence of holders of large blocks of shares in listed corporations is the UK (with a median of the largest voting block of 9.9 %), while in Italy and Germany this percentage is well over the 50 %, in France around the 20 % and in Spain nearly 35 %.[9] In sum, at the beginning of the new millennium the European firm is still characterised by concentrated ownership and by the ability of large shareholders to maintain a close control over corporate life thanks to the separation of cash-flow rights from voting rights (for instance through dual-class shares, and other devices as pyramids and cross shareholdings).

Ownership Structures and Corporate Governance in Europe: Patterns of Evolution

The data made accessible for this kind of research by recent disclosure rules are not available to the historian. However they offer a good starting point, especially if combined with the above-mentioned taxonomy of corporate governance systems.

While ownership concentration is still a prevalent feature in twenty-first-century Europe, sharp differences are to be found in the *nature* of leadership. In Germany the owners of the most important firms are today individuals/families and other companies. After a recent process of restructuring, financial institutions (namely banks) now count for less than 20 % of the total of the largest voting blocks. These data seem to question the image of the German capitalism as bank-driven one. The

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[7] Becht M., & Mayer C., (2001): Introduction, in Barca F., & Becht, M., eds. (2001): *The Control of Corporate Europe*, Oxford: Oxford University Press.
[8] La Porta, R., Lopez De Silanes, F., Shleifer A. (1999): Corporate Ownership Around the World, *Journal of Finance*, 54 (2), pp. 471–517; Denis and McConnell 2003, p. 25.
[9] Becht and Mayer 2001, Table 1.1, p. 19.

role of families is confirmed in the case of Italy as well, while financial holdings are still dominant. The use of pyramidal structures and cross shareholdings has been, during the last fifteen years, more and more complemented by the use of shareholders' agreements. This has resulted in the further persistence of concentrated control.[10] The prevalence of individual/family control is evident also in the Spanish case, as is the use of pyramidal schemes. According to recent research the most important owners of the main listed French corporations were, at the beginning of 2000, insurance companies. A relevant role is still played by the State as well as by individuals. Here, too, the ownership structure is in any case heavily concentrated. Uniquely in Europe, the ownership structure of British corporations is characterised by a low degree of power concentration. When relevant shareholders are present, these are in general financial institutions, mainly pension funds and life insurance companies.[11]

As far as *foreign ownership* is considered, European countries show considerable differences, the result of very different historical heritages. Foreign ownership counts for nearly one-third of the voting blocks in listed firms in Spain, but only for around 15 % in Italy. It seems to be relevant in France, but much less so in Germany. *State ownership* is still relevant all over Europe, notwithstanding the intense privatisation process started in the mid-Eighties which has recently been termed "reluctant".[12] Through privileged, multiple-voting and golden shares, governments have in fact sold ownership rights while *only partially* transferring control rights. The data show that as of the end of year 2000 in a selected sample of OECD countries, governments were still able to keep under control *over* 60 % of privatised firms.[13] Notwithstanding this (and despite the use of different privatisation models), it is without question that privatisation has played a relevant role in shaping current-day patterns of ownership across Europe.[14]

The impact of ownership concentration on the firm's performances are not clear. According to some research the effect is fully positive, especially when large blockholders are families/individuals in charge of top management (a perspective which calls into serious question the conventional wisdom on the inefficiency of family control). Two Italian researchers, Roberto Barontini and Roberto Caprio, for instance, after having examined valuation and performance of the listed firms in 11 European countries, suggest that families are still the most important shareholders in most of the European main corporations.[15] Their grip on the company, maintained through control-enhancing devices (pyramids, financial holdings, dual or multiple class shares) should in theory imply a scarce degree of minority protection and

[10] Bianchi, M. & others (2005): *Proprietà e controllo delle imprese in Italia*, Bologna: II Mulino.
[11] Barca and Becht 2001.
[12] Bortolotti, B., & Faccio, M. (2001): *Reluctant privatization*, ECGI paper.
[13] Bortolotti and Faccio 2001, pp. 11–12.
[14] Denis and McConnell 2003, pp. 18ff.
[15] Barontini R., & Caprio R. (2005): *The Effect of Family Control on Firm Value and Performance*, ECGI Finance Working Paper 88.

hence low market value.[16] The evidence collected by Barontini and Caprio, however, stresses on the contrary a positive relationship between family control, market value and operating performance of the firm itself.

Governance and Ownership in Geography and History

The contribution of history should be to assess the process which led to the present situation in terms of ownership and control distribution.

As a general framework of analysis, a first phase goes from the end of the First World War to the affirmation in Europe's most advanced nations of the technological imperatives of the second industrial revolution, which culminated in the so-called European Economic Miracle, from the Fifties to the Seventies. A second phase took place more or less starting in the mid-Eighties with the privatisation wave in UK, and is still going on today.

According to recent research, UK and Germany, the main European leaders in the first wave of industrialisation, were characterised by a not negligible level of activity in their stock markets. In Britain the proprietary capitalism that characterised the first industrial revolution began to evolve when the average size of the firm started to grow. Local banks were able (and willing) to sustain this process only partially, while large amounts of equity were issued to foster the process of mergers and acquisitions. The result was a progressive, even if partial, dilution of family ownership during the first decades of the 20th century. Families, however, remained the main block shareholders in the country, enjoying a "disproportionate number of seats on the board" and a strong control position as inside directors.[17] Until the early Sixties, the ownership structure and the governance of British corporations provided a relatively low formal protection to minorities, even if trust and informal relationships granted a quite fair treatment of minor shareholders, especially in the case of takeovers or tender offers.[18] The growing liquidity of the British stock market was indicated by the growing number of listed companies, which rose from around 1,700 in 1939 up to 4,400 in 1963. Improvements in the legal framework fostered the process. For instance, in 1948 the Companies Act introduced proxy voting and other provisions for minorities. The Companies Act was followed by a number of disclosure requirements, enabling a better evaluation of a company's financial status as well as of the real price of its shares. This *de facto* made bids easier, thus easing

[16] This is the perspective by La Porta, R., Lopez De Silanes, F., Shleifer A., Vishny, R. (2000) Investor Protection and Corporate Governance, *Journal of Financial Economics*, Vol. 58.

[17] Franks, J., Mayer, C., Rossi, S. (2004): *Spending Less Time with the Family: The Decline of Family Ownership in the UK*, ECGI Finance Working Paper 35.

[18] By the way, this situation seems to contrast the "legal" view of corporate governance and ownership which tends to connect the presence of efficient stock markets to the presence of an efficient regulatory system for minorities protection (which is namely the US one; La Porta, Lopez De Silanes and Shleifer 1999).

the rise of a market for corporate control.[19] At the same time devices introduced to separate voting power from cash-flow rights encountered a growing hostility. The result was an acceleration in the transition from family and personal capitalism to a different pattern of ownership in an extremely liquid stock market.

According to Franks, Mayer and Wagner, in Germany, too, the first phase of the 20th century was characterised by a growing issuance of securities aiming to finance internal growth through new investments in production facilities.[20] This perspective differs from the conventional one, which sees the German system from the beginning as heavily characterised by arm's-length relationships based upon the banking system. As in the case of Britain, new share capital in Germany brought about a growing dilution of family ownership and voting power. In Germany, however, the new stakes were bought indifferently by individuals and by other corporations, and only to a limited extent by the universal banking system. Thanks to the considerable power provided by the institution of the *proxy vote*, however, banks were an efficacious anti-director device for minority shareholders. In this way, the ownership structure of the main German firms quickly shifted from personal control to the effective control of banks and other industrial companies. This situation, which was already in existence at the beginning of the (West) German post-war economic miracle, was consolidated during the Sixties and the Seventies. It eventually crystallised into the well-known features of German capitalism, made up of a mix of intercorporate shareholdings, a competent control exercised by the largest banks *via* mainly proxy votes, and family ownership.

When the "Latin" countries (France, Italy and Spain) are considered, the story is different again. The French pattern of ownership and governance has until recently been characterised by a mix of two elements, private family ownership and the State.[21] The prevalence of family ownership among the main firms has been seen alternatively as a cause/consequence of a reduced relative size of the production unit (due to the orientation towards specialisation more than mass production) as well as the outcome of an underdeveloped capital market, the consequence of which was diffuse self-financing practices. The State is the other major player in the country's process of economic growth, especially after the end of WWII. The French pattern of ownership and governance, as well as the resulting prevalent organisational models, has been largely influenced by the interaction between these two actors, whose relationships have been seen as strictly interdependent. Planning policies (1945–1980) were largely based upon the presence of State ownership and upon the State's influence over the private companies. The creation of national champions was the main strategy adopted, which involved concentrated ownership structures. One hypothesis could be that the implementation of centralised planning (both for

[19] Wilson, J. F. (1995), *British business history 1720–1994*, Manchester: Manchester University Press.
[20] Franks, J., Mayer, C., Wagner, H. F. (2005): *The origins of the German Corporation – Ownership, Finance and Control*, SSRN working paper.
[21] Murphy, A. E., (2004): *Corporate Ownership in France: the importance of history*, NBER Working Paper 10.

rightist and leftist governments) was possible through the presence of a reduced number of actors, namely families and bureaucrats as top managers.[22] Whatever the reason, up to the Seventies the persistence of family control, exerted through holding companies, and the pervasive intervention of the State were fundamentally a result of the poor performance of the financial system as a whole. This was also because legislation enacted during the Thirties limited the possibility for the banks to support the equity market. At the beginning of the Eighties the pattern of concentrated ownership consisted of governance practices which privileged the interests of the main shareholder, both of the controlling family and of the State, as well as of a strategic orientation based upon a low degree of diversification.

Similar features can be detected in the Italian case, in which the reduced average size of the corporation – even among the large firms in capital-intensive industries – can be explained by the limited scale of domestic consumption and capital markets.[23] The main firms remained in the hands of the founders and their families, backed by the banks, until 1936, when legislation prevented them from becoming involved in the long term financing of the industrial system, from buying equity and from exerting proxy voting. On the other hand, the State also played the role fully after World War II of a substitute factor in providing financial resources for firms active in capital-intensive industries through the presence of holdings as IRI, a huge conglomerate founded in 1933, and ENI, in the oil sector (1953). The weakness of internal stock market and the low degree of investor protection accompanied a high degree of ownership concentration.[24] In 1947, on average, the largest shareholder owned nearly 45 % of the votes. The percentage was 55 % in 1987.[25]

The Spanish situation seems not to be radically different from the Italian one. The structure in terms of ownership concentration which emerged during the early Franco dictatorship remained intact after the Second World War. State intervention, mainly (even if not only) in natural monopolies, was a substitute for the private capital market. A State-owned conglomerate (INI) was in charge of investing in capital intensive industries. A privileged and protected banking system, largely controlled by the State, provided both equity and financial capital. At the end of the Seventies, for instance, nearly the 50 % of the private firms in the top 100 were controlled by the main banks. The outcome of this framework was, during the Nineties, a concentrated ownership pattern (the State and a few families controlling the most important firms), a very low degree of protection of minorities as well as an underdeveloped stock market.[26]

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[22] Dyas and Tanheiser 1974, pp. 202–3.

[23] Aganin and Volpin 2003, p. 43.

[24] Amatori, F., & Brioschi, F. (1997). Le grandi imprese private: famiglie e coalizioni, in: Barca, F. *Storia del capitalismo italiano dal dopoguerra ad oggi*, Roma: Donzelli.

[25] Aganin, A., & Volpin P., (2003): *History of Corporate Ownership in Italy*, ECGI Finance Working Paper 17, p. 11.

[26] Aguilera, R. (2004): Corporate governance and employment relations: Spain in the context of Western Europe, in Pendleton, A., and Gospel, H. *Corporate Governance and Labour Management: An International Perspective*. Oxford: Oxford University Press.

The stories above clearly show in a stylised fashion that divergence among ownership and governance patterns is to be found both in the structure and regulation of the capital market structures and in the policies adopted by the governments. This is particularly true for latecomers (Italy, and later Spain), and for countries, such as France for instance, characterised by a long tradition of State intervention. Peculiar in this framework is the British case, in which an efficient equity market emerged from the early Thirties even in the absence of strong minority protection and disclosure practices, while the influence of owners (families and founders) remained relevant well into the Sixties.

If the effects of this ownership concentration on corporate strategies and structures are considered, it is also evident that the relative smaller size and the limited degree of diversification characterising the European corporation until the Sixties can explain in part prevalent patterns in ownership and governance. This is consistent with the findings of the Harvard researchers who, at the beginning of the Seventies, considered the British system as the most US-oriented in Europe, moving quickly in the direction of the diversified corporation administered by a multidivisional structure,[27] while the German, French and Italian systems were still lagging far behind the American benchmark.[28]

European Ownership and Governance: The Eighties and the Nineties

It is only after the mid-Eighties that this differentiated framework started to change. Two patterns can be detected. First of all, the differences among the main European countries narrowed; second, according to many observers, a much more homogeneous European enterprise, in terms of ownership and governance patterns, started a process of convergence towards the Anglo-Saxon model. The debate on convergence between Europe and US will be discussed in the last section. This section analyses the evolution of corporate governance and ownership patterns in European corporations from the end of the 3ighties (summarised in the following Table 1).

Whichever case is considered, privatisation policies have been among the main agents of change. The impact of the reduction of State ownership has been relevant all over Europe, even if the effect on ownership structures and governance has been different from case to case.

In the UK, the large-scale and shocking policy of privatisations that started at the beginning of the Eighties gave rise only rarely to US-style public companies. As data show clearly,[29] in the UK the principal outcome of the privatisation process was to more than double the presence of institutional investors as main shareholders. If in 1963 institutional investors controlled nearly one third of the equity of the

[27] Channon 1973, p. 275.

[28] Pavan 1973; Dyas and Tanheiser 1974.

[29] See Table 3 in Franks, Mayer and Rossi, 2004.

Table 1 Ownership distribution of listed companies in some European countries (2003)

	France	Germany	Italy	UK	Spain
Foreign	24.8	17.5	14.4	32.3	35.1
Insurance	4.1	5.1	3.4	33.4	7.9
Institutional investors	13.3	4.4	7.3	15.3	0
Banks	11.1	7.5	5.2	2.2	7.7
Non-financial	23.7	45.6	29.7	1.9	23.1
State	4.5	5.8	13.5	0	0.3
Individual/family	8.5	14.1	26.6	14.9	26.0

Source: Bianchi & others 2005, Table 4.15

listed corporations, at the eve of 2000 this percentage had climbed to 56 %, or 85 % if foreign investors are included. In the UK case, the most important institutional investors are basically insurance companies, pension funds and trusts, which at the end of the Nineties, according to some calculations, controlled an impressive two-thirds of the entire British stock market. This concentration of control seems to put the UK on a pattern different from the US one, being characterised by an intense, largely informal, control by the fund managers. The British pattern of governance and ownership is considered as one able to bring together the presence of a relatively concentrated institutional ownership (and maximisation of shareholder value) with a closer control over management actions through a voice/exit policy. On the organisational side, the maximisation of shareholder value and the pursuit of high performance levels are consistent with a higher degree of diversification, decentralisation and hence adoption of M-form organisational structures.[30]

A significant impact of the privatisation process can be also detected both in France and Southern Europe, but with fundamentally different effects on ownership and governance structures.

A radical change in the French pattern of ownership and control occurred from the mid-Eighties onwards. The challenge to the established framework came in 1986 from the privatisation of the banking system. The privatisation of the financial core of the French economy (1986–1993) was followed (1993–1997) by a second wave of sales which involved mainly industrial and service companies. The French government – unlike Great Britain – opted for a *smoothed* privatisation process, basically to avoid an excess of foreign ownership in capital-intensive and strategic sectors.[31] At the beginning, the result was the creation of a stable "hard core" of private investors (both financial and non financial firms) and a dense web of intercorporate shareholdings which granted stable support to the management, while at the same time influencing the main strategic choices. Today, there is clear evidence of a relaxation of this situation. Cross shareholdings among the core investors are

[30] Whittington, R., & Mayer, M. (2000): *The European Corporation. Strategy, structure and social science*, Oxford: Oxford University Press, p. 90.

[31] Berne, M., & Pogorel, G. (2003): *Privatization Experiences in France*, CESIFO Working Paper n. 1195.

giving way to a more intense penetration of foreign institutional investors, to more dispersed ownership and to an emphasis on shareholder value that is far greater than in the past.[32] The State, however, is still in control of some of the largest corporations (mainly in natural monopolies: EDF, GDF, SNCF, Air France, France Telecom). A reduced number of true public companies is accompanied by large family-controlled groups. The remaining large firms are controlled by institutional investors (both national and foreign) and by multinationals. The main outcome of this still ongoing process has been a progressive reduction of the unrelated diversification previously characterising the main French business groups and a greater focus on core competencies. In any case, the French situation shows a still high degree of differentiation as far as the ownership structure of the large firms is considered.

Privatisations revolutionised the ranking of the Italian largest corporations as well. Starting from the early Nineties, the pervasive presence of the State in the Italian economy was gradually (even if not completely) dismantled. IRI sold out a large number of the companies belonging to the group, dissolving in 2003. Privatisation strategies lacked however the same coherence that characterised the French case. Many companies were privatised through private agreements and bids, while the IPO of Telecom Italia was unsuccessful in creating the first real Italian public company, privileging the interests of some existing business groups. During the Nineties the concentrated ownership and governance structures characterising Italian capitalism as it developed throughout the entire post-war period remained largely unchallenged, at least as far as the private companies are concerned. Other relevant features are the limited degree of involvement of the banks in non-financial companies, notwithstanding a change in the regulatory framework at the beginning of the Nineties allowing the banks to own industrial securities, and a still extremely reduced role of institutional investors (mutual funds and pension funds), which at the end of the 20th century owned about 14 % of total capitalisation.

In terms of organisational structures, the peculiar relationship between ownership and governance seems to have replaced the M-form through the presence of holding architectures typical of the pyramids allowing a closer control over the companies belonging to the group by the ultimate owner or controller.

Privatisation policy played a relevant role in the Spanish case as well during the period 1989–1998.[33] The privatisation strategy of the Spanish government resembled the Italian one. During the late Eighties private bids were privileged, while the Nineties were characterised by a growing number of IPOs aimed at creating an effective equity market. From the second half of the Nineties and at the beginning of the new millennium, thanks also to a number of institutional reforms involving the domestic financial market[34] the transformation in ownership and governance

[32] Gros Pietro, G. M., Reviglio, E., Torrisi, A. (2001): *Assetti proprietari e mercati finanziari europei*, Bologna: Il Mulino, p. 154.

[33] Hernandéz De Cos, P., Argimón, I., González-Páramo, J. M. (2004): Public ownership and business performance in the Spanish manufacturing sector, 1983–1996, *Public Finance Review*, Vol. 32 no. 2, pp. 148–182.

[34] Aguilera 2004.

structures of the main Spanish firms has been impressive.[35] The main changes concern the reduction of the State's presence, as well as the transformation in the role of the banking system. The result of the privatisation and liberalisation process has been, within a short period, an increase in ownership concentration. As far as listed firms are concerned, in 2000 individuals own about the 30 % of the companies' equity. Another relevant owner was non-financial companies (climbing from nearly 7 % in 1996 to more than 20 % in 2000), attesting to the tendency (new for the Spanish economy) to create holdings and groups. The most important owner (34 % of the listed firms' equity) in the Spanish listed firms remains, however, foreign capital, which has been heavily represented in the Iberian economy since the end of the dictatorship.[36]

Convergence in Ownership and Governance?

This survey gives a contrasting picture of the evolution of the European capitalism. Some diverging trends emerged clearly, mainly starting in the second half of the Nineties. The privatisation process on a continental scale and the liberalisation of capital markets, together with an increase in investor protection and disclosure rules, have had a considerable impact on the structure of national financial markets, starting from the increase in the number of listed companies. Increased transparency of continental stock markets attracted foreign institutional investors almost everywhere, even if in different degrees and with varied impacts. At the same time, the progressive deregulation of national banking systems has weakened the dominance of these institutions as the main providers of financial resources, while the privatisation process has stopped the State from exercising its previous function of supplying necessary resources to "strategic" industries.

All these indicators have brought many scholars to stress a progressive process of convergence among the European countries as well as between Europe and US towards a combination of dispersed and institutional investors' ownership. A *de facto*, formal convergence is present also in corporate governance codes and rules. According to some observers, a significant degree of convergence can be detected in ownership structure as well, in the sense of an at least marginal weakening of the traditional system of concentrated ownership.[37]

A different stream of research suggests that ownership concentration will still be the rule in continental Europe. Following these considerations, for instance, Whittington and Mayer[38] conclude that European countries are still far from the

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[35] See Tables 8.5 and 8.7 in Aguilera 2004.

[36] Binda, V. (2005): L'accidentato percorso della grande impresa spagnola tra Stato e multinazionali, 1975–2000, *Imprese e storia*, 31, 2005, pp. 79–111.

[37] Denis and McConnell 2003; Coffee, J. C. (2001): *The Rise of Dispersed Ownership: The Role of Law in the Separation of Ownership and Control*, Columbia Law School, The Center for Law and Economic Studies, wp. 182, pp. 12–14.

[38] Whittington and Mayer 2000, p. 120.

American model of professional managers and dispersed ownership. Block shareholders "will continue to find it more profitable to sell control to new controlling purchasers than to break up the controlling block through a secondary offering".[39]

At the same time, however, a sharp increase in the activism especially by American and British institutional investors can be detected all over Europe, with significant effects on governance practices among the largest corporations. According to Coffee, "the largest twenty-five US-pension fund holders of international equity held $110.8 billion in foreign equities in 1996, $181.1 billion in 1998, and $265.6 billion in September, 1999 – a nearly 150 % increase in only two years".[40] Convergence theorists stress also the emergence inside Europe of a intra- and international market for corporate control, with a growth in the number of cross-border corporate takeovers and in their value.

Implications for Strategy and Structure

Notwithstanding increasing evidence of changes in corporate governance and culture across Europe at the beginning of the new millennium it seems that "the macro institutional contexts for French, German [Italian, Spanish], and British corporations still differ".[41] The macro-institutional contexts are, as institutionalists suggest,[42] among the determinants of ownership and governance patterns, and, in a more systemic way, are able to influence patterns of strategy and structure. In other words, the divergence between continental Europe and the US in the timing of adoption of diversification (related or unrelated) strategies and hence of multidivisional structures can be explained also looking at prevalent ownership and governance patterns. Where separation between ownership and control is almost complete, i.e. in the case of the presence of dispersed ownership and efficient markets for corporate control, managers will tend to undertake diversification strategies more readily in order to enhance shareholder value. As the UK case seems to confirm (but also, to some extent, nowadays the French and partially the German one), the introduction of multidivisional organisational structures seems easier than in other contexts where concentrated ownership and specialisation tend to prevail. Following this argument, the existing different degrees and patterns of diversification inside Europe should be determined by a mix of historical patterns of evolution of the manufacturing and financial systems and by a prevailing business culture which in turn originate models of ownership and governance shaping the strategies – and hence structures – of the firms.

[39] Coffee 2001, pp. 24–25.
[40] Coffee 2001, p. 15.
[41] This is the perspective stressed by Whittington and Mayer 2000, p. 121.
[42] Whitley, R. (1999): *Divergent Capitalisms*, Oxford: Oxford University Press.

Looking at the European experience, however, from the available evidence a fluctuating even if unquestionable drive towards the adoption of multidivisional structures from the Fifties onwards is detectable, notwithstanding persistent differences in both ownership and governance. Nowadays, in the major European economies, between 70 and 90 % of the large corporations have adopted the M-form.[43]

The late and tormented adoption of the multidivisional among the main European corporations, however, can be *partially* explained by persisting differences in ownership and governance structures. For instance, the holding company, common in many European countries, can be considered an organisational device which serves as an alternative to the multidivisional, one which is able to cope efficiently with the diversification strategies (which Europe's largest corporations also had to undertake) as well as to limit the degree of managerial autonomy implicit in the M-form.

On the contrary, very recent research – examining the German, French and British cases – explicitly denies the direct relationship between concentrated ownership (by banks, families or by the State) and the late adoption of diversification strategies and multidivisional structures, confirming the dominant trend towards the multidivisional even if stressing still relevant national differences in the adoption of diversification strategies.[44]

It is however also true that a bulk of evidence, starting from the research published in the early Seventies by the Harvard group, seems to suggest, on the contrary, a close relationship between prevalent ownership patterns and the strategies and structures. Agency-theory based studies of diversification policies from the early Eighties onwards stress that top managers in public companies have strong (largely personal) motives for pursuing diversification, while concentrated ownership tends to be associated with lower levels of diversification.[45]

The available evidence, in sum, does not allow us to detect a close (both positive or negative) relationship between ownership/governance patterns on the one hand (which remain country-determined through to the present) and the timing of the adoption of diversification strategies in the European countries examined in this study on the other, even if the Chandlerian (and Williamsonian) trend towards the adoption of multidivisional structures seems to be unquestionable.

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[43] Mayer and Whittington 2004, p. 1057.

[44] Mayer and Whittington 2004: 1078.

[45] Thomsen, S., & Pedersen, T. (2000): Ownership structure and economic performance in the largest European companies, *Strategic Management Journal*, 21, pp. 689–705, p. 690

Europe as Home and Host to Multinational Enterprise

Mira Wilkins

Harm Schröter posed the problem: What is a “European enterprise”? Has European integration increased the number of and/or changed the characteristics of European enterprise?[1] To seek answers to these questions, it seemed useful to adopt as a handle for analysis an approach common in the study of multinational enterprise, that is to identify the home (where the firm is headquartered) and the host (where the firm does business outside the home), and to introduce a time dimension, comparing earlier periods of European history with the post-World War II years.

In the literature about “homes,” books on European multinational enterprise have referred more specifically to French, German, Swiss (and so on) multinationals, using the adjective to define the multinational enterprise by its national home base.[2] We asked, how often in the past and present were there homes that involved two or more European nations?

The literature on “hosts” covers where a business operated outside its home borders. Here, too, a set of writings deal with specific European nations, but we wondered when do companies (headquartered within Europe and outside of Europe) look at Europe as a whole, as a region. We wanted to know whether and when the region (as distinct from the individual country) became a host, as perceived in corporate strategies. Was the notion of European enterprise more meaningful, if we thought of Europe as host?

Before we do any analysis, we need to be clear on what we mean by the term Europe. Obviously, Europe has been defined in various ways, yet the adjective European is widely used, as in the European corporation, European enterprise, or European banks.[3] Clearly, Europe has long been a geographical construct, but

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[1] Harm G. Schröter, Project Proposal (2004), “Has European Integration created a European Enterprise?”

[2] See, for example, Lawrence G. Franko (1976), *European Multinationals* (Stamford, Conn.: Greylock), which never describes a “European” firm per se.

[3] For example, Richard Whittington and Michael Mayer (2000), *European Corporation* (Oxford: Oxford University Press); Franko, *European Multinationals*; P.L Cottrell, Hakan Lindgren, and Alice Teichova, eds., (1992), *European Industry and Banking Between the Wars* (Leicester: Leicester University Press); Margarita Dritsas and Terry Gourvish, eds., (1997), *European Enterprise* (Athens: Trochalia Publications); Youssef Cassis (1997), *Big Business: The European*

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even so there have been ambiguities: is Britain a part of Europe? Is Turkey a part of Europe? Time and politics have often contributed to the definition: Russia (at least the western sections) was an accepted part of Europe before 1914, but rarely thought of in the European context during the Soviet period; eastern Europe, excluding the Soviet Union, was before World War II part of Europe, whereas for much of the post-World War II years the term "Europe" was usually equated with "western Europe." From a European integration standpoint, over the post-war decades, we have Europe at sixes and sevens, Europe at nine, twelve, fifteen, twenty-five, and (as of January 2007) twenty-seven. And then there is the OECD "Europe," the countries within Europe that are considered "advanced." Rather than pursue the arguments on what is Europe, it seemed simpler to define the region in strictly geographical terms to include in the west, Great Britain, and in the east, the western parts of Russia and Turkey. By no means do we assume a homogeneity within this space. There have been and persist vast differences from one country to the next.

Indeed, while the term Europe is readily employed, the press remains full of discussions on the persistence of national distinctions. France's industry minister (François Loos) announced, for example, in the fall of 2005 that he would publish a list of the country's "strategic industrial sectors," which would be protected from foreign takeovers. "Foreign" included companies from nations within Europe. So, too, while in the summer of 2006 Spanish regulators gave a green light to a bid by the German E.On to purchase (for $34 billion) Endesa, the largest Spanish electricity company, the opposition was intense; Endesa was seen as "a strategic asset," vital to the nation, in order to guarantee the country's energy supply. The regulators' approval of the transaction came with harsh conditions, so as to mitigate the effects of "foreign" control. Ultimately, the takeover failed.[4]

Europe as Home

In the literature on multinational enterprise, it is customary to define the nationality of the firm by the home (the headquarters) nation – or in the case of "Europe," the region. This literature does not depart from that of writings in business history in general. The "headquarters" nation is the pinnacle one in a hierarchy (a cluster of enterprises) and it is typically assumed that controlling management/ownership and the headquarters are one. Thus, as in Schröter's original project proposal, Siemens is seen as a German firm, Pirelli as an Italian one, and so forth.[5] Usually, there is (and has been) one national parent, although, as we will discuss, there have long been cases of dual and triple parentage, and rarely four parents.

Experience in the Twentieth Century (Oxford: Oxford University Press); and Harm G. Schröter (2005), *Americanization of the European Economy* (Dordrecht: Springer). There has long been an idea of Europe: Anthony Pagden, ed., (2002) *The Idea of Europe: From Antiquity to the European Union* (Cambridge: Cambridge University Press).

[4] *Economist*, Sept. 3, 2005; *New York Times*, July 29, 2006; *Economist,* April 7, 2007.

[5] Schröter (2004), Project Proposal.

An April 2005 article in the *Economist* on "cross border" mergers within Europe quoted Johannes Kluth of the American firm, Kohlberg, Kravis and Roberts, as follows: "As Europe becomes a truly single market rather than a bundle of national ones, firms are developing Europe-wide ambitions. Rather than national champions, firms now want to be European ones." Consider the phrase, "a bundle of national ones." What does it mean? The article discussed the takeover plans (which later materialized) by the drink company, "France's Pernod Ricard" of "Britain's Allied Domecq." The article did not note that Pernod Ricard and Allied Domecq were themselves (and had long been) multinational enterprises. The France and the Britain in the identification were based on the conventional national "home" country headquarters.[6]

Traditionally, to repeat, most companies have been based in a single headquarters country. There are exceptions and some of them very longstanding. Thus, Royal Dutch Shell had two headquarters from 1907 to the summer of 2005, when its stockholders approved a plan to unify its headquarters under a single company. Within Scandinavian countries there have been sub-regional joined headquarters: as with SAS Scandinavian Airlines and some other jointly owned ventures.[7] Indeed, some of the companies with two, three, or four European parents were formed in recent decades, but it is doubtful that this is necessarily becoming more evident than in the past.

For example, how do we consider the loose nineteenth and early twentieth century networks, such as that of the Rothschilds with "headquarters" in the United Kingdom, France, and Germany? Were they any less European than the newer firms with more than one national parent? So, too, Lazard Frères, with its UK, French, and US "banks" at certain periods defies discussions of "headquarters."[8]

And, how do we evaluate, for example, the cooperative activities of German, Austrian, and Swiss banks in the establishment, for example, of the Banca Commerciale Italiana? Was the "headquarters" – initially at least – of BCI, "European." Did it become more "European" as Banque de Paris et des Pays-Bas (Paribas) acquired an interest in BCI? Over time, BCI cast off whatever foreign control there had been.

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[6] *Economist*, April 9, 2005; on the consummation of these plans, *Financial Times*, June 29, 2005.

[7] On August 1, 1946, SAS Scandinavian Airlines was formed, owned by the existing Swedish, Danish and Norwegian airlines. Ulf Olsson (2001), *Furthering a Fortune* (Stockholm: Ekerlids), 301. Nordic Bank Ltd. was opened in London in 1971; its founders were Den Norske Creditbank, Oslo, and Kansallis-Osake-Pankki, Helsinki; soon Svenska Handelsbanken, Stockholm, joined, as did a fourth bank Copenhagen Handelsbank. By 1979, the four banks, Svenska Handelsbanken (Stockholm), Copenhagen Handelsbank (Copenhagen), Den Norske Creditbank (Oslo), and Kansallis-Osake-Pankki (Helsinki) were equal shareholders in the Nordic Bank Ltd., London – and that year, 1979, they became equal shareholders in Nordic American Banking Corporation, New York (the latter had been founded by Svenska Handelsbanken, Stockholm in 1975). *New York Times*, Jan. 5, 1971 and May 10, 1979.

[8] A number of these relationships are documented in Paul H. Emden (1937), *Money Powers of Europe in the Nineteenth and Twentieth Centuries* (London: S. Low, Marston). Was Lazard Frères "European"? The American partner was critical throughout most (albeit not all) of the firm's history.

Indeed, it became a multinational enterprise in its own right – an Italian firm – with a large international business. But was BCI, in its early years, a European venture? And, Paribas itself (formed in 1872) had come into existence as a merger of French, Dutch, and Belgian banks.[9] We can identify a number of different joint-ventures by European banks – by British and French interests, for instance, in the Anglo-Peruvian Bank (1873).[10]

Hubert Bonin's chapter on the Suez Company was initially entitled, "From a French Oriented Firm to a European Leader in Utilities;" it covers 1982 to 2005. The Suez company, when in its original "French oriented" stage, as operator of the Canal, when its headquarters was in Paris, however shared its *ownership* with the British. I have no problem in calling that prior activity of the Suez Company "French," based on its headquarters and managerial centre, yet there was a significant British role – and long before World War II, much less before Britain entered into the European Economic Community.

As previously noted students of multinational enterprise usually have assumed headquarters and controlling ownership interests are in a single nation or in a shared arrangement, such as with Royal Dutch Shell. Yet, studies of free standing firms have found before World War I, Russian control over British registered free standing companies that did business back in Russia; there was also German control over British registered free standing companies that did business in Latin America before World War I. In the particular type of multinational enterprise that I labelled a "free standing company," registration and controlling ownership did not always coincide. Recently, Andrea Goldstein of the OECD has commented on the home country role of Cyprus – a new member of the European Union. He did so in the context of round-tripping, noting that Cyprus has become a major source of recycling for Russian investments, back into Russia and into Central and Eastern Europe.[11]

So, too, historically, there are ambiguities on Swiss holding companies set up in the 1890s to manage public utilities inside and outside of Switzerland. Some of these before World War I (and subsequently) were acting for German firms. Some had aimed at mobilizing French and German capital under a "neutral" roof. In 1929 Unilever was a good example of a joint (British-Dutch) headquartered company. Before World War II, there were various Swiss, Dutch, and Swedish companies

[9] Gianni Toniolo (1994), *One Hundred Years, 1894–1994: A Short History of the Banca Commerciale Italiana* (Milan: Banca Commerciale Italiana), 28 (on the parentage of BCI). On the parentage of Paribas, Marc Flandreau and François Gallice (2005), "Paris, London, and the International Money Market," Youssef Cassis and Eric Bussière, eds., *London and Paris as International Financial Centres in the Twentieth Century* (Oxford: Oxford University Press), 79.

[10] Irving Stone (1987), *The Composition and Distribution of British Investment in Latin America, 1865 to 1913* (1962 diss. New York: Garland Publishing), 90.

[11] On free standing companies, see Mira Wilkins and Harm Schröter, eds., (1998), *Free-Standing Company in the World Economy, 1830–1996* (Oxford: Oxford University Press). On Cyprus, Andrea Goldstein (2005), " 'Emerging Multinationals' in the Global Economy: Data Trends, Policy Issues, and Research Questions," OECD Development Center, unpublished paper, 22.

that cloaked, that is stood in for German businesses. These last were politically motivated (to protect assets against political risks).[12]

In the 1960s, a number of bi-national (and even more shared) headquartered ventures emerged. Lutz Alt points out the precursor of Agfa-Gevaert (formed in 1964) was the 1924 price convention involving the Belgian Gevaert, the leading German producers of film, then joined by French and English interests.[13] Bayer and Gevaert shared control of Agfa-Gevaert from 1964 to 1981, when the joint venture ground to a halt and Bayer obtained 100 percent of the stock.[14] But, then in June 1999 Bayer spun-off its Agfa unit – and Gevaert NV returned to a partial ownership role, which it shared with the German Bayer until 2001, when Bayer divested its entire interest. Agfa-Gevaert NV is now headquartered in Belgium and is 25 percent owned by Gevaert NV.[15] The once jointly owned and headquartered German-Belgian firm is that no longer, having settled first into a German and then into a Belgian headquarters.

In the 1960s, key European banks formed "clubs and consortia" that, in turn, would become participants in US and other foreign direct investments.[16] These were not simply combinations for purposes of joint underwriting. In the late 1960s and 1970s, European banks cooperated in a number of direct investments in banks and brokerage houses in the United States. These typically began under single nation home offices, came to involve more European participants, but ultimately the joint ownership disappeared and single national ownership once again prevailed, albeit not necessarily that of the original owner. Thus, for example, the Banque Belge pour l'Etranger, Brussels (part of the Belgian Société Générale group) started subsidiaries in the United States in 1950 and 1952 that would in

[12] See William Hausman, Peter Hertner, Mira Wilkins (forthcoming 2008), *Global Electrification: Multinational Enterprise and International Finance in the History of Light and Power 1878–1978* (Cambridge University Press), on the Swiss holding companies and on a number of multinational enterprises where the "headquarters" was ambiguous, but within Europe. On the Unilever arrangement that persisted until May 2005 when it was replaced by a single board, see Geoffrey Jones (2005), *Renewing Unilever: Transformation and Tradition* (Oxford: Oxford University Press), 367. On cloaking, see, for example, Gerard Aalders and Cees Wiebes (1996), *The Art of Cloaking Ownership* (Amsterdam: Amsterdam University Press).

[13] Lutz Alt (1986), "The Photochemical Industry: Historical Essays in Business Strategy and Internalization," Ph.D. thesis, MIT, 113; for details on the 1964 AGFA-Gevaert merger and the reasons for it, ibid., Chap. 4. In this case, the 1920s "joint headquarters" was informal.

[14] Alt (1986), "Photochemical Industry," 127; Agfa website, www.agfa.com, accessed July 30, 2005.

[15] See *Wall Street Journal*, Sept. 18, 1998 (plans for the spin off), Agfa website, www.agfa.com., accessed July 30, 2005; *Wall Street Journal*, Mar. 16, 2001; and Hoovers' Company Records, "Agfa-Gevaert N.V.," July 26, 2005, accessed July 30, 2005.

[16] On the European clubs and consortia, see Duncan M. Ross (2002), "Clubs and Consortia: European Banking Groups as Strategic Alliances," in Stefano Battilossi and Youssef Cassis, eds., *European Banks and the American Challenge* (Oxford: Oxford University Press), 135–160, esp. pp. 139–140; for background, see Ross, "Clubs and Consortia, 139, and also Joh. de Vries, Wim Vroom, and Ton de Graaf (1999), *Worldwide Banking: ABN AMRO Bank 1824–1999* (Amsterdam: ABN AMRO Bank NV), 364–367.

1968 be transformed into the European-American Banking Corporation (EABC) and the European-American Bank and Trust Company (EABTC).[17] In the process, the Banque Belge pour l'Etranger shared with the Deutsche Bank, the Amsterdam-Rotterdam Bank (AMRO), and the Midland Bank (London), ownership of EABC and EABTC.[18] In 1971, Société Générale of Paris and Creditanstalt-Bankverein of Austria joined the group participating in EABC and EABTC.[19] There were other similar jointly owned European ventures in the United States, which originated from a single national ("home") ownership and then developed joint or multiple European nation bank ownership.[20] But, no sooner had the many cross-border European-bank-ownership affiliates in the United States surfaced in the late 1960s and early 1970s, then they rapidly disappeared, as German, Swiss, Dutch, and other national institutions wanted their own separate independent banks in America. By the late 1970s and 1980s, the large collection of US banks and brokerage houses with their joint European ownership had for the most part morphed into affiliates with single ownership – a single home country.[21] Indeed, as Europe became more unified, *national* identities everywhere persisted. The multinational banks found joint homes did not provide them the opportunity to develop their name identity, which continued to be associated with the core national enterprise.

It is an empirical question as to whether the "European" – bi-nationally or tri-nationally headquartered firm – are more prevalent in the post-World War II decades and more recent years than in the past. We ought to be able to devise a way to measure whether this is the case. It seems, however, evident that in the more than six decades since the end of World War II, there was no linear progression in the defining of a "European" cross-national headquarters.

This seems to be well illustrated in one of the most discussed "European," or even "global," companies of the 1980s and 1990s, Asea Brown Boveri (ABB), the 1987/1988 merger of a Swedish and a Swiss firm. For many, it was the prototype for the future. There were separate Swedish and Swiss corporate boards that co-operated as a "European" company should. ABB kept its books in US dollars to allow cross border analysis (but can a company that keeps its books in US dollars be considered European?). In any case, the icing came off the cake. Before the end of the 1990s ABB resolved to simplify its structure, integrating the company into a single firm. By 2003, it was in deep difficulties over asbestos related claims. Its

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[17] Details are in Mira Wilkins (in process), "The History of Foreign Investment in the United States, since 1945."

[18] Herman Van der Wee and Monique Verbreyt (1997), *The Generale Bank, 1822–1997* (Tielt, Belgium: Lannoo), 394.

[19] Ibid. and European Association for Banking History (1994), *Handbook on the History of European Banks*, ed., Manfred Pohl (Aldershot: Edward Elgar), 31, 386.

[20] See Wilkins (in process), "The History."

[21] Ibid. For example, the European American Bank (the successor to the EABC and the EABTC) went in 1991 under full ownership by ABN AMRO. Mira Wilkins (Summer 2005), "Dutch Multinational Enterprises in the United States: A Historical Summary," *Business History Review* 79: 253–254. ABN AMRO would sell European American Bank to Citibank in 2001.

stock market price fell rapidly. The *New York Times* commented that "Once called Europe's answer to General Electric, ABB has had to shed assets and negotiate a new $1.5 billion line of credit . . . to remain solvent." In 2005, it described itself as "Zurich-based" and that its last profitable year was 2000.[22]

The European Aeronautic Defence and Space Company (EADS), which with BAE Systems (of the UK) owned Airbus, and Airbus itself seem to me to be truly exceptional as "European" parent *corporations*. Both EADs and Airbus (as "European" companies) are twenty-first century creations. In 2006, however, BAE sold its 20 percent interest in Airbus, making the venture "less European."[23] With the move in 2005 of both Royal Dutch Shell and Unilever to single headquarters, rather than joint ones, what does this mean to the notion of "Europe" as home?

Europe as Host

In many ways, it may be far more promising to ask questions about Europe as host, host to enterprises established within Europe and to outsiders. For companies headquartered in Europe in 1914, for example, the literature suggests that much more of their foreign direct investment was outside Europe than within other countries in Europe.[24] For American multinationals, one estimate indicates that in 1897 some 20.6 percent of their foreign direct investments was in Europe, in 1908 22.5 percent, and in 1914 21.6 percent.[25] In 2005, Europe was host to 46.7 percent of inward direct investments worldwide.[26] A large percentage of the $4,731,293 million in this inward foreign direct investment stock was intra European investments.[27]

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[22] On the boom period, *World Investment Report 1992*, pp. 254–255; on the cutbacks, *Financial Times*, Feb. 5, 1999; *New York Times*, Jan. 18, 2003; and *Business Week*, July 4, 2005.

[23] Leo Sloan (2005), "Airbus Industrie," unpublished paper, notes that EADS was formed in 2000, combining French and German interests, while Airbus followed in 2001, which was owned 80 percent by EADs and 20 percent by BAE Systems. See *Economist*, Oct. 28, 2006, 67, on the sale by BAE.

[24] William Woodruff (1967), *Impact of Western Man* (New York: St. Martin's Press), 154, indicates that 8.75 percent of UK investments, 39.2 percent of French investments, and 21.25 percent of German investments were in Europe (outside the home country) at the eve of World War I. These are total foreign investments, not foreign direct investments. For Europe as host compared with the rest of the world in 1914, see Geoffrey Jones (2005), *Multinationals and Global Capitalism* (Oxford: Oxford University Press), 23. I believe, based on my own research, that the existing foreign direct investment figures underestimate the amount invested in Europe (outside the home country) by companies domiciled in European countries in 1914. I am not yet ready to revise these figures, however.

[25] Based on Mira Wilkins (1970), *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, Mass.: Harvard University Press), 110.

[26] The percentage is based on foreign direct investment stock figures, given in *World Investment Report 2006,* 303.

[27] We do not have the percentage, but since US direct investments in Europe in that year were $1,059,443 million, $3,671,850 million or 78 percent was from countries other than the United States. This sum ($1,059,443 million) was 22 percent of the $4,731,293 inward investment in

In 2005, 51.2 percent of US outward direct investment was in Europe.[28] This percentage is dramatically up from the pre-1914 share that hovered between 20.6 and 22.5 percent. Obviously, Europe as a host both for European companies and for outsiders has become increasingly attractive.

What matters is the long-view. Thus, we need not be concerned that the *World Investment Report 1991* found Europe's relative position globally as a host region had decreased over the years because of shifts in bilateral foreign-direct-investment relationships between the European Community and the United States, in which investments from the EC countries to the United States grew more rapidly than the converse. On the other hand, the report went on to argue that the "1992 programme" to unify the EC "has provoked an unprecedented level of intra-regional foreign direct investment within the EC, such that intra-EC foreign direct investment increased from one quarter of total inward stock in the EC in 1980 to 40 percent in 1988. . . ."[29] "The EC [the countries making up the EC]," the report declared, was in 1987 the "dominant investor" (that is accounted for the dominant share of foreign direct investment *stock*) in France, Belgium, Italy, Portugal, and Spain and was the largest single foreign investor in the Netherlands – compared with the situation in 1980, when in only one country, France, did EC investment account for the dominant share.[30] These are impressive figures.

But by 1998, the *World Investment Report 2000* concluded that when distinguishing between intra-European Union and extra-European Union direct investment capital flows, "it appears that FDI between the EU *and other parts of the world is gaining in importance* [my emphasis]."[31] The 2000 report established that in the case of both outward and inward flows, the intra-EU share of total foreign direct investment was lower in 1998 than in any year in the 1990s.[32] It seems that during the 1990s, intra-European flows had increased- and then there was a reversal. Subsequent *World Investment Reports* do not provide comparable information to determine whether the reversal of 1998 set a trend. What is interesting here is that it was argued that as the EU became a reality, investments by European multinationals tended to be concentrated in the region rather than internationally. Yet, by 1998, was that "trend" being reversed? If it was a trend.

I published in *Business History Review* (Summer 2005) a paper on the history of Dutch business in the United States. An anonymous referee of that paper suggested

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Europe. The US foreign direct investment stock data are in *Survey of Current Business*, September 2006, 122.

[28] *Survey of Current Business*, September 2006, 122. These are year end position figures on an historical basis. The percentage was slightly lower than in 2004, when fully 52.8 percent of US outward direct investment was in Europe. *Survey of Current Business*, September 2005, 152.

[29] *World Investment Report 1991*, 33.

[30] Ibid., 34, 96. In terms of inward *flows*, as distinct from stock measures, in 1987 the EC was the "dominant investor in Germany and the Netherlands and holds an equal share with the United States in the United Kingdom." Ibid., 96.

[31] *World Investment Report 2000*, 35.

[32] Ibid.

that with European integration, more Dutch investment was going to the European Union than to the United States, referring the author to some Dutch Central Bank figures. I looked at them carefully and did not read them as representing that pattern. And, from a microeconomic standpoint, it was clear that the recent big investments of Dutch business in the United States – in financial services, banking and insurance – by the ING Group and Aegon were increasing far faster in the United States than in Europe. Once again, it is uncertain whether this constituted a trend.[33]

The *World Investment Report 2000* tabulated the top 10 cross-border merger and acquisition "deals" 1987–1999, five of which involved "intra European" (not intra European Union) transactions (Zeneca-Astra, UK-Sweden, 1999; Mannesmann-Orange, Germany-UK, 1999; Rhone Poulenc-Hoechst, France-Germany, 1999; Zürich Versicherungs Gmbh – BAT Industries PLC-Financial, Switzerland–UK, 1998; and Deutsche Telekom AG, One 2 One, Germany-UK, 1999). But *four* (three of which were the largest of the ten) involved British and German takeovers of American companies: 1999: By the Vodafone group, AirTouch Communications, $60 billion; 1999: by British Petroleum, Amoco, $48.2 billion; and 1998: Daimler-Benz, Chrysler, $40.5 billion; the more modest fourth was Scottish Power (of UK)'s takeover of PacificCorp. in the United States in 1999, $12.6 billion. The last of the ten was also extra Europe: The Spanish Repsol's 1999 acquisition of YPF in Argentina.[34] The suggestion from the 1987–1999 takeover list is that there was no particular orientation of companies domiciled in European countries to concentrate on Europe, since half of the biggest acquisitions were extra-European. In 2005 there were only four cross-border mergers worldwide with a value of over $10 billion. The top three were within Europe (the fourth was an Egyptian special purpose finance company's purchase of the Italian Wind Telecomunicazioni SpA).[35]

There is a need to explore more fully and systematically intra European transactions, considering Europe as host to companies domiciled in Europe. A 2002 list of the world's one hundred largest non-financial multinational corporations, giving the country percentage share of foreign affiliates in the European Union seems to tell a story of substantial "European" activities. Table 1 provides the list. In parenthesis is the number of home companies on the *World Investment Report* list of the one hundred companies (the actual names of the companies are listed in the third column).

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[33] Wilkins (2005), "Dutch Multinational Enterprises." On the other hand, Keetie E. Sluyterman (2005), *Dutch Enterprise in the Twentieth Century* (London: Routledge), 225, found that after 1985, the main focus of Dutch investment shifted "back to Europe." The European share increased from 34 percent in 1985 to 50 percent in 2000.

[34] *World Investment Report 2000*, 110 (for the list). Viewed from 2005, how different the picture looks. For example, Orange was acquired by France Telecom in 2000 for $46 billion and Scottish Power would divest PacificCorp in 2005. *World Investment Report 2000*, 110 (Mannesman-Orange); *World Investment Report 2001,* 244 on French Telecom's acquisition of Orange. On the Scottish Power reversal, see Scottish Power, Proposed Sale of PacifiCorp, Letter from the Chairman, June 30, 2005. In 2006, in a cross European transaction, the Spanish company, Iberdrola made an offer to buy Scottish Power. Iberdrola and Scottish Power, "Recommended Cash and Share Offer for Scottish Power PLC by Iberdrola, S.A." Nov. 28, 2006.

[35] *World Investment Report 2006*, 273.

Table 1 The world's 100 largest non-financial transnational corporations (TNCs), 2002. Percentage share of foreign affiliates in the European Union, by home economy (in parenthesis, following the home country designation, is the number of companies on the 100 largest list; these are listed in the third column)

Home country (# of TNCs)	% of all foreign affiliated companies represented in European Union	Company name
Belgium (1)	77.53	Interbrew
China, Hong Kong (1)	71.43	Hutchison Whampoa
Ireland (1)	67.14	CRH PLC
Italy (3)	66.66	ENI Group, Fiat, Telecom Italia
France (14)	61.08	Total Fina Elf, Aventis, Pinault-Printemps Redoute, Publicis Group, LVMH Moët-Hennessy Louis Vuitton, Alcatel, Saint Gobain, France Telecom, Danone Groupe, Suez, Renault, Carrefour, Vivendi Universal, EdF
Sweden (1)	59.52	Volvo
Australia (2)	59.09	BHP Billiton Group, News Corp.
Germany (13)	58.56	Deutsche Post, Siemens, BASF, Bayer,E.On,BMW, DaimlerChrysler, ThyssenKrupp, Bertelsman, RWE, Volkswagen, Metro, Deutsche Telekom
United States (26)	52.61	Ford Motor Co., IBM, Philip Morris Cos., Abbott Labs, Procter & Gamble, ExxonMobil, Johnson & Johnson, Hewlett-Packard, GM, Pfizer, GE, Coca-Cola, Dow Chemical, Du Pont, Motorola, Chevron/Texaco, Merck, Alcoa, AOL Time Warner, ConocoPhillips, AES, McDonald's, Verizon Communications, Wal-Mart, Duke Energy, NTL
Switzerland (5)	51.06	Nestle, ABB, Novartis, Roche, Holcim
Finland (2)	51.00	Nokia, Stora Enso
UK (12)	45.77	Royal Dutch Shell, AstraZeneca, Unilever, BP, GlaxoSmithKline, British American Tobacco Group, Diageo, Anglo American, Vodafone Group, Reed Elsevier, National Grid Transco, Scottish Power
Canada (4)	43.01	Alcan, Nortel Network, Thomson Corp., Canadian Natl. Railway Co.
Spain (3)	40.37	Telefonica, Repsol YPF, Endesa
Netherlands (5)	36.83	Royal Dutch Shell, Unilever, Philips, Reed Elsevier, Royal Ahold
Japan (7)	35.39	Mitsui & Co., Hitachi, Sony, Matsushita Electric Industrial Co., Mitsubishi Corp., Honda Motor Co., Toyota
Korea (1)	34.78	Samsung Electronics
Mexico (1)	31.43	Cemex

Source: UNCTAD (taken from *World Investment Report 2004*, 311, 279–280).

European home countries are highlighted in bold face. The numbers (in parenthesis) add up to 102, since in 2002 there were joint head offices: companies with joint headquarters were, Royal Dutch Shell, Reed Elsevier, and Unilever (UK/Netherlands), all three listed twice. The UNCTAD list had only ninety-nine companies rather than one hundred, this accounts for the numbers totalling 102 rather than 103.

What does this table tell us? In 2002 multinational enterprises from eight European countries (Belgium, Ireland, Italy, France, Sweden, Germany, Switzerland, and Finland) had over 50 percent of their affiliates (by number of affiliates) within the European Union. On the other hand, multinational enterprises from the United Kingdom, Spain, and the Netherlands had greater diversity in the numbers of their affiliates abroad. There is a logic in this: the United Kingdom and the Netherlands are open economies with long colonial histories – and global interests. Spanish companies had recently made very large investments within Latin America. On the other hand, one must be warned that "number of affiliates" may not be a good measure and more important, lists of this sort are very "date specific." Thus, in 2004, Interbrew – the Belgian firm with the highest percentage of its interests in the 2002 European Union (15 countries) – invested $11 billion in taking over (or perhaps combining with) Brazil's multinational beverage company, AmBev. Interbrew disappeared, replaced by InBev, but surely with a far lower percentage of affiliates within Europe.[36]

Clearly, Europe is a large host to multinationals from within Europe and outside Europe. But can Europe as host ever define a multinational enterprise? While virtually all the studies of European business seem to define the European corporation, business, firm, etc., by its *headquarters within Europe*, but there are exceptions. For example, in his paper, "The European Union and the Firm: Modes of Interaction," Vassilis Pesmazoglou included under the rubric of European firms, "subsidiaries of transnational corporations with production plants in Europe."[37] If we do this, suddenly, we are changing the rules of the game. Does a firm by virtue of having plants within Europe, become a "European firm"? Moreover, for Pesmazoglou firms could be more or less "European-minded."[38] Pesmazoglou's interesting essay is on how business in Europe is affected by the European Union and how business is reacting. Should that, however, define a "European firm"? And, can we (or should we) break off a part of a US or Japanese multinational enterprise – and call it "European"? Within the literature on multinational enterprises, there has long been an awareness that firms emerge within the broader rubric of the multinational enterprise; that defining the firm is not always clear.[39] I do not think,

[36] On the merger, *Miami Herald*, July 23, 2005; *Economist*, Mar. 6, 2004; and Goldstein, "Emerging Multinationals," 98.
[37] Vassilis Pesmazoglou (1997), "The European Union and the Firm: Modes of Interaction," in Dritsas and Gourvish, eds., *European Enterprise*, 285.
[38] Ibid., 286.
[39] See Mira Wilkins (1986), "Defining a Firm: History and Theory," in Peter Hertner and Geoffrey Jones, eds., *Multinationals: Theory and History* (Aldershot: Gower), pp. 80–95, and Hubert Bonin,

however, it is appropriate to abandon the home- country-adjectival designation for the multinational.

Contribution of Theory

Alan Rugman has insisted that there are no (or very few) global companies; instead, companies operate predominately in the region that they do business. He does not apply this only to Europe, but to North America and Asia as well. He concluded a study published in 2005 that "most of the world's largest firms are stay-at-home multinationals. The great majority of multinational enterprises (320 out of 380 with available data) have, on average 80 percent of all their sales in the home region of the triad [Europe, United States, and Japan]. The world of international business is a regional one, not a global one."[40]

If, for example, the bulk of the business of a Swedish, French, German company is done within the European Union, should that host region be now called "home"? I do not think so. It has been accepted by students of multinational enterprise that in the process of expansion, ceteris paribus, firms go first to the more familiar locales – geographically, culturally, economically, familiar. This tends to minimize what has been recently referred to as the "liability of foreignness." This insight is applicable to what we are seeing now within Europe. As European integration has occurred, as cross border activities within Europe become more familiar, transaction costs are lowered, and the liability of foreignness is reduced. Yet, the tendency to invest nearby would in certain cases be offset by the recognition of growing opportunities around the world as well as by the new openness within an increasingly integrated Europe. Many foreign direct investments have been stimulated by jumping the barriers to trade. As these barriers are cut within Europe, perhaps one would expect less rather than more direct investment, or alternatively, direct investments of a different composition. In any case, one would anticipate some kind of ebb and flow – rather than a continuing concentration in the European Union region. And, this, too, is what we are seeing. I find Rugman's figures of interest (and important), but not in the way he wants to interpret his results.

What does this have to say about the legitimacy of speaking of a part of Europe, the European Union, as a united home or united host, as the *World Investment Report 1991* and Rugman have suggested.[41] My own view is that at some point in time – when (if) the Euro is adopted by all the members and when (if) there is a

Yannick Lung, and Steven Tolliday, eds., (2003), *Ford, 1903–2003: The European History*, 2 vols. (Paris: P.L.A.G.E.), wherein there a discussion of Ford "firms" in Europe – parts of a multinational enterprise, but subject to separate historical analysis (firms within firms).

[40] Alan Rugman (2005), *The Regional Multinationals* (Cambridge: Cambridge University Press), 240.

[41] The *World Investment Report 1991*, argued that during the 1980s, the European Community had increased in importance in the Triad in its outward foreign investments: so much intra-European investments had taken place that it was "possible to conceive of the region as a single, integrated

general acceptance of Brussels as the superseding national government authority, then we can perhaps legitimately speak of the EU as a home. The rejection of the European Constitution does not bode well for that possibility. Until then, it is my view that it is still necessary to look at national homes and hosts, albeit I think it is far more revealing to look at the development of unified hosts than the unified home – and try to discern trends in this regard.

Closing Reflections

There is much to be discussed on whether it is legitimate to consider Europe (rather than individual nations) as home and host. Harm Schröter began his January 2004 project proposal with the argument that during the nineteenth century *national* economic integration created *national* firms, and *national* markets. Did fifty years of European integration create a European firm or traces of it?

Among students of the history of multinational enterprises there have been lengthy discussions on the genesis of business over borders: when did multinational enterprises begin? I have long argued that the modern multinational enterprise as we know it today began in the late nineteenth century; in general as firms became national, so too they spread over borders and became international.[42] Schröter's commentary on the nation to region sequence prompted me to push this notion back in time, from *city-state*, to nation, to region.

Political scientists (and some historians) point to the Treaty of Westphalia (1648) and the concept of nations.[43] That date, 1648, has never meant very much to me in studying the history of multinational enterprise. Among students of the history of multinational enterprise, the precursors of the modern multinational enterprise – with direct continuities and overlaps – lay in the banking and trading institutions that go back to the thirteenth century.[44] Decades ago, I suggested that some prototype

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home and host region for foreign direct investment to the rest of the world." *World Investment Report 1991*, 33.

[42] Wilkins (1970), *Emergence of Multinational Enterprise*; Mira Wilkins (2001), "The History of Multinational Enterprise," in Alan M. Rugman and Thomas L. Brewer, ed., *The Oxford Handbook of International Business* (Oxford: Oxford University Press), 6; Mira Wilkins (2005), "Multinational Enterprise to 1930: Discontinuities and Continuities," in Alfred D. Chandler and Bruce Mazlish, eds., *Leviathans: Multinational Corporations and the New Global History* (Cambridge: Cambridge University Press), 51–79. See also Alfred Chandler (1977), *Visible Hand* (Cambridge, Mass.: Harvard University Press) and his (1990) *Scale and Scope* (Cambridge, Mass.: Harvard University Press) and Jones (2005), *Multinationals*, 20. This "classic model" (sometimes called the "American model") was *not* always the case; there were variations, as, for example, with free standing firms, which provided a different pattern of multinational development. Wilkins and Schröter, *The Free-Standing Company.*

[43] See, for example, Stephen J. Kobrin (2005), "Multinational Corporations, the Protest Movement and the Future of Global Governance," in Chandler and Mazlish, eds., *Leviathans*, 221, and Kobrin's contribution to the *Oxford Handbook of International Business*, 184

[44] This was the view of Charles Wilson, Charles Kindleberger, and Rondo Cameron. See citations in Wilkins (2005), "Multinational Enterprise to 1930," 47ns. 7–8.

trading firms could be found in the history of Sumer, as far back as 2500 BC.[45] Much more recently, Karl Moore and David Lewis have written on the birth of the multinational enterprise as going back to at least two thousand years before the current era.[46] Their book made an impression on students of international business, but historian Herman Van der Wee appropriately remarked that it was odd to talk about international business or multinational enterprise in a era before there were nations.[47]

If, in our dealing with the earliest business over border, we focus on the city-state rather than on the country or even the empire, what happens with business over borders becomes more meaningful. This is true whether we study in ancient times, Sumer, or Tyre, or Carthage, or in medieval times, Florence, or Venice. Using the city rather than the empire or the nation as a handle on the study of business structures may help a great deal in our understanding.

Here is not the place to elaborate on this, except to note that it took a long time for nations to take shape and their emergence coincided with the development of the modern multinational enterprise. So, too, potentially, there may be – in the future – a Europe, united by a common currency and a common political system (a common constitution that for inter-regional matters overrides national law). That one region – one community – has still not emerged. Until it does, I hesitate to adopt the notion of the European enterprise. And, when (or if) it does will the term multinational enterprise (with its *national* component) fit the new era any more than it did with the era prior to the rise of the nation state?

[45] Wilkins (1970), *Emergence of Multinational Enterprise*, 3.
[46] Karl Moore and David Lewis (1999). *Birth of the Multinational: 2000 Years of Ancient Business History – From Ashur to Augustus* (Copenhagen: Copenhagen Business School Press).
[47] The remarks, made at a conference in 1999, are quoted in Wilkins (2005), “Multinational Enterprise to 1930,” 47n.5.

Common European Assets: A Japanese View on the ‘European Enterprise’

Takafumi Kurosawa

Introduction

The purpose of this paper is to provide a ‘Japanese perception’ of European enterprises. This is a very general theme that encompasses all the points of the argument in the entire book; thus, it is not possible to provide an empirical examination. Instead, this paper will explore the answers to the following four questions: (1) Is the ‘European company’ visible in Japan? (2) If not, why? Is Europe’s extreme diversity a reason for this lack of visibility? (3) What kinds of implications arise from the activities of Japanese subsidiaries in Europe? (4) Is it possible to extract a Europe-wide commonality by considering the historical interaction between the geographical environment and the competitiveness of enterprises?

Are ‘European’ Enterprises Visible in Japan?

The raw data used for the analysis here is taken from Nikkei Telecom21, the database of *Nihon Keizai Shimbun* (*Nikkei*), which is the most influential economic press in Japan. Calculating the total number of articles containing the keywords ‘European firm/company/enterprise’ revealed the following. The total number of articles containing these words was approximately 200 each year. This number is approximately 20 % greater than the number of articles containing the keyword ‘multinational enterprise’ but 25 % less than those containing the keyword ‘*Oubei* (European and American)’. It accounts for only about one-fourth of the total number of articles containing the keywords naming individual home countries. Further, this tendency has remained almost unchanged in the last 25 years. This shows that ‘European enterprise’ has been used as a general term in the mass media but individual companies are still perceived as being linked with their home countries. This tendency is confirmed by various search engines. For example, Nokia, Phillips and Calfour are recognized as Finnish, Dutch and French companies, respectively, and not as European ones.

H. G. Schröter (ed.), *The European Enterprise.*
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In academic literature, the 'European enterprise' is not accepted as much as it is in the business world. In the periodicals database of the National Diet Library,[1] most article titles containing the term 'European Firm/Company/Enterprise' appear to deal with the Societas Europaea (SE) and the policies of the EU. Between 2001 and 2005, only 22 articles referred to the companies themselves. On the other hand, the total number of the instances of the keywords 'multinational enterprise' (325), 'global enterprise' (150) and 'European and American enterprise' (59) are all far greater than those of 'European enterprise'. Additionally, the cases in which the names of home countries appear are common.

What lies behind this perception? The following can be a possible explanation for the attitudes of the general Japanese public towards the European enterprise.

First, FDI in Japan, in which European enterprises conduct direct operations targeting Japanese consumers, is rare. There are a few well-recognized enterprises that had been operating globally prior to European integration. Most such enterprises associate their corporate identity with the positive image of their country of origin in their marketing strategies in Japan, regardless of its later developments. In addition, the interpenetration of large businesses in the service sector that directly deal with consumers, such as retail and telecommunication, has been perceived by Europeans as Europeanisation. However, this movement is inconspicuous from outside Europe.

Second, there is a difference in the understanding of regionalism and globalization. Among the Japanese, the interest in globalization is greater than that in regionalism. There is hardly any argument in Japan for linking the weakened national framework with the emergence of regional enterprises since the regional integration in East Asia does not involve significant political entities. The characteristics of *Oubei* companies are discussed in Japan in the context of globalization. The term *Oubei* has become increasingly prevalent in the last few decades and is considered more precise than 'Western'. By using *Oubei*, the perceived difference between European and American enterprises is diminished.

What of the recognition of this issue among researchers? A great amount of research on European enterprise and management has been conducted; however, most of it is in Japanese. The majority of this research focuses on a specific European enterprise or industry or on a specific country. Collected papers and textbooks on European enterprises emerged in as late as 2001,[2] but these also examine countries separately. Thus far, European business history has been no more than a patchwork of national business histories. Among the literature on management as well, many analyses have been conducted on the cross-border M&A, multinational activities of European firms, the integration of SME policies and the convergence of accounting systems; however, none explores whether these will produce a European enterprise.

[1] http://opac.ndl.go.jp/index.html.

[2] Watanabe, H.& Sakudō J. eds., (1996) *Gendai yōroppa keieishi* (*Business History of Modern Europe*), Tokyo: Yūhikaku. Hara, T. ed., (2001). *EU keiei-shi* (*Business History of the EU*), Tokyo: Zeimu Keiri Kyōkai. Business History Society of Japan, eds., (2005), *Gaikoku keieishi-no kisochishiki* (*Business History in the World : Basic Facts and Concepts*), Tokyo: Yūhikaku.

This limitation is partially due to the fact that the researchers' study areas are affected by the languages in which they are fluent.

Diversity in Europe as Perceived by Japan

Does the situation described above explain the lack of recognition of the European enterprise by the Japanese? This is probably not the case, because a great amount of Western literature also points to diversity in Europe, including the difference between the countries and the sub-regions within Europe.

In Michel Albert's analysis,[3] which triggered the discussion on the typology of capitalism in the 1990s, the Anglo-Saxon model and the Rhineland model were juxtaposed. Japan was included in the Rhineland model and, therefore, the uniqueness of Europe was obfuscated. Among later research on a similar topic, Bruno Amable's analysis is the most comprehensive and is noteworthy.[4] Among his five typologies of capitalism, namely, (1) the market-based model, (2) the continental European model, (3) the social-democratic model, (4) the Mediterranean model and (5) Asian capitalism, Amable indicates that the market-based model is the only one that exhibits typological characteristics clearly; the typological characteristics of the other four regional typologies can be unclear, depending on the target domains or indices.

This conclusion coincides with those of various studies in Japanese.[5] By comparing the differences between continental Europe and the U.K., the differences between Europe and East Asia are diminished. Unless the definition of Europe is confined to the highly developed core economies in the heart of continental Europe, the typological homogeneity of European capitalism is limited.

The same applies for enterprises themselves. Analyses on the institutional framework and the reality of ownership structure, corporate governance and management control reach the same conclusion. The German system of two-tier governance is observed only in Europe. However, the analyses focusing on the reality, rather than the legal framework, point out more similarities than differences between Japan and Germany, and quite often juxtapose them with the Anglo-Saxon model.[6] The contrast in the concept of enterprise between the U.S. and U.K. with their Property Concept and Japan, Germany and France with their Entity Concept is striking. Similarly, Europe, excluding the U.K and Scandinavian countries, shares a similarity in terms of M&A and related legislation with Japan. A truly 'European' enterprise is not visible, as far as elements such as 'multi-layered' ownership, golden share

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[3] Albert, M.(1991). *Capitalisme contre capitalisme*, Paris: Seuil.

[4] Amable, B.(2003). *The Diversity of Modern Capitalism*, Oxford: Oxford University Press.

[5] For example, see Watabe, R. (2003). *Anglo-Sakuson moderu-no honshitsu* (*The Nature of the Anglo-Saxon Model*), Tokyo: Diamond.

[6] Abe, E. (2004). What is Corporate Governance? The Historical Implications, in: Fitzgerald, R. & Abe E. eds., *The Development of Corporate Governance in Japan and Britain,* pp. 1–8, Aldershot: Ashgate. This understanding is also common among the Japanese literature.

provisions, and the bank-enterprise relationship are concerned. It is true, of course, that as European countries experienced reforms since the 1990s, they moved closer to the American model that emphasizes shareholder value; this resulted in convergence in Europe. However, the same tendency is also visible in Japan.

What of organizational structure? It is unclear whether the conclusion stated above is applicable, for example, to the diffusion and character of multidivisional organizations and holding companies. Nevertheless, it is difficult to deny that regional differences within Europe and inter-industrial differences are quite significant. If the focus is shifted from intra- to inter-business organization (network) and to market structure, the same result will be attained.

Is the hypothesis that family businesses are more prevalent in Europe valid? This theory is quite enticing, since in Japan, the influence of family management in major businesses declined significantly after the post-war reform. However, it is difficult to find Japanese literature that quantitatively verifies distinctive European characteristics by comparing them with those of Japanese companies.

Despite the above conclusion, there exist some indicators that place Europe between Japan and Anglo-Saxon countries when specific aspects of management such as the length of time and the degree of individualism are considered. These popular assertions are also confirmed by the general academic view in Japan. Yet, such a comparison is usually only limited to companies in certain European countries, with a few exceptions made for cultural analyses on management;[7] thus, the issue needs to be explored further, in order to be substantiated.

Is there another area in which uniquely European characteristics can be observed? The social values reflected in corporate organizations may be one such area. Despite the diversity within the region, Europe is distinctively characterized by a tendency towards either a welfare state or a rigid labour market. The worker is a major stakeholder in Japan as well; however, this is because employees and management share a similar identity, which is entirely different from the European-specific concept of equilibrium between capital and labour.

In conclusion, the adage 'East is East, and West is West' cannot be applied to many decisive elements for the typology of enterprises. It is common that intra-continental differences are greater than inter-continental differences, with a few exceptions such as labour management.

Europe as a Host for Japanese Enterprises

In the above analysis, corporate activities across national borders were excluded. It is obvious that the operations of enterprises transcend national borders. Considering that Europe is a geographical concept, it should not be directly linked

[7] Hampden-Turner, C. & Trompenaars, A. (1994). The seven cultures of capitalism: value systems for creating wealth in the United States, Britain, Japan, Germany, France, Sweden, and the Netherlands, London: Piatkus.

to the enterprise typology. Rather, it should be positioned as the environment for enterprises that mutually interact with them.

Next, the operations of Japanese subsidiaries in Europe will be analyzed. The problems here are two-fold: (1) to what degree do they regard the European market as unified or homogenous? and (2) to what degree are they local/national (for example, British) or European? Or are they simply either Japanese or global?

FDI by Japanese Companies in Europe and Market Integration

The history of FDI in Europe by Japanese enterprises dates back to the pre-war period, if the history of trading companies is also included. However, the full-fledged entry by the Japanese manufacturing industry occurred in the 1970s.[8] The electronics industry was the first manufacturing industry to begin investing in Europe; after 1984, the automobile industry (Nissan) followed suit. In most cases, the production base was concentrated heavily in the U.K. The factor that triggered overseas production was trade friction. With the exception of the U.K., the operation was aimed at the market in the host country. The factories in the U.K. were relatively large, and their products were exported to other European countries. The reasons for the concentration of the production base in the U.K. were its language, market size, EC membership, financial and transport convenience and flexible employment practices. For the Japanese multinationals, pre-1990 European markets posed the problem of a significant lack of uniformity, such as differences in customer preferences and disconnection in product standards, as well as industrial and trade policies.

After 1988, the rapid appreciation of the yen and the establishment of a common market in 1993 were the two drivers of the sharp increase in Japanese FDI. With the voluntary export restrictions triggered by the Japan-EC auto pact in 1991, the other Japanese auto assemblers (Honda and Toyota) undertook FDI. In 1993, Suzuki started local production in Hungary. Throughout the 1990s, as a result of the spread of investment destinations and industries, there emerged cases not only of greenfield investment but also M&A. During this period, FDI was channelled in pursuit of optimum locations within Europe, due to the existence of a unified market. Because of the later timing of entry in Europe compared to the U.S. enterprises, Japanese companies incorporated market integration as a premise at the very beginning. In the 1990s, exports from destination countries to other European countries were increasing. In the 1990s, the sourcing ratio of European countries outside the host country was at about 11 % (electronics industry) and 3–4 % (automobile industry) on average.[9]

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[8] Mason, M. & Encarnation, D. eds., (1994). *Does Ownership Matter? Japanese Multinationals in Europe.* Oxford: Clarendon Press. Hasebe, S. (1987). Yōroppa denshi sangyō- to nihonkigyō-no shinsyutsu, (Electronics Industry in Europe and Japanese FDI) in: Sasaki, T. & Esho, H. eds., *Denshi sangyō-no kaigai shinsyutsu,* Tokyo: Hosei University Press, pp. 109–161.

[9] Oishi, T. (2002). Nihon Seizougyō kigyō no oushū genchi houjin no choutatsu katsudou (Procurement of Japanese Manufacturing Affiliates in Europe), in: *Kochi Ronsō* (*Kochi University Review*

Japanese FDI in Europe peaked for the second time at the end of the twentieth century. With the introduction of the Euro, the impact of the Asian economic crisis, the downturn in the American economy and the improvement in the investment environment in central and eastern European countries, Europe became the biggest investment target for Japanese enterprises. Countries such as Hungary, Poland, the Czech Republic and Slovakia became important new production bases for automotive components and electronic products. As a result of the overall increase in European production, more companies began to set up production bases in continental Europe.

Regional Control Companies in the Context of Integration and Diversity

Japanese companies introduced regional control companies (RCCs) in order to institute organizational countermeasures against the establishment of a common market. Until the mid-1980s, divisions of major Japanese companies set up European production; however, coordination among the plants was poor and sales affiliates also existed in each country. Many companies established RCCs after the late-1980s in order to coordinate the functional duplication of overseas affiliates. The establishment of RCCs reflected not only the market factors of European integration but also that of the investing companies, i.e. the quantitative expansion of the European business of Japanese multinationals. Many of the firms that established RCCs in Europe also set them up in North America and Asia at around the same time.

The functions of the RCCs reflect the diversity and integration of the market environment in Europe. Most of the RCCs did not possess substantial control over production, but they had strong control over sales and marketing, with some exceptions. In some instances, RCCs were mere branch offices of the divisions of the parent company. The roles common to all the RCCs are staff functions and coordination. These were a necessity of Europe-wide coordinated activities such as the collection of policy information, compliance, the consolidation of information networks and logistics. Sophisticated European-level coordination was implemented particularly in the logistics sector, in which supply chain management was increasingly important, and also in the financial sector. In addition, many companies such as Canon, Sony and Matsushita set up pan-European bases, distinct from the RCCs, for their different functions: financial offices in London or Frankfurt, logistics offices in the Netherlands, lobbying offices and holding companies in Brussels, etc.

The antonym of ‘diversity’ is ‘homogeneity’, not ‘integration’. The process of European integration should be seen as a change from ‘diversity and separation’

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of Social Science), Nr.74, pp. 77–108. For information on RCCs, see Oishi, T. (2002). Nihon Seizougyō kigyō niyoru chiiki toukatsu genchi houjin no genjyou (The Foundation of the Regional Headquarters in Japanese Manufacturing Firms), in: *Kochi Ronsō* (*Kochi University Review of Social Science*) Nr. 75, (2002), pp. 43–73.

to 'diversity and integration'. Even with the establishment of the common market, the disparity among investment environments persisted. In order to exploit the comparative location advantages, investment continued to be concentrated in specific countries, regions or cities for each function. Although the similar location strategies are also practiced in Japan and the U.S, the intra-regional diversity of the investment environment in Europe is much larger, especially in the areas of employment practice and consumer market characteristics. It must not be disregarded that the local content requirement criteria were different in each country even after the emergence of the common market; the power and the authority over direct investment are still retained by each national government.

It is not surprising that the establishment of the RCCs is part of the global restructuring of multinational companies. Intensive production at optimum locations and simultaneous product introduction on a global basis are pursued, particularly in the electronics industry. The electronic industry is characterized by modular product development and speedy product innovation. This is the reason the electronic RCCs rarely control the production. On the other hand, the RCC functions of the automotive industry encompass R&D and production and are more substantive; this is because inter-continental market differences are more prominent, and the global division of labour is difficult in the case of automobile production. Despite this, the advantages of the Japanese automobile manufacturers in Europe are based on the Japanese production system.

As mentioned previously, RCCs in Europe seldom possess the independent characteristics of European enterprises. With regard to their organizational structures, the reality of the European operations of Japanese multinationals reflects their globalization rather than their Europeanisation.

Company-Specific Competitive Advantage and Environments

Japanese electronics and auto manufacturers enjoy competitive advantages in terms of the Japanese production system (JPS) and various product innovations. The JPS has universal applicability in its principle, but is a product of the evolutional process of adaptation to the home country-specific environment (the demand for diversified products in a small market, ambiguous job demarcation, etc.). In the European market, the necessity for diversified batch and/or small series production suited the JPS, but the rigid employment practices and suppliers' behaviour did not. Therefore, the Japanese manufacturers chose the form of greenfield investment and concentrated their investment in the U.K. and Ireland, where employment relations are the most flexible (i.e. least typically European). They also modified the system to adapt to the local conditions and created a hybrid production system.[10] Since the allocation of resources was different for European producers, few of them adopted the JPS. The

[10] Kumon, H. & Abo, T. eds., (2004). *The Hybrid Factory in Europe: The Japanese Management and Production System Transferred,* Basingstoke/New York: Palgrave Macmillan.

same applies to product innovation, which has been directly imported from Japan. Since its introduction in the 1990s, the R&D activities of the Japanese electronics and automobile producers in Europe have been limited mainly to marketing-related areas, such as formulating the optimal designs to accommodate local consumer preferences and European standards.

The opposite can be observed in the FDI of Japanese chemical firms (which are most typically undertaken as M&A, rather than greenfield investment) and their R&D in Europe.[11] The FDI of the Japanese chemical industry is smaller than that of the electronics and automotive industries in terms of total amount, but has been the largest R&D sector in Europe since the mid-1990s. Their R&D is usually conducted in collaboration with European universities, in which most of the researchers involved are European, and long-term development is being pursued. In Europe, they do not possess any company-specific competitive advantages, and instead strive to attain environment-specific competitive edge.

Common Historical Assets for European Enterprises

Home Country Originated Competitive Advantage

The above-mentioned relations suggest that the concept of competitiveness is useful in linking geographical concepts and enterprises.

In strategic management research, analyses focus on the conditions by which companies acquire sustainable competitive advantages. For example, Margaret A. Peteraf takes the so-called 'resource based view', stressing the role of a company's rents, which are difficult for its competitors to gain.[12] This view offers a valuable insight: If the competitive advantage of a company has roots in its geographic features or the specific historical context of the region (i.e. historical environment), it is possible to regard it as a 'home country originated competitive advantage'. In the context of our research, this can be called an approach in the pursuit of common European historical assets (or liabilities).

This approach has an inherent advantage in that it can clarify the nationality and regionality of a company, which may exist despite the globalization of its operations, human resources, ownership and other stakeholders. Further, it is also beneficial in dealing with the *de facto* diversity that enterprises exhibit. This occurs because there are a number of ways to adapt to the given environment – the results of which may not be the same. In this respect, it is meaningful to group various enterprises according to environment-specific advantages, which has been transformed into enterprise-specific competitiveness.

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[11] Oishi, T. (2003). Nihon Seizougyō kigyō niyoru kenkyuu kaihatsu genchi houjin no setsuritsu jyoukyou 'The Foundation of the R&D Affiliates in Japanese Multinational Enterprises', in: *Kochi Ronsō* (*Kochi University Review of Social Science*) Nr.76, pp. 103–132.

[12] Petaraf, Margaret A. (1993). The Cornerstones of Competitive Advantage: A Resource-based View, in: *Strategic Management Journal*, Vol.14, No.3, pp. 179–191.

The reason why the *historical* environment, rather than environment, is at stake here is that only an analysis containing historical causal relations can reveal the uniqueness of Europe to highlight the contrast with the Japanese case. Furthermore, the historical environment also sheds light on how corporate activities create the environment itself. Additionally, it can – although only relatively – easily position British society within Europe, which has always been a troublesome factor for the above-mentioned analyses, and can further compare with U.S. British social principles and culture (such as common law, universal and short-term oriented market transaction practice, English language and Protestantism) were implanted in the U.S.; however, in terms of the historical environment without those factors, Europe, including the U.K., contrasts remarkably with the U.S.

What, then, are the common European assets (or liabilities) and what are the European-specific competitive rents nurtured by European history? Albeit hypothetical, these four points will be discussed: (1) the 'unity in diversity' of Europe; (2) the characteristics of European society *per se*; (3) the Europeanisation of the world and (4) its features as the first modern society and as an industrialized, mature, high-income economy.[13]

Unity in Diversity and Diversity in Unity in Europe

The most striking characteristic of Europe as a region is how each element of diversity is unified. Erick Lionel Jones sees the *states system* as a major factor for the European 'miracle' in modern history.[14] Europe is a vertical and horizontal conglomerate of stratified autonomous communities, in which competition among the nations coexists with human mobility beyond borders; all the countries stimulate one another. Economic boundaries do not necessarily overlap with political and cultural borders. Neighbouring cultures are quite similar, but separately identified (e.g. European languages).

Diversity suggests the coexistence of fragmented small markets. This was a negative factor for the competitiveness of European enterprises in the world market. The situation changed after the emergence of the common market, by which the scale of the home market was turned into an 'asset'. Since the market retains the cultural diversity, many local companies still enjoy the advantage, though outsiders have also been able to benefit from it.

Further, despite the handover of sovereignty to the EU in many areas, each European country casts a vote in many international organizations, which lends greater clout to Europe in proportion to its actual market size. A considerable share of Nokia's success is attributable to the *de jure* standard policy of the EU and the global leverage of European standards.

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[13] Watanabe's work makes many suggestions on these points. Watanabe, H. ed., (2000). *Eōroppa no hakken. (Discovery of Europe: Border and Market in Regional History)*, Tokyo: Yuhikaku.

[14] Jones, E. L. (1987) *European Miracle. Environments, Economies, and Geopolitics in the History of Europe and Asia*, Cambridge: Cambridge University Press.

Diversity, however, often works positively. Within Europe, the cultural and institutional diversity is large enough to attain cross-border experience to adapt to foreign markets, such as involving different languages, legal systems, business practices and consumption patterns. On the other hand, the diversity is not large enough to block penetration into the neighbouring countries within the area. An example of FDI into a culturally similar area of a neighbouring country is typified by Swiss companies' investment in Germany, by which they gained experience in managing foreign subsidiaries. Even now, Europe has a pool of human resources that transcends national borders and training venues for multicultural communication; as a result, European companies can often boast of advantages in international networking capabilities.

Unlike Europe, the Japanese market is homogenous. Although the cultural diversity of the American market is large, it is not geographically structured. For Japanese and American enterprises, a market has only two categories: domestic and foreign; the foreign market refers to the overseas market (except for Canada and Mexico for U.S. firms). Additionally, a large domestic market diminishes the priority accorded to external markets. For example, a comparison of the human resources strategies of food businesses in the Japanese market suggests that the managers of Nestlé and Unilever made a longer commitment than those of their American counterparts.[15]

From this perspective, even if some of the European enterprises are more multi-domestic than multinational, this aspect is not inconsistent with their 'European-ness'. From the Japanese perspective, a company that is multi-domestic is, without much difficulty, regarded as somewhat European. The *free standing companies* in Europe that are generally considered to have few national attributes can be also considered likewise.

The Characteristics of European Society per se

As mentioned earlier, 'European-ness' is expressed by the importance of social values and the explicit legal and substantial protection of employees. These attributes reflect of European-unique class concepts, an orientation towards equality and solidarity principles. It is evident that this is crucial for competitiveness, as seen in the example of the production system. Another example is the cooperative, where egalitarian principles directly form an enterprise. Especially in Mediterranean countries, cooperatives are common compared to Japan and the U.S.

The European consumption style is remarkably stable in comparison with that of other regions. In addition, it is connected with the cultural hierarchy and the monarchical and aristocratic heritage of European society. These consumption patterns and social structures support the advantages of European products or brands in the

[15] Kuwahara, T. et al. (2005). Keieishi gakkai dai yonjyuu ikkai zenkokutaikai tougi houkoku (Discussion Summary, The 41st Annual National Meeting at Kobe Univeristy) in: *Keiei shigaku (Japan Business History Review)*. vol. 40, No. 3, pp. 44–67.

up market segment. They are conspicuous in the luxury car market and are most notable in brand-name markets (e.g. Christian Dior, LVMH, Richemont, Hermes, Burberry, Royal Copenhagen and Gucci/PPR).

The European consumption pattern has a strong orientation for accumulation; more specifically, there is a high expenditure propensity for long-life durable goods such as house, furniture and household equipment. For example, this is the source of competitiveness for Grohe, Europe's largest sanitary fittings manufacturer. Another orientation is a low spending propensity for food and functional consumer durables. When compared on the same income level, the expenditure on electric appliances in Europe is far smaller than in Japan; this has disadvantaged European manufacturers.

European culture also emphasizes the value of maturity. This contrasts sharply with the Japanese and the U.S. cultures, which have peculiar dominance in 'juvenile goods' and amusement services, for example, the Japanese gaming industry and the entertainment empire of Walt Disney in the U.S.

In Europe, the historical continuity of social cultures is distinct, while spatial mobility is limited. The identity of the residents is rooted in local communities with very strong historical identities and memories (e.g. landscapes). It contrasts sharply with U.S. and Japan. Together with the leisure demand from the above-mentioned 'social' elements, it forms the basis of Europe's tourism industry. It is further linked to environmental considerations, which reflects the competitiveness of firms. The dominance of European companies in wind power generation (e.g. NEG Micon, Vestas, EnerCom and Gamesa) is a typical example.

The Europeanisation of the World

One difficulty in clarifying the 'European' model is that Europeans transplanted their cultures and established copies of their social model in their colonies throughout the world. This relationship with the outside world can itself be regarded as a uniquely European feature. As a result of this, enterprises in Europe have similar, easily accessible markets worldwide.

Colonization was pursued by the individual colonial powers, but the colonies were common assets of Europe. For instance, Swiss and Nordic companies could penetrate into the colonial markets using the infrastructure and the military protection offered by the European colonial powers.[16]

The most crucial aspect of the Europeanisation is the language factor, which is obviously the decisive competitive element. Language becomes more important as a trend towards service economies develops. In the case of manufacturing industries, where production and consumption are spatially separable, language is of secondary importance since products speak for themselves in terms of their material,

[16] Witschi, B. (1987). *Schweizer auf imperialistischen Pfaden. Die schweizerischen Handelsbeziehungen mit der Levante 1848 bis 1914*. Wiesbaden: Steiner.

function and appearance. In contrast, the service sector usually requires verbal communication throughout the process of value generation. Japanese companies' weakness in the finance and service sectors, which contrasts sharply with the competitiveness of the Japanese manufacturing sector, is not coincidental.

The global linguistic landscape has a prominent impact on the internal organization of companies as well. Outsourcing back-office functions to low-wage English-speaking countries such as India is rapidly becoming a trend; this is one of the ways in which corporate organizations are making changes. Similar moves are observed between Japan and China, but full-fledged implementation is yet to be seen because of the Japanese language barrier. In the case of European companies operating in European languages without any linguistic hinterland, the situation can be positioned in between English-speaking and Japanese companies.

European integration is (unintentionally) resulting in the growing influence of the English language. Outside the former British colonies, English is most commonly accepted in Europe. Ironically, if a 'European company' were ever to come into existence, it would be a product of the Anglicization of Europe. Similarly, it is possible to regard the high adaptability to Americanization in general as a common characteristic of European enterprises.

Colonization entailed the transplantation of consumption patterns; an example is Calfour's success in Latin America. It emulated its own successful penetration into Spain by following similar consumption patterns and languages. However, it failed in Japan in just five years, due to the different consumer behaviour there.

The Europeans exported the social hierarchies of their home countries into their colonies and acted as quasi-aristocracies as regards cultural norms. In other words, colonization enhanced Europe's consumption patterns from a mere regional culture to a dominant one vis-à-vis other consumption cultures. The dominance of European firms in the up-scale market is the result. Undoubtedly, the former colonies also generate competitors, but the European companies can capitalize on their 'genuineness' and traditional craftsmanship. The brewing/wine-making industry is the most typical example of this behaviour.

On the other hand, in the case of Japanese companies, it is difficult to link history and tradition to product image. For example, Tokyo Tūshin Kōgyo was obliged to rename itself Sony and the luxury brands of Japanese car makers (Lexus, Acura and Infiniti) all have un-Japanese names; these measures were taken in the pursuit of success in the American market.

In the mineral resources and energy sectors, Japanese firms are not at all competitive. The former colonial powers and the victors of the World Wars are still dominant. Although most of the mining giants should be classified as Anglo-Saxon or as *free standing companies*, the fact that firms like BP, Royal Dutch Shell, and Total possess inherent rents from the colonial age is undeniable.

Although the linkage with colonization is unclear, many Japanese managers regard India as a difficult market; employees with experience in European markets are considered for positions in this market. Research on Ajinomoto, a Japanese food producer, shows that the distribution of condiment cultures, i.e. the amino acid cultural area (East and Southeast Asia) and the fat and oil cultural area (others), was

decisive in its marketing strategy.[17] In this case, the dichotomy of Europe versus Asia is not relevant at all.

Accumulation of the Past

The more latecomers develop, the more clearly are the areas that are hard to catch up with revealed. Scientific research is one such area. For example, the number of post-war Noble laureates in the natural sciences is only nine in Japan and zero in Korea, which are extremely small numbers when compared to those in the U.S. and major European countries. Analyses on long-term technological development suggest that countries with long academic traditions can retain their dominance in highly knowledge-intensive sectors based on their past accumulation.[18] Pharmaceutical and chemical industries are typical examples, where long-term incremental innovation and continuous improvement by workers is meaningless. The advantage of European pharmaceutical companies such as GlaxoSmithKline, Roche, Novartis and AstraZeneca and chemicals companies such as BASF, Bayer, Akzo Nobel and Solvay over the Japanese companies is evident. Japanese companies are exceptionally competitive in electronics-related chemical materials, but that is a derivative of the electronics industry, which has a different innovation pattern.

Europe's feature as a group of mature, developed, high-income countries is manifested on the demand side as well. A typical example can be seen in private banking service. In the case of stock-poor Japan, this area was almost non-existent until very recently.

Conclusion

As a result of its diversity, it is not easy to grasp the characteristics of Europe. This difficulty holds true particularly in the case of enterprises. This is because enterprises are different from regional societies in that they have their own aims and functions. They emulate one another intensively to survive and disappear if they are not efficient enough. Although it may be possible to verify Europeanisation, many of the elements are all just one aspect of globalization.

Nevertheless, it is possible as well as meaningful to indirectly link 'Europeanness' with enterprises. The focus on the geographical attributes of competitiveness and the historical causal relation makes it possible to link the geographical concept to companies. From the Japanese perspective, European companies are distinguishable from Japanese ones in that they have Europe-unique historical assets.

[17] Ota, S. (1996). Ajinomoto no Kokusai Māketingu. Shokubunka tono kakawari ni oite (Food Culture and its Impact on the International Marketing of Ajinomoto) in: *Keizai-Ronso (The Economic Review)*, Vol. 158, No. 3. pp. 302–318.

[18] For example, Numagami, T. (1999). *Ekishō Display no Gijutsukakushin-shi (History of Liquid Crystal Display Technology)*, Tokyo, Hakutō Shobō.

Part II
Impact of Brussels

Defining a European Vehicle: Community Standards as Integration Tools or Trade Barriers for European Enterprises?

Marine Moguen-Toursel

This paper is intended to examine the progressive and chaotic emergence of European specifications for vehicles since the 1960s. How did European institutions select, in connection with economic partners such as carmakers, the criteria for defining European products? How did they implement a decision-making process to adopt Community standards for these products? In what sense did negotiations on a gradual opening of the European market for Japanese imports imply a renewed approach to the definition of a European vehicle? Additionally, a question underlies the whole paper: are Community vehicles specific products that stand apart from national and global ones? This is connected to the question of pre-existing models: predominant national models inside the European Communities, and strong models outside, whether international or American ones.

Our paper is divided into two parts. The first one concerns the decision-making process: Does a safer European vehicle exist? Is it specifically European? What have been the reciprocal roles of firms and European authorities in this process? The second one deals with the nature of these standards: what has been the selection of criteria for a European product? Once elaborated, have these standards been tools for a more integrated Common Market or trade barriers placed to fend off rival industrial groups (in particular Japan for the decades 1980s and after)? Did European automobile firms react as a coherent group when they felt under attack in the context of a growing Japanese danger? And how did European carmakers try to work together to determine the level of imports of Japanese vehicles to be accepted for entering the European Communities and the rule of origin for products (in particular in order to deal with the peculiar case of Japanese factories settled in the European Communities and employing local workers).

Defining Community Vehicle Specifications: The Context of European Harmonisation of Standards for Motor Vehicles

Since the 1960s a process of harmonisation of national standards on the European level was in operation. European institutions were increasingly concerned with competition, safety, and pollution issues. They wanted to define new standards for

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vehicles (cars and trucks) in order to allow them to circulate on European roads while at the same time being safer and less polluting. The process applied to commercial vehicles (their weights and dimensions, and so on) as well as private cars (their safety, energy consumption, and noise emission). The idea of building a vehicle which fit these new requirements was first expressed in international administrations (in particular the European Commission for Europe of the United Nations – UNECE – in Geneva), but without leading rapidly to efficient results. Then, it was undertaken by European institutions, which considered it from the mid-1960s as one of their priorities. To which logic did this process answer? Was it the result of a successful compromise between persons involved? What were the main steps of its implementation?

Even if the consideration of road safety[1] had its roots in previous decades, it really became a key notion starting in the mid-1960s. The demand for improved road safety and passenger protection in an accident was really strong, partly because of a new orientation of the wishes of consumers and partly because of new regulations on these fields. Carmakers were investing a lot to make innovations. Since 1970, legislation began to come into conformity with these expectations. Carmakers were in favour of the implementation of harmonised standards on a Community level. They regularly criticised the wide diversity of regulations and standards. In practice, they had to modify each car assembled on their production lines in order to adapt it to the country to which they were exporting, which was very costly for them.

Since the adoption of the directive-framework on type-approval of motor vehicles on February 1970, numerous directives appeared on weights and dimensions of vehicles, tyres, brakes, safety glasses, lighting and signalling equipment, permitted degree of noise, and so on. Taken together, these measures represented a substantial step forward on the road to the abolition of obstacles to intra-Community trade in vehicles.

The number of people involved in road safety issues was growing during the 1970s (insurance, carmakers, and so on), but consumers' associations did not take part to discussions held within the framework of working groups at that time. These working groups considered that research on accidents had to be taken into account by government and industry when thinking of the design of a new car or new legislation. For example, the European Enhanced Vehicle-Safety Committee (EEVC) was founded in October 1970. It was composed of representatives of member-state governments,[2] national research laboratories and industrial experts, to work on car collisions. An observer from the European Commission also took part in the meetings. First studies on road safety were motivated by the demand of public opinion to avoid injuries on roads. The EEVC analysed the different impacts on bodies in

[1] For the environmental dimension, Cf. Marine Moguen-Toursel, "Strategies of European Automobile Manufacturers Facing Community Environmental Standards", *Business and Economic History-On Line,* Vol. 1, 2003. (http://www.thebhc.org/publications/BEHonline/2003/Moguen-Toursel.pdf).

[2] France, Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom.

order to establish a hierarchy of the different injuries that were possible. It tried to define trends for the vehicle design based on the tolerance of bodies observed. The American standard (American Motor Vehicle Safety Standard) was quoted as a reference for the committee's work. The European Communities sponsored the research. The work of the EEVC was not isolated. The Committee on the Challenges of Modern Society of NATO collected statistics on accidents and analysed them for the purpose of implementing coherent standards. These networks and working groups exchanged information and lobbied regulators. Their aim was to help carmakers to produce less dangerous cars, without increasing production costs by too much, and also to give advice to legislators.

Strong Interests Involved

We can thus observe a large and growing consensus in favour of better road safety. But, can we notice a convergence of interests between actors involved? In order to evaluate the stakes and the decision-making process in relation to these issues, we focus in particular on the case of weights and dimensions of commercial vehicles.

During several decades, the attempts at harmonisation among European countries proceeded only very slowly. The Convention on road traffic agreed to in Geneva within the framework of the United Nations Economic Commission for Europe (Working Party 29) on 19 September 1949 was the starting point for international attempts to draw uniform rules concerning the weights and dimensions of vehicles in international traffic. The text of the Convention, which was rather general, soon became inoperative. The European Conference of the Ministers of Transport (CEMT) was given charge of this issue. During a meeting in October 1960 at the Hague, a resolution was adopted which was very close to German prescriptions. Among EEC member states, Italy and the Netherlands did not accept the proposal; meanwhile the Federal Republic of Germany and France[3] ratified it. Therefore, at the beginning of the 1960s, there were several documents whose ambition was to implement new standards on this issue. But their prescriptions were notably different, and none of them was used as a text of reference by all European countries. Despite real attempts of the European Commission to see these negotiations reach an end, some aspects of the issue, such as the determination of the axle weight for trucks operating in the European Economic Community, did not reach any solution at all.

Two groups were opposed to one another: those in favour of ten tons by axle load on the one hand, and those on the other who were in favour of 13 tons by axle load. The latter constituted the majority for some time.

The European Commission, which was in favour of 13 tons, moved to a preference for ten tons in July 1962. But, after the consultation in the Economic and Social Committee of the European Communities on 24 April 1963, and the European

[3] France decided to reverse its position and not to ratify it anymore in 1963.

Parliament, on 18 October 1963, which were both asking for 13 tons by axle weight,[4] the European Commission modified its position.

In May 1964, it proposed 13 tons by axle while postponing this measure coming into effect until after 1 January 1974. On 22 June 1964, the Council did not reach any agreement on the proposal. The opposition between Germany and the Netherlands could never have been overcome.[5] The Council only foresaw a procedure of bilateral agreements between member states for the circulation of vehicles in Europe. Nevertheless, on 22 June 1965, the Commission impressed on the Council the need to speed up the bilateral negotiations on solutions which would make it possible temporarily to maintain the two systems in force for maximum axle load in international transport between member states.[6] Finally, on 18 May 1972, a compromise was reached between the six members of the European Community on 11 tons by axle load. But it had to be put aside because of the strong opposition of the three new member states, in particular the United Kingdom.[7] The Council did not even reach an agreement on a future period for discussing this issue.

We can explain the slow and halting negotiations (first centred on 13, and then on ten tons by axle load) by virtue of the fact that governments did not want to give to transport by road the conditions to become more competitive than transport by rail. Two conceptions were opposed: French and Italian considered that transport by road had to be competitive; meanwhile other member states did not want to pay more for road infrastructure (which could be necessary give a heavier axle load) and wanted to keep a real balance between transport by road and by rail.[8]

The harmonisation process on this issue was marked by influential countries, like Germany, whose national Minister of Transport wanted the implementation of standards which were close to American ones. For a few years from 1955 onwards, Germany adopted the American standard of eight tons. But later on, after a strong and successful lobbying by the associations of carmakers and industrialists on the

[4] The first body allowed traffic of 13-ton trucks on Community roads, while the second one allowed them on all roads of EEC countries.

[5] Press Conference ADPVI, 19 July 1971, Personal Documents of Paul Berliet, Marius Berliet Foundation (Lyon).

[6] 9th general report on the activities of the Community (1 April 1965–31 March 1966), Common Transport Policy, Weights and Dimensions of Commercial Vehicles, Library of the European Commission (Brussels).

[7] "The British refused to increase their 10-ton limit and the Danes wanted to keep their limit at 8 tons" according to "Transport Unity drive", *The Economist*, 13 December 1975. But we have to highlight the fact that truck makers represented by the SMMT and haulage contractors plead repeatedly for bigger vehicles. See "Truck makers seeking higher weights limits", *The Times*, 11 September 1974 and "Pressure to allow heavier trucks on British roads", *The Times*, 14 October 1974.

[8] Marine Moguen-Toursel, ≪ Lobbying, compromis, rapprochements transversaux : les manœuvres autour de la définition d'un nouveau code européen pour le transport routier (1950–80) ≫, in Marine Moguen-Toursel (ed.), *Stratégies d'entreprise et action publique dans l'Europe intégrée (1950–1980) : affrontement et apprentissage des acteurs / Firm Strategies and Public Policy in Integrated Europe (1950–1980 : Confrontation and Learning of Economic Actors*, Brussels, P.I.E.-Peter Lang, 2007 pp. 165–192.

Ministry of Industry and the Chancellor, this standard was put aside. A heavier standard was introduced which was closer to the standards adopted by other member states of the European Communities.

The existence of such dead ends, which lasted sometimes as long as 15 years, explains why Community institutions wanted to modify the functioning of their legislative tools and, in certain case, to develop new tools.[9] In January 1976, the Directorate-General for Transport abandoned the idea of a general limit for weights and dimensions, and tried to define one or several types of vehicles considered to be "European". The types of vehicles which could circulate in member states would correspond to several characteristics considering: dimensions (length, width, and height); a total authorised weight of probably around 40 tons for five-axled vehicles; a maximum axle weight of 10 tons; a power/weight ratio of probably 7 horsepower per ton; safety; comfort; and impact on environment (noise, pollution).

This vehicle would be the only one to be matriculated in the European Community and have access to all member states.[10] This definition of a "concrete vehicle" and this possible compromise between Britain and the rest of the Common Market of a maximum truck weight of 40 tons would strike the right balance between environmental and economic needs according to M. Barrie Heath, vice-president of the SMMT.[11]

Did this Community Process Imply Vehicle Modifications? According to Which Models?

The important number of people working on this matter and the strong interests involved can contribute to explaining the difficulties and delays in finding solutions.[12] Nevertheless, technical harmonisation has been realised for three different categories of vehicles: private cars, motorbikes and tractors, and extended to commercial vehicles, buses and coaches on 14 September 2003. Altogether, more than one hundred directives concern their building and functioning. Therefore the field

[9] The ruling from 20 February 1979 given by the European Court of Justice allowed in some cases to substitute mutual recognition of national regulations to their harmonization, this latter being often paralyzed by the unanimity regulation prevalent in the European Council. With the Single Act of 1987, the Commission obtained that the Council decisions which concerned European regulatory and technical harmonization be decided under the majority process and not under the unanimity process anymore. The obstacle constituted by national technical rules was therefore progressively suppressed by the improvements made by European Institutions.

[10] Jacques Vestraete, "Vers un poids lourd européen de 40 tonnes sur 5 essieux", *Officiel des Transporteurs*, 27 December 1976.

[11] Ian Hargreaves, Industrial staff, "A 40-ton lorry limit "just right" for EEC", 12 January 1977.

[12] Later on, the issue was regularly discussed by the presidents of the EEC Commission of ministers of Transport without reaching a compromise. Finally, the directive of 24 July 1986 introduced from 1 January 1992 11,5 tons for motor axles, except United Kingdom and Ireland which maintained temporarily 10,5 tons.

of vehicle safety improved the most in the Community legislation along with other areas involving road safety (attitude of drivers and road infrastructure).[13]

Was the elaboration of Community standards influenced by pre-existing models? We have to distinguish here between international working groups and American influence.

Concerning international working groups, the most detailed work on road safety was done at the Economic Commission for Europe of the United Nations in Geneva. Their guidelines were implemented in 1952 after the emergence of automobile safety as a significant United Nations concern during the 1949 Convention on Road Traffic that designated vehicle failures as a principal cause of road traffic accidents. The WP29 remained an important market of ideas for European Commission officials seeking to formulate vehicle regulations. Most of the time, Community directives were similar to the prescriptions of the United Nations. The present trend is to simplify the EU legislation according to the UNECE one.

Concerning the American model, our perception is that European countries tried to adopt a new approach on this issue which was different from the American one, even if they used data collected by the Americans and constantly relied on American context and solutions as guidelines. Effectively, the United States had already been confronted with similar problems some years before Europe. But European countries failed in rapidly developing and elaborating European standards because strong opposing points of view among the market players (industrialists, states, European Community, and so on) who were involved. Sometimes after several decades, they managed to pass through difficulties while having elaborated new regulatory tools and new principles for the European decision-making process. Community standards could converge with American ones (for instance for weights and dimensions of commercial vehicles), but it was not always the case: European environmental standards were fundamentally different from American ones. The evolution had been dependent on several factors. Europeans had been pragmatic and had chosen standards adapted to their specific context. Sometimes the evolution was more related to the choices of the most prevalent actors (for instance, the German Minister of Transport). In any case, this choice was a complex combination of public policy, society expectations, and industrialists' interests.

European Standards as Trade Barriers

Our second part is devoted to commercial policy aspects, in particular the way European carmakers revised the definition of a "European car" in the context of the fear of the European market being overwhelmed with Japanese cars during the 1980s, and the acceptance (or not) of their ideas by the European Commission.

[13] Considering the getting of driving licenses, the price of new cars, the repression of infractions to driving rules, or the car technical inspection, we have to conclude that despite some improvements, a wide diversity of practices in Europe is still in operation. Cf. Patrick Fridenson, "Etendue et limites de l'Europe automobile", *Entreprises et Histoire* n°33, October 2003.

Context

In the 1980s, European countries had unbalanced trade relations with Japan. It was due in part to a monetary problem since the yen was largely undervalued. Its upward revaluation was a frequent demand from French carmakers during the 1980s, since currency undervaluation meant that Japanese car production cost was in average 20 percent below European prices. But the unbalanced trade relations also involved an industrial problem. European car makers' productivity, for instance, was inferior to Japanese productivity. But huge social differences gave Japan a competitive advantage: for example, the number of effective hours worked was 2100 per year in Japan, whereas it was only 1600 in Europe in 1992. Nevertheless, we have to highlight the fact that the trade system implemented by the Japanese was a bit peculiar: they concentrated their efforts on some sectors while protecting their own markets.

Since 1988 and the Single Act, the necessity to continue on the path of European integration led to the elaboration by the Delors Commission of the elimination of "non-European" costs. Practically, the issue involved the suppression on 1 January 1993 of physical, fiscal, and technical obstacles to intra-Community exchanges. This project meant the complete suspension of restrictions which several individual European countries had applied against Japanese products. They had the choice of stopping imposition of any restrictions on Japanese car imports or extending them to the Community level.[14] Even if some European Commissioners had more industrial sensibilities, the existence of the Single Act and its implications did not give them much room for manoeuvre.

Exclusion of Automobiles from GATT Negotiations

This was a recurrent demand from European carmakers starting in 1972 especially from the French side. Their counterparts in the UK, in Italy, and in the Netherlands accepted this position with some reservations. Only the German professional organisation was clearly opposed to it. Finally, a common position in favour of an exception of the automobile sector was expressed in the framework of the Tokyo round. This position was particularly hard to defend, in particular because French negotiators chose to support agricultural interests rather than industrial ones. And the European Commission considered that the automobile constituted a much too important sector to remain outside the negotiations. At the end of the 1970s, it was commonly assumed that commercial vehicles could be considered as exceptions, but it would be difficult to extend this exception to private cars. The British (SMMT) and Italian (ANFIA) professional organisations insisted nevertheless on asking for this exception. Considering that the United States and Japan did not want to offer concessions

[14] Laurence Massenet (Responsible for international relations of the French automobile organization, the CCFA or Comité des constructeurs français d'automobiles), ≪ Chronique d'une ouverture annoncée ≫, *AutoActualité*, 20 December 1999.

to Europe, European civil servants decided to strengthen their negotiation attitude and asked for the inclusion of vehicles (both private and commercial) in the list of exceptions. In April 1979, commercial vehicles were maintained on the list and the tariff of private cars was only reduced by one point (reduction from 11 to 10 percent).

Community Import Quotas Replacing National Ones?

Before 1992–93, most European markets had national quotas for vehicles imported from Japan. In France, the quota represented three percent of the market. It was unofficially implemented starting already in 1978, but its existence was made public when Valéry Giscard d'Estaing, the French president of the Republic, expressed during the automobile show in Paris in 1980 the idea that, considering the strong commercial disequilibrium between France and Japan, Japanese penetration would not be authorised to exceed three percent. In practice the quota was handled by the Ministry of Industry in collaboration with the Ministry of Transport. Five Japanese carmakers[15] discussed with them how to distribute import quotas twice a year. In the UK, the quota was 11 percent of the market, which was quite high. It was negotiated between the British and Japanese professional organisations, the SMMT and the JAMA, in meetings which also took place twice a year. These are the only two limitations which existed in terms of market segments.

Italy adopted a legal quota, which was consolidated in the GATT. It is expressed in number of cars. It was established in the 1950s when Japanese carmakers were frightened by the arrival on its market of small Italian cars. They proposed to Italy a limitation of access to 2000 vehicles per year. The principle was accepted by Italians if they were allowed to impose the same treatment to Japanese cars on their market. Spain and Portugal had an agreement on import limitations of the same kind as the Italian one.

The German case was rather interesting. The country was never considered as having import quotas. It would not correspond to its economic philosophy, which was characterised by a very liberal approach with strong export interests. But Germany wanted to defend its economic interests, too. Volkswagen had a position very similar to French and Italian carmakers on this issue. Mercedes and BMW were among the most liberal, but were not opposed to the conclusion of a self-limitation agreement. In fact, the penetration rate of Japanese vehicles in Germany never surpassed 15 percent. It was a stable penetration rate throughout the 1980s.

EEC member countries had to abolish their national quotas on Japanese imports by 1 January 1993. But the fear was that a complete opening of European markets to Japanese products would create very strong pressure on industry, in particular in terms of employment. In 1990, the Japanese penetration, whose rate was 10, 9 percent on the Community market on its whole, was very high on "open" markets:

[15] Toyota, Nissan, Honda, Mazda, and Mitsubishi.

30 percent in Belgium and in the Netherlands and 40 percent in Ireland. In this context, a transitional period was considered as necessary to avoid difficulties on the European market and allow European carmakers to raise their international competitiveness.[16] But industrialists feared that the European Commission put aside the different import quotas without presenting a Community system as efficient as national agreements in France, Italy or the UK. They proposed that national solutions should become part of a Community-wide system. Finally a global system of restrictions was implemented in 1993 and was valid until 1 January 2000.

It was difficult to reach this solution because within the framework of the World Trade Organisation the principle of non-discrimination was the rule. It was only possible to maintain this EEC/Japan quota because it was concluded before the World Trade Organisation came into force. Officially, there was no negotiation between Europe and Japan on a gradual opening of the European market. The role of the European Commission in this issue was ambiguous because of strong opposing positions among member states. Nevertheless, it monitored the discussions and searched for an agreement with the Japanese ministry of Industry.

The EEC-Japan Agreement

French carmakers had strong positions on this issue, and especially PSA Peugeot-Citroën and its president, Jacques Calvet. German carmakers were progressively more interested in an agreement when Japanese imports of big cars increased on European markets, which were more in competition with their own production. Therefore, they adopted a more conciliatory attitude towards French demands. Surprisingly, Italian carmakers were not very active on this issue. French carmakers put pressure on their government and on the European Commission. Both were in favour of a conciliating treatment towards French industry. The German Commissioner for Industry (Directorate General 3) Martin Bangeman wanted to negotiate directly with Japanese representatives. He organised a dinner with European car producers in order to obtain their agreement, but did not invite Jacques Calvet. Carl Hahn (president of Volkswagen), Raymond Lévy (president of Renault) and Umberto Agnelli (president of Fiat) rejected the agreement proposed by the European Commission, which would have signified a penetration rate of 18 percent.

Edith Cresson, French Minister for European Affairs, asked carmakers about their aspirations on this issue. Raymond Lévy, at that time president of the Committee of Carmakers of the Common Market (hereafter CCMC),[17] organised a meeting with Volkswagen, Fiat, PSA, and Renault. The group was known as the

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[16] 3 May 1994, L'arrangement CEE-Japon du 31 juillet 1991 (ou ≪ Les éléments de consensus ≫), private archives, Christian Casper (PSA Peugeot-Citroën Delegate for European issues during the 1980s).

[17] European carmakers (Fiat, Volkswagen, Peugeot, Renault, Citroën, British Leyland and Daimler Benz) implemented in 1972 the CCMC. They did not invite subsidiaries of American firms in Europe to take part.

"European Generalists". In December 1990, a document was elaborated, co-signed by Carl Hahn, Raymond Lévy, and Umberto Agnelli,[18] which relied in particular on the idea that the market share attributed to the Japanese would be adapted to growth in the market. Additionally the document called for reciprocal access to Japanese markets and the maintenance of restrictions for a ten-year period (and not five as suggested by the Commission). But it was not accepted by PSA which would have preferred that the Japanese penetration remained stable, without accepting any compromise. The CCMC split up at that time because of the opposition of Jacques Calvet. In November 1990, PSA prevented the structure from adopting a system of qualified majority voting (requiring a 75 percent threshold). A new structure was created for representing European carmakers, the ACEA.[19] Within two weeks of its constitution (February-March 1991), it produced a united policy paper on Japanese imports. Clearly the new organisation was an expression of a pre-negotiated position on Japan.[20] (. . .) The ACEA document reflected a compromise between the Commission's position and that of the "European Generalists". The manufacturers retained their requests for continuing national controls and reciprocal access to Japanese markets. However, they compromised in three areas. First, they increased from 10 to 15 percent the EC market shares to be allowed to Japan during a transitional period. Secondly, they reduced their demands for a transitional period from ten to seven years (the Commission had been insisting on only five years in its June 1990 proposals). Thirdly, the producers accepted in principle that the market should be completely free of restrictions after a transitional period. The document also requested that any growth or downturn in the EC market should be shared by "agreed principles" between Japanese and European producers.[21]

Negotiations were undertaken at that moment by the European Commission. They led to the elements of consensus of 31 July 1991. The basic idea was to open up markets while at the same time giving time to carmakers to raise their productivity. The agreement was to be valid from 1990 to 1999 while offering a monitoring of Japanese imports. Every six months their exports were analysed and their objectives by country could, if the economic context was bad, be lower than in the Elements of consensus. The evolution of Japanese exports should be "smooth and progressive". Carmakers feared a strong penetration in the two most restrained markets (France and Italy), which were also most oriented towards small cars.

[18] 18 October 1990, Europe-Japon, Position des constructeurs ≪ généralistes européens ≫, private archives, Christian Casper.

[19] Association of European Car Makers (only PSA refused to take part) implemented in February 1991 after CCMC and Liaison Committee have merged. Meanwhile the CCMC was composed by European automobile firms, the Liaison Committee of Car Makers (CLCA) was constituted of national organizations of the car industry in Europe, as well as American, Japanese, and Swedish members.

[20] Andrew McLaughlin and Grant Jordan, "The Rationality of Lobbying in Europe: Why are Euro-Groups so Numerous and so Weak? Some Evidence from the Car Industry" in S. Mazey and J. Richardson (ed.), *Lobbying in the European Community*, Oxford, Oxford University Press, 1993, p. 149.

[21] *Financial Times*, 21 March 1991.

The final text adopted in late July 1991 corresponded very closely to the main elements of the ACEA document.[22] The transitional period was seven years. Japanese EC market share should only increase from 12 in 1991 to 17 percent by 1999. Moreover, the agreement allowed the more protected EC car markets to expose their domestic industries to greater Japanese competition gradually by informally implementing sub-ceilings. The EC and MITI have agreed to discuss the issue formally every six months and adjust in case of a downturn or an upturn in the EC market. The most significant difference between ACEA's position and the final agreement was over the question of Japanese transplants[23] in the EC. Despite opposition from other EC states and ACEA's suggestion that they be included in the overall quotas, the Commission met the demands of the UK government.

Carmakers criticised the Elements of consensus, which were ambiguous, did not give a definition of a Japanese car, did not establish clearly the link between exports and transplant production, did not take into account the imports of Japanese cars produced in third countries and did not give any solution to the problem of commercial surplus registered by Japan towards its most important commercial partners.

The ACEA adopted a position on this agreement. It asked for 15 percent penetration rate in 1999, which corresponded to the German percentage. Finally, the negotiation ended up around 16 percent.

The Definition of a European Vehicle: Type-Approval Procedure and Notion of Local Content

According to the rule on free movement of products in the European Community, a vehicle produced in Italy or in France can be exported freely to all EEC countries, providing it has successfully passed through the type-approval procedure. The adoption of this principle was in no way a problem for European carmakers. For Community institutions, it was important to show that the type-approval procedure functioned well on a product as important as a car.

But carmakers, and notably French ones, were opposed to the wish of the European Commission and some member states (the Netherlands and Germany) to extend this procedure to third countries, in particular Japan and, more recently, Korea. These countries considered that, according to the rules of the GATT, third countries' products could not receive less favourable treatment than Community ones. Therefore if a Japanese car was accepted in a country of the European Community, it could freely circulate among member states. In the context of a growing Japanese danger, French carmakers agreed only on the application of this procedure if their national quota of three percent was maintained. The non-acceptance of imports from other member states in this context was the only tool for France to respect

[22] Andrew McLaughlin and Grant Jordan, op. cit.

[23] Production made by Japanese factories settled in Europe and working with a European workforce.

its import quota. The country was particularly opposed to the three last directives on the type-approval procedure and postponed its adoption.

The notion of local content does not make sense for European institutions. Once a tariff has been paid for a vehicle at the entrance in the Community, it can pass freely from one country to another. The European Community determines the origin by the location at which the last major manufacturing activity took place. This rule follows that recommended by the Customs Co-operation Council. Some countries, such as the USA, apply somewhat different rules depending on the purpose for which the country of origin is required to be specified. It was agreed in 1990 that the rules of origins should be reviewed in the GATT Uruguay Round.

In the framework of the CCMC, carmakers thought about the components for designating the origin of vehicles. Several criteria were examined, in particular brand and headquarters. Finally, brand and design were considered as the supreme criteria. These are rather subtle issues. For example, it was almost impossible to introduce an anti-dumping request to the GATT. Anyone introducing such a request would have had to buy a Japanese vehicle considered as equivalent, disassemble it, and estimate the value of the spare parts. But afterwards, what monetary exchange was to be applied? This was the reason why the criterion of brand was chosen.

In the 1980s, the calculation of vehicles produced in Japanese factories settled in the European Community was the key issue. For Japanese producers, the implementation of such factories was a way to avoid import quotas. Toyota, Honda and Nissan produced vehicles in the United Kingdom. The first important one was Nissan's factory, started in 1986. The British have always had a very political approach to this issue. More recently, Toyota established a factory in Valenciennes. The way this production was counted was rather subtle. It was a production that stood under monitoring. It was never officially counted, but was nevertheless taken into account for the quota calculations.

How was a Japanese vehicle produced in Europe defined? The French professional organisation expressed its wish starting at the beginning of the 1980s that the local content should be established at 80 percent and that the production and assembling of cars would be carried out in the European Community.[24] The British professional organisation considered that the first condition was not strong enough and that the second one was too strong. But the SMMT was embarrassed for adopting a strong position because of the agreement between British Leyland and Honda. The ANFIA shared the same embarrassment because of the agreement between Alfa Romeo and Nissan. The German professional organisation (the VDA) was opposed to any declaration from the Liaison Committee which would choose a percentage of local content that Japanese investors should respect. Nevertheless, CCMC and Liaison Committee sent a letter to Commissioner Braun (Directorate-General Interior Market and Industrial Affairs of the European Commission) to ask for the

[24] Nevertheless appear in the archives some doubts expressed by persons responsible for the issue in the French professional organization for obtaining a local integration rate more than 60 percent which is the level in vigour in the European Communities. They recognize that their room for manoeuvre is small.

determination of a higher percentage of European components. This proposal was put aside by the Commissioner Braun as “inadequate” considering current changes in the automobile industry.[25]

French and Italian producers wanted that Japanese factories incorporate European equipment and, furthermore, that the percentage of local content would have to be 80 percent to consider the product as European (and not 60 percent as the rule applied in the Community stipulated).

This idea was never accepted by Germans, British and Danes. It was also rejected by the European Commission which insisted on the legal problems posed by such a request, which was against the Treaty of Rome and the GATT (this was the position of Etienne Davignon). When they wanted to be conciliatory, European Commissioners proposed financial subsidies.[26] It is interesting to observe that despite this initial reticence, the European Commission adopted these principles on a temporary basis: it obliged Toyota until 1995 to cover 80 percent of its production value locally.[27] And this was a problem for the firm since, unlike Nissan, Toyota Japanese suppliers did not follow it to Europe, because they had already invested massively in the United States, where the production volume of the firm was constantly growing.

French and Italian carmakers tried to impose their views upon the European Commission in the case of the Triumph Acclaim, which was a Nissan-produced in the United Kingdom. French carmakers considered that it was a Japanese car (Japanese components amounted to 46 percent in value), and consequently its penetration on the French market should be counted in the three percent quota. Italian carmakers joined them in this point of view. Nevertheless, other carmakers did not agree and for the European Commission it was not possible to defend this attitude.

Concluding Remarks

For a long time we have seen more difficulties than progress in the elaboration of a specific European car. We have been impressed by strong conflicts of interests,[28] the difficulties of moving forward (even to discuss certain issues in the European institutions) and somehow the absence of the European Commission in regard to the issue, which was completely blocked by the attitude of the European Council (which reached a decision only when its members where unanimous at that time). Sometimes, the European Commission proposed a solution which was just an average of the different confronting positions which did not make any sense according to

[25] 14 April 1982, Answer of M. Braun to CCMC and CLCA, Documents 1976–1982 of the Department for International Affairs of the CLCA, private archives.

[26] 11 July 1981, Report of the Brussels Commission on the car industry, written by MM. Fauré and Marchipont, COM(81)317 final, Historical Archives Commission Brussels.

[27] Tommaso Pardi, ≪ Jenseits von Lohnkosten : Die Investitionsstrategie von Toyota in Europa (1989–2004) ≫.

[28] Jean-Louis Loubet, *Histoire de l’automobile française*, Paris, Editions du Seuil, 2001, pp. 459–464.

an industrial point of view. But during the 1980s, the European Commission took a more important role on these issues, while adopting new tools (in particular, majority voting for the Council instead of unanimity voting and volunteer engagements). In the end, if we consider car specifications, a European harmonisation has been accomplished. And Community directives, although influenced by the choices made by the Americans and International working groups, are rooted in the European context.

The elaboration of Community standards for vehicles, which was therefore chaotic and difficult, was one of the pillars of the implementation process of a Common Market and the competitiveness of its economic actors (carmakers operating on a bigger scale could reduce their costs).

Interestingly, during the same period (1980s and 1990s), the definition of European vehicles was also challenged from "outside" in the context of a growing Japanese danger and a new liberalised trade system (implementation of a Single Market and of the World Trade Organisation). French carmakers were particularly active trying to maintain import quotas and put more restrictions on the definition of European vehicles. If they managed to convince Italian and German colleagues for the most part, they were not followed by carmakers from other European countries. The European Commission had a rather ambiguous position since it had a small room for manoeuvre and did not want to penalise European carmakers, but on the contrary to facilitate necessary industrial changes. Therefore it accepted negotiating with Japanese authorities in a "grey zone".[29] But still it refuses to follow the wishes of European carmakers by going too far when their requests are incompatible with the content and requirements of the World Trade Organisation and the GATT.

[29] Negotiations not officially recognized.

Scotch Over Bourbon[1]: How British Principles of Accounting Became the Norm for Financial Reporting in Europe

Isabelle Lescent-Giles

The creation of the European Economic Community in 1957 triggered a long and painful process of economic integration, at first from the bottom up, through increased exchanges of goods, people and capital, then from the top down, with a renewed move towards common standards from the late 1970s. The euro was the most visible sign of increasing harmonisation. But equally important for European firms was the introduction in 2005 of a set of common accounting standards to ease comparisons between European firms and pave the way for more cross border takeovers.

Debate on the nature of these standards was hot. But in spite of the high stakes for European firms, it never caught the public attention is the way chocolate or cheese did. Even businessmen only realized the implications of the new rules until after they had been approved by the European Parliament in 2002. French banks led the charge to have them changed or delayed, but too late. All firms listed on the European stock markets had to apply the rules by 2006. Also surprising was the fact that European officials outsourced the drafting of these rules to an independent international agency based in London, the IASB (International Accounting Standards Agency).

This paper looks at how it happened and at the implications for European firms. While there was widespread agreement on the necessity to define a common set of rules for Europe's largest corporations (and in the long-term, through imitation rather than legislation, for the medium and small enterprises too), the debate centred on which rules to adopt. Should European firms simply adopt the US standards of accounting (US GAAP), which would facilitate listing on the New York stock exchange? Critics feared this might accelerate an already advanced process of Americanisation. But if a "European" solution was to be chosen, which standards should provide the basis for the new rules? Should it be the French or German standards, which had dominated the process of harmonisation in Europe until the 1980s? Or the British standards, widely recognised to be at the cutting edge of innovation, but based on a very different view of the nature of the firm, ran primarily

[1] Asked in March 2004 to describe the fight between America's accounting standard board and the International Accounting Standards Agency, FASB's chairman Robert Herz replied "I like one brand of Scotch, and Tweedie [IASB's Scottish Chairman] likes another".

H. G. Schröter (ed.), *The European Enterprise.*

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for shareholders and with a higher level of financial disclosure? Officially, the EU avoided more damaging national squabbles by turning to international experts to define the new European rules. In practice, because British influence within the IASB was so strong, Europe ended up with a largely British system of accounting, with traces of the American, French and German accounting tradition thrown in to rally support.

This article seeks to address four questions. First, what were the main differences amongst Europe's national accounting systems? Second, how did they compare to the American system of accounting? Third, how did the British system of accounting become the basis for Europe's common accounting standards? And last but not least, are these new rules likely to weaken national differences in Europe in terms of financial structures and strategies?

Two Hundred Years of Competition Between the British and the Franco-German Models of Accounting

Financial reporting emerged during the rapid industrialisation of the 19th Century. It was heavily influenced by national legislative frameworks with roots in Roman Laws (continental Europe) and common laws (Britain and the US). But accounting legislation did not mature until the first half of the 20th Century, when stock markets became major sources of outside capital. Everywhere, financial crisis and fraud led to tightened legislation. But each country rewrote the rules in reaction to a particular fraud or failure that made national headlines, so that national differences in legislation actually increased. The British 1947 Act, for example, outlawed hidden reserves in answer to the Royal Mail Line failure.[2]

French, German and British legislation served as blueprints for other countries. Their respective influence closely mirrored British, French and German economic and political clout abroad. British accounting influenced former colonies and territories (India, Canada, Australia), but also the Middle East, Asia and parts of Latin America. The French system was copied by Belgium, Italy and many African countries. German accounting was influential in Central Europe, Japan and France. In turn, German legislation was influenced by American accounting from the late 19th Century, as a result of massive US foreign direct investment (FDI) and later as a result of the listing of German multinationals on the New York Stock Exchange.

At first, the EEC was happy to leave national accounting systems well alone. But as Europe progressed on the path of harmonisation, experts started to look at the major differences in order to bring them closer together. Started in the late 1960s, this process became more of an issue after 1973, when Britain brought its own tradition within the EEC.

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[2] Lescent-Giles Isabelle (2004) Un siècle de Mésentente Cordiale. In: Bonnaud Laurent (ed.), France-Angleterre : un siècle d'Entente Cordiale 1904–2004. L'Harmattan, Paris.

Rules vs. Principles

Although markedly different, the French and German systems of accounting are usually bundled together by experts in classifications of world accounting systems. The reason is that both systems have their origin in Roman Law, and put emphasis on written rule books, updated at regular intervals to take in the accumulated experience of the previous decades. France's accounting legislation goes back to a Colbert Ordnance of 1773, requesting that traders keep daily records of transactions. It was incorporated in Napoleon's 1807 *Code du Commerce*, which also imposed the publication of annual accounts. Independent auditors were introduced by the 1867 Company Law on "sociétés anonymes" (limited liability firms). In Germany, legislation on financial disclosure dates back to the 1794 Prussian General Act. The General Commercial Code of 1861 required an inventory and a balance sheet. Legislation was tightened by the 1884 Stock Corporation Act and the 1897 Commercial Code.[3]

By contrast, the Common Law is at the heart of all British legislation.[4] Instead of a standard text laying the law in minute details, British accounting rules are a set of general principles and guidelines. Interpretation is left to the accountants and disagreements are resolved in court on the basis of past judgments and experience (jurisprudence). Although governments have played a major role in tightening standards since the 1970s, British companies have kept a large degree of autonomy in deciding what to disclose. Disclosure more often results from shareholder pressure than from government guidelines. For example, while German companies are now required to assess their environmental impact by law, British companies were the first to publish detailed environmental reports as a result of mounting shareholder pressure. The best in class also disclose the estimated cost of future pensions. As a result, British accountants acquired a leading edge in costing these factors.

Legislation Driven by Taxation vs. Investment

The main purpose of French and German accounting laws was to enable officials to assess tax accurately. Companies were therefore encouraged to adopt a standardized format of accounts to speed up the process. In Germany, most firms adopted a framework developed around 1900 and recorded by Schmalenbach in 1927 (Kontenrahmen). Transferred to France in 1942 and legitimised by the 1947 Plan Comptable, it remained the most popular framework for company accounts in France and Germany until the European 4th Directive of 1982.

In the UK, by contrast, the main driver of accounting legislation was stock market pressure. Throughout the 19th and 20th Century, well publicised frauds and

[3] Roberts et al. 2002: 292.

[4] Roberts et al. 2002: 97–126. That is true of classifications based on accounting variables (Mueller and Oldham), geographical spheres of influence (Seidler), multidimensional mapping (Gray) and hierarchical classifications (Nobes).

failures frightened potential investors and increased the cost of capital. As a result, firms sought to reassure investors that they provided a "true and fair" picture of the company's health. They disclosed more and more information. To be trusted, this information had to be drafted by professionals with high competence and morality. Accountants, like bankers, lawyers and engineers, set up professional bodies in the late 19th Century to defend their reputation.

In some cases, these different drivers led to similar results. UK companies had total liberty to present their accounts as they saw fit. But in practice, the consolidation of accountants into a handful of big firms promoted harmonisation too, with the adoption of a "generally agreed" format. But in other cases, these drivers pulled European national legislations apart. A major difference is estimates of revenues and profit and loss. In most of Continental Europe, companies use all legal means to minimize earnings in order to minimize taxes. Up front amortisation of fixed plant is one such way. And emphasis is put on the profit and loss account. By contrast, in the UK and the US, all financial accounts start with assets in the balance sheet. Companies have an interest in maximising assets, underplaying liabilities and emphasizing profits.

This also led to differences in accounting skills. The wave of cross border mergers in preparation for the 1992 Single Market revealed that French and German accountants lacked expertise in re-evaluating fixed assets or capitalising finance leases. On the other side, in Britain, publicly-owned infrastructures such as schools, hospitals and water companies laboured under a different set of accounting rules until the 1970s. As a result, British accounting rules largely ignored the needs of the public sector and unincorporated businesses. When the Thatcher government and its successors started to promote the use of private funds for financing public infrastructures (such as the Private and Public Partnerships), schools and hospitals had no accounting expertise and found it hard and expensive to raise funds.[5]

Self Regulation, Independent Regulatory Bodies or State Regulation?

France has a tradition of state regulation and would not dream of letting accountants regulate themselves. The National Accounting Commission (CNC) created after the Second World War was a division of the Ministry of Finance. Dominated by civil servants, it focused on data collection and economic planning and neglected corporate governance. Accountants are split in two professions: company accounts are drafted by professional accountants (experts comptables) and certified by independent magistrates (Commissaires aux Comptes) regulated by the Justice Department. The latter must renounce their charge if they take a job in industry (Roberts et al. 2002: 249).

[5] Peter Walton, accounting in the United Kingdom, www.drury-online.com; Walton Peter (2001) La comptabilité anglo-saxonne. La Découverte, Paris ; Walton Peter (1992) Harmonization of accounting in France and Britain: Some evidence. Abacus vol. 28, 2: 186–199.

Although German Law also forbids links between the auditor and the firm it audits, it allows for a greater degree of self regulation. But the real champion of self regulation is Britain. Accountants remain members of their professional bodies when they take up managerial roles in industry. Until the 1950s, they self regulated. They set up entrance exams to guarantee minimum standards, drafted rules and guidance and punished non compliant members.[6] This approach allowed British accountants to make the most of Britain's early lead in manufacturing and services and develop unique skills in accounting for firms with foreign operations and intangibles assets. They continued to thrive, export knowledge and men abroad and dominate the international accounting scene even after Britain slipped behind other countries in the GDP leagues.

On the surface, things changed after the 1950s, with more statutory control introduced in response to major financial scandals. But in practice, accountants still write the rules. They just learned to work within regulatory bodies such as the British Accounting Standard Commission and developed effective channels of lobbying within Whitehall and Parliament. They brought this knowledge of lobbying practices to Brussels after Britain's entry in 1973, building a reputation as reliable and effective experts in advising and drafting legislation. French and German accountants left the defence of their interests in Brussels to government ministers and were easily outmanoeuvred, discovering too late the implications of new legislation.

Historical Versus Current Value Accounting

The French and the German accounting laws require that fixed assets be declared at initial cost (purchase price or cost of investment). This is called "historical accounting". It reflects past company investment but does not take into account the "obsolescence" factor. Outdated plant and machinery bear the same face value as a best-in-class plant.

British accounting law also uses historical accounting. But the current thinking among UK accountants is favouring a move towards fair value accounting. An asset would be valued at the price it would sell if it was put on the market now. This would take into account the obsolescence factor and give investors a better picture of the company's current value. The downside is that this value, since the sale is fictitious, is difficult to assess. It is affected by current fads (steel plants come in and out of fashion at regular intervals) and market confidence. Another drawback is that it increases fluctuations in the company value from year to year according to factors outside the company control, such as land and building prices, and inflation. This is why German and French manufacturers have been so vocal in their opposition.[7]

Overall, French and German accounting share a common tradition. Britain offers a very different model. Since the 19th Century, the French and German models have

[6] It remains true today.
[7] Nolke and Perry 2005.

been very influential in Continental Europe. Their influence was pervasive in the European institutions from the 1950s until the late 1970s. But the entry of the UK into the Common Market in 1973 changed all that. Britain offered an alternative model. But was it its own, or a softer version of the US model?

US GAAP in Perspective: Common Roots with Britain, Divergence in the 20th Century

Since 1973, many French and German politicians and industry leaders have claimed that Britain is America's Trojan horse, pushing for the adoption of US generally agreed principles of accounting. This claim was politically expedient and rallied round opponents to "rampant Americanisation". But it was also very dangerous and mistaken. By claiming Britain played America's game, French and German politicians failed to realise Britain was playing its own card and were caught on the wrong foot. For the US system of accounting, although originally based on the same principles as Britain's, evolved in a radically different way in the 20th Century.

The British and American System Both Rely on the Common Law and on Stock Markets as a Major Source of Company Finance

British and American financial reporting are both geared towards giving investors a "fair and true" picture of firms. America's Securities Act of 1933, which created the Securities and Exchange Commission (SEC), vowed to provide "full and fair disclosure of the character of securities sold [...] and to prevent frauds in the sale thereof".[8] This may go a long way to explain the difference in attitudes to "disclosure" between American and British firms on the one hand, French and German ones on the other. British and American companies both favoured capital raised on the stock market rather than through banks or private lenders. The better the reviews from the rating agencies and analysts, the cheaper it became to raise funds. Transparency was key to business confidence, and voluntary disclosure was part of that. By contrast, secrecy is still a big part of business culture in continental Europe.

Britain and America also share a legislative culture based on the Common Law, while the rest of Europe remains under the influence of the Roman law. As a former British colony, the USA was heavily influenced by British economic thought and political culture. APB opinion number 4, one of the core standards of US accounting, drafted as late as 1970, refers to "principles" deriving from ≪ experience, reason, custom ≫.

But from the middle of the 19th Century onwards, US accounting moved away from the British model and followed its own distinct path.

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[8] Full text on www.sec.gov/about/laws/sa33.pdf.

But in the 20th Century, America Moved Towards an Increasingly Complex Rule Book to Curb Monopolies and Seek Protection from an Emerging Culture of Litigation

From the late 19th Century onward, the US federal government started to push through laws protecting minority shareholders and ordinary citizens from the power of big corporations. In 1929, the stock market crash caused the abandonment of British-style self regulation. The US moved steadily away from a system of compliance based on a few stated principles towards an increasingly complex rule book, with the SEC assuming in practice the role of standard setter. American companies were required to apply instructions issued by the Research Accounting Bulletins (ARBs) of the American Institute of Accountants. In 1953, ARB 43 brought together the first 40 bulletins. It remains the basis for a large part of US GAAP today. But occasionally, the SEC refused accounts published under ARBs guidance, in effect sending the accountants back to the drawing board for tougher guidelines. Still, lack of serious research and a limited budget hampered any attempt at tackling emerging controversial issues.

Authorities thought accountancy was too important a subject to be left to accountants. So following the recommendations of the Wheat Committee, Congress approved the creation of a dedicated standard setting agency, FASB, in 1972. Its seven members were chosen by a group of trustees. The latter were mainly accountants, but also businessmen, investors and academics, to represent the interests of the nation at large.[9] FASB stirred US GAAP strongly towards a rule-based approach, with its Statements of Financial Accounting Concepts (SFACs), issued in the late 1970s and early 80s. The 1992 US Auditing standard SAS 69 listed all US accounting rules, in declining order of priority. FASB statements and interpretations are complemented by APB opinions, Accounting Research Bulletins (ARBs), Rules and interpretative releases of SEC, FASB technical bulletins, AICPA Practice Bulletins and AICPA accounting interpretations and implementation guides.[10] Mandatory disclosures for listed companies are listed by SEC in two guidebooks, SX for financial disclosure and SK for non financial information. All this is more reminiscent of France's Code du Commerce than of UK GAAP.

While still claiming reliance on "Generally Accepted Accounting Principles", in practice US GAAP have become a body of written rules that leave little to interpretation. This was the conclusion of Robert Herdman, chief accountant of the SEC, in a testimony made before Congress in 2002: "over the last few years, certain of FASB's standards have been rule-based, as opposed to principle-based. Rule-based accounting standards [. . .] encourage a check-the-box mentality to financial reporting that eliminates judgments [. . .]. An ideal accounting standard is one that is principle-based and requires financial reporting to reflect the economic substance,

[9] FASB and Wiley GAAP 2006.
[10] FASB.

not the form, of the transaction".[11] This view echoed that of SEC commissioner Harvey Pitt in his testimony about Enron in front of the US Congress.

The Enron and WorldCom scandals of 2001–2002 revealed the weaknesses of this system of "filling the boxes". Most analysts agree that Enron and WorldCom complied with US accounting requirements but used creative accounting to hide losses. Crucial information that might have pointed to hidden losses, and routinely disclosed in the UK, was not disclosed because not required under US rules. International experts, with British accountants at the forefront, argued that this was a classic example of legislation trying to keep up with practices but always being one step behind. As legislators closed one loophole, smart accountants found another. Still, typically, American regulators reacted by passing a new, tougher, law, Sarbanes-Oxley (SOX), in 2002, further fattening the rule book.

The scandals and the difficulties and costs of implementing SOX[12] have created a partial backlash against the rule-based approach. FASB and the SEC are now exploring a partial return to the old system of principle-based accounting.[13] In one of its first interviews after its nomination as FASB chairman, Robert Herz declared: "the current system has downsides for those who want to comply with the rules and benefits for those who don't want to. [. . .]. A principles-based approach is untested in the US, but, intellectually, it would seem superior".[14] Still, opposition from politicians, accountants and businesses remains strong.

The reason lies with the other key driver of the rule-based approach in the US: litigation. Paul Volcker, the former Federal Reserve Chairman, summed it up in FASB's 2002 debate about a switch to a principles-based approach: "The American tradition is to have clear and definite rules, so firms can defend themselves from the boards of lawyers who stand ready to sue auditors for making a bad judgment".[15] Faced with both serious and frivolous law suits from investors, accountants and firms asked FASB to make accounting rules more explicit and more detailed, so they could follow them to the rule rather than just in spirit, and protect themselves against the lawsuits of disgruntled shareholders and greedy lawyers.

In conclusion, US GAAP, although initially close to the British model, has veered towards a more rule-based approach in the 20th Century. So the picture that emerges is not one of a Franco-German model vs. an American model of accounting, with Britain a half way house. What Europeans had to choose from in deciding on a set of common rules was between three models equally distant from each other. In 1992, it looked like US GAAP might become the basis for Europe's harmonised system.

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[11] Testimony of Robert K. Herdman before the house subcommittee on capital markets, insurance and government sponsored enterprises, 14th May 2002, www.sec.gov/news/testimony/051402tsrkh.htm

[12] See debate about article 404.

[13] ≪ We have been working with the FASB to change its style to be more principled-base ≫. Herdman, www. sec.gov/news/testimony/051402tsrkh.htm.

[14] *Business Week Online*, 19 August 2002.

[15] FASB, answer to Released Concept on principles based approach.

But the new standard adopted in 2005 is an improved version of the British model, with a few concessions made to French, German and American rules in the name of convergence.

The European Standard Setting Process Since 1973: A Free Ride for British Accountants?

Harmonisation of European accounting rules went through three distinct periods. From Britain's entry in the EEC in 1973 until 2001, officials, experts and practitioners worked on a revised version of the 1978 4th Directive, which had been drafted before the UK joined the EEC. A major shift of emphasis occurred in 2001, with the creation of a new International Accounting Standards Board (IASB) in London. Received with scepticism at first, IASB quickly established its credibility by producing within 4 years a fairly complete of standards, at the very moment US GAAP's credibility plunged under the Enron and SOX factors. This was the time IASB clinched the deal with the European Union and became the new standard setter for European firms. A third stage started in 2003, aiming at promoting convergence between Europe and the rest of the world.

From the 4th Directive to 2001: First Steps on the Road to Harmonisation

From its beginnings, the EEC earmarked harmonisation of European accounting practices as an objective, but for the distant future. Priority was given to harmonising the powers of directors and companies (1st directive of 1968), capital requirements and the definition of private and publicly-quoted companies (2nd directive of 1976) and the reconstruction of public companies (3rd directive of 1978). The first attempt at harmonising financial reporting came with the 1978 4th Directive,[16] which set the ground rules for disclosure of financial information and annual reports.

This directive relied heavily on the French and German model of accounting. Companies could choose between two formats for the profit and loss account and the balance sheet, one based on types of expenditure, the other on functions in the firm's operations. Its first draft, produced in 1971, did not require companies to present a "true and fair view" of accounts, focusing instead on "regular and proper accounting" and "accuracy" of figures. But following Britain's entry into the EEC in 1973, it was redrafted in order to avoid a veto by British officials. After five years of tough negotiations, the final draft, published in 1978, required annual reports to present a "true and fair view". It also introduced the possibility of "fair value" accounting. The UK went along with it and voted with Denmark for early implementation in

[16] Official EEC documents on accounting at http://ec.europa.eu/internal_market/accounting/officialdocs_en.htm.

1981. France and the Netherlands followed in 1983. But it did not become law in Italy until 1991.

Meanwhile, European legislators were working on the thorny issue of group accounting. France and Germany managed to hold on to a few cherished concepts, including a definition of "control" based on legal contracts rather than economic activity. But the rest of the 1983 7th Directive was infused with British principles of accounting. It adopted a principle rather than rule approach, required a fair view of the accounts and was geared towards the needs of investors. More research need to be done on the composition and working of the committees that produced this directive. But the result shows the effectiveness of the British approach. Rather than relying mainly on elected politicians and ministers, Britain played the "expertise card". British accountants were widely recognised to be at the leading edge of accounting innovation, and acted as experts in the drafting process.

This was complemented by very effective lobbying tactics. British accountants brought to Brussels the expertise acquired in Britain on working hand in hand with the government. British lobbying firms were quick to establish a permanent presence in Brussels. And ministers and British officials in Brussels regularly briefed accounting firms and their professional bodies on the progress of the negotiations. By contrast, the French and the Germans were slow to make use of lobbyists and were less proactive in the drafting of the text. They relied on ministers to defend the national interest.[17] Faced with the finished version of the text, they played the "opting out" card, winning no less than fifty "options" to keep national standards. British officials and accountants came to the conclusion that enforcement would take years. In the 1990s, they switched to a different strategy, calling for Europe to adopt the new international standards written up by IASC and its successor, IASB.

IASC, IASB and the First International Accounting Standards 1973–2002

In parallel to working within the EEC to harmonise European standards, British accountants were involved in a wider movement to compare international standards and pave the way for harmonisation. In 1967, Lord Benson, former head of Coopers & Lybrand and newly elected president of ICAEW, one of Britain's leading accounting associations, launched an Accountants International Study Group with a mandate to compare accounting systems in the UK, Canada and the US. In 1972, France, Germany, the Netherlands, Ireland, Australia, Japan and Mexico joined the group, leading to the creation in 1973 of the International Accounting Standard Committee (IASC), based in London. By 1982, it had 13 members on four continents.

[17] Based on off the record conversation with three firms of lobbyists in Brussels in November 2004. The text of the directive proves British influence, but more research needs to be done on the respective role of ministers, government officials, European MPs, PR firms and companies themselves

From 1973 to 1987, IASC built up knowledge of national accounting standards by meeting with national standard setters and experts in international organisations, such as the OECD. It started producing international accounting standards (IAS) in 1987. Lord Benson went to great length to dispel the image of IASC as an instrument for the dissemination of UK accounting ethics and practices. He recalled in 1998 that "When I was appointed as the first Chairman of the IASC it was made clear to me, often with a noticeable absence of tact or politeness, that other nations were determined to see that UK standards and procedures were not given special prominence. [. . .] In practice IASC goes to great pains to try and secure balanced standards".[18]

But IASC was criticised for being little more than a think tank. To move from the theoretical to the implementation stage, IASC reinvented itself in 2001, with a new constitution aimed at giving more muscle to its executive arm, the IASB. IASB was truly international. But in practice, British influence was pervasive. At the symbolic level, IASB remained in London and its first Chairman was another Brit, Sir David Tweedie, a KPMG partner and former head of Britain's accounting standard agency. At the governance level, unlike FASB, set up explicitly to reflect the views of the whole business community, or France's agency, staffed with civil servants, the IASB followed the British model of leaving accounting standards to accountants.

How IASB Came to Write Accounting Standards for the European Union

IASB's breakthrough came immediately. In 2001, the European Commission presented legislation requiring the use of IASC Standards for Europe's 7500 listed companies by 2005. It was approved by the European Parliament in 2002. The Commission had reached the conclusion that it lacked the skills and credibility to harmonise European standards, and felt more at ease tackling industrial problems than complex financial issues. It also grappled with internal political manoeuvring that turned any standard setting exercise into a battle for supremacy, with the French, the Germans and the Brits at each others throats, and smaller countries selling their support in exchange for amendments to the legislation, on areas that mattered most to them.

The decision to work hand in hand with IASB was mutually beneficial. The European Commission went for the "technocratic approach" rather than the "political one", delegating the crafting of standards to what it believed was the best in class. After all, the IASB brought together expertise from the best accountants and regulators worldwide, including former Fed Chairman, Paul Volcker.[19] And IASB gained the clout it badly needed to promote its standard worldwide. It immediately set about revising the most controversial IAS and preparing new standards in time for 2005.

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[18] Peter Walton, "Accountancy – the most exciting profession in the world", www.acca.co.uk

[19] See Letter of Internal Market DG to SEC re Concept release "International Accounting Standards", 23 may 2000. www.sec.gov/rules/concepts/s70400/mogg1.

The new standards were to be validated by a European committee, called EFRAG, but again, it was staffed with accountants and did not really reflect the view of European businesses. The implications of delegating standard setting to the accountants were not grasped by European governments and businesses until they started preparing for implementation, around 2004.

For most European governments and businesses, IASB appeared as the only workable alternative to adopting US GAAP. The European Commission had been unable to force implementation of the 7th directive. Politically, an international standard was more acceptable to France and Germany than a US one. And US GAAP was going through its roughest patch at the time, with the Enron and WorldCom scandals calling into question a rule-based approach and giving added impetus to a principle-based standard.

A Set of Standards Strongly Influenced by British Accounting

Therefore British accountants found it relatively easy to promote their solutions. The best proof is “in the pudding”. IFRS are principle-based, investor-oriented and promote fair value. The new standards are as close to the British model as was decent for an international board. And IASB is now focusing on areas of British expertise, such as accounting for pensions, share options and derivatives.

Take pensions. In France, Germany, the US, and under the old IAS 19, pension smoothing is allowed. Britain was the first country to impose valuation at current prices of pension liabilities, in reaction to the Maxwell scandal that left hundreds of workers without a pension. Tweedie, then Chairman of the UK standard agency, recalls that “there were almost armies of CFOs marching to the standards board. But now they are managing their pensions”.[20] IASB is now working on a standard for pension accounting that will also forbid smoothing.

But one thing is clear: it took the EEC 20 years to come up with the first directive on accounting, and another 7 to amend it. In less than 4 years, IASB produced a complete set of workable standards applicable throughout Europe. These may not be the standards the French, the Germans or the Italians would have picked, but they are the first set of common standards that Europe gets. That is in itself a great achievement, and only an independent standard setter with no direct link to governments could have achieved this in such a short time.

Implications of the New Rules for European Firms

From 2004, however, European listed companies began to realise they were moving towards uncharted territory. What were the implications?

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[20] Sir David Tweedie, New World Order, CFO Magazine, 1st March 2004.

The Impact of IFRS on European Business

In 2000, most European companies responded favourably to the EEC proposal that listed companies should adopt IAS by 2005. And 67 % of CFOs interviewed by PriceWaterHouse Cooper preferred IAS over national standards.[21] But in 2004, European businesses suddenly realised some of the implications of switching to IFRS. French executives moaned that “IASB [was] imposing Anglo-Saxon views of accounting on the world”.[22]

Fair value accounting is one major issue. Valuing fixed industrial assets at fair value is difficult and likely to lead to wider variations in financial results from stock markets fads and the upward and downward cycles of some manufacturing sectors, particularly basic materials and consumer goods. This fuelled criticism that IASB rules were biased towards services. But bankers are also unhappy. IAS 39 requires derivatives to be accounted for at fair value, which “would create a false volatility”. Banks and officials in continental Europe have been lobbying against it.[23] But IASB is not budging, arguing that it forces banks to account for the risk involved in derivatives and reveals the quality of hedging strategies.[24]

Another issue is compliance. Will all big European companies have the expertise to comply with the new rules? The big international accounting firms hope that this will bolster their client base in continental Europe. A more valid question is whether national auditors and standard enforcers will work towards compliance. David Tweedie recognizes that harmonisation is a “three-legged stool”, with IASB drafting rules, accountants applying them and IOSCO and national regulators enforcing fair play.[25] “Comparing international accounting standards brings to mind the old lyric about tom [ai]toes and to-mah-toes. [. . .] Start applying them with different international accents, and suddenly you can understand why some people want to call the whole thing off”.[26] A European independent enforcement agency is but a distant perspective, making the role of big international accountancy firms crucial in the harmonisation of accounting standards on the ground.

A final question regards the scope of IFRS: will non quoted businesses and public institutions eventually adopt them or will they stick to national standards? Doing the latter will create a two speed Europe and might exclude them from raising money on stock markets.

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[21] Price Waterhouse Cooper, December 2000.

[22] When bankers keep saying non, *Business Week online*, 1st March 2004.

[23] Idem; Uniform Accounting Rules Face Hurdles in Europe, Bloomberg, 23rd September 2005.

[24] Stars of Europe: Sir David Tweedie, *Business Week Online*, 7 June 2004.

[25] New World Order, CFO, 1st March 2004.

[26] US and international standard setters are coordinating their efforts to craft a common language for business, CFO, 1st May 2002.

IFRS as a Tool for European Influence Abroad?

The need for an international standard of financial reporting has been recognized since the 1960s. “We don’t try to make computers communicate on incompatible networks. We don’t hold international forums without interpreters. Why then, would we ask our investors to make critical financial decisions based on information that is inconsistent and incomparable?”[27] Debate has centred on which standard to adopt. FASB is warning US companies that “IASB is now influencing accounting standards throughout the world”.[28] IASB’s standards of accounting are now applied in 100 countries, and another 50 are in the process of converting, leaving only 50 countries out by the end of this year.[29]

IASB’s success is partly the result of its diplomatic and communication skills, partly the result of world-class expertise in dealing with the most difficult issues in accounting. Whilst America was busy dealing with scandals and litigation, IASB researched the pricing of leased assets, pensions, share based payments, inventories, goodwill and insurance contracts. In 2002, FASB and IASB signed the “Norwalk agreement” committing both boards to convergence towards whichever standard was best. Twice as many new standards went from IASB to FASB than the reverse.[30] FASB is now using IASB as a tool in the fight it leads against corporate America for better accounting of share options and pensions. [31]

Some Americans hope that IASB’s quasi monopoly on international standards is reversible. Yale academic Shyam Sunder recently called for competition between standard setting agencies. America is also playing the technology card again, promoting PSRB as a potential new tool for accounting data exchange. PSRB uses American terminology and definitions which are not all compatible with those of IFRS. If successful, this might put the ball back in the American camp.

Still, as European companies were the first to comply with IASB, they are now in a position to inform the process of revision. Will this give them a competitive edge over later adopters and those (the US) who choose to stay outside?

Conclusion

British accountants, backed by government officials, were very successful in influencing the setting of Europe’s new accounting standards. They helped move EU regulation away from a tax-based and rule-based Franco-German model that many found inadequate to deal with increasingly complex financial instruments and the

[27] Arthur Levitt, Corporate Governance in a Global Arena, speech to the American Council on Germany, 7th October 1999, www.sec.gov/news/speech/speecharchive/1999/spch302.
[28] CFO Magazine, On the same page, 1st May 2002, quote from Mr Nussbaum.
[29] IASB.
[30] For a list of transfers, see www.cfo.com/printable/article.cfm/5193385, appendix to the “Narrowing Gap”, 1st December 2005.
[31] “It’s US corporate vs. CFO”.

growing internationalisation of European firms. But they also effectively blocked the generalisation of US GAAP. EU accounting standards, and those of the 150 countries that have pledged to implement IFRS, are now rooted in the British accounting tradition: they are principle-based, geared towards investors and promote a “fair view” of businesses and increased transparency. The implications of those on the finance strategies of European businesses are only beginning to emerge. In all likeliness, they will promote more European takeovers and slowly undermine national differences in financial strategies, although these are likely to put up a strong fight.

The Impact of European Integration on Institutional Change in Switzerland

Margrit Müller

Europe comprises a large number of large and small countries with varying internal rules and norms, and the differences are still remarkable.[1] The literature on varieties of capitalism, for example, highlights common features for some of the European countries during specific periods of time, and even within the European Union not convergence, but instead uneasy rivalry, seems to have prevailed.[2] Swiss firms had to take into account different national rules if they wanted to successfully do business with and in these countries. Furthermore, the cultural diversity and the federal structure of Switzerland led to the evolution of a variety of rules within the country itself. Firms were thus used to coping with different legal and cultural systems both at home and abroad.

Up to the middle of the 1980s, there seems to have been little pressure from the export-oriented branches to adapt internal rules, standards and norms to those of other European countries. The share of any country in total exports would hardly have justified such an endeavour. The situation changed in 1985, when the European Economic Community (EEC) decided to create a single internal market. The planned abolition of technical barriers to trade threatened to put Swiss firms at a disadvantage compared with their competitors in the EEC. In the following years, the intensification of European integration had a deep impact on institutional change because national legislation had to be modified in order to make it conform to – or at least be compatible with – the rules and standards applied within the EEC. The primary objective of this far-reaching process of institutional 'Europeanisation' was to avoid a loss of competitiveness for firms located in Switzerland, but by and by it was increasingly perceived as an opportunity to facilitate economic reforms and accelerate the pace of deregulation and privatisation.[3]

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[1] According to the Ifo Database for Institutional Comparisons in Europe institutional divergence is quite pronounced among the EC- and EFTA-countries: www.cesifo.de/DICE.

[2] Katzenstein, P. (1985). *Small States in World Markets. Industrial Policy in Europe,* Ithaca: Cornell University Press. Hall, P. A., Soskice, D., eds., (2001). *Varieties of Capitalism. The Institutional Foundation of Comparative Advantage.* Oxford University Press, Oxford. Wilks, S. (1996) Regulatory compliance and capitalist diversity in Europe. *Journal of European Public Policy*, Vol. 3, no. 4, pp. 536–559.

[3] There are some parallels, but also major differences to the impact of European integration on the process of Europeanisation in Sweden. See the contribution of Kersti Ullenhag in this volume.

H. G. Schröter (ed.), *The European Enterprise.*

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The focus of this contribution is on the role of business associations as intermediaries between business and politics in the process of 'Europeanisation' as a consequence of institutional integration.[4] Did business associations support or hinder the adaptation of national legislation to the rules established within the EEC? What was their role with regard to European integration in their own perspective? In which areas did the process of European integration lead to institutional adaptations? Did the business associations themselves become more European? What was the impact of other international organisations (GATT/WTO, OECD, UNO) on institutional change in comparison with European integration?

I shall concentrate on the most influential business association, the Swiss Federation of Commerce and Industry SHIV (Schweizerischer Handels- und Industrieverein), the associations of the main export-oriented branches of machines and chemicals, VSM (Verein Schweizerischer Maschinen-Industrieller) and SSCI (Swiss Society of Chemical Industries) as well as on the federation of the inward-oriented branches SGV (Schweizerischer Gewerbeverband).

Europeanisation in the Forefront of the Single European Market

Swiss Federation of Commerce and Industry (SHIV)

On the national level, the SHIV participated in practically all government committees dealing with economic policies and legal reforms. It represented the economic interests of its members, and these interests were identified through surveys or at internal meetings and conferences.[5] The SHIV was associated with several international organisations: UNICE (Union des Industries des pays de la Communauté européenne), CIFE (Conseil des féderations industrielles d'Europe), BIAC (Business and Industry Advisory Committee to OECD) and ICC (International Chamber of Commerce). In the late 1980s, participation in the UNICE became more and more important.

Until 1986, the impact of European integration on the activities of the SHIV remained rather marginal and limited to specific topics. The main themes were minor adaptations, clarifications or revisions of the free trade agreement between EEC and EFTA concluded in 1972, the simplification of the rules of origin, guidelines for a common European product liability law, the adjustment of trademark rights in the member states and the question of how the non-member states could participate in these simplifications.[6] One major concern was the tendency, in a period marked by a world-wide recession and high unemployment rates in the EEC countries, to

[4] North, D.C. (1990). *Institutions, Institutional Change and Economic Performance,* Cambridge et al.: Cambridge University Press.

[5] In 1990 the members of the SHIV were: 19 cantonal chambers of commerce, 100 branch associations (of a large number of industries and services) and 6 other member organisations.

[6] SHIV, Annual Reports 1980/81, pp. 39ff.; 1982/83, pp. 75ff.; 1983/84 pp. 74–75.

raise trade barriers between the European free trade area and the EEC. With the economic upswing felt since 1983 the apprehension of a new wave of protectionism disappeared, but it was feared that the project of creating a single European market would lead to the creation of new boundaries for economic exchange within Europe. A possible countermeasure was to conclude an agreement between EFTA and the EEC in order to avoid such an outcome.[7] Still, the SHIV did not want to have its hands tied to a regional system. The degree of economic integration with the EEC area was high, but about 40 % of total Swiss exports were delivered to non-European markets and direct investments in overseas countries were considerable. According to the SHIV, Switzerland needed above all else to take an active part in the GATT negotiations, which had started in November 1982. The international organisations, i.e. the OECD and UNO, also acted as rule-setters with regard to international trade and the behaviour of multinational companies, but their impact was regarded as rather marginal, because they produced mainly 'soft rules' which could be applied voluntarily. Their guidelines were mere recommendations, limited to identifying problems and suggesting solutions.[8]

During the early 1980s, the EEC was completely absent as rule setter. Most major topics of economic policy, such as competition and energy policy or the revision of the sales tax and of the law on cartels, were discussed without any reference to the European context. That was even the case for the first steps towards deregulating the telecommunication sector initiated in 1984.[9] Quite generally, deregulation and privatisation were considered as purely domestic topics.[10] Research and development (R&D) was the only field of economic policy directly influenced by a programme of the European Commission for promoting science and technology during the period 1984–87. At first, the SHIV was sceptical with regard to the role of the state in stimulating R&D, although, compared with other European countries, the high share of private companies in total R&D expenditures in Switzerland was perceived as exceptional.[11] But international competition in R&D became more pronounced, and the SHIV was concerned about the fact that the increase of R&D expenditures of Swiss firms abroad was higher than at home. The state-backed participation in international and especially EC R&D-programmes was reconsidered and finally approved. At the same time, domestic policies promoting R&D were strengthened.[12]

From 1987 onwards, the creation of the single European market and its consequences for the Swiss economy became the dominant theme and determined the agenda for institutional reforms: Deregulation and privatisation of state-owned enterprises in Switzerland were a matter of concern because Switzerland was

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[7] SHIV, Annual Report 1982/83, pp. 59ff.

[8] SHIV, Annual Reports 1980/81, pp. 66ff.; 1982/83, pp. 85ff.; 1983/84, pp. 79ff.; 1984/85 pp. 70ff.

[9] SHIV, Annual Report 1984/85, pp. 42ff.

[10] SHIV, Annual Report 1985/86, p. 12.

[11] SHIV, Annual Report 1982/83, pp. 39ff. Public expenditures amounted to only about one quarter of total expenditures for R&D.

[12] SHIV, Annual Reports 1985/86, pp. 32–33, pp. 108–109; 1986/87, pp. 117ff.; 1987/88, p. 29.

lagging behind compared with EEC-countries,[13] and the service sector was identified as an important area of liberalisation because the EEC assigned high priority to this topic in completing the single European market.[14] This ambitious programme embraced all major service sectors (financial services, transport and traffic systems, telecommunication, capital transactions) and included tax regulations as well as measures for promoting the free movement of labour. Even agrarian policy was no longer conceived as a purely internal affair. The agrarian sector was coming under pressure both from the single European market and the Uruguay round of GATT.[15] How should Switzerland react to all these challenges?[16] The immediate effect of the decision to create a single European market for services was increased uncertainty. Switzerland seemed ill prepared for this type of market integration. Little room for manoeuvre was perceived with regard to banking and transport services. In the field of telecommunication it seemed inevitable that Switzerland would co-operate with the EEC, and the same was the case for the energy sector.

According to the SHIV what was going on in Europe had to become an integral part of the internal discussion on economic policies.[17] But the GATT negotiations should not get out of sight, because the Uruguay round was to determine the rules valid for international trade in the years to come, independently of whether they were a success or not.[18] It was important for Swiss firms to remain competitive on markets outside the EEC. A large part of Swiss exports was directed to overseas markets, and economic growth rates were higher in the US and in Asia than in the European countries.[19]

One possibility for coping with the changing conditions within Europe were measures which could be taken autonomously, such as strengthening the competitiveness of the Swiss economy in general or reducing the potential for conflicts with the EEC.[20] One proposal was to replace the existing sales tax with a value-added tax, another to develop an acceptable solution for transit traffic through the Alps.[21] A promising way out of the threatening division of Europe was the proposal of the European Commission to expand the ‘four freedoms’ of the single market for goods, services, persons and capital to the EFTA countries and create a European Economic Area (EEA).[22] This proposal was the main topic of the EFTA summit meeting in March 1989. Discussions revealed different positions: Austria intended to apply for EC-membership, Sweden and Norway aimed at full participation within the single European market, Switzerland was in favour of an extensive co-operation

[13] SHIV, Annual Report 1987/88, p. 7.
[14] Ibid., pp. 36ff.
[15] Ibid., pp. 101ff.
[16] Ibid. pp. 39–47.
[17] Ibid., p. 46; SHIV, Annual Report 1990, pp. 8–9.
[18] SHIV, Annual Report 1987/88, p. 62.
[19] SHIV, Annual Report 1988/89, pp. 7, 35.
[20] SHIV, Annual Report 1989/90, p. 29.
[21] SHIV, Annual Report 1988/89, p. 29, pp. 39–40.
[22] Ibid., p. 48.

with the EEC, but had to respect the constraints imposed by the internal political situation.[23] For the SHIV the main question was how the expanded single market would have to be conceived in order to be acceptable for the large majority of firms in the main branches of the Swiss economy.[24]

At the end of the 1980s, the international economic context the SHIV tried to cope with had become extremely complex, and the process of European integration continued at a very fast pace. Already in December 1990, there were conferences on the creation of a monetary and a political union. Austria applied for EC membership in 1989 and Sweden planned to do so in 1991. Even countries in central and Eastern Europe aimed at joining the European Community.[25] For the SHIV, an organisation used to the slow pace of institutional change in Switzerland – where every modification has to go through various rounds of consultations before it is presented in parliament, and after having been accepted in parliament there is still the possibility of a referendum – the pace of European integration must have been breathtaking.

The increasing importance of the EEC was also reflected in the decision taken in 1988 to establish an office in Brussels. At that time, the SHIV was the only member of the UNICE without a permanent representation. The strengthened link with UNICE was conceived as a major and direct source of information on EC matters for Swiss firms, especially for the large number of small and medium-sized enterprises.[26]

The process of establishing the EEA clearly dominated the agenda up to autumn 1992. The tendency was to shift pending negotiations (for example simplifying the rules of origin) into the EEA package.[27] In several fields of legislation the influence of European integration became stronger: the committee in charge of the revision of the Swiss Corporation Law, for example, noticed a contradiction with EC notions and took it into account; the enactment of the EC guideline on product liability immediately provoked corresponding activities of the EFTA states and the revision of the Swiss liability law;[28] also with regard to foreign labour, the creation of the EEA gave rise to rules that complied with those of the EC.[29] However, in some areas the influence of EC rules was still limited or even firmly rejected. Rather surprisingly, such an attitude prevailed with regard to the reform of the law on cartels. According to the SHIV the ban on cartels imposed by the EC competition law was restricted to the international exchange of goods and services, while the Swiss competition law allowing cartels with certain restrictions remained valid for the domestic market.[30] The extension of the regulating activities of the European

[23] Ibid., pp. 52–53.
[24] SHIV, Annual Report 1989/90, pp. 25ff.
[25] SHIV, Annual Report 1990, pp. 35–36.
[26] SHIV, Annual Reports 1988/89, p. 50; 1989/90, pp. 11–12.
[27] SHIV, Annual Report 1989/90, p. 59.
[28] SHIV, Annual Report 1988/89, pp. 128ff.
[29] SHIV, Annual Reports 1989/90, pp. 114ff.; 1990, pp. 198ff.
[30] SHIV, Annual Report 1991, pp. 79ff.

Commission from the single market programme towards labour market and social policies was observed with apprehension, but these topics were not part of the EEA negotiations yet.[31]

In the view of the SHIV, the EEA was basically a good idea, but it also raised a major problem: the EFTA countries had to integrate all the relevant laws (the 'Acquis communautaires') into their national legal order. Hopes of obtaining the same rights as the EC countries in the decision-making process, or at least some possibility to deviate from EC rules were quickly squashed. For the EFTA countries the situation was clear enough: total autonomy of the EC and total homogeneity of the EEA. This implied that in all current and future areas regulated by the EC the EFTA countries had to adapt their national legislation without being able to participate in the decision-making process.[32] Under these circumstances, joining the EC became more attractive and the EEA was increasingly perceived as a transitional agreement: Sweden applied for membership in the EC in July 1991 and Finland in March 1992.[33] For the SHIV, joining the EC was still not an option, because it was assumed that there was no majority in a referendum on such a step. The other alternative was characterised as 'splendid isolation' and was dismissed as an illusionary concept. The only realistic option was an EEA treaty that was acceptable for both sides.[34] In June 1990, negotiations were taken up, and representatives of the SHIV participated in several of the negotiating groups. Negotiations were reported to be difficult, for institutional and legal reasons and owing to the fact that the EC had linked the question of transit traffic with the treaty on the EEA.[35] In the course of the negotiations all obstacles were overcome, but the result was satisfactory only as a transitional agreement. After negotiations had been concluded in October 1991 the participating ministers of the Swiss Federal Government declared that the final objective for Switzerland was to join the EC and that the EEA-Treaty was a useful step on the way to complete integration.[36]

On the basis of a broad internal survey among its members the SHIV approved the EEA Treaty, and the objective of joining the EC later was commented on favourably.[37] But such a step should be made only after the EEA Treaty had been accepted in the compulsory referendum scheduled for September 1992 and EC law (EUROLEX) integrated into Swiss law. In its external communication, the SHIV made great efforts to convince voters of the advantages of the EEA for the Swiss economy, but its impact was, of course, limited by the activities of other interest groups.[38]

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[31] SHIV, Annual Report 1990, p. 15.
[32] SHIV, Annual Report 1990, pp. 36ff.
[33] SHIV, Annual Report 1991, pp. 31–32.
[34] SHIV, Annual Report 1990, p. 40.
[35] Ibid., p. 57.
[36] SHIV, Annual Report 1991, p. 29.
[37] Ibid., pp. 30ff., pp. 52–53.
[38] SHIV, Annual Report 1991, p. 12.

Association of the Swiss Machine Industrialists (VSM)

The VSM and its numerous subgroups were all members of the corresponding European associations, where all information concerning the EEC was available quickly and reliably. The main European connection was ORGALIME (Organisme de Liaison des Industries Métalliques Européennes).[39] The VSM participated actively in the various working groups and committees. While practically all the subgroups were linked with European associations of the same branches, only very few participated in world-wide associations as well.[40] The annual reports of the VSM contain little information on the activities of these groups, but it seems that their main objective during the late 1980s and early 1990s was the harmonisation of Swiss regulations and norms with European regulations and norms in order to avoid competitive disadvantages for Swiss firms on the EC market. Special committees of the VSM were continuously observing the revisions of legal rules in Switzerland in the European context and at the international level. These committees intervened at the national level by commenting on drafts for new rules and indicating possible problems if the proposed regulation was not harmonised with the corresponding EC guidelines. Some members of the VSM were active in the SHIV committee on intellectual property and in working groups of UNICE.[41]

From 1988 onwards, the creation of the European single market and its consequences for the Swiss firms in the machine industry constituted the main theme dealt with in the annual reports. The topics discussed were: product liability, the rules for certification and examination, patent law, trademark protection law and copyright. In the field of technical harmonisation great importance was attached to the Greenbook on the development of European norms for the realisation of the single European market.[42]

The EEA negotiations were initiated in 1989. The member firms were continuously kept informed in ‘Europa-Seminarien’ and workshops. Quite generally, European integration had a high priority in the public relations activities of the association.[43] The attitude of the VSM was clear: As long as regulations in Switzerland differed, Swiss manufacturers had a disadvantage compared to their competitors in the EEC. Consequently, such differences had to be eliminated or avoided.[44] The result of a survey among the VSM members showed a broad approval of this position.[45] This attitude also prevailed in some fields which had been previously excluded from integration (namely energy and water supplies, traffic systems and telecommunication). A survey revealed that more than 86 % of the firms agreed to

[39] VSM, Annual Reports 1988, p. 18, and 1990, p. 14.
[40] In this period, there were about a dozen subgroups. VSM, Annual Reports 1988–1991.
[41] VSM, Annual Report 1989, pp. 53ff.
[42] VSM, Annual Report 1990, p. 10.
[43] VSM, Annual Report 1988, p. 11; Annual Report 1989, p. 9; Annual Report 1990, p. 7; Annual Report 1991, p. 24.
[44] VSM, Annual Reports 1988, p. 10, and 1989, pp. 9–10.
[45] VSM, Annual Report 1989, p. 11.

open those markets for the whole EEA.[46] With regard to R&D policies, the attitude of the VSM was less ambiguous than the position of the SHIV. It claimed full participation of Switzerland in the EC programmes and, with regard to financial support, similar conditions to those applicable to firms in the other EC and EFTA countries.[47] This aim was achieved in 1991.[48] The results of another survey on the question whether Switzerland should accept the EEA Treaty were also clear-cut: 90 % of the firms approved, and the remaining 10 % favoured direct membership in the EC. No firm voted to go it alone.[49]

Notwithstanding the priority assigned to European integration, high importance was also attributed to the GATT negotiations.[50] Given the hectic pace prevailing in the EEC, the VSM feared that the process of European integration might delay the successful conclusion of the Uruguay round. For the Swiss machine industry an open world trade system was almost as important as participating in the single European market, since over a third of the exports of the machine industry were delivered to other world regions.[51]

Swiss Society of Chemical Industries (SSCI)

The chemical-pharmaceutical industry is one of the most globally oriented Swiss industries. The European market was important, especially for imports, but since the late 1970s the US have been the most attractive market because of higher income levels and growth rates and a less regulated health sector. The *Swiss Society of Chemical Industries (SSCI)* had links with other national and international business associations and its delegates participated in a large number of governmental committees.[52] In national policy matters, the SSCI usually intervened indirectly as a member of the SHIV. AT the international level, links with the European Chemical Association had been established right from its foundation in 1959. The whole network included around fifteen international organisations, of which about two thirds were European associations.

Due to its global orientation, the main interest with regard to international trade was a liberal world trade system without protectionist policies and trade barriers. These objectives were pursued at the level of GATT, but progress was slow and the results of the various rounds of negotiations disappointing. Also for the SSCI, the EEC as rule-setter remained marginal up to the middle of the 1980s: its impact was limited to questions of origin and the customs tariff between EC and EFTA. The basis for negotiations was the European free trade agreement concluded in 1972. With

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[46] VSM, Annual Report 1990, p. 9

[47] VSM, Annual Reports 1989, p. 11, and 1990, p. 13.

[48] VSM, Annual Report 1991, pp. 11–12.

[49] Ibid., p. 8.

[50] VSM, Annual Report 1988, p. 11.

[51] Ibid., p. 19; VSM Annual Report 1989, p. 11.

[52] SGCI, Annual Reports, 1981 to 1992.

regard to such questions, co-operation with CEFIC (European Chemical Industry Council) proved highly satisfactory.[53]

At first, plans of the EEC to create a single European market were a matter of concern, because the SSCI feared the formation of trade blocs. From its perspective, the European Chemical Association had an important role in preventing such an outcome.[54] The section on foreign trade of the SSCI was concerned about the changing relationship between EEC and EFTA. The position of Switzerland was clearly weakened, because EFTA was losing members and often the remaining members did not support the Swiss position. The question was how to avoid the marginalisation of Switzerland. The SSCI favoured approaching the EEC by the means of bilateral agreements and to strive for parallelism in the law-setting process in Switzerland. Joining the EC was out of question for well known reasons.[55]

Other areas of concern, namely health and environmental protection as well as transport of dangerous goods were dealt with either in the national context or on the international level (UNO, WHO, UNEC, FAO, GATT; OECD). The influence of the EEC in matters of traffic and transport became more pronounced only in the early 1990s. The special problems related to trade in pharmaceuticals, namely the increasing intervention of the state on price-setting policies, was not perceived as a specifically European problem. Similar tendencies were present in countries of other world regions too. These tendencies were strongest in some important European countries, but it was the result of their national policies and not of European integration. The situation changed with the creation of the single European market and the EEA.

The chemical-pharmaceutical industry was clearly the leader with regard to R&D expenditures in Switzerland. Not surprisingly, the protection of trademarks and patents was of major interest. But even in this respect, the influence of the EEC was absent in the early 1980s. These topics were dealt with either on the national level or within international organisations (OECD, UNCTAD, GATT). In the case of patent protection, the national rules became more efficient, but also less important, because Swiss firms rarely used the national channels for patent protection. The EEC played an active role with regard to product liability and consumer protection, influenced by developments in the US. In the late 1980s and early 1990s, developments in the EEC strongly influenced national law-setting processes, also with regard to laws on trademarks and patents.[56] Quite generally, new legislation in the national context was approved if the developments in the EEC were taken into account; the process of legislation was suspended, if the corresponding process within the EEC was uncertain.

The attitude of the SSCI with regard to the creation of a single European market was in general quite positive. The society campaigned for the ‘Europafähigkeit’

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[53] SGCI, Annual Report 1985, p. 10.
[54] SGCI, Annual Report 1984, p. 11.
[55] SGCI, Annual Report 1986, p. 10.
[56] SGCI, Annual Reports 1988, p. 27, and 1991, p. 28.

('fitness for Europe') of the chemical industry in Switzerland. Renouncing 'customised' Swiss guidelines for environmental protection was a possibility to demonstrate solidarity with Europe and the positive attitude of the Swiss chemical industry towards the single market. The official acknowledgement of the concept of 'Europafähigkeit' as an aim of economic policy, implying strengthening the competitiveness of Swiss firms in general and establishing legal compatibility with EC rules was highly welcomed.[57] Avoiding disparities between EC guidelines and Swiss regulations was a main objective of the SSCI.

The SSCI had regular contacts to the Swiss delegations negotiating the EEA agreement. In 1991, the agreement was described as unbalanced, inadequate as a durable instrument of integration. Consequently, the SSCI would approve the treaty only if, subsequently, Switzerland joined the EC. The association suggested that the federal government deposit an application for membership. Only under these circumstances would the SSCI be able to agree to the Treaty on the EEA.[58] At the beginning of the 1990s, the position of the SSCI had become clearly pro-European. In its view, the EEA was acceptable as a temporary, transitional solution, but in the long term only full membership in the EC was an adequate form of relationship.

Notwithstanding its strong involvement in the EEA negotiations, the SSCI continued to support all activities aiming at expanding and strengthening the liberal world trade system. The necessary condition was the successful conclusion of the Uruguay round of GATT.

Schweizerischer Gewerbeverband (SGV)

The SGV is the federation of the mainly inward-oriented branches of the Swiss economy. Consequently, domestic topics dominated even in the late 1980s and early 1990s, although by this time European integration became a major theme even for this organisation. The SGV participated in a large number of federal committees and in the organisations of tertiary education, but it had only two links with international organisations: the 'Conférence internationale du travail' and the 'Union internationale de l'artisanat et des petites et moyennes enterprise' (Internationale Gewerbeunion, IGU).[59] The SGV was not a member organisation of the SHIV, but often co-operated in regard to specific topics.

The annual reports contain little information on the activities of the SGV and its subgroups. Up to 1989, developments regarding EEC, EFTA and EEA are mentioned very briefly. In the view of the SGV, those topics concerned first of all the export-oriented sectors of the economy. Even if it was acknowledged that the creation of a single European market was important also for the internal market,

[57] SGCI, Annual Report 1988, pp. 5 and 8.

[58] SGCI, Annual Report 1991, p. 9.

[59] In 1991, the SGV had delegates in 86 domestic commissions and interest groups. SGV, Annual Report 1991, pp. 65–66.

these effects were perceived as rather marginal. The federation adopted a defensive attitude and focused on those areas and rules which should be kept untouched by developments in the EEC.[60]

By the early 1990s, the formation of the EEA was acknowledged as a main theme of economic policy in Switzerland and commented on more extensively. Having largely neglected this policy area, the SGV was hardly able to keep pace with the rapid developments on the European level.[61] The member firms asked for more information with regard to European integration, and therefore a working group was established in 1990. It had the task of analysing possible alternative scenarios for the relationship between Switzerland on the one hand and the EEA and the EC on the other.[62] But since it was still unclear what the EEA treaty would look like, the working group simply assumed, as a starting point, that Switzerland would join neither the EEA nor the EC.[63]

In 1991, the EEA was the main theme in the section on economic policy of the annual report. It was now clear that the EEA agreement would have important consequences for the national laws in various fields (cartel law, submission law, technical norms, product liability, copyright, agrarian policy, property laws, regulations on foreign labour, corporation law, the education and social systems, consumer law, etc.). Overwhelmed by all these changes, the Committee of the SGV decided that the EEA was politically unacceptable.[64] In its view, the successful conclusion of the Uruguay round of GATT was to form a kind of safety net for small export-dependent countries and a means to deal with the obstacles which would inevitably result from the creation of the EEA.[65]

The EEA and the single market were the dominant themes also in 1992. The consequences of joining the EEA in various fields were now commented on more extensively.[66] The adaptations included in the EUROLEX package amounted to the modifications of about 60 laws and 100 regulations.[67] Nonetheless, at the extraordinary 'Schweizerischer Gewerbekongress' in September 1992 (the second extraordinary congress since the foundation of the SGV in 1879), a majority of the delegates of all the member organisations said 'yes' to the EEA (by 549 to 456 votes). The majority may have been convinced of the advantages of joining the EEA, especially for the large number of sub-suppliers of the export-industries, but the minority was probably scared by the far-reaching and uncertain consequences of accepting the EEA-Treaty.

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[60] SGV, Annual Report 1989, pp. 25ff. These areas were: the agrarian sector, road traffic and the rules for trucks, competition law, foreign labour policy and the public purchasing regulations.

[61] VSG, Annual Report 1990, p. 27.

[62] SGV, Annual Report 1990, pp. 9ff.

[63] VSM, Annual Report 1990, p. 11.

[64] SGV, Annual Report 1991, pp. 22–23.

[65] SGV, Annual Report 1990, p. 28.

[66] SGV, Annual Report 1992, pp. 36–37. (labour law); pp. 41ff. (foreign labour); pp. 43ff.: competition and consumer policy; p. 54 (product liability).

[67] Ibid., p. 22.

The Rejection of the EEA and its Impact on the Process of Europeanisation

Notwithstanding the broad support from the main business associations, the Treaty on the EEA was rejected in the referendum voted on 6 December 1992, with a small majority of votes (50.3 %) and a large majority of the cantons (16:7).[68] Resistance had mainly been organised by the right wing party, the ‘Schweizerische Volkspartei’ (SVP). For the export-oriented business associations, the negative result of the referendum came as a shock. The path of ‘going it alone’ had been chosen, a path which the SHIV had dismissed as illusionary and practically excluded as a possible alternative.

The immediate reaction of the Swiss government to the negative result of the referendum was to proceed with the implementation of the EUROLEX package, just as if it had been accepted.[69] The main objective in the longer term was to negotiate bilateral agreements with the EU in order to reach a similar level of economic integration as the countries within the EEA. The SHIV fully supported this programme of minimising any negative consequences. All options vis-à-vis Europe had to be kept open, and all measures improving the competitiveness of Swiss firms in the EU market were to be undertaken immediately.[70] The strategy pursued previously had been to achieve substantial economic reforms by participating in the EEA. This strategy had become obsolete and had to be replaced by an autonomous programme of internal reform in order to avoid any discrimination resulting from differences between the Swiss and the European legal systems.

In the literature on institutional change in Switzerland it is widely acknowledged that the impact of European integration on institutional change continued to be quite strong.[71] However, given the new room for manoeuvre, it was no longer necessary to accept the whole package of the ‘Acquis communautaires’.[72] Taking part in the process of European integration had to be balanced against possible disadvantages in non-EU markets. Competition law was one of those areas where the SHIV wanted to stick to the weaker domestic rules.[73] Wide room was also dedicated to the discussion of the different attitudes of the EC and Switzerland with regard to the energy industry. In this respect, the SHIV relied on the European Energy Charter, where Switzerland continued to participate as fully-fledged partner. With regard to the

[68] SHIV, Annual Report 1992, pp. 8–9.
[69] Ibid., p. 49.
[70] Ibid., pp. 23–24.
[71] Schmid, H., Graf, S., Liebig, T. (2004), *Das Ausland und die schweizerische Wirtschaftspolitik seit 1945*, Bern: Haupt, pp. 170ff.
[72] SHIV, Annual Report 1992, p. 27. According to Mach, A., Häusermann, S., Papdopoulous, Y. (April 2003) Economic regulatory reforms in Switzerland: adjustment without European integration, or how rigidities become flexible. Journal of European Public Policy 10:2, pp. 301–318, p. 316, the process is ‘a form of piecemeal, discrete and ‘issue by issue’ Europeanization.’
[73] SHIV, Annual Report 1992, pp. 79–80.

liberalisation of the Swiss postal services, the Greenbook of the EC remained an important point of reference.[74]

The importance of Europe as the main market for exports and imports had also changed, not so much with regard to the actual shares of exports and imports in GDP, but with regard to future prospects. Europe's growth rates, especially those of the large countries were low, while the US economy and the economies of the Far East were booming. The shift of attention towards the higher level of worldwide economic integration was visible already in 1993. Being able to represent the interests of Swiss industry by taking part in the various activities of UNICE was perceived as being even more important than before the rejection of the EAA, but more weight was also given to supporting the successful conclusion of the Uruguay round within GATT.[75]

Conclusion

From about 1985, when the EEC decided to create a single European market, up to 1992, European integration had a deep impact on institutional change in Switzerland. The influence of other international organisations (GATT/WTO, OECD, UNO) was much weaker during this period, not because their regulatory reforms were considered less important, but because they proceeded at a very slow pace and were often considered as 'soft rules'. In several fields, the EEC became the main agent of institutional change.

The challenge, but also the opportunities, offered by the creation of the single European market were clearly perceived, and usually positive effects on the Swiss economy were stressed.[76] The outward-oriented business organisations SHIV, VSM and SSCI became involved at an early stage of the negotiations and basically welcomed the process of European integration. The participation of Switzerland in this process was a matter of course, their links with the European associations were strengthened and their views were increasingly shaped by the European context. These business associations were clearly exerting pressure on the public authorities for making national legislation compatible with the rules established within the EC. Their main objective was to avoid competitive disadvantages for their member firms in the European market. The means to achieving this objective gradually shifted from some form of participation in the single European market to accepting the Treaty on the EEA as a first step towards membership in the European Community. The main inward-oriented association, the SGV, took little interest in the process of European integration, and its impact on institutional change was marginal.

[74] Ibid., p. 93.

[75] Ibid., pp. 39, 51.

[76] See, for example, various publications of the SHIV between 1988 and 1992, or the publication of one of the largest Swiss banks: EG-Binnenmarkt – Herausforderung und Chance für die Schweiz, SBG-Schriften zu Wirtschafts-, Bank- und Währungsfragen Nr. 109, Herausgegeben von der Schweizerischen Bankgesellschaft, Zürich, Abteilung Volkswirtschaft, November 1989.

The tendency to minimise competitive disadvantages for Swiss firms by adapting to EC standards and rules clearly prevailed during the pre-voting period. The areas subjected to EC rules were continuously extended and finally culminated in the EUROLEX Package containing all adaptations of internal legislation demanded by the EEA Treaty. European integration was not stopped after the referendum in 1992, but continued by other means and with somewhat changed objectives. But the end result of the process was highly uncertain and time consuming because the harmonisation of a large body of legislation with EC rules became again a matter of internal debate. The intensification and extension of the relationship to the EU countries remained one of the main objectives of economic policy. As an important 'area of attention', the EU had become firmly integrated into the horizon of Swiss firms and their business associations.

European Institutions and Enterprises in Sweden

Aim and Scope[1]

Kersti Ullenhag

Sweden is a small export-dependent country on the outskirts of Europe. Countries within the EU have for centuries been important as Swedish markets for exports as well as imports. Sweden has pursued a wait-and-see-policy in relation to European integration, though. The country became a member of the EFTA from the start, but was a non-enthusiastic latecomer in the European Union. It did not become a member until 1995 and was, 10 years later, a member outside the Monetary Union. When Sweden joined the EU, the Swedish economy was not what it used to be. European integration and globalisation – or perhaps rather globalisation and European integration – had meant a rapid transformation of Swedish industry since the time of the Treaty of Rome.

The aim of this chapter is to highlight the role of European institutions in the process of change. Did new institutions – as defined by Douglass C. North – in some sense bring about European enterprises in Sweden? This approach calls for a study of the Swedish adaptation to European institutions, a study of Swedish European policy. Sweden has a culture of negotiation, and government had to take into consideration policies recommended by industry. The reception of new European institutions in Swedish industry will be highlighted by studies of strategies and policies pursued by The Federation of Swedish Industries (the Federation) and the Swedish Employers' Association (the SAF).

Since in this chapter it is presupposed that Swedish governments could not accept European policy interfering with the purpose of domestic policy[2] the policy recommended by the Swedish Confederation of Trade Unions (LO) must be included in the analyses. Social democratic governments, which held office most of the years in the late 20th century,[3] could not afford to oppose this policy. Members of trade

[1] I want to thank Olof Allgårdh for information, informed views and source material. Olof Allgårdh was 1995–2003 heading the Swedish business office in Brussels. I also want to thank Lars Kritz, director at the Federation, for informed information and comments. For helping me out in the archive at the Centrum för Näringslivshistoria I thank Vadim Azbel.

[2] Confer, Putman, R.D. (1993). Diplomacy and Domestic Politics, in: Evans, P.B. & Jacobson, H.K. & Putman, R.D. eds., *Double-edged diplomacy*, Berkeley, Los Angeles, London: University of California Press.

[3] 1945–76, 1982–91 and 1994–2006.

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unions within the LO were collectively affiliated to the social democratic party until the 1990s.

This chapter comprises four parts. The first part will introduce the SAF and the Federation. The second part depicts the transformation of Swedish industry in the last decades of the 20th century. The third and main part will study the interplay between the Common Market, Swedish industry and the political framework from the late 1960s until 1995, when Sweden became a member of the EU. The chapter will end up with a discussion of the Swedish adaptation to European integration and the outcome of the transformation of Swedish industry: Has European integration [in Sweden] created a specific enterprise that is different from either national or global enterprise?

Voices of Industry

The SAF was in 1902 constituted as a counterpart to the LO that had been established in 1898. In 1938 the SAF and the LO came to an agreement in Saltsjöbaden. This agreement meant that industrial relations were left to these organisations. Collective bargaining on national level was introduced, and representatives of the SAF and the LO got seats in public authorities. 'The Swedish model' of negotiation governed industrial relations in the following decades of rapid economic growth. In the 1970s, the spirit of mutual understanding dissolved. As time went by, the SAF withdraw from centralised collective bargaining and from seats in governmental agencies. The LO became in the 1990s a political interest organisation.

In 1910, the Federation was established by men representing large companies working on international markets. They wanted, 'to promote socially useful production and to advance the common interests of Swedish industry'.[4] Labour market relations stayed within the SAF.

The Federation proved successful as a platform for political action. In the very beginning, a number of the board members were active in party politics.[5] After World War II, contact with the political level became unofficial. The Wallenberg family – primarily representing Stockholms Enskilda Bank (SEB) but also an expanding industrial ownership – stayed at the centre of the Federation all along. Tage Erlander – Prime Minister from 1946–1969 – used to invite men in big business to regular unofficial conferences at his official country residence at Harpsund. In an official statement, when Marcus Wallenberg Jr. died in 1982, Erlander said: 'He built Sweden together with us.'[6] In a description of the Federation of the early 1980s it

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[4] Ullenhag, K. (2000). The Federation of Swedish Industries in Swedish Politics in: Kuijlaars, A.-M. & Prudon, K. & Visser, J. eds., *Business and Society*, p. 371, Rotterdam: Centre of Business History.

[5] Ullenhag 2000 pp. 376–377 and 381.

[6] Olsson, U. (2001). *Furthering a fortune. Marcus Wallenberg. Swedish Banker and Industrialist 1899–1982*, pp. 339 and 430, Stockholm: Ekerlids Förlag.

was said: 'The Federation was still to be seen as the Wallenberg family "secretariat for political issues" '[7]

An Industrial Context in Transformation

The last decades of the 20th century meant a rapid transformation of Swedish economy. Between 1965 and 1995 the industrial workforce was reduced by a third, or 400,000 employees. The reduction was most rapid in the early 1990s. The service sector increased.[8]

The shrinking of the industrial sector and the expansion of the service sector were accompanied by a new enterprise structure. A change of ownership structure can be seen as an early step in transformation. From the 1980s onwards, investment companies and funds gradually substituted for private ownership. Mergers and acquisitions became frequent.[9] Swedish multinationals were transformed into corporations 'related to Sweden'.

In Swedish statistics (used below) the nationality of a corporation is classified by ownership control, not by registration, which is the case for example in Switzerland, or by the site of production as in the chapter by Marc de Ferrière le Vayer. As long as Swedes keep control of at least 50 percent of the value of votes (not the value of shares) in the parent company, the corporation is classified as Swedish.[10]

From the middle of the 1980s to the turn of the millennium, Swedish corporations expanded heavily in global markets. In 1986, the number of employees in Swedish subsidiaries abroad was 360,000 and in 2001 no less than 990,000. In global corporations, employment abroad was substituted for employment in Sweden. In those corporations employment in Sweden had been surpassed by that abroad in 1997. The expansion abroad in the late 1990s was above all related to the service sector.[11]

Europe was traditionally the main market for Swedish direct investment. In spite of the building of the European market, the share of Swedish direct investment in Europe fell, though. The European share of Swedish employment abroad was 1960 almost 70 percent. 2001 it was just 42 percent. While the share of employees within Swedish subsidiaries in Europe fell, the share in the U.S. increased. It was less than 10 percent 1960, but 23 percent by 2001.[12] Big corporations dominated the activities

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[7] Meyerson, P.M. (1997). *Sockerbagare i doktorshatt,* p. 84, Stockholm: Fischer & Co.

[8] Schön, L. (2000). *En modern svensk ekonomisk historia,* p. 476, Stockholm: SNS Förlag.

[9] Ullenhag, K. (1990). *Förnyelse, förvandling, fusion,* pp. 176–180, Uppsala: Hallgren & Fallgren. Studieförlag AB.

[10] *Svenskägda koncerner med verksamhet i utlandet 2003* [cit:Svenskägda koncerner] (2005), p. 3, Östersund: Institutet för tillväxtpolitiska studier (ITPS).

[11] *Näringslivets internationalisering: effekter på sysselsättning, produktivitet och FoU* [cit: Näringslivets internationalisering] (2004), p. 34, Östersund: ITPS and Svenskägda koncerner pp. 8 and 12.

[12] Swedenborg, B. (1992), Svenska multinationella företag, in: *Sveriges industri*, p. 94, Stockholm: Sveriges industriförbund and Näringslivets internationalisering, p. 34.

abroad. The rapid transfer of employees into Swedish subsidiaries abroad had to do with mergers.

The move into the American market had accelerated in the 1980s. Marcus Wallenberg was one of those who focused on the American market, but the strategy of the Wallenberg sphere also underlines that Swedish industry worked on global markets. At the turn of the millennium, Swedish corporations were represented all over the world, in Eastern Europe, Canada, Latin America, Australia, Asia and Africa.[13]

The winding up of foreign exchange controls – which was completed in the beginning of the 1990s – stimulated investments abroad.

The transfer from Sweden of employment in Swedish corporations was – to some extent – substituted for by employment in Sweden by foreign-owned subsidiaries. The number of foreign-owned subsidiaries in Sweden grew substantially, primarily in the 1990s. In 2002 no less than 22 percent – more than every fifth – of all the employees in trade and industry in Sweden were employed by foreign subsidiaries. The corresponding figure in 1980 had been roughly 5 percent.

Enterprises from the EU countries have – over time – employed a rather stable proportion of the employees in foreign subsidiaries in Sweden. This proportion was 53 percent in 1962 and 56 percent in 2001. Between 1996 and 2002 the number of enterprises from the U.S. and Norway expanded the most, though.[14]

The expansion of foreign enterprises in Sweden was stimulated by Sweden's application for membership in the EC and – in a new way – made possible by new rules. Traditionally founders of Swedish companies had to be Swedes. In 1993 this right was extended to natural and juridical persons within the EU. Furthermore, the main rule before 1993 was that board members were to be Swedes. New rules opened up the boards to foreigners, although the managing director and half the number of the board members had to be resided within the Union.[15]

Anne Wibble, who represented the liberals in Parliament and had been Minister of Finance between 1991–1994, commented on the new situation in spring 1995: 'In the 1970s we were convinced that everything was possible to attain by economic policy. Since then we have learnt that this is not the case.'[16]

To her, it was obvious that the deregulation of Swedish capital markets and the strategies adopted by Swedish multinationals had decisively reduced the scope for a national economic policy.

Martin Jes Iversen has shown in his chapter that the late 20th century meant a drastic growth of international activities in Denmark also, although in his case primarily within Europe. When Danish investments abroad grew, ownership structures

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[13] *Swedish subsidiary companies in the United States of America*, New York: The Swedish chamber of Commerce, in C., Olsson, p. 91 and Svenskägda koncerner, pp. 31–32.

[14] Johansson, H. (1967). Utländsk företagsetablering i Sverige, in: *Sveriges industri*, p. 136, Stockholm: Industriförbundet and Näringslivets internationalisering, pp. 24 and 34.

[15] AL 1975, 2:1 and 8:4 and AL (1975:1385) in *SFS*:150, Aktiebolagslagen 2:1,3 and 7:4.

[16] Interviews with Anne Wibble, april 1995.

became stable. In contrast to the Swedish case, foreign ownership became less important.

Steps Towards Europe

The Birth of the EFTA

When the Treaty of Rome came into force, 'the internal six' represented an important market for Sweden. No less than 33 percent of Swedish exports went here in 1957. The share for imports was 42 percent.[17]

The management within the Federation felt that there was a need for industry in Sweden to seek co-operation if they wanted to influence the ongoing OEEC debate on a large European free trade area. In January 1958, the Federation sent Wilhelm Paues abroad to explore the possibilities for European industry to influence negotiations by joint efforts. In Great Britain, Paues met with Sir Norman Kipping, managing director of the Federation of British Industries. Paues and Kipping jointly decided to launch a meeting for the 'external six' (Sweden, Great Britain, Denmark, Norway, Switzerland and Austria) at a forthcoming meeting for West European industrial organisations in February 1958. Because of the French attitude to Britain, the initiative was to be taken by Sweden.

A series of meetings for the federations within 'the external six' was followed by the forming of a committee composed of federations of industries from both sides, from 'the external six' and 'the internal six'. In the autumn of 1958 only the federations within 'the external six' agreed on a resolution, though. A resolution had been taken in confer with British and Swedish authorities.

During a visit to Stockholm and the Federation in December 1958, Sir Hugh Beaver, chairman in the British Federation of Industries, summarised the position of his federation. The 'external six' could not be passive. They had to build a free trade organisation of their own. This organisation should be built in a way that facilitated co-operation with the EEC. Afterwards, management within the Federation believed that this was the birth of the EFTA idea.[18]

In May 1960 governments established the European Free Trade Association (EFTA). The association was constituted at Saltsjöbaden, outside Stockholm. The 'external six' had by then become the 'external seven'. Portugal had joined the group. The seven signed an agreement about free trade. In Sweden, the Federation and the SAF formed a committee for co-operation on questions concerning European integration.[19]

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[17] *Handel 1957.* Del 1, pp. 26–27, Stockholm: Kommerskollegium.

[18] *Bilder från Industriförbundet 1910–1985,* pp. 6–7, Industriförbundets arkiv. Centrum för Näringslivshistoria [cit: Archives].

[19] Kjellberg, A. (2001). Arbetsgivarstrategier i Sverige under 100 år in: *Arbejdsgivere i Norden,* p. 248, Köpenhamn: Nordiska ministerrådet.

Near but Not Within

The debate on the relations between the EFTA and the EEC was ongoing more or less continuously in the years following the Saltsjöbaden agreement.[20] In Sweden, the social democratic Prime Minister Tage Erlander declared in a speech that a Swedish membership in the EEC was not a possibility because of Swedish neutrality (Metalltalet).[21] At the same point in time, in August 1961, the chairman of the LO, Arne Geijer, warned Sweden against a membership: 'Sweden could not accept to be tied to reactionary politics or to right-wing dictatorships in Western Europe.'[22]

In summer 1969, when negotiations for membership were about to start for Great Britain, Ireland, Denmark and Norway, Axel Iveroth – chairman of the Federation – approached Gunnar Lange, Swedish Minister of Commerce. Iveroth's message from the Federation was that Sweden had to ask for membership. If not, the Federation was to present the government with an official letter, wherein government was to be criticised for passivity. The risks that were at hand if Sweden was put outside a widened common market were to be strongly emphasised here.[23] In 1967, those countries that now applied for membership and the EEC countries jointly had been the markets for 68 percent of Swedish imports of goods and 63 percent of exports.[24] Sweden had to adapt.

At this point in time, the negative attitude to the EEC within the labour movement was not as homogeneous as it had been a decade earlier. Within a month after the contact with Iveroth, Lange sent 'an open letter' to the EEC. Sweden wanted negotiations bringing Sweden nearer the EEC. The outcome of these negotiations was to decide if a Swedish application for membership, association or some other relation to the EEC should be forwarded.

In spring 1970 Olof Palme – since the year before Swedish Prime Minister in a social democratic government – went to Bonn, London and Paris to discuss Sweden's relation to the EEC. His declarations abroad gave the impression that Sweden was going to apply for membership.[25] Kjell-Olof Feldt (who in 1971 succeeded Lange as Swedish Minister of Commerce) understood that Palme was convinced that Sweden had a role to play in European politics. In the Swedish labour movement, there were conflicts of opinion, though. The social democratic party was divided. The Minister of Finance Gunnar Sträng opposed membership. He did not want to lose influence.[26] The LO was against a membership. In some trade union

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[20] Swedish EEC-policy will be analysed by Erik Magnusson in his forthcoming dissertation 'Sweden and the EEC 1960–1973'.

[21] Viklund, D. (1977). *Spelet om frihandelsavtalet,* pp. 28–29. Stockholm: Rabén och Sjögren.

[22] Olsson, J & Svenning, O. (1988). *Tillhör Sverige Europa?* p. 20. Stockholm: Författarförlaget.

[23] H91H. Utrikesdepartementets arkiv.

[24] SOS (1969), *Utrikeshandel 1967. Del 2*, p. 96, Stockholm: Statistiska centralbyrån.

[25] Olsson & Svenning, pp. 20–21 and Viklund (1977), pp. 35–39 and 47–55.

[26] Feldt, K-O. (2005). *Min väg till politiken*, pp. 168–169, Stockholm: Ekerlids förlag.

quarters the EEC was looked upon as 'a construction to forward the development of capitalism in Western Europe'.[27]

Nevertheless, the LO and the SAF formed a working group to discuss questions of integration.[28] The Federation internally appointed a group to deal with EEC-related questions and initiated negotiations with the SAF, the LO, public authorities and trade organisations. In November1970, the managing director Axel Iveroth presented Olof Palme with a letter on the industrial requirements in relation to an EEC membership.[29]

Some months later, in March 1971, the Swedish government in plain language declared that Swedish neutrality made it impossible for Sweden to become a member, though. The government referred to plans launched in 1970, the Davignon plan for European foreign policy and the Werner plan for an economic and monetary union.[30] An outspoken, cynical, former minister in a social democratic government gave his comment: 'We were saved by these reports'.[31]

The director Erik Braunerhielm at the Federation in a letter commented the government's statement: 'The question whether these conditions are consistent with Swedish neutrality rests with the government. The government will make a discretionary assessment as an exact definition is missing.'[32]

In 1973, Sweden ended up with a free trade agreement.[33] In time, Swedish trade with industrial goods in Western Europe became free of duty and import restrictions.[34] The political debate on the Swedish relationship to the Common market stayed silent for more than a decade. The shift to non-socialistic governments, which held office between 1976–82, did not break the silence.

The Federation and the SAF wanted to show their interest in a closer co-operation with the Community, though. In 1974, they jointly opened up an office at Brussels. Sweden became a member of the UNICE – first as associated – and got representatives in UNICE committees.[35]

Sweden and the 'Internal Market'

In the middle of the 1980s the Swedish relation to Europe was brought to the fore. In spring 1984 ministers from all West European countries met in Luxembourg

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[27] Olsson, H. & Pettersson, L. Arbetarrörelsen och EG in Hamilton, p. 181 and Bergström, V. & Svenning, O. (1971). *Fackföreningsrörelsen och EEC,* p. 7, Stockholm: Tidens förlag.

[28] Misgeld, K. (1997). *Den fackliga europavägen*, p. 111, Stockholm: Atlas.

[29] Styrelseprotokoll, 1970-06-17 §2, 09-16 §8, 10-14 §1, 11-18 §2 and 12-16 §7. A 1.Archives.

[30] Viklund, pp. 85–87.

[31] Olsson and Svenning, p. 23.

[32] Braunerhielm to Birnbaum, 1972-03-20. F1:16. Archives.

[33] Viklund, p. 117.

[34] Braunerhielm, E., En västeuropeisk ekonomisk sfär in: Hamilton, p. 19.

[35] Karlsson, S. (2001). *I Sveriges och industrins tjänst,* p. 13, Stockholm: Sellin & partner and Kjellberg, p. 249.

to discuss the relations between the EFTA and the EEC. The Swedish Minister for Foreign Trade Mats Hellström was amongst the initiators. The outcome of the Luxembourg-meeting was a decision to shape a 'European Economic Space'. The aim was to bring forth a dynamic European development by harmonising standards, decreasing technical barriers to trade, and facilitating border formalities. Co-operation in research and technological development were to be increased.[36]

The fulfilment of these aims called for negotiations between EFTA and the EEC. In Sweden, negotiations became urgent in the late 1980s, when it seemed obvious that the gap between the EEC Member states and the EFTA might be widening and Austria applied for membership. Mr. Jacques Delors – head of the EEC Commission since January 1985 – had launched the project of 'the internal market': the member states would form a large European market without internal borders.

Industrial Policy

Men in the Federation followed the plans brought forward in the EEC in the early 1980s. At the annual meeting of the Federation in April 1985, Swedish relations to the EC were discussed under the heading of 'Europe – the home-market of Sweden'. In June 1985, Cockfield, an English member of the Commission – who was close to Margaret Thatcher – presented the plan for 'the internal market' in Sweden. He discussed co-operation between Swedish industry and the EC at a dinner with the executive body of the Federation.[37] In some quarters it was felt that his speeches sent a strong signal to Swedish business to seek a new and closer relationship with the Community.[38] In December 1985, a delegation from the Federation got information on 'the internal market' at a meeting with the UNICE-president Lord Pennock in Brussels. In February 1986, the Federation arranged a visit to Brussels for delegates from Swedish industry. The delegates were able to meet with five EC-commissioners.[39]

The Federation, in the autumn of 1986, intensified its work on the Swedish relations to the Community. It was felt that the road to the 'internal market' called for a unifying industrial approach. The need for investigations and analyses was urgent. In January 1987, the Federation launched an EC project. The consequences for Swedish industry until that point, and the forthcoming consequences of non-membership, should be analysed within all fields of the Federation. The question of neutrality was not to be discussed within this project. Suggestions for industrial policy were presented in December 1987.[40] The conclusion was that the launching of

[36] Braunerhielm, pp. 28–30 and Hellström, M. (1999), *Politiskt liv,* pp. 28ff., Stockholm: Hjalmarson & Högberg.
[37] Direktionskansliets verksamhet hittills under 1986. A 3:1. Archives.
[38] E-mail from Allgårdh, 2005-09-27.
[39] Minnesanteckningar. Direktionen [cit: Minnesanteckningar] 1985-12-06, §1, 1986-01-22, §1 and 02-20, §2. A 2. Archives.
[40] Interview with Kritz, 2004–03–05.

'the internal market' had started a process that would increase the ability to compete, but also a process that was a threat to the EFTA countries. Sometimes these countries could expect to be allowed to take part in EC conditions, and sometimes they could expect to be exposed to discrimination.[41] The possibility of using the UNICE to influence countries in the EC as well as countries in the EFTA was – during this process – emphasised by Zygmunt Tyszkiewics, Secretary General of the UNICE, during a visit to the Federation.[42]

Within the Federation, the view on Swedish EU membership was divided. Peter Wallenberg, president of the Federation, opted for a membership, though.[43] When the EC project brought forward within the Federation had been presented, in December 1987, he appealed to the government in a speech at a seminar to reconsider the Swedish position in relation to a Swedish membership in the EC, a market for more than half of all exports from Sweden. Wallenberg emphasised that Swedish industry might be forced out of Sweden if relations with the EC stayed unclear.[44]

The conclusion that Swedish enterprises in the existing circumstances might prefer investments outside Sweden was a fact. In the years 1985–1988, the ten most internationalised Swedish corporations increased their investments abroad by 30 percent and reduced their investments in Sweden by 20 percent.[45] The share of Swedish investments within the EC increased heavily in the latter part of the 1980s. Swedish enterprises wanted to have a platform within the integrated market in case Sweden once more chose to stay outside.

Swedish Policy

At the point of time when Wallenberg appealed for a Swedish membership in the EC in December 1987, the social democratic government felt that it was urgent to speed up the negotiations on the Luxembourg agreement. The government clarified its view on the Swedish role in western European integration in a bill that was accepted by Parliament in 1988. The Swedish line of policy was said to be unaltered. Sweden wanted to deepen its relation with the EC as long as the co-operation did not interfere with Swedish neutrality. Within this limitation Sweden would work for increased mobility for commodities, services, men/women and capital in Europe. In the field of industry, the government should work for a European market, where Swedish industry was given equal rights with countries within the EC. Swedish participation in technical research aiming at a modernising of European industry was in this context found to be important. EFTA should, according to the bill, be the basis

[41] Minnesanteckningar, 1986–09–26, §4. A 2. Archives.
[42] Minnesanteckningar, 1987-04-24, §1. A 2. Archives.
[43] Meyerson, pp. 183–188.
[44] Karlsson, pp. 131–132 and Minnesanteckningar, 1988–01-05, §1. A3:2. Archives.
[45] Lemmel, 1990-06-19, 'EES är steget mot EG-medlemskap.' Rådet för Europafrågor (regeringens) [cit: Europarådet] F 6b:9. Archives.

for Swedish negotiations with the EC.[46] In the debate in the standing committee on foreign affairs, it was concluded that ‘Swedish neutrality is not laid down in a treaty. We decide ourselves its contents’.[47]

To handle questions concerning European co-operation and to identify the need for adaptation of Swedish law, the government established a secretariat for European integration within the Ministry for Foreign Affairs. Swedish law was to follow European institutions. If bills diverging from EC regulations were presented, they had to include explanatory statements. Ambassador Ulf Dinkelspiel was appointed Swedish chief negotiator on European questions and was accompanied in this by two other highly qualified diplomats, Olof Allgård and Frank Belfrage. Together, they were in charge of the integration secretariat, which had to co-ordinate about 20 working groups from departments of states. These groups had a number of consultative groups from communities of interest such as industry, trade unions and consumers. The secretariat reported every three months. A series of books was published.[48]

A Swedish Council for European Questions

In the bill of December 1987, the social democratic government presupposed deeper contacts with wage-earner organisations and industry in questions concerning the European market. To discuss negotiations within the Luxembourg scheme in the light of the launching of ‘the internal market’, the government decided in March 1988 to establish a Council for European Questions within the Ministry of Foreign Affairs. This council, chaired by the social democratic Prime Minister Ingvar Carlsson, was to be an agency for running consultations between the government and representatives for different public interests, e.g. the Bank of Sweden, the commercial banks, industry, trade unions, consumer co-operatives and the universities.[49] Later, the National Union of Farmers (Lantbrukarnas riksförbund) was included.[50]

Before the decision to establish this council, in January 1988, Prime Minister Ingvar Carlsson had invited twelve men with strong positions in corporations working on global markets to meet six representatives of the government at a dinner for ‘free, easy and confiding’ discussions on the Swedish relations to the Common market.[51] The first meeting with the Council for European Questions was held 25 April 1988. Representatives of industry had a preparatory meeting at the Federation of Industries. This kind of preparatory meeting was to be the rule in the future. At the first preparatory meeting it was decided that representatives of industry should

[46] Prop. 1987/88:66, kap. 1, 5 and 6. Riksdagstrycket.
[47] Utrikesutskottets betänkande1988/89:UU 19, p. 22. Riksdagstrycket.
[48] Interview with Allgårdh, 2005–08–26.
[49] Utdrag ur Protokoll vid regeringssammanträde, 1988-03-29; Europarådet. F6B:9. Archives.
[50] Dockered to Carlsson, 1988-06-10 and Carlsson to Lantbrukarnas riksförbund, 1988-07-07. F 6B:9. Archives.
[51] Carlsson to Nabseth, 1988-01-07. F 6b:9. Archives.

not bring up the question of membership in the EC or the question of Swedish neutrality.[52]

At the first meeting with the Council, Karl-Erik Sahlberg presented the Federation's points of views. He emphasised that Sweden, in order to avoid discrimination on European markets, had to adapt to proposals presented in the 'white paper'. These proposals would carry the internal market into effect. The Federation observed that agents within the EC had in mind that members within the EFTA in no circumstances could be on an equal footing with members within the 'internal market'.

Sahlberg stressed that Sweden was criticised primarily for foreign-exchange controls and for the discrimination on foreign enterprise acquisition. Sahlberg found that Sweden was, or was about, to be discriminated against in public purchasing and in research launched by the EC. Moreover the free movement for European citizens did not apply to Swedes: It was difficult for men in Swedish industry to get work permits within the EC, and Swedish students were no part of current exchange programs.[53]

In May 1988, the SAF suggested that the SAF and the Federation should co-ordinate their work with regard to the EC question. Leading managers within the organisations decided to form an informal group – headed by Peter Wallenberg – which, in the first instance, should prepare the meetings with government in the Council for European Questions. It was established that the SAF was to bear the main responsibility for working groups dealing with education, personal mobility, working life and work environment. The Federation was responsible for the remaining working groups except those which were dedicated to media (joint responsibility) and tourism (neither the SAF nor the Federation). Whether the Federation or the SAF was to have the responsibility for overall policy was an issue that was not solved. In the Federation Lars Kritz was appointed co-ordinator of the European project.[54]

Swedish Industry in the UNICE

In 1989 about 25 delegates from the Federation took part in committees and working groups within the UNICE.[55] The Swedish delegates wanted to introduce the Swedish model of negotiation aiming at consensus, or else to gain approval for the idea of national freedom to decide. They opposed a strengthening of the organisation. Thus, a proposal to introduce majority voting did not apply to the Swedes.[56]

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[52] EG-gruppen, 1988-04-06. F 6b:9. Archives.

[53] Europarådet, 1988-04-25. F 6B:9. Archives.

[54] Minnesanteckningar, 1988-05-24 §1, 1988-06-29 §1 and 1989-09-08, §1. A 2. Archives and EG-gruppen, 1988-06-27. Handling överlämnad av Lars Kritz.

[55] Lemmel to Tersmeden, 1990-07-05. A 3:2. Archives.

[56] Lemmel to Mr Carlos Ferrer, President UNICE, 1991-11-27 and SAF' s synpunkter inför Special Presidents'meeting, Scheveningen, 1991-12-03. F 6 b volym 11. Archives.

Of certain interest in Sweden was the so-called 'social dimension' that included industrial relations. Sweden held the view that legislation should be avoided and negotiations held on branch- or company-level. A seminar on the social dimension was given at EC/EFTA-meetings in Gothenburg in June 1990 in connection with the EFTA's 30th anniversary. Some weeks before this meeting, Zygmunt Tyszkiewics, Secretary-General of UNICE, sent a letter to Stellan Artin at the SAF. Magnus Lemmel, Director-General at the Federation and Carl Reinhold Tersmeden, in charge of the Swedish office in Brussels, got copies. Tyszkiewics, wrote: 'the social dimension in the EFTA countries (especially the Nordic ones) has a shape rather different from that in many of the EC-member States' In these circumstances Tyszkiewics would make the point that 'there is no real debate about social policy. The real debate is about "subsidiarity", i.e. what should be decided at EC-level and what should be left for decision or negotiation at other levels. This will be the main theme of the forthcoming intergovernmental conference over institutional reform of the Community.'[57]

'Social policy and the role of the social partners at European level' was discussed at a presidential meeting within the UNICE in June 1991. No less than six representatives of Swedish industry were present. The Commission in Brussels had asked the social partners to envisage the possibility of collective agreements. The UNICE had to give a response to the commission and to discuss subsequent strategy. In the debate, Ulf Laurin from the SAF gave the Swedish position as follows: 'The current trend in Sweden was towards rejection of centralisation whose effects had been disastrous. However, the Commission's proposal should not be envisaged as relating to the conclusion of collective labour agreements in the usual sense of the term but as the only alternative to the proposal from Brussels for detailed and inappropriate social legislation.'

A Brussels proposition to create European Works Councils (EWCs) was within the EEC strongly opposed, and not only by Sweden.[58]

The Last Steps into the European Union

In February 1989 Olof Ljunggren, managing director of the SAF, presented the SAF view on the Swedish relations to the EC in a letter to his board and to the management of its associations. The SAF accepted the strategy adopted by the government. To apply for a membership in the EC before 1993 when the 'internal market' was completed was, according to the SAF, of no use. The SAF found it necessary to see the results of negotiations by the EFTA before alternative routes were launched.[59]

Almost half a year later, Magnus Lemmel, managing director of the Federation, presented his view in an unofficial letter to his board on the bargaining position of

[57] Tyszkiewics to Artin, F 6b:10. Archives.

[58] Council of Presidents 1991-06-20, Item 5 and 1991-04-12. Item 4. F 6b:11. Archives.

[59] Skrivelse från Ljunggren 1989-02-27. F 6b:9. Archives.

EFTA-EC in relation to a European Economic Area (EEA). He expressed uneasiness about disintegration within the EFTA group. Lemmel noted that the LO was sceptical to the discussed customs union, which, according to him, had high priority in Swedish business.[60] On 31 October 1989, Magnus Lemmel claimed on Swedish radio that a speedy application for a Swedish membership in the European Community was necessary. Membership was needed to improve the investment climate in Sweden. Lemmel was of the opinion that the majority of the Swedish people wanted a membership. He meant that it would be disastrous if the question of a membership were to become a question for party politics in the coming parliamentary election.[61] At the meeting with the Council for European questions two days later, representatives of the Federation clarified their position. The Federation supported the ongoing discussions about the EEA agreement, but such an agreement had, according to the Federation, to be followed by a swift application for membership in the EC.[62]

The fall of the Berlin Wall on 9 November 1989 and the disintegration of the Soviet Union meant that the claim for neutrality was no longer a hindrance for a Swedish membership in the Common Market. At the opening of the social democratic party conference in spring 1990, Prime Minister Ingvar Carlsson said: ‘A new Europe is developing’. A year later he delivered an application for a Swedish membership in the European Community signed by the social democratic, the conservative, the liberal and the centre parties. It was decided that Sweden was to hold a referendum in the autumn of 1994.[63]

The year before, on 1 January 1993, the EEA agreement, accepted by Sweden, had come into force. The elimination of borders was opening up new possibilities. Director Lars Kritz, head of the market and transport policy department in the Federation, found that the agreement marked a borderline in Swedish relations to Europe.[64]

The EU-referendum was held 13 November 1994. The Federation and the SAF invested heavily in different campaigns for ‘a yes’. Information was produced. Busses filled with exhibitions toured the country, so-called EU-ambassadors were educated, prominent directors took part in a phone-in programme, and so on. The message was that Swedish membership was necessary for economic growth. The EU as a safeguard for piece and democracy was not brought to the fore, and neither was Sweden’s European heritage.

A majority of the Swedish people voted yes 13 November 1994. Sweden became a member of the EU 1 January 1995. The debate that for a short period of time had been so loud and intense became silent. Membership did not become firmly established in Swedish society. Until the Swedish referendum on the EMU in the year 2003 information from Brussels was rather meagre in Swedish media. In this

60 Lemmel till Industriförbundets styrelse 1989-06-30. F 6b:9. Archives.
61 Ekonomiekot 1990-10.31(Utskrift). F 6b:9. Archives.
62 Lemmel to Näringslivets representanter i Europarådet 1989-12-08. F 6b:9. Archives.
63 Carlsson, I. (2003). *Så tänkte jag,* pp. 405, 418–419 and 517, Stockholm: Hjalmarson & Högberg.
64 Interview with Lars Kritz, 2004-03-05.

latter case, too, Swedish industry launched a massive campaign for 'a yes', but this time the answer from the Swedish people was 'no'.

European Institutions and Enterprises in Sweden

The Swedish relationship to the Common market was governed by negotiations. The labour movement had two sides, the social democratic party and the LO. As long as the labour unions were antagonistic to European co-operation, social democrats in government did not recommend a Swedish membership. Officially, Sweden declared that Swedish neutrality was incompatible with a membership, a perception that was not shared by the Federation.

The pressure from industry to join the Community was not homogeneous, though. To govern industrial relations, the SAF wanted to keep the Swedish model of negotiation, which presupposed good relations with the LO. Within the Federation there were big corporations – not least within the Wallenberg sphere – that focused on markets outside Europe. They did not want to adapt to European product standardisation. Margrit Müller has in her chapter found that the same resistance could be found in Swiss enterprises. The difficulties in coming to agreements on European standards are exemplified by Marine Moguen-Toursel in her chapter on car production.

In 1973, Sweden got a free trade agreement on industrial commodities and the Swedish debate was silenced for more than a decade. The Federation of Swedish industry – together with the SAF – opened up an office in Brussels and representatives of Swedish industry entered UNICE, though. Swedish policy focused on EFTA and the relation between the EFTA and the EC. The launch of the internal market meant, during the late 1980s, intensified negotiations to establish a European Economic Area (EEA).

When Sweden applied for membership in the EU in 1991, not only had the Berlin Wall fallen, but the transformation of the Swedish economy also called for new routes in policy. From the 1970s onwards, the Swedish economy had lagged behind in international comparison, the industrial sector had lost ground and got a new ownership structure and industrial relations were dissolving. Big business in Sweden no longer had the aim of the early 20th century, i.e. 'to promote socially useful production and to advance the common interests of Swedish industry.'

Access to the internal market did not mean that Swedish enterprises turned towards Europe in a new way. In 2000, the share of Swedish imports from countries within the EU was 65 percent and the share of exports 55 percent. Corresponding figures for the same countries in 1970 had been 65 and 69 percent. Not only had the European share of Swedish exports been reduced, so had the share of investments in Europe. This share fell at the time when Swedish foreign investments expanded in the late decades of the 20th century. European enterprises have over time employed between 50 and 60 percent of employees in foreign subsidiaries in Sweden.

In the 1990s, new Swedish institutions opened up Swedish borders for Swedish investments abroad and foreign investments in Sweden. These institutions meant adaptation to European rules. They did not bring Swedish enterprises closer to Europe, though, but they had a strong influence on the process of globalisation. They stimulated the internationalisation of enterprises in Sweden.

However, a study of products and production in Swedish enterprises will unveil a turn to Europe. European institutions related to production and products were integrated in Swedish institutions. They meant harmonising of technical barriers to trade, technical roles, technical standards, testing of commodities, certification, safety rules and rules for marks of origin. Adaptation to these rules meant that big global enterprises as well a small national firms in Sweden at the turn of the millennium produced 'European products' in a 'European way'. Swedish enterprises had not become European enterprises, but they had, through institutional change, become *Europeanised.*

Facilitating Technology Services: National and European Standards and the Shaping of FORCE Technology, 1940–2005

Lars Heide

In 2003, FORCE Technology achieved a contract to assist Talisman Energy, a Canadian oil and gas producer, planning and implementing inspection of welds and corrosion of the company's ageing oil and gas rigs in the British part of the North Sea.[1] This was a key element in their integrity management, facilitating prolonged use and improved profitability. Welding inspection was based upon trust, as you could not assess the quality of this technology service with the naked eye. A welding inspection provider could achieve trust either by reputation based on established record – in this case within the British off-shore industry – or by referring to standards. Welding was one of the most standardised fields of technology service, and FORCE Technology attained this contract based upon established European standards though it had no British subsidiary.

Today, FORCE Technology is a technology service provider based in Denmark with a total of about 1,000 employees. Starting in 1993, it internationalised operations from its original Danish base, establishing substantial subsidiaries in Norway and Sweden and smaller subsidiaries in four additional countries in Europe and the Americas. European welding standards and international standards on management facilitated this internationalisation. Common European welding standards were established within the project of building the single European market in the late 1980s and early 1990s. They superseded national standards and opened what had until then been national markets for cross-border competition. However, FORCE Technology's non-European subsidiaries appear to indicate that European standards were not requisite in this process.

This paper analyses the role of European and other international standards in shaping FORCE Technology and the part of Europe in the company's strategies. The analysis is organised in three sections. The first section studies how foreign national standards in the late 1930s caused the establishment of the company and its operation under the two regimes of national standards. The second section analyses the role of European welding standards in the emergence and implementation of FORCE's internationalisation strategy. The paper's final section discusses the role of European standards and Europe in shaping FORCE Technology.

[1] *FORCE årsberetning* (annual report) 2003, p.19

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National Standardisation Regimes

FORCE Technology originated as the Danish Welding Institute (*Svejsecentralen*), which was established in 1940 to facilitate inspection of welds and improve welding operations. In the 1930s, steel elements were riveted to build bridges, steam boilers etc. Welding was an attractive alternative way to join steel elements together. People worked in the 1930s to solve the quality problem of welding through standardisation and quality control. The first German welding standard was published in 1934. In 1937, the Danish Association of University Trained Engineers (*Ingeniørforeningen*) and the Danish Standardisation Commission (*Dansk Standardiseringsraad*, *Dansk Standard* today) started to establish Danish welding standards.[2] The key to control welding was a non-destructive test method. To this end, X-rays began to be applied for inspection of welding in Germany, Sweden, and the Netherlands in the second half of the 1930s.

Competition from Germany and Switzerland caused the introduction of X-ray inspection in Denmark. At that time, the Danish national Department for Employment (*Direktoratet for Arbejdstilsynet*) required riveting of steam boilers. In 1938, the Swiss company Brown, Boveri & Cie asked for exemption from this regulation to export welded steam boilers to Denmark, as they were accepted by the Swiss authorities based on X-ray inspection. The Danish Ministry of Trade and Industries granted an exemption causing a competitive disadvantage to Danish engineering industry, as it had no access to X-ray inspection. In the context of the time, relying on foreign-based welding inspection was inconceivable and the Federation of Danish Industries (*Industriraadet*) engaged in establishing a Danish welding inspection organisation. They found an ally in Anker Engelund, who was professor of bridge building at the Technical University of Denmark (*Danmarks Tekniske Højskole, Danmarks Tekniske Universitet* today) in Copenhagen. Engelund had the scientific presence and competence needed for the task, though he had no X-ray expertise. He took charge of the project, received a grant from the Federation of Danish Industries, and acquired mobile X-ray equipment for inspecting welds across the country.[3] Engelund organised the Danish Welding Institute (*Svejsecentralen*), a non-profit private foundation, an which remained in place.[4] Originally the Welding Institute acted like a university institute, but its management changed style in the 1950s. Since then, it has acted as a commercial enterprise, using any surpluses exclusively for consolidation.

National standards for welding were established between the mid-1930s and the 1950s. However, the basic problem remained of customers having to trust welding

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[2] Letter, Helsingør Skibsværft to Dansk Standardiseringsraad, 11 September 1938, box 2, Vinter papers, FORCE archives.

[3] Engelund, A (1940), Danmarks tekniske Højskoles transportable Røntgenanlæg" (The portable X-ray equipment at Denmark's Technical University), Ingeniøren 21: A.61–A.68.; Engelund, A (1941), Oprettelsen af Svejsecentralen under Akademiet for de tekniske Videnskaber (The establishment of the Danish Welding Instute), Den tekniske Forenings Tidsskrift, March.

[4] Statutes for the Danish Welding Institute, 25 October 1940.

inspection organisations, as the standards only provided a set of basic rules and no procedure to ensure that inspectors complied. Further, the standards were national and varied in spite of co-ordination through the International Institute of Welding, established in 1948, which was an association of national welding inspection organisations.[5] Subsequently, X-ray based welding inspection was supplemented with new inspection techniques. In 1950, the Welding Institute introduced recording based upon radioisotopes, which enabled inspection of welds where X-rays were not reliable due to the thickness of the adjoining steel elements, and ultrasound starting a few years later.[6] However, the basic quality problem of welding inspection remained.

Back in the 1940s, acceptance of the Danish Welding Institute's X-ray based inspection in Denmark was ensured by allocating seats on its board to directors of the Federation of Danish Industries and the national Department of Employment, and the Welding Institute certified according to Danish welding standards since 1940. In 1946, the institute was authorised to certify according to the standards of Lloyds of London.[7] This opened the market for inspection of ships required for obtaining insurance, which became lucrative as the Danish shipyards started to build completely welded ships. Lloyds established transnational industry standards on shipbuilding that facilitated foreign insurance and export of ships.

The Danish government only played an indirect role in relation to the Welding Institute's inspections. Its Department for Employment accepted welding of seam boilers provided that welds were inspected with a positive assessment by the Institute. The government's objective was exclusively to protect people working or living near steam boilers and was not focused on improving industrial production. Also, this explains why the Danish Government was not active in establishing the Welding Institute in the late 1930s. This policy changed in the 1960s when industrial export came to surpass agricultural export. It caused a government commitment to industrial development, including an act on government-authorised inspection in 1973, which included welding inspection.[8] The act established a government testing commission (*Statens Tekniske Prøvenævn*) to guarantee the quality control of inspection of Danish industrial products, which introduced a formalised regime of national standardisation. The commission implemented its quality control through formalised authorisation of public organisations and private companies.

This arrangement opened for formalisation of the Welding Institute's welding control, which the Institute in any case had carried out since its establishment in 1940. In 1974, the Welding Institute received government authorisation for its

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[5] Board meeting minutes, 8 March 1949; enclosures to Welding Institute board meeting, 8 May 1957.

[6] Welding Institute annual reports 1950–1970.

[7] Draft report on activities in 1946 (December 1946).

[8] Betænkning om Statsprøveanstaltens fremtidige udvikling. (Recommendations on the future of the Government testing institution), Copenhagen: Ministry of Trade and Industry, 1971; Lov om statens tekniske prøvenævn" (Act on a government testing commission), Act No.144 (21 March 1973).

welding inspection. However, the establishment of the government testing commission also opened up the possibility of authorisation of additional organisations, which opened the door for competition. Simultaneously, the costs of establishing a welding inspection operation had declined from the high costs of involved in the founding of the Welding Institute in 1940. Now the costs were affordable to many engineering companies, which also encouraged competition.[9] As a consequence several competitors received authorisation after 1974, though none accomplished the feat of making welding inspection and related consultancy activities profitable. To reduce competition, the Welding Institute acquired welding-related activities from several Danish competitors: the Technological Institute of Copenhagen (*Teknologisk Institut*, 1976), the Jutland Technological Institute of Aarhus (*Jydsk Teknologisk Institut*, 1987), and two small competitors in 1992 and 2000. However, the Welding Institute never gained a monopoly, as several small operators remained in Denmark pursuing welding inspection as one among many related activities.

In addition to the Welding Institute's welding inspection in Denmark, it developed small-sized business abroad. This grew out of contacts with foreign welding inspection organisations and an active share in the writing of international standards. From 1948 to 1949 the Welding Institute inspected welding of new ships at a shipyard in Norway. However, this activity was terminated, as a Norway established a national welding inspection organisation.[10] As late as the 1980s, national welding inspection organisations respected national boundaries. They exchanged information and leased equipment and operators on a non-competitive basis. The Danish Welding Institute managed all its foreign operations by sending people and equipment from Denmark. The Institute only established an office abroad in 1993.

Back in 1963, the Institute established a consortium with several inspecting organisations in other European countries to gain contracts abroad.[11] This was a success and the Institute gained contacts with Euratom and offshore contracts in Persian Gulf. In 1967, the Welding Institute started to secure contracts for Dutch and British offshore activities in the North Sea. Eventually, this provided essential expertise when oil and gas exploration started the Danish part of the North Sea in the late 1970s.[12] The emerging offshore activities caused the Danish government to establish standards for quality control of building and operating rigs. The government contracted with the Welding Institute to manage the writing of Danish offshore welding standards, which were based upon existing standards in several countries, and subsequently the Institute managed the writing of common Scandinavian standards in the field based upon a second Danish appropriation. Through these assignments the Welding Institute improved its expertise in international welding standards.

[9] Board meeting minutes, 4 November 1971.
[10] Annual report 1948, board papers.
[11] Minutes, board meetings, 24 October 1963, 22 June 1964.
[12] Annual report 1966, 1967, 1968, board papers.

European and International Standards Regime

The welding inspection activities in the North Sea demonstrated the inadequacy of national standards, which can be illustrated by the history of welding control of the underwater oil pipeline from rigs in the Danish sector of the North Sea to the West Coast of Denmark. In 1979, the revolution of clerics in Iran triggered insecure oil supply, and the Danish government decided to promote security of oil supplies by building the pipeline. Italsider, an Italian steel producer, supplied the underwater steel pipes. The Danish government agency responsible for the project contracted with Den Norske Veritas (DNV) to test and oversee the quality of the pipes in order to ensure a long life of the pipeline without polluting the maritime environment. DNV was an independent company based in Norway with offices in 100 countries. It identified, assessed, and advised on how to manage risk related to technological systems. DNV contracted with the Danish Welding Institute to make the welding inspection at the production site for the pipes in Italy as well as their welding together on a barge on the North Sea before submersion. Eventually, the government agency detected cracks in some pipes and a prolonged litigation followed, disclosing the problems of using national standards with operations involving companies from several countries. A key issue became which national welding standards should be applied by a Danish subcontractor to a Norwegian company operating in Italy under a contract with the Danish government.[13]

In 1986, the year before a Danish law court acquitted the Welding Institute in the pipe case, the EEC's heads of state and government (EU in 1993) decided to build the "single market".

A key component of this project was establishing common technical standards, as varying national standards constituted technical trade barriers. In general, international standardisation bodies established standards through consensus i.e. on the basis of voluntary agreement between all parties. This could be a slow process, inadequate for facilitating a single market within a few years. In spite of this, EEC decided to develop the technical standards requisite for building the single European market within the existing framework of CEN (Comité Européenne de Normalisation) established in 1961. CEN comprised both the EEC and EFTA (European Free Trade Association) countries. EFTA members in the late 1980s were Finland, Iceland, Norway, Sweden, Switzerland, and Austria. To speed up the process of establishing technical standards, CEN introduced formal adoption of European Standards where the CEN National Members decided standards by a weighted majority vote (based on the size of the member states' economies). The decisions were binding for all member states, which were required to implement the standards at national level and withdraw conflicting standards. In 1987, CEN established a working group with the objective of writing common European welding standards. Adoption of common

[13] Rüdiger, M. (1998), *DONG og energien* (DONG and the energy), Copenhagen: Handelshøjskolens Forlag, pp. 94–102; Jensen. I (1985) Kvalitets-kontrollen var alt for dårlig" (Insufficient quality control), Ingeniøren 1 Februar.

European welding standards would merge what had thus far been national markets for welding inspection into one single European market.

The emerging single market would open the borders for technological services and completely change the market situation for innovative technology service companies like the Danish Welding Institute. This was the message in a report from the EEC commissioner, Philippo Pandolfi in the spring of 1989. Based upon this report, Ernst Tiedemann, the Danish welding Institute's finance manager, and Karen Møller, director of the association of Danish technology service providers, wrote a report on the implications of the single market for Danish technology service companies.[14] Pandolfi had predicted that groups of large high-quality technology service companies would emerge in the single market, which caused Møller and Tiedemann to warn Danish technology service providers to expect problems. Technology service providers in several EEC countries would have better opportunities due to larger national industries, and these stronger service providers would not be attracted to the small Danish technology service providers, which had few employees and were without the substantial capital needed to be able to contribute to common projects. Therefore Møller and Tiedemann suggested mergers between Danish technology service providers to gather sufficient scale and scope to be able to compete with technology service providers in the large industrial countries.

At the Danish Welding Institute, this report caused a discussion of strategic possibilities. Though among the largest Danish technology serve providers, the Institute had no foreign subsidiary and the management found its size insufficient to meet future international challenges. This discussion added new arguments to the discussion which had been ongoing since the 1960s about the Institute's strategy to counteract the declining demand for welding inspection in Denmark due to the moving of ships building to the Far East. Early in its history, the Institute had worked to diversify into welding-related fields, and it took part in a government subsidised technology service program established in 1973. In the 1970s and early 1980s, the Institute's business was boosted by contracts with growing offshore activities in the North Sea, public projects to build oil and gas pipelines from the oil and gas fields in the Danish section of the North Sea, and a gas distribution grid in Denmark. However, in the late 1980s the large publicly funded construction projects had been completed and the government planned to reduce subsidies to its technology service program.

The Welding Institute's management chose an offensive strategy as a result of the discussions in 1989. First, they would consolidate its position in Denmark through mergers with a few technological service providers in neighbouring fields to broaden the scope of its activities and provide the Institute with a size (in terms of number of employees and assets) which would be needed for an international technology service provider. Second, they would broaden its market basis beyond Denmark to neighbouring countries.[15]

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[14] Møller, K, Tiedemann, T, Rapport vedrørende strukturændringer i det teknologiske servicenet, (Report on structural change in Danish technology service), 1989, supplement to Welding Institute board meeting, 17 May 1989.

[15] Interviews with K Rimmer and E Tiedemann.

The strategy of consolidation in Denmark was implemented through mergers with three similar technology service companies, which possessed competencies that complemented those of the Welding Institute, in 1990–1991. The first partner to merge with the Welding Institute was the Danish Corrosion Centre (*Korrosionscentralen*), a research institution focusing on corrosion of metals, something essential for understanding decay of welding. The second partner was the Danish Isotope Centre (*Isotopcentralen*), which had extensive competencies in the use of radioisotopes.[16] The third partner to merge with the others was Dantest, formerly the government testing institution, which brought state authorisation in several additional fields of technical testing.[17] The management reorganised the new company by establishing division to accommodate its broad scope of activities, and the company was renamed FORCE Institute, a name selected for its power connotations.

In 1992, FORCE purchased S&Q Tech, a company based in Vejen, South Jutland, which had been established in the early 1980s to carry out inspection and testing related to distribution of natural gas. By 1992, it had established expertise in quality control and management which included the organisational component of management, communication, and accounting, subsequently required for ISO certification of the organisations.[18] ISO (International Organisation for Standardisation) was the world's largest developer of standards, and had been established in 1942. It was a network of the national standards institutes of about 150 countries. ISO established standards through consensus. All four companies involved in the mergers back in 1990–1991 which led to the establishment of the FORCE Institute had developed technical quality control in their own technical fields prior to the mergers, which was significantly enhanced by this acquisition of expertise on the organisational component of quality management. In addition, the acquisition was justified on the grounds that it would prevent foreign welding inspection companies, for example the German TÜV (*Technischer Überwachungsverein*), from purchasing a foothold for expansion into Denmark.

The mergers in 1990–1991 were based upon Danish standards. While three of the four parties in the merger had Danish accreditation in a total of 4 fields, Dantest brought accreditation in 14 fields.[19] Accreditation was assessment of laboratories, certification, and inspection bodies to ensure they met requirements for national and international standards, and they were thereby certified ascompetent to carry out specific conformity assessment tasks. The Danish government granted accreditation based upon national and international standards, something handled by the Ministry for Industries until 2002 and, subsequently, by the Danish Accreditation

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[16] Note on the merger with the Danish Isotope Centre, 25 August 1989; note on the merger with the Danish Corrosion Centre, 4 January 1990; Welding Institute board correspondence 1989.

[17] Minutes, board meeting, 27 March 1979.

[18] Agreement between S&Q Tech and FORCE Institute, 19 June 1992; minutes from FORCE board meeting 2 September 1992; Jensen, J (1985) Et uægte barn i det sønderjyske emirat (Illegitimate child in the South Jutland emirate), Ingeniøren 30 August.

[19] Note, Hansen, B, Akkrediteringer (Accreditation), 3 March 1992, supplement to board meeting, 2 April 1992.

and Metrology Fund, DANAK. After the merger, the new company located all its national and international accreditations in one staff unit, while it located all its own internal quality-control systems in a second staff unit. This unit was responsible that the quality-control systems across the company fit together and served the company. Also, the internal qualit- control unit developed quality control for the company's management, detailing responsibilities for each managerial position in the company, which simplified later mergers and facilitated rationalising its headquarters administration. Subsequently, FORCE developed this system into a comprehensive quality management system of the company's organisation, infrastructure etc., which was certified based upon the ISO 9000 standards and became an essential tool in the rebuilding of FORCE into an international concern.[20] ISO 9000 has become an international reference for quality management requirements in business-to-business dealings, and facilitated business between companies both in the same country and across boundaries.

The second element of the Welding Institute's new strategy from 1989 was to broaden its market basis to encompass neighbouring countries. Already in 1984, the Institute had considered expanding in Norway.[21] However, after analysis of this market, it abandoned the idea due to tough competition. At that time, welding inspection was still based on national standards. The writing of CEN standards for welding starting in 1987 changed the market situation. The many national markets the EEC and EFTA merged into one market.

In 1993, FORCE launched its strategy of acquiring markets abroad and opened a sales office in southern Sweden, which was managed from Denmark.[22] The objective was improving access to Swedish industry in comparison to sales activities from Denmark. Only one engineer and a secretary were employed and engineers from Denmark carried out orders based on the CEN certification granted to FORCE in Denmark, which was also valid in Sweden. At the time, Sweden was a member of EFTA and joined EU in 1995. The sales office implied limited risk to FORCE in Denmark. However, the limited stake also curtailed business opportunities.[23] The following year, FORCE boosted its Swedish activities by acquiring STK Inter Test, a Swedish welding inspection company.[24] The acquisition improved FORCE's access to the Swedish market through STK Inter Test's well established contacts. FORCE encountered problems in making its Swedish activities profitable and consolidated its activities through additional acquisitions, which yielded a firm position in relevant Swedish market segments.[25] In any case, the Danish parent company earned from contacts with Swedish industry.

[20] Minutes of board meetings, 28 November 1991, 2 September 2002; Hansen, B, note on FORCE's quality systems, 11 November 1991, supplement to board meeting, 28 November 1991.
[21] Minutes of board meetings, 2 April 1984, 13 November 1984.
[22] Minutes of board meetings, 2 December 1992, 20 April 1993.
[23] Minutes of board meeting, 21 April 1994.
[24] Minutes and attachment, Analyse af STK Inter Test AB (Analysis of STK Intertest, board meeting, 21 April 1994.
[25] Minutes, board meetings, 9 September 1998, 8 April 1999, 23 September 1999, 20 December 1999, 28 March 2000, 2 April 2001, 27 September 2001.

In 2002, FORCE went on with its strategy of acquiring markets abroad and tried to expand its activities to encompass technological service in neighbouring Finland, again based upon CEN standards. They made an offer for a Finish technological testing and inspection company, but it was acquired at a higher price by a Finish company.[26] Subsequently, FORCE bought activities from the Norwegian CorrOcean company, which had subsidiaries in eight countries in Europe, the Americas, and Australia.[27] This acquisition gave FORCE extensive international stakes. To control risk, the foreign activities were organised into two subsidiaries which were separate legal entities, FORCE Sweden and FORCE Norway. FORCE Sweden held the activities in Sweden, while FORCE Norway encompassed the activities bought from CorrOcean's in Norway, the Netherlands, Canada, USA, and Brazil.

The acquired CorrOcean activities included inspection of materials and welding and expertise in their decomposition, activities also carried out by FORCE in Denmark. In addition, CorrOcean added new expertise in managing inspection of technology to FORCE's already established powers. CorrOcean's activities included consultancy on organising and implementing integrity management of pipelines and pipe installation at gas and oil rigs. For this end CorrOcean had built mathematical models simulating corrosion and metal fatigue, for example on oilrigs, used to decide time for inspection of diverse elements and the basis for assessing results. This facilitated certification of various technical elements, management or an oilrig's communication system.

However, acquiring only a part of a company also caused difficulties. First, the acquired activities in one or more locations could depend on other activities in CorrOcean, which the acquisition would transform into dependency on services from a foreign company. Second, FORCE had no subsidiary in Norway which could run the former CorrOcean activities.

The difficulties of acquiring activities out of a company had three consequences. First, FORCE established a Norwegian subsidiary, FORCE Norway, for their administration. Second, FORCE only made offers for the relevant parts of four of the Norwegian company's eight subsidiaries, as those remaining either had too few integrity management activities, or they depended too much on other parts of the Norwegian company. In any case, the acquisition brought FORCE subsidiary companies in the Netherlands, Brazil, Canada, and the United States. The Canadian and United States activities were based upon United States standards, a competence which had been established in these subsidiaries of CorrOcean prior to the acquisition. Third, the certification of the quality management of the acquired activities was issued to CorrOcean. Therefore, FORCE took over activities without quality-management certification and needed as soon as possible to get a new quality-management certification for its Norwegian activities. The ISO quality-management standards facilitated matters in that this certification could be issued by the Danish national accreditation authority. FORCE used this opportunity enabling reuse of the

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[26] Minutes, board meetings, 6 June 2002, 28 November 2002.

[27] Minutes and attachment on the decision to acquire activities of CorrOcean, board meeting, 22 April 2003; board meeting minutes, 27 May 2003; interview med Hansen, B.

paperwork already developed in the previous completed process, where the Danish company had acquired certification of its own management.[28] This demonstrates how common European welding standardisation facilitated the expansion of a technology service provider beyond national borders. In contrast, expansion into the sphere of United States standards required a completely new certification, which FORCE got through the acquisition of subsidiaries in the United States and Canada. The acquisition of the CorrOcean activities internationalised the FORCE Institute and called for a name with an international appeal. This was answered by renaming the company FORCE Technology in 2002.

Discussion of the Role of Europe

The three standardisation regimes framed the business opportunities of technology service providers like the Danish Welding Institute and, subsequently, FORCE Technology. During the fist and the second national standardisation regimes, the Welding Institute focused on business in Denmark, which did not prevent the Institute from certifying according to standards of foreign countries. In addition, the Institute certified welds based on Lloyds of London's transnational standards.

The first informal national standardisation comprised exclusively national standards describing how welding inspection should take place. However, customers needing welding inspection could only base their choice of inspection company on its reputation. This made reputation an essential asset for welding inspection companies. The Danish Welding Institute was the prime mover in welding inspection in Denmark and established its reputation in the 1940s and early 1950s, when the total welding inspection business was limited. Once the Welding Institute had established its position, this hampered challengers' possibilities, which explains why no challenger emerged under this regime.

The second formalised regime established competition through government regulation, and several challengers emerged in welding inspection. However, the Danish Welding Institute's first-mover position and its able management prevented any challenger in Denmark from attaining the size of a serious challenger.

The third standardisation regime was based on European and international standards. The introduction of European technical welding standards opened a single market of the European countries for technology service, which contrasted with the preceding regimes in which there were many separate national markets. However, for marketing reasons a subsidiary proved essential for gaining contracts in a foreign country, which explains why FORCE established subsidiaries in Sweden and Norway. These subsidiaries could have used FORCE's welding accreditations acquired in Denmark, but they continued using their already established Swedish and Norwegian accreditations, which caused no problem since all accreditations referred to the same European CEN standards.

[28] Board meeting minutes, 27 May 2003, 28 August 2003, 1 December 2003.

The European technical standards facilitated a single market in Europe comprising the EEC (EU) and EFTA countries, but the European standards had a wider sphere of operation, and technical standards were not sufficient in technology service trading, as the purchaser had to trust that the technology service provider complied with the procedures specified in the standards. ISO also established the European CEN welding standards and several countries in South America adopted these standards for diverse reasons. First, CEN standards were based in the metric system, in contrast to standards in the United States. Second, CEN standards existed in all national languages in the EU and EFTA, including Portuguese and Spanish, which facilitated their adaptation in South America. Third, CEN welding standards constituted a coherent system, which distinguish it from comparable standards in the United States. In the United States, the government was not engaged in establishing technical standards, which were established by the various professional engineering societies. This produced excellent, but incoherent, standards. For example, differences existed between the welding standards in the oil and shipbuilding industries.

While CEN concentrated on establishing technical standards to eliminate technical trade barriers, ISO established international standards on quality management. Certified quality management helped convincing a purchaser that a technology service provider's claim to follow standards actually implied that its welding inspectors complied. Companies like FORCE working to internationalise operations used the ISO quality management standards to facilitate uniformly high-quality management in their foreign subsidiaries. ISO quality-management standards raised their discussion of which standards to apply across the company's parts in various countries above organisational and national dissimilarities.

The CEN welding and ISO management standards facilitated FORCE's internationalising in Europe after 1993, but the Welding Institute and FORCE's strategies never focused on Europe. It supplemented its main business in Denmark with opportunities on neighbouring national markets until the late 1950s. Subsequently, this modest scale of foreign business also came to encompass assignments outside Europe, in Indonesia, the Middle East, and Central America. Therefore, the Welding Institute had experience gained from doing business outside Europe based on standards different from those in Denmark even before the CEN standards were established around 1990. As a consequence, FORCE never saw Europe as its exclusive stage of business.

FORCE utilised the establishment of European standards and ISO standards on management to facilitate enlarging its primary business area to comprise Scandinavia and worked to expand it to include countries close by, i.e. Finland, Poland, and the Baltic States. Simultaneously, large competitors in Germany, France, and Great Britain acted correspondingly in other regions of Europe. This expansion enabled FORCE to gain a size which would be essential for it to survive and develop its business. Simultaneously, FORCE's secondary business strategy continued to reach beyond Europe, as illustrated by its subsidary companies in Brazil, Canada, and the United States. European standards facilitated inter-Europe trade, but they also became agents for export of technology service beyond Europe. This provided European industry a competitive advantage over industry in the United States.

Part III
Europe as an Aim and as a Tool

The European Enterprise as a "Fortress" – The Rise and Fall of Unidata Between Common European Market and International Competition in the Early 1970s

Susanne Hilger

"Europe's answer to the American challenge"[1] – this was how the press commented on Unidata. The first European co-operative enterprise in the data processing industry was founded in 1973 as a joint venture by the French Compagnie Industrielle pour L'Informatique (CII), the Dutch Philips combine, and the German Siemens AG.[2] Europe's "technological backwardness" seemed to be highlighted most clearly in high technology areas by the superiority of American competitors. Thus the founding of Unidata, which was pushed forward by both the French and German governments, can be seen as a kind of defensive strategy against American companies such as IBM or General Electric/Honeywell and their aggressive marketing policy in Europe. Although this venture did not develop into the expected strong alliance to counter the American dominance in this market, and indeed failed after a few years, it can be taken as an example for the managerial problems "European Enterprises" still face nowadays.

In our search for the "European Enterprise" the case of Unidata provides an opportunity to take a closer look at economic and institutional circumstances, the role of governmental politics and corporate strategies in the early phase of the European integration. Can Unidata be seen as a "European Enterprise"? Was there a particular "European identity" which was linked in some way to the competitive pressure being exerted by American firms? What obstacles and difficulties arose while building and running this venture? Addressing questions such as these will be the focus of the following contribution. I will start with some ideas on the definition of the terms "European firm" and "Europeanisation" and will then give a short survey on the particular market environment and the expansion of the international data processing industry after World War II. We next turn to the business and political reasons

[1] I would like to thank Jan Paulussen, Philips Company Archives, Eindhoven, Joost Dankers, Mila Davids, Pascal Griset, Pierre Mounier-Kuhn and Ulrich Nocken.
Der Tagesspiegel, 6.7.1973.

[2] Griset P (ed.) (1998) *Informatique, politique industrielle, Europe: Entre plan calcul et unidata*. Rive droite, Paris; Kranakis E (1998) Business between Nationalism and Internationalism: The Rise and Fall of Unidata. In: Griset 1998, pp. 151–161. Id. (2004) Politics, Business, and European Information Technology Policy: From the Treaty of Rome to Unidata, 1958–1975. In: Coopey R (ed.) *Information Technology Policy. An International History.* Oxford University Press, Oxford, pp. 209–246.

H. G. Schröter (ed.), *The European Enterprise.*

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for Unidata's formation in business and politics, and then move on to its corporate vision, organisation, R&D, product range/manufacturing, and sales and distribution activities.

"European Firm" and "Europeanisation"

Although there has been quite a lot of research done on the European integration process from a political, economic and sociological point of view,[3] historical research on the "the European Enterprise" is still in its beginnings. Whereas economic history has been dealing with transnational transformation processes in context with Americanisation[4] and globalisation,[5] the European integration process from World War II onwards and its consequences for the corporate level have only rarely been researched. Business historians, for example, have investigated the "European enterprise" over the entire 20th century, focussing on the emergence of multinational combines.[6] As case studies on individual firms are lacking, however, historical research on corporate "Europeanisation" still has to be done.[7] This paper starts out from the standpoint that the process of European integration must be seen as an outstanding corporate challenge which from the late 1950s onwards led to the formation of "European enterprises". In addressing its common characteristics, I will concentrate on competitive structures and their influence on the corporate strategies.[8]

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[3] Dyas GP, Thanheiser HT (1976) *The Emerging European Enterprise: Strategy and Structure in French and German Industry*. Macmillan, London; Whittington R, Mayer M (eds.) (2000) *The European Corporation. Strategy, Structure, and Social Science*. Oxford University Press, Oxford et al.; Whitley R (ed.) (1992) *European Business Systems*. Sage Publications, London et al.; Nilsson J-E et al. (eds.) (1996) *Internationalization Process: European Firms in Global Competition.* Chapman, London; Baumol WJ, Nelson RR, Wolfe EN (eds.) (1994) *Convergence of Productivity. Cross-National Studies and Historical Evidence.* Oxford University Press, Oxford et al.

[4] Schröter HG (2005) *Americanisation of the European Economy. A Compact Survey of American Economic Influence in Europe since the 1880s.* Springer, Dodrecht et al., p. 4; Hilger S (2004a) *"Amerikanisierung" deutscher Unternehmen. Wettbewerbsstrategien und Unternehmenspolitik bei Henkel, Siemens und Daimler-Benz (1945/49–1975)* (Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte: Beihefte; 173). Steiner, Wiesbaden.

[5] Jones G (2005) *Multinationals and Global Capitalism from the Nineteenth to the Twenty-First Century.* Oxford University Press, Oxford et al.; Chandler A D Jr., Mazlish B (eds.) (2005) *Leviathans. Multinational Corporation and the New Global History.* Cambridge University Press, Cambridge.

[6] Berghahn V (ed.) (1996) *Quest for Economic Empire. European Strategies of German Big Business in the Twentieth Century.* Berghahn Books, Providence; Dritsas M, Gourvish T (eds.) (1997) *European Enterprise. Strategies of Adaption and Renewal in the Twentieth Century,* Trochalia Publications, Athens Jones G, Schröter HG (eds.) (1993) *The Rise of Multinationals in Continental Europe*. Elgar, Aldershot.

[7] See as exceptions: Rhenisch T (1999) *Die deutsche Industrie und die Gründung der Europäischen Wirtschaftsgemeinschaft.* Steiner, Stuttgart; Chanier C (1990) *La firme Philips face à la Construction de L' Europe. Une multinationale sur la voie de l'integration économique dans les années pp. 50–60.* Ph.D. thesis, Paris.

[8] Cf. also the contributions of Judith Clifton et al. and Magrit Müller in this volume, which view Europeanisation as part of institutional change.

The process of European integration led to completely different market conditions compared to pre-war times. Seeking new markets, American firms were very much attracted by the process of political and economic integration taking place in post-war Europe. From the late 1950s onwards, increasing foreign direct investment from the U.S. turned Europe into a sort of "economic gravitational field."[9] In the 1960s, the European Community mobilised more American investments than any other region worldwide. The share of US FDI in Western Europe (Belgium, France, Germany, Italy, Netherlands, United Kingdom et al.) rose from US$ 1.7 million in 1950 to US$ 20 billion in 1970,[10] exposing European companies to previously unknown competitive pressure on their home markets.[11]

Assuming that a "European firm" should not only be located geographically in Europe, but must also be characterised by a common identity, "Europeanisation" in this context refers to the delimitation of economic interests and can be directly tied to the competition with third countries, above all with the United States.[12] To meet "the American Challenge", the French Journalist Jean-Jacques Servan-Schreiber in the second half of the 1960s demanded "a consistent European policy" which was "to concentrate one's energy on a joint venture of all forces [. . .] by a strong support of the German, French and Dutch industry [. . .]."[13] Indeed, to spread innovative technological know-how across national borders, co-operation on a European level became an appropriate means to compete with companies from third countries.[14] Thus the period of the "American challenge" in the 1960s and the early 1970s saw a number of "European firms" as bi- or tripartite corporate mergers, co-operations or joint-ventures emerged in industrial branches such as data processing, machine

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[9] Hellmann R (1970) *Weltunternehmen nur amerikanisch? Das Ungleichgewicht der Investitionen zwischen Amerika und Europa* (Schriftenreihe europäische Wirtschaft; 45). Nomos, Baden-Baden, p. 12. Hellmann R (1966) *Amerika auf dem Europamarkt. US-Direktinvestitionen im Gemeinsamen Markt.* Nomos, Baden-Baden. Kiesewetter K (1992a) Beasts or Beagles? Amerikanische Unternehmen in Deutschland. In: Pohl H (ed.) *Der Einfluß ausländischer Unternehmen auf die deutsche Wirtschaft vom Spätmittelalter bis zur Gegenwart.* Steiner, Stuttgart, pp. 165–196; Id. (1992b) Amerikanische Unternehmen in der Bundesrepublik Deutschland 1950–1974. In: Kaelble H (ed.) *Der Boom 1948–1973. Gesellschaftliche und wirtschaftliche Folgen in der Bundesrepublik Deutschland und in Europa.* Westdeutscher Verlag, Opladen, pp. 63–81.

[10] U.S. Department of Commerce (ed.) (1985) *Statistical Abstract of the United States, the National Data Book,* 105th edn. US Gov. Print. Off., Washington D.C., p. 806; ibid. (1975) *Statistical Abstract of the United States, the National Data Book,* 96th edn. US Gov. Print. Off., Washington D.C., p. 801.

[11] Blauhorn K (1966) *Ausverkauf in Germany.* Moderne VerlagsGmbH, Munich; Scharrer H-E, Müller-Neuhof K (2001) Von der staatlichen Wiederaufbauhilfe zur privaten Kapitalverflechtung: Direkt- und Portfolioinvestitionen. In: Junker D (ed.) *Die USA und Deutschland im Zeitalter des Kalten Krieges. Ein Handbuch, vol. I: 1945–1968.* DVA, Stuttgart Munich, pp. 524–534, p. 525.

[12] Cf. also Judith Clifton et al. in this volume.

[13] Servan-Schreiber JJ (1968) *Die amerikanische Herausforderung.* Rowohlt, Hamburg, p. 113.

[14] Misa TJ, Schot J (2005) Inventing Europe: Technology and the hidden Integration of Europe. *History and Technology* 21: 1–19. Cf. Standke K-H (1970) *Europäische Forschungspolitik im Wettbewerb. Industrielle Forschung und Entwicklung und internationale Wettbewerbsfähigkeit* (Schriftenreihe Europäische Wirtschaft; 41). Nomos, Baden-Baden.

building, automobiles, aerospace, iron and steel and chemicals, all of which were meant as “European bastions” against “American invaders”.[15] Pushed forward initially by German, Dutch, French and Belgian firms, they embarked on a “European strategy” by excluding possible partners from the U.S. Besides Unidata, this trend was already visible for example in the first prominent merger between two European film companies, the German Agfa AG and the Belgian Gevaert Photo-Producten N.V. The two merged in 1964 in response to competitive pressure from the American Eastman Kodak combine.[16] And there are also some examples from the European automobile industry, such as the co-operation between the German NSU and French Citroên.[17] Similarly, Siemens and Philips, under pressure from the American recording industry, merged their music recording activities (Deutsche Grammophon-Polydor) in 1971 under the label Polygram.[18] There was also a first cross-border merger in the European aviation industry between the Vereinigte Flugtechnische Werke Bremen (VFW) and the Dutch Fokker works which dated from 1969.[19]

In contrast to the paradigm of Americanisation, which started out from an adaptation of “values, behaviour, institutions, technologies, patterns of organisation, symbols and norms from the USA to the economic life of other states”,[20] corporate “Europeanisation” in the 1960s and early 1970s can be seen as strategy of defence against the American “invasion”. As a consequence, economic experts from the 1960s onwards referred to the “whip of concentration” (“Konzentrationspeitsche”), arguing that the increasing appearance of American firms on European markets pushed forward the process of transnational concentration in Europe.[21] A memorandum of the Union of Industries of the European Community (Union der Industrien der Europäischen Gemeinschaft) in 1965 underlined the imbalance between leading European and American firms: “When entering foreign markets American firms grab one single competitive advantage, which from the view of their competitors from the EEC can only be realised by merger”.[22] Not only competition

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[15] Cf. Hayward J (1995) Europe’s endangered industrial champions. In: Id. (ed.) *Industrial Enterprise and European integration. From national to internaional champions in Western Europe.* Oxford University Press, Oxford, pp. 1–20.

[16] Cf. Standke 1970, p. 152: “Die firmenrechtliche Konstruktion AGFA/GEVAERT ist . . . als ein für die Verhältnisse der EWG zugeschnittener Sonderfall zu betrachten”. In diesem Falle wirkte der amerikanische Anbieter Kodak als “Konzentrationspeitsche”: Hellmann 1970, p. 224. Also Devos G (1993) Agfa-Gevaert and Belgian multinational enterprise. In: Jones, Schröter 1993, pp. 201–213.

[17] Hellmann (1966), pp. 118–119.

[18] Feldenkirchen W (2000) *Siemens. Von der Werkstatt zum Weltunternehmen.* Piper, Munich, pp. 222–224.

[19] Hellmann 1970, p. 224.

[20] Schröter 2005, p. 4; Hilger 2004a; Kleinschmidt 2002.

[21] Hellmann 1966, pp. 118–119: “. . . Konzentrationen zwischen Firmen verschiedener EWG-Länder wurden bisher mehr durch die Peitsche des US-Wettbewerbs als durch den Gemeinsamen Markt erzwungen. Hinter beinahe jedem der größten Zusammenschlüsse . . . stand direkt oder indirekt die amerikanische Konkurrenz.” Also Hellmann 1970, p. 224.

[22] Quoted Lenel HO (1972) *Unternehmensverflechtung in der EWG. Eine ökonomische Untersuchung der Brauchbarkeit des externen Unternehmenswachstums für die Anpassung an die*

on non-European markets, but above all defence against the strong American competitors on the Common Market, thus demanded an accelerated corporate growth of European companies. To adapt to the prevailing market conditions in particular industries, this was primarily to be realised by an intensified integration of companies across the national borders in Europe.

Market Environment: The Expansion of the International Data Processing Industry After World War II

Europe's "technological backwardness" seemed to be revealed most clearly in the field of data processing, which became a key technology after World War II. Compared to their European competitors such as Bull, Olivetti, ICL or Zuse, many American manufacturers such as IBM, Burroughs or Remington Rand had expanded during World War II and benefited from good market conditions, strong customer contacts and public subsidies. Against this background, the tremendous growth of the American computer industry from the late 1950s onwards was accompanied by extensive technological improvements such as CPU speed, main memory size and peripheral speeds as well as software improvements.[23] As an OECD study from the mid-1960s illustrated, the obvious "technological gap" between Europe and the United States was underscored by the fact that western Europe's share in the total value of production of computers in 1966 (US$ 3.2 billion in all) was just US$ 800–900. The number of computers in use in Europe was also relatively modest.[24]

It is not surprising that the very high growth rates in the market for data processing (up to more than 20 percent per year in the mid-1960s) were predominantly generated by American firms, above all by IBM, which controlled the lion's share. There were several reasons for IBM's success such as its strong orientation towards sales and customer services and the ongoing monopolisation of compatibility and standardisation of hard- and software equipment. IBM configurations established a "de facto standard" which competitors were forced to follow and accept. German firms called IBM's policy "raptorial competition" that led to price decline and increasing losses.[25]

Gegebenheiten des Gemeinsamen Markts, die Verbesserung der Wettbewerbsfähigkeit gegenüber Drittländern und die Förderung des technischen Fortschritts. Athenäum-Verlag, Frankfurt/Main, p. 3.

[23] Cortada JW (1993) *Before the Computer: IBM, NCR, Burroughs, and Remington Rand and the Industry they created, 1865–1956.* Princeton University Press, Princeton (NJ); Flamm K (1988) *Creating the Computer: Government, Industry, and High Technology.* Brookings Institution Press, Washington D.C.; Brock GW (1975) *The U.S. Computer Industry: A Study of Market Power.* Ballinger, Cambridge (MA).

[24] OECD 1968, p. 10.

[25] Plettner B (1994) *Abenteuer Elektro-Technik. Siemens und die Entwicklung der Elektrotechnik seit 1945.* Piper, Munich Zürich, p. 245.

According to a report of the European Commission there were only three European companies seen as “serious competitors” of the Americans. Among these were the British International Computer Limited (ICL), which at that time was the most important manufacturer of electrical components, data processing equipment and computers, with a home market share of 43 percent.[26] In the Federal Republic of Germany, Siemens by 1969 had managed to build up a market share of more than 20 percent. In France, the Corporation Industrielle de l’Informatique (CII) had targeted a national market share of 15 percent by 1972.[27]

Because of the extreme competitive pressure in relation to price and technological leadership, European companies found themselves increasingly unable to service this market on their own. Instead, they were forced to co-operate in order to expand their R&D, manufacturing, service and marketing activities. Thus they looked for support – either from a strong partner or by the government. This need was felt stronger from the mid-1960s onwards as it became apparent that the European “economic miracle” was coming to an end and even more with the economic recession and the oil crisis of 1973/74. In view of all this, the competitiveness of the European data processing firms was supposed to be improved by public subsidies, national development programs, mergers and, as we will see, by cross-border co-operations.

Heading for a “European Solution” – The Business and Political Reasons for Unidata’s Formation

In view of Europe’s technological backwardness in so-called key industries, Unidata was not only a corporate strategy, but also a political goal being pushed forward by European governments, particularly by the German and the French. The “plan calcul” initiated in 1967 by the French government aimed at the support of high technologies on a national scale and became a model for West Germany which also tried to promote advanced technologies.[28] This was above all meant to strengthen the European position in relation to American business and to become more independent in highly attractive growth markets. For the German Minister for Research

[26] ICL was seen as “the only competitor which was thought to be possible for considerations concerning the founding of a European Data processing industry”. SAA 9964, Siemens AG, Ohmann, Notiz, 9.4.75. Cf. also Griset 1998, Annexe 10–1, p. 377. Cf. Campbell-Kelly M (1989) *ICL: A Business and Technical History.* Clarendon Press, Oxford. Cf. also Hendry J (1989) *Innovating for Failure: Government Policy and the Early British Computer Industry*. MIT Press, Cambridge (MA) et al.

[27] Hellmann 1970, p. 93.

[28] Cf. Bundesarchives Koblenz, B 138/7678, European Cooperation in Data processing (1967). Also Hilger S (2004b) Von der “Amerikanisierung” zur “Gegenamerikanisierung” – Technologietransfer und Wettbewerbspolitik in der deutschen Computerindustrie nach dem Zweiten Weltkrieg. Technikgeschichte 71: 327–344.

and Technology, Hans Matthöfer, an autonomous European data processing industry had first of all to be free from American capital influence.[29]

This increasingly corresponded with the corporate strategies of the European manufacturers. According to Siemens, the restructuring of the European market for data processing by a European co-operative venture directed against IBM was meant to counteract the ongoing “Americanisation” of European business. To European companies, as Siemens’ CEO Bernhard Plettner stated, it seemed that “the Americans” were “only keen on re-arranging the markets to their own benefit by closing down European production plants and transforming old, established firms into sales companies”.[30] In view of the dominance of American firms on Common Market, a European co-operation was thus to become a “bulwark” against American competitors such as IBM or General Electric which had already brought two European “champions”, Olivetti and Machines Bull, under their influence.[31] Therefore, the need to “think big” had to become the ultimate strategic goal of European combines as well as of the national governments. This could only be achieved by a much larger customer base and by expanded product lines and service networks as well. “It became obvious that the only way to increase activities on a global scale rapidly would be mutual co-operation”.[32] As Hans Matthöfer said, “investments in R&D being necessary to survive on the market could only be generated by a high volume of sales and this was not possible on a national level. A European solution was the only possibility”.[33]

Considerations such as these, and the need to stand together against American predominance, encouraged national enterprises to co-operate across Europe’s national borders in the field of data processing. With the reduction of overlaps and duplicated effort in R&D and an improved standardisation and compatibility of machines, it was hoped that in the end the competitiveness and innovative capability in the European data processing industry would be strengthened. At first glance, this plan seemed to make good sense: Each of the Unidata partners-to-be was seen as a “national champion” although Siemens turned out to be in the best market position. CII had just emerged from a restructuring of the French manufacturers of electrical equipment (CSF, CGE and Schneider S.A.). Benefiting from the “Plan calcul”, the company had developed Europe’s largest processor, called “IRIS 80”. But the flagship of the French computer industry was under the strong control of the government

[29] Matthöfer H (1998) Überlegungen zur französischen Entscheidung gegen Unidata im Jahre 1975. In: Griset 1998, p. 148.

[30] Siemens Akten-Archiv (SAA) 16.Lm 31, Vorstandsessen, 24.2.1975. SAA 16.Lh 262, Vorträge anlässlich der Aufsichtsratssitzung der Siemens AG, 11.11.1975. Cf. “Sind wir Heloten der Amerikaner?” Spiegel-Gespräch mit Forschungsminister Dr. Stoltenberg über Westdeutschlands technologische Lücke, in: Spiegel, 4.11.1968: in Bundesarchiv Koblenz, B 138/1546, Berichte über die Forschungsplanung in Deutschland, pp. 1966ff.

[31] SAA S 10, Protokoll Nr. 78 über die Sitzung des Zentralausschusses am 20.3.1972, 20.4.1972.

[32] Philips Company Archives dossier 882, Nederland – Unidata, CII, Phil and Siemens sign computer agreement, undat.

[33] Matthöfer 1998, p. 148.

which would later interfere in the relations between Unidata's partners.[34] Besides Siemens, whose successful co-operation with RCA had just ended, the Dutch Philips combine was the third company that seemed to be best-positioned "to enter into combat against the Americans".[35] And there was also a plan to invite the British ICL (International Computers Ltd.) to join the venture after some time, although this was not carried out.[36] Each of these firms considered data processing as an essential part of its business activities and as a promising growth market. However, as heavy investment was required "to build up the necessary know-how and the special sales and support force" and heavy losses had already been made in their efforts to enter or to stay in the market, they had to seek joint ventures.[37]

Building a "European Company": Unidata's Corporate Activities

Unidata was meant to become one of the world's largest computer groups "outside the US" with a world-wide customer base of more than 20,000 installations ranging from office computers to large-scale computer systems. It was aiming at a market share of 30 percent in Europe and an annual turnover of DM 6,000 million. There was a staff of 35,000 people (among them 8,500 in R&D) employed in a total of 14 development and manufacturing centres spread across six countries (France, Germany, the Netherlands, Sweden, Great Britain and Belgium). sales and service organisations were represented in more than 30 countries.[38]

As already underlined, Unidata's formation has been linked to the emerging European Community. Particularly from 1972 onwards, as Eda Kranakis pointed out, "the broader discussions about the European integration helped to create a context in which the Unidata cooperation seemed not only reasonable but even promising".[39] Indeed, Europe became a corporate vision which played a role in the company's self-portrayal, both inside the firm and towards the outside.[40] Towards its shareholders, Siemens described the co-operation with CII and Philips as a means to concentrate "important intellectual and economic power in a field" which was seen as "highly important for the independent development of the European economy".[41] Thus, in

[34] Bundesarchiv Koblenz, B 138/7678, German Embassy, 13.2.1969, speaks of a "Einheitsgesellschaft" ('united company') which was completely under the French government's control.

[35] Servan-Schreiber 1968, p. 153. Cf. Mounier-Kuhn PE (1994) Le plan calcul, bull et L'industrie des composants: les contradictions d'une stratégie. *Revue historique* 292: 123–153, pp. 123–124. Cf. also Viellard G (1968) *L'Affaire Bull.* SPAG, Paris.

[36] SAA 9964, Siemens AG, Ohmann, Notiz, 9.4.75. Cf. also Griset 1998, Annexe 10–1, p. 377.

[37] Philips Company Archives dossier 882, Nederland – Unidata, Company Confidential, 23.11.1971. Cf. Ende et al. 2004, pp. 192–193.

[38] Philips Company Archives dossier 882, Nederland – Unidata, Press Info 'unidata'.

[39] Kranakis 1998, p. 152.

[40] SAA 9964, press release, 4.7.1973.

[41] Siemens Company Report 1971/72.

its PR campaigns Unidata tried as well "to project a European image and to link itself to the movement for European integration". Being characterised as a "partnership in electronic data processing with Europe", brochures called the co-operation the beginning of "a new European dimension" and "a truly European computer activity". Kranakis is convinced that these slogans cannot only be understood as "superficial advertising ploy" but seemed to link the company "to particular ideas and policies of European integration".[42] This might be true for the early days of the venture, but soon daily routine prevailed. The company's day-to-day business was not so much determined by the "the European vision" as by two particular considerations. The first one concerned "products and their development". The development costs of a product range which would be competitive with that of IBM was estimated at about up to DM 500 million annually, a sum which could only be raised by a co-operation of financially strong firms.[43] The second aim was directed at the fields of sales and distribution. As world-wide sales and distribution activities proved to be very expensive, this also pointed in favour of a European division of labour.

Unidata was not a merger but rather a joint venture of independent companies, although all partners agreed that, after a "transitory period"[44] "a kind of merger" was to become the "logical consequence".[45] This remained an unsolved question as an adequate institutional "base" such as the legal form of a "Societé Européenne", of course, did not exist at that time. The organisational structure proved to be one major problem. There were few experiences of joint ventures of legally independent partners in Europe prior the late 1960s.[46] As a consequence, Unidata's "co-operation rules and the general management structure" were very soon considered as "insufficiently defined".[47] An extreme level of bureaucratic administrative effort made decision-making complicated and time-consuming and hindered further integration. Although a joint council consisting of the presidents of the three member companies and an equal number of representatives of senior management acted as head of the organisation, it proved impossible to come to an agreement on the central location of the headquarters. Whereas Siemens claimed that Munich should become the headquarter of the venture, Philips preferred Brussels.[48] There were obviously a number of long standing provisos, which entailed that none of the partners was

[42] Cit. Kranakis 1998, p. 151.

[43] SAA S 10, Protokoll Nr. 83 über die Sitzung des Zentralausschusses am 21.8.1972, 5.9.1972.

[44] Philips Company Archives dossier 882, Nederland – Unidata, "CII, Philips and Siemens sign computer agreement", undat.

[45] Philips Company Archives dossier 882, Nederland – Unidata, Confidential, 23.11.1971.

[46] Steinöcker R (1998) *Mergers and Acquisitions: Strategische Planung von Firmenübernahmen. Konzeption, Transaktion, Controlling.* Metropolitan-Verlag, Düsseldorf, p. 7. Herold B (1992) *Internationale Wachstumsstrategien. Anforderungen und Optionen für den Einzelhandel.* Deutscher Universitätsverlag, Wiesbaden.

[47] Philips Company Archives dossier 882, Nederland – Unidata, Summary, 11./12.2.1973.

[48] Philips Company Archives dossier 882, Nederland – Unidata, Summary of the CPS-Meetings in Paris on 11./12. February 1973. Cf. also Mira Wilkins in this volume who stresses the role of the "headquarter nation".

willing to go to far with this co-operation. As a consequence of insurmountable obstacles such as these, three separate national management companies were established in Paris, Apeldoorn, and Munich to co-ordinate and control the activities within Unidata.

The partners seemed to maintain their "individuality" in R&D and in manufacturing and sales as well. It was for this reason that so-called "supply centres" were responsible for technical development and manufacturing. Though these were set up and operated within the parent companies, they were thought to be co-ordinated by the Unidata management, a fact which was to cause a number of conflicts. Problems arose for instance with the outline and assignment of the development program. Since research and development departments continued to be part of the individual partner companies, this hindered further integration. Thus a merger was postponed not least due to the belief that one "should only give up [. . .] sovereignty [. . .] if the new company proves able to work".[49] Each of the partners obviously tried to avoid foreseeable risks because no one was sure whether the "experiment" would succeed. As a consequence, Unidata proved to be quite a clumsy organisation. When Philips and CII in 1974 proposed a merger in order to speed up further integration, this was blocked by the German side. In contrast to its partners, Siemens was convinced that "every attempt to push a further integration at this stage would ultimately lead to chaos".[50]

One also has to think of "cultural differences" related to institutional practices and political styles. Wayne Sandholz has already made the point that there was no roof under which a common European policy could emerge.[51] But there was enough scope for national policies. Thus, from the very beginning Siemens and Philips called negotiations with CII difficult because the company was "not independent and able to act like a private firm but depended on the government's consent and intentions".[52] Referring to the French government and its strong involvement in corporate life, private industrialists thought it unacceptable "that the French government negotiated with a competitor without informing the Unidata partners about their plans".[53] And, what was more, because of Unidata's ongoing problems and immense losses, the French Ministry for Industrial Affairs after some time decided to open the French data processing business to American investors again, at least in order to get rid of the problem. As the French government argued, one was afraid that "a European firm as being designed by the Unidata partners would need continuing governmental support. This situation could only be improved by an agreement with

[49] SAA S 10, Protokoll Nr. 108 über die Sitzung des Zentralausschusses am 21.10.1974.

[50] SAA 16.Ll 737, Protokoll Nr. 94 über die Sitzung des ZA, 25.6.1973.

[51] Sandholz W (1992) *High-Tech Europe: The Politics of International Cooperation.* University of California Press, Berkeley; Guzzetti L (1995) *A Brief History of European Union Reseach Policy. European Commission.* Luxembourg; Mowery DC.

[52] Cf. Janisch H (1988) *30 Jahre Siemens-Datenverarbeitung. Geschichte des Bereichs Datenverarbeitung 1954–1984.* Munich (internal publication), p. 103.

[53] SAA 9964, Telefonnotiz, 4.4.1975.

an American firm".[54] In the end, the merger between CII and GE-Honeywell-Bull in spring 1975 proved the final blow for Unidata.

Being open towards American influence was completely against the original intentions of the project and gave Siemens and Philips sufficient reason to put an end to the arrangement in autumn 1975. CII's partners were convinced "that Unidata's goodwill would be heavily destroyed by CII's transfer to Honeywell"[55] and that the European "bulwark" at least was fundamentally damaged by the policy of the French government.[56] This final outcome of the "experiment" of "Europeanisation" underlines the difficult relationship between government and economy during the early phase of European integration. As Guido Colonna di Paliano, a member of the European Commission who was at that time responsible for industrial policy, regretted in the mid-1960s, companies were "still national oriented, while the market has become European". He went on to point out that leading sectors of high technologies "were truly reservations of economic nationalism".[57]

There were obviously various hindrances which contributed to an increase of mistrust among the partner companies. Siemens, for example, complained about the lack of technological co-operation with Philips: "There was no information given to Siemens about the plans and the aims of the Philips R&D on data processing" which was supposed to be an important cornerstone for building a functioning co-operation.[58] Thus it required time for the co-operation to start to work because the companies were apparently not ready to reveal details of their strategies, but tried instead to protect their own special interests in order to secure individual business activities and to care for ongoing customer relationships.[59]

Since Unidata laid great emphasis on a direct rival to IBM, its product line was very much tied to that of the American competitor. Basically a "clone" (Kranakis) of the 370 system, a new product line called "x line" had to be established and to be carried out through "a division of tasks" (Table 1).[60]

The general idea was to design "a joint catalogue" of a "fully compatible, and new range of products" from small and medium-sized processors to mainframe computers.[61] With this the partners tried to offer all kinds of computer systems from the commercial to the scientific.[62] In the end, this schedule proved to be too

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[54] SAA 9964, Telefonnotiz, 4.4. and 7.4.1975. SAA 9964, Niederschrift über das Gespräch mit Minister D'Ornano am 6.4.1975, 8.4.1975.

[55] SAA 9964, Niederschrift über das Gespräch mit Minister d'Ornano, 8.4.1975.

[56] Philips Company Archives dossier 882, Nederland – Unidata, Meeting with Siemens, 5. and 6.6.1975 in Duesseldorf.

[57] Quoted Hellmann 1970, p. 96.

[58] Philips Company Archives dossier 882, Nederland – Unidata, Plettner to le Clercq, 24.6.1974.

[59] Cf. i.e. Philips Company Archives dossier 882, Nederland – Unidata, Protocol of meeting in Dusseldorf, 5.6.1973.

[60] Philips Company Archives dossier 882, Nederland – Unidata, Pannenborg to Gumin, 10.4.1972.

[61] Philips Company Archives dossier 882, Nederland – Unidata, Company Confidential, 23.11.1971.

[62] Institut der Dt. Wirtschaft, Cologne, K-U (1973), Niederland: Unidata, press information (1973).

Table 1 Unidata, product family, 1973

Type	Developing company	Speed (kilo-Operations Per second)
X_o 7720	Philips	60 kOps
X_1 7730	Siemens	100–150 kOps
X_2 7740	CII	200 kOps
X_3 7750	Siemens	373–400 kOps
X_4 7760	CII	900–1500 kOps
X_5 7770	CII	1500 + kOps

Source: Plettner 1994, p. 261.

ambitious, because from the beginning difficulties appeared not only with the clear definition of targets but also owing to the fact that each partner showed an underlying reluctance to confine itself to the agreed output.[63] Additionally it became clear that each company had not only differing management structures but ran activities with differing capacities. Although IBM was just about to bring its new "370" onto the market, CII was not ready to meet the agreed delivery date.[64]

And what was more, huge investments in marketing, technical development and manufacturing had already been made on an individual scale which now were to be "safeguarded".[65] This became clear with Philips' initial intention to play a role not only in the small but also in the medium size computer field which had not been put on the agenda before.[66] This caused some conflicts with Siemens which, with a view towards the partners' weaker market positions, wanted "to remain at the wheel by all means". According to Siemens, Philips' announcement "not to stick to the manufacturing of small processors but also to produce bigger ones" did not at all comply with "our previous ideas".[67] Thus the company insisted on a joint product line and the given market regions.

Obstacles also appeared within the integration of Unidata's sales and distribution system. More than 35 sales companies spread all over the world (including Algeria, Argentine, Australia, Austria, Belgium, Brazil, Bulgaria, Central Africa, Chile, Denmark, Germany, Ivory Coast, Finland, France, Gabon, GB, Hungary, Ireland, Israel, Italy, Japan, Yugoslavia, Canada, Cuba, Mexico, NL, Norway, Portugal, Rumania, South Africa, Spain, Sweden, Switzerland, Syria, USA, USSR, Venezuela) belonged to the group. These were thought to be integrated by a holding company which was to be located in Amsterdam.[68] Rivalries between Unidata's single

[63] Philips Company Archives dossier 882, Nederland – Unidata, Pannenborg to Gumin, Siemens, 10.4.1972.

[64] Janisch 1988, p. 85.

[65] Philips Company Archives dossier 882, Nederland – Unidata, Strictly confidential, 12.2.1973. Ibid., Summary of the COS-meetings in Paris, 11./12.2.1973.

[66] Philips Company Archives dossier 882, Nederland – Unidata, Summary, 11./12.2.1973. Ibid. Protocol of meeting in Dusseldorf, 5.6.1973.

[67] SAA 16.Lh 263, Vorstandssitzung der Siemens AG, 27./28.6.1972.

[68] Thus Kranakis 1998, p. 156, sees Unidata as a 'Trojan Horse' to enter national markets that would otherwise have been largely inaccessible.

distribution units still existed beyond the period of formation, because integration had not gone far enough. In some European countries such as Sweden, Denmark, or Belgium, Unidata lacked capital and staff. In Italy as well as in Switzerland, market organisation was unsettled because of complicated share-ownership ratios or due to unclear trademark rights, and in overseas countries such as Brazil and South Africa Unidata was forced rather to retreat than to expand because of high losses.[69] Thus, in some countries, particular in home markets, the parent companies hesitated to hand over the selling rights to former competitors or, as they called it, to a “weaker partner”. At the very least, they wanted to keep control, particularly in important geographic markets. This applied for example for Belgium which was seen as a home market by both Philips and Siemens.[70]

Conclusion

In view of the international competitive situation in the 1960s, the OECD as well as the EEC recommended to national governments with some urgency that they create a common European market for computers, which would allow a division of labour. Thus transnational mergers and a mutual adjustment and intensification of research with a focal point on electronic components were supposed to contribute to improved competitive capability.[71] In view of these recommendations, Unidata can be seen as an early example of a European venture which emerged under extreme market conditions. Europe’s “technological backwardness” seemed to be revealed most clearly in the data processing industry because of the dominance of American producers. Indeed, the founding of Unidata, which was pushed forward by the European governments, was meant as a kind of “European bulwark” against “the Americans” and their ongoing international expansion.

Yet, measured in figures, Unidata did not meet the expectations at all. Its result led to greater losses than the partners had experienced before the agreement. Siemens alone increased its losses during the “Unidata years” from 1971/72 up to 1974/75 more than 100 percent, from DM 90 million to DM 190 million.[72] Thus the venture failed in 1975, not only because of differing political interests, but also due to deviating strategic and economic targets and to organisational weaknesses on the corporate level. Difficulties such as these may appear normally within corporations, but in this case had to be solved in a context of ongoing uncertainties in politics and business strategy.

What went wrong with Unidata? From the very beginning, the conditions for this European venture were not that promising because of the very competitive and

[69] Janisch 1988, p. 85.
[70] Cf. Philips Company Archives dossier 882, Nederland – Unidata, Summary of the CPS-meetings in Paris, 11./12.2.1973.
[71] Hellmann 1970, p. 95.
[72] Janisch 1988, p. 108.

"difficult" market, the ongoing economic downturn from the early 1970s onwards, the lack of a "European" industrial policy and differing corporate strategies, cultures and mentalities. Additionally structural problems of organisation and clashing interests jeopardised the so-called "European experiment". This applies, for instance, to the questions of how to find an adequate organisational structure, how to divide R&D activities and how to split up product lines or to define sales areas. Considerations such as these prevented integration from the very outset, because each national company was fully engaged in its own country and markets in R&D, factory production and employment. The problem was that Unidata appeared to be a single firm, but its three constituent units were independent from a legal and economic point of view. Thus there was only a small scope for joint operations. And in view of the ongoing competitive pressure, the economic downswing and a changing political climate, willingness to co-operate and to compromise seemed to decrease more and more.[73] So, in the end, the "companies' particularism" ["Firmen-Partikularismus"] led to Unidata's failure, in the words of the press.[74] Thus, what may in the end have been responsible for the inability to break away from the usual self-interest which usually can be found in business corporations. For Bernhard Plettner, CEO of Siemens, Unidata's situation was not only due to an organisational deficit but also to the "parent companies' behaviour".[75]

What can we conclude from this for the structure and style of a "European firm" and the content of "Europeanisation"? The case of Unidata shows that "European companies" do need sophisticated abilities of cross-border management to achieve convergence on a European level. Europeanisation in this respect can be seen as a training ground for processes of economic integration, a transitional path to globalisation.[76]

[73] Cf. i.e. Griset 1998, Annexe 10–2, pp. 379ff.: Note de M. Allègre ≪pour le ministre≫, 1.6.1972: ≪ . . . une entente ICL-Telefunken serait sans doute un 'casus belli' vis-à-vis de Siemens et une entente ICL-Nixdorf rendrait toute impossible avec Philips . . . ≫.

[74] Bonner Endspiel: Deutschland gegen IBM'. *Capital* 10/1968, p. 30.

[75] Philips Company Archives dossier 882, Nederland – Unidata, Plettner an Le Clercq, 24.5.1974.

[76] Nakagwa TH (2001) SAP – A globally Enterprising Company: European Lessons from the Enterprise Software Industry. *Business and Politics* 3: 109–134.

Europeanisation and Americanisation: Converging Backgrounds of German and Dutch Top Managers, 1990–2005

Wouter Fioole, Hugo van Driel and Peter van Baalen

Introduction

The extensive academic debate on the rise of the European Firm reveals a recurring paradox. Most scholars agree that the image of diversity is the most distinctive characteristic of the European Firm. However the concept of diversity is, by definition, hard to define and tends to elude attempts to distinguish common characteristics of European companies.[1] To provide empirical evidence for the existence or the rise of the European Firm thus poses the paradoxical question for researchers of whether common or diverging characteristics across European companies should be investigated. We adopt a comparative approach and investigate if and how executive boards of leading German and Dutch companies converged with respect to the nationality and educational backgrounds of their members in the period 1990–2005. In this period, globalisation and internationalisation, in particular by virtue of the liberalisation of the European market, are expected to have influenced firms fundamentally. We believe a study of possible "convergence within European boundaries" from the perspective of the executive boards provides new insights and contributes to the debate on the rise of the European Firm.

After a short section on the concepts of convergence, Americanisation and Europeanisation, we relate the discussion of different management cultures within Europe to the backgrounds of executives. Subsequently, we present the selection of the managers studied. The core of our contribution consists of a comparison of changing manager backgrounds, in the context of differences and similarities in pre-existing orientations towards business and management, sectoral distribution of firms, educational systems, and specific developments, such as cross-border mergers and acquisitions. In the conclusion, we recapitulate our findings in the light of discussions about Europeanisation and Americanisation.

[1] Calori R, Woot P de (eds.), (1994) A European management model: beyond diversity. Prentice Hall, New York.

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Convergence, Americanisation, and Europeanisation

The convergence of management practices and institutions across nations has been vehemently debated since the 1950s by American and European researchers. Harbison and Myers and Kerr et al. initiated this discussion by predicting that the "logic of industrialism" sets inevitable imperatives to all industrialising nations.[2] This "logic" will lead to the same "end-point-industrialism", the concept of a fully industrialised society, which is characterised by a number of common basic economic and social structural features.[3] Recently, the convergence-thesis has been re-confirmed by Pugh and Hickson,[4] arguing that a similar range of tasks and problems will inevitably be tackled in similar ways regardless of culture.

This convergence thesis has been challenged by many researchers who do not deny the occurrence of processes of convergence, but criticise the assumption that these processes emanate from a culture-free rationality.[5] We, too, believe that convergence refers to the dialectical processes in which different ideas and practices are exchanged. It is important to note that convergence results from the interplay between these factors on both sides.[6] For example, the adoption of American management ideas and practices in the 1950s and 1960s by many European companies did not just result from American economic and cultural imperialism, but also came about owing to an open attitude and an almost aggressive need to learn about these American management ideas and practices on the part of European managers. Americanisation, then, refers to a particular cultural direction of the convergence process. Europeanisation can be defined in a similar way. However, the problem here is that it is still unclear what "European" means. We believe that this should not be defined in advance but should be empirically investigated.

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[2] Harbison F, Myers CA (1959) Management in the industrial world: an international analysis. McGraw-Hill, New York; Kerr C, Dunlop JT, Harbison FH, Myers CA (1960) Industrialism and industrial man: the problems of labor and management in economic growth. Harvard University Press, Cambridge, Mass.

[3] Lane C. (1989) Management and labour in Europe: the industrial enterprise in Germany, Britain and France. Gower, Vermont, p. 21.

[4] Pugh DS, Hickson DJ (2003) Organizational convergence. In: Pugh DS, Plath AR (eds.), International business and management, Volume 2, The impact of national culture on management. Sage, London, p. 463.

[5] Child J, Kiesler A (1979). Organization and managerial roles in British and West German Companies: an examination of the culture-free thesis. In: Lammers J, Hickson DJ (eds.), Organizations alike and unlike. International and inter-institutional studies in the sociology of organizations. Routledge, London, pp. 251–272; Locke RR (1989) Management and higher education since 1940: the influence of America and Japan on West Germany, Great Britain and France. Cambridge University Press, Cambridge; Lane (1989).

[6] Schröter HG (2005) Americanization of the European Economy. Springer, Dordrecht.

Between Cultures: Educational Background and Nationality

We investigate possible convergence between German and Dutch firms from the perspective of the backgrounds of their executives, taking Hambrick and Mason's "upper echelon theory" as a starting point.[7] These authors argue that background characteristics and experiences of top management shape and reflect corporate behaviour and organisational cultures. We focus on two background characteristics of executives: the type of higher education they followed and their nationality.

The educational background is suited for a raw test of whether German and Dutch management cultures consistently share a Nordic, as suggested by Calori,[8] or an even more general continental European orientation. A supposed traditional common characteristic of continental European management is product orientation instead of customer orientation, revealing itself in high share of engineers and a low share of marketers in top management.[9] A study of educational backgrounds helps to find out to what extent this continental European pattern has persisted in regard to the typical American "generalist" interpretation of management, as indicated by a high share of graduates from business schools among the top managers. In this respect, educational backgrounds not only reflect someone's cognitive preferences and base, but also – more subtly – the cultural idiosyncrasies of national higher education systems.[10]

The second important upper echelon characteristic – not mentioned by Hambrick and Mason, but the subject of several other studies – is nationality. This is a much less ambiguous indicator of a possible process of Europeanisation. Unlike Calori, Macharzina et al., also inspired by Hofstede's seminal research on cross-cultural differences, do not classify Germany into the same category as the Netherlands, but – together with Austria and Switzerland – into an Anglo-German group.[11] The main difference between the two groups is that the Anglo-German group scores higher on the masculinity criterion. This implies that firms in these countries are primarily ruled by hierarchy rather than by consensus and are also more "ethnocentric" than the Nordic ones. Elsewhere in this book it is signalled that executive boards in Europe have recently become more international in composition.[12] The question is

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[7] Hambrick, DC, Mason PA (1984) Upper echelons, the organization as a reflection of its top managers. Academy of Management Review 9: 193–206.

[8] Calori R (1994) The diversity of management systems. In: Calori, Woot de (eds.), pp. 11–30.

[9] Calori R, Valla JP, Woot P de (1994) Common characteristics: the ingredients of European management, in: Calori, Woot de (eds.), pp. 31–54; Lawrence P (1991). Management in the Netherlands. Clarendon Press, Oxford, p. 28.

[10] Locke (1989); Calori R, Lubatkin M, Very P, Veiga JF (1997) Modelling the origins of nationally-bound administrative heritages: a historical institutional analysis of French and British firms. Organization Science 8: 681–696.

[11] Macharzina K, Oesterle MJ, Wolf J (1998) Europäische Managementstile – eine kulturorientierte Analyse. In: Berger R, Steger U (eds.), Auf dem Weg zur europäischen Unternehmensführung. C.H.Beck, München, pp. 137–166.

[12] Schröter HG in this volume, p.16.

whether this internationalisation of boards represents a convergence in the direction of a specific European muster or not. Have German firms indeed traditionally been and remained more "ethnocentric" than Dutch companies in the composition of their boards? And from which countries, European or not, do the foreigners that have entered German and Dutch boardrooms in the past decades exactly originate?

Methodology and Data

For our investigation, we collected primary data about the backgrounds of executive board members of the firms included in the German and Dutch stock exchange index, covering 30 DAX- and 25 AEX-firms respectively. Our first reference year is 1990, a few years before the liberalisation of the European market came into effect. We compare this starting point with the last year for which annual reports were available, 2005, when the firms had experienced competing on a "free" European market for more than a decade. We thus use a pragmatic definition of a European firm. Apart from an exception such as VNU (AEX), the DAX- and AEX-firms were actually run from a head office in Europe (including those of Anglo-Dutch firms Shell, Unilever and Reed Elsevier) up to 2005. The firms are not the same in both reference years; 24 of the DAX-firms and 19 AEX-firms of 1990 were still listed in the respective indexes in 2005 (firms merged into new combinations included).

In both countries, large companies usually have a two-tiered system of an executive board (Vorstand in German, Raad van Bestuur in Dutch) and a supervisory board (Aufsichtsrat and Raad van Commissarissen respectively). Similarly, decision-making in the executive boards is supposed to be collegial rather than hierarchical in both countries; in particular the Dutch are known for their preference for consensual decision making.[13] This is a main reason to study all executive board members and not just the chairmen. This choice is somewhat arbitrary. There is no systematic relation between the size of the firms and the number of board members. Sometimes firms had a very large executive board, or even a unitary board. We distilled the executive members from such a one-tier board. To put our data into perspective, we compare them with the results of other similar studies prior to and within the period 1990–2005.

As the backgrounds of managers are likely to be influenced by the nature of the firm they are governing, we present the sectoral distribution of the DAX- and AEX-executives (Table 1). As expected, in Germany, industrial managers weighed heavier on the index than in the Netherlands, but to a seriously diminishing degree between 1990 and 2005.

The collection of the data on background characteristics (see Tables 2 to 5) deserves some further comments. We defined higher vocational education (including accountancy studies) and university studies (including MBA studies) as higher

[13] Calori R, Seidel F (1994). The dynamics of management systems in Europe, In: Calori, Woot de (eds.), p. 56; Lawrence (1991), pp. 40–41.

Table 1 Distribution of DAX- and AEX-executives across sectors, 1990 and 2005

Sector	D1990	A1990	D2005	A2005	D1990	A1990	D2005	A2005
Industry	181	61	113	49	67 %	49 %	59 %	46 %
Services	89	64	79	58	33 %	51 %	41 %	54 %
All	270	125	192	107	100 %	100 %	100 %	100 %
	with known type of higher education or without higher education							
Industry	174	55	113	48	70 %	47 %	59 %	47 %
Services	76	62	78	55	30 %	53 %	41 %	53 %
All	250	117	191	103	100 %	100 %	100 %	100 %

Source and note: company annual reports and websites; Saling Aktienführer (1990). Hoppenstedt, Darmstadt; Leitender Männer und Frauen der Wirtschaft (1990). Hoppenstedt, Darmstadt; Who is who in Germany (1990). Who's Who the international red series Verlag, Essen; Egmond F van (1984, 1994) Wie is wie in Nederland, Wie is wie in Nederland 1994–1996. Pragma Nederland, 's Gravenhage; Bestuurders & commissarissen 1995/96 (1995). Delwel, 's Gravenhage. Hezewijk J van, Metze M (1998) XXL: de macht, het netwerk, de prestaties en de wereld van de Nederlandse topmanagers. SUN, Nijmegen; telephonic and email contact with companies; newspaper articles and biographical information assessed by Lexis Nexis; internet search through Google. Energy firms are included in industry. *D* Dax *A* Aex.

education. Given the difficulties in distinguishing between economics and business studies in Germany, we have consolidated both types of higher education in one category. For keeping our comparison transparent, engineering studies and natural sciences (including mathematics) are also combined. The category "other studies" mainly consists of social sciences and humanities. When one person followed more than one higher study, in distinct categories, we counted each study for half (and in the exceptional case of three studies, for one third each). We could obtain full information on the education pursued of at least 93 % of the executive board members in both reference years (see Table 1). The large majority of 90 % or more of the executives with a known level of education had followed higher education, in a few cases of an unknown type, in both reference years. At least 80 % of them had a master degree (including MBA degrees). Regarding the nationality of the executives, occasionally, when we had no explicit information on this background characteristic, we assessed it on the basis of the manager's place of birth or the country where he started his career, in combination with his name. The coverage of nationality is even higher than that of education (100 % in 2005, compare Tables 1 and 5).

Table 2 Educational backgrounds of DAX-executives, 1990 and 2005 (%)

	1990					2005				
Sector	*N*	BE	EN	L	O	*N*	BE	EN	L	O
Industry	*163*	29	55	14	3	*106*	42	47	8	3
Services	*65*	46	6	41	8	*68*	58	18	20	4
All	*228*	33	41	22	4	*174*	48	36	13	3

Source and note: see Table 1. *BE* business and economics studies; *EN* engineering studies and natural sciences (including mathematics); *L* law; *O* other studies.

Educational Backgrounds

Among the European continental countries, Germany in particular has focused on product quality, with a related "technical" emphasis in management.[14] A relation with the German educational system seems obvious. In Germany a strong orientation on "Wissenschaft", disciplinarisation and specialisation of scientific fields, and a tight connection between research and education, developed during the nineteenth century. The German engineers combined a disciplinary orientation with a dedicated affiliation with practice, wanting to have detailed control over all primary business processes. Lawrence has called this German dual orientation the "Technik-conception", which often also entailed that German engineers received a fair share of economics in their education.[15] The German universities resisted the wave of (American) generalism that flooded most European higher education systems from the 1960s. The educational establishment and representatives of the corporate world feared a "Bildungskatastrophe" if American-like business schools were founded, since the latter represented the professionalisation of general management as a separate, professional activity that conflicted with the German specialist tradition.[16]

The studies of German top manager backgrounds in the 1960s and 1970s discussed by Lawrence all point in the same direction: the largest group with a degree were engineers and scientists, followed by managers who had studied economics and law respectively.[17] According to a study based on a population that best compares with our data, relating to the Vorstand members of the top-50 companies in 1964, no less than 57 % followed a technical or natural science education, while economics and law amounted to 21 % each.[18] This confirms the supposed traditional "Technik" orientation of German top management.

However, change was already under way at that time. In Cassis' sample, the share of top managers with a technical education halved in Germany from c. 50 % to c. 25 % between 1953 and 1989.[19] Our 1990 findings on the distribution of educational backgrounds among German top executives, which does not match completely with the outcome of a study concerning 255 larger German limited companies in 1988 that found economics as the biggest category,[20] demonstrate that engineers and

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[14] See for instance Warner M, Campbell A (1993) German Management. In: Hickson DJ (ed.), Management in Western Europe. Walter de Gruyter, Berlin/New York, pp. 89–108.

[15] Lawrence P (1980) Managers and management in West Germany. Croom Helm, London; see also Locke (1989).

[16] Lawrence (1980); Lane (1989); Randlesome C (1993) Ein Kampf: the German struggle with the MBA. European Management Journal 11: 353–356.

[17] Lawrence (1980), pp. 67–77.

[18] Zapf W (1965) Die deutschen Manager/Sozialprofil und Karriereweg. In: Zapf W (ed.), Beiträge zur Analyse der deutschen Oberschicht, 2nd edn. Piper, München, p. 140.

[19] Cassis Y (1997) Big business: the European experience in the twentieth century. Oxford University Press, Oxford, p. 135.

[20] Pagononi R (1989) Vorstände deutscher Aktiengesellschaften und ihre strategische Entscheidungsfinding. difo-druck schmacht, Bamberg, p. 103.

natural scientists still had the highest share, c. 40 % (table 2), but they no longer had an absolute majority. The figures for 2005 give evidence of a further, albeit limited, decline of the share of this category since 1990. On the other hand, the importance of business and economics studies grew strongly – nearly half of the higher educated German DAX-executives had followed this type of education in 2005 and the share of those with a MBA-degree (next to another study or not), which was indeed low with 1 % in 1990, had increased significantly to 11 %. More than the engineering and natural science studies, law lost terrain – indicating interchangeability between the generalist studies of business/economics and law.

These findings should be interpreted with some caution, however, as the division of backgrounds proves to be very sensitive to the nature of the industry. Paganoni found a striking difference between the share of engineers and natural scientists in executive boards of industrial firms (56 %) on the one hand, and financial and trading companies, on the other (7 %).[21] Our DAX data for 1990 show similar shares in industry and services in general (indicating that the mix of industry and service industries in Paganoni's sample was different from that in the DAX-selection). In fact, engineers and natural scientists were still the largest category in industry in 2005, and among service companies their share increased not insignificantly between 1990 and 2005.

Historically, the Dutch higher education system bears close resemblance to the German system. In the mid-19th century, the latter even served as a paradigm for the modernisation of the Dutch higher education system. However, after World War II, many Dutch university professors became interested in the values and pragmatics of the American higher education system. The founding of new technical universities and business schools with interdisciplinary and practice-oriented programs in the 1960s and 1970s served as prelude to a major transformation of the whole Dutch higher education system in this direction in the mid-1980s. The Dutch situation around 1990 can best be typified as a combination of two contrasting higher education cultures. On the one hand universities still valued the German-like deep-seated disciplinary and specialist orientation in education and research, while on the other hand they had embraced an American type of generalism and practice orientation.[22]

Lawrence observed a similar duality in Dutch management style around 1990. He situated Dutch management in between the American orientation of managers as "generalists" and the German one of managers as "specialists". Whilst he judged the popularity of MBA's in the Netherlands as low as that in Germany, the generalism of Dutch managers was expressed by the importance of being "handig" (clever). Highly relevant for our purposes is that Lawrence suggests that a ". . . manifestation

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[21] Paganoni (1989).

[22] Baalen, P van (1995) Management en hoger onderwijs; de geschiedenis van het academisch management – onderwijs in Nederland. Dissertation Erasmus Universiteit Rotterdam; Kipping M, Üsdiken B, Puig N (2004) Imitation, tension, and hybridization: multiple "Americanizations" of management education in Mediterranean Europe. Journal of Management Inquiry 13: 98–108.

of this qualified Dutch generalism is the apparent over-representation of lawyers in senior positions".[23]

At the outset, the distribution of educational backgrounds among Dutch managers was indeed different from that in Germany. A study of the presidents of 250 big enterprises in the year 1976 pointed out that among the managers with higher education, 39 % followed an economics study (including business economics and accounting), 27 % a law study, and 24 % a study in engineering or natural science.[24] Among the AEX-executives in 1990 (see Table 3), we find a similar distribution of the main studies. This confirms that, unlike in Germany, business and economics were more important than technical and scientific studies among the top management of the AEX-firms by 1990. Underlining Lawrence's observations, only a few managers possessed a MBA degree (4 %), while law studies had a remarkably high share. The outlook of the management of the AEX-firms thus did not comply with a typical "continental European model" at this time. The German-Dutch discrepancy can partly be explained, however, by the differing sectoral distribution of the DAX- and AEX-firms. Engineering and natural science studies had the largest proportion among industrial AEX-managers too, and a small representation among managers of service firms, although the difference was not as large as in Germany.

As in Germany, the distribution of educational backgrounds among AEX-executives has altered considerably between 1990 and 2005. This change is in line with other findings concerning the executives of the top-30 companies listed at the Dutch stock exchange in 1998,[25] which – correcting for the larger share of "other studies" – come very near to the mean of our shares for 1990 and 2005. The advent of business studies and economics as a type of education among AEX-executives has been significant since 1990, that is, from 42 % to 52 %, while the share of executives with a MBA degree rose to 15 %. Interestingly however, engineering and natural science studies gained terrain too. The big "loser" in the Netherlands, still more than in Germany, is law. In Lawrence's perspective, this would imply that Dutch qualified generalism represented by lawyers is increasingly replaced by a

Table 3 Educational backgrounds of AEX-executives, 1990 and 2005

	1990					2005				
Sector	*N*	BE	EN	L	O	*N*	BE	EN	L	O
Industry	*52*	37	39	19	6	*48*	43	42	5	9
Services	*58*	47	12	34	7	*53*	61	17	14	8
All	*110*	42	25	27	6	*101*	52	29	10	9

Source and note: see Tables 1 and 2.

[23] Lawrence (1991), pp. 126–128 (citation on p. 128).
[24] Calculated on the basis of figures in Beekenkamp CG (2002) President-directeuren, posities en patronen. Een studie naar de rekrutering van de 250 grootste ondernemingen in Nederland. Aksant, Amsterdam, p. 64.
[25] Glunk U, Heijltjes MG, Olie R (2001) Design characteristics and functioning of top management teams in Europe. European Management Journal 19: 291–300.

Table 4 Difference in share of educational backgrounds of DAX-and AEX-executives, 1990 and 2005 (DAX minus AEX, in percentage points)

	1990				2005			
Sector	BE	EN	L	O	BE	EN	L	O
Industry	−8	16	−5	−3	−1	4	3	−6
Services	−2	−6	7	1	−3	1	6	−4
All	−9	16	−5	−2	−4	7	3	−5

Source: Tables 2 and 3.

more unequivocal "American" generalism represented by graduates of business and economics studies.

The general picture is of a convergence in the distribution of educational backgrounds of top executives across the three main categories in both countries, albeit this is no consistent trend in the service sector in this respect (see Table 4). With respect to the growing importance of business and economics studies (in particular MBA studies) as a type of education, and the concomitant decline of law graduates in the DAX- and AEX-boards, the label of Americanisation rather than Europeanisation seems appropriate. Interestingly in this respect, while engineering and science lost some terrain and slightly improved their position among industrial DAX- and AEX-managers respectively between 1990 and 2005, in the U.S.A. itself, among large industrial firms CEOs with a background in manufacturing, R & D and/or engineering have made a comeback from the 1980s.[26] The relative decline in law studies among the DAX- and AEX-executives is definitively in line with developments in the U.S.A., where the share of lawyers among CEOs of the top-100 firms had reached a low level compared to CEOs with a background in sales, finance and manufacturing as early in 1979; the declining trend continued after that date.[27]

Nationality

The ethnocentricity perceived by Macharzina et al.[28] and the critique that German firms were "less open to external influence" and that "too few of their top managers have worked or studied abroad"[29] might lead us to expect that the DAX-boards were less populated by foreign and/or foreign educated members than those of the AEX-firms in 1990. Table 5 indicates that the share of foreigners on the German executive boards was indeed very low in that year (3 %). Only 11 % of the native

[26] Ocasio W, Kim H (1999) The circulation of corporate control: selection of functional backgrounds of new CEOs in large U.S. manufacturing firms, 1981–1992. Administrative Science Quarterly 44: 532–562; Meyrick PC, Jeffrey JE (1995) The road to the top. Chief Executive, December: 24–32.

[27] Fligstein N (1990) The transformation of corporate control. Harvard University Press, Cambridge Mass., p. 285; Osacio and Kim (1999).

[28] Marcharzina et al. (1998).

[29] Warner, Campbell (1993), pp. 101 and 106.

Table 5 Nationality of DAX- and AEX-executives, 1990 and 2005

Country	D1990	A1990	D2005	A2005	D1990	A1990	D2005	A2005
Known nation.	259	124	192	107	100 %	100 %	100 %	100 %
Native	252	117	150	53	97 %	94 %	78 %	50 %
Foreign	7	7	42	54	3 %	6 %	22 %	50 %
For.Europ.	7	6	27	43	3 %	5 %	14 %	40 %
American	0	1	10	10	0 %	1 %	5 %	9 %
Austrian	4	0	6	0	2 %	0 %	3 %	0 %
Belgian	0	1	1	13	0 %	1 %	1 %	12 %
British	1	2	3	16	0 %	2 %	2 %	15 %
Canadian	0	0	2	1	0 %	0 %	1 %	1 %
Dutch	0	117	2	53	0 %	94 %	1 %	50 %
French	1	0	0	8	0 %	0 %	0 %	7 %
German	252	0	150	1	97 %	0 %	78 %	1 %
Scandinav.	0	2	4	2	0 %	2 %	2 %	2 %
South.Europ.	1	0	6	0	0 %	0 %	3 %	0 %
Swiss	0	1	2	3	0 %	0 %	1 %	3 %
Other Europ.	0	0	3	0	0 %	0 %	2 %	0 %
Rest world	0	0	3	0	0 %	0 %	2 %	0 %

Source: see Table 1. Other Europeans include executives from Israel.

DAX-executives had followed (part of) their higher education abroad. In 2005 this share had grown to a more substantial level of 21 %, while the proportion of foreign managers had, by then, risen to 22 %.

Typical for a small country like the Netherlands is supposed to be a high level of "international openness"[30] rather than the "ethnocentricity" ascribed to German management. In 1990, however, the importance of foreign executive members was not very much higher than in Germany, that is, a meagre 6 %, while – like among the DAX-firms – 11 % of Dutch AEX-executives had studied abroad. In this sense, our data do not confirm the supposed traditional high level of openness of Dutch large business. Since 1990, however, while the share of foreign-educated Dutch AEX-managers remained on the same level (12 %), the rise of foreigners has been truly spectacular, from 6 % to half of all board members. Among the AEX-firms, only VNU did not have a single foreigner in its executive board in 2005.

Both for large German and Dutch firms, data from other sources reveal that the rise of foreigners in their boards accelerated from the late 1990s.[31] Several of these studies interpret the growing significance of foreigners in the boards of large firms in

[30] Calori (1994), p. 29.

[31] Birkner M (2005) The status and dynamics of change of top management team (TMT) demographics and capabilities in German large firms between 1997–2002. Dissertation, University of St. Gallen; Heijltjes M, Olie R, Glunk U (2003) Internationalisation of top management teams in Europe. European Management Journal 21: 87–97; Ausländer rein, Inländer raus (2005) www.manager-magazine.de/koepfe/karriere/0,2828,368859,00.html; Hezewijk J van (2005) Liever landgenoten. In: Elan 1 March 2005, pp. 32–34; Wel R van 't (2004) Bestuurskamer wordt steeds meer boardroom. In: Het Financieele Dagblad 27 December 2004.

European countries as an element in the internationalisation or globalisation of their activities. A few quotes from the business press can shed light on the mechanisms underlying this general change in the Dutch case. In May 2000, one of the large Dutch banks, ABN Amro, explicitly announced it would recruit foreigners for the board in the interest of relations with the customers and shareholder value and to "secure the continuity and quality of management".[32] Recently, the former CEO of Unilever and chairman of a committee that designed a new corporate governance code for the Netherlands, Morris Tabaksblat, even went as far as to say that without an American at the board, foreign firms are not taken seriously in the USA as potential employers for U.S. managerial talent.[33]

In particular, cross-border mergers and acquisitions are held responsible for the internationalisation trend, most visible among the AEX-firms. In 2005, several of them were products of major cross-border mergers and acquisitions that occurred after 1990: Fortis (from 1990), Reed-Elsevier (1993), Akzo Nobel (1994), P&O Nedlloyd (1996/2005), Vedior (takeovers of Bis in 1997 and Select in 1999). Excluding Akzo Nobel, in all these AEX-firms, non-natives were in the majority in the executive boards of 2005. Among the DAX-firms, Fresenius Medical Care was formed by a merger of National Medical Care (owned by W.R. Grace & Co.) and Fresenius USA Inc. (Fresenius AG) in 1996, followed by several acquisitions; the Germans are now a minority in the board. Daimler Chrysler was the result of a cross-border merger in 1998, with the Germans still in the lead in the executive board, which contained two Americans and one Canadian (out of a total of ten) in 2005.

The distribution of foreigners across distinct countries is of particular interest for the question of whether convergence to a true European firm is visible. Two-thirds of the non-native executives of DAX-firms came from other European countries in 2005. Birkner's data demonstrate that Austrians and Swiss were the largest groups among foreigners in German executive boards in 1997 and 2002, suggesting that internationalisation of the boards was predominantly a matter of incorporating managers from countries that speak the same language, or, in other words, of regionalisation rather than Europeanisation in general.[34] However, this conclusion should be qualified for the DAX companies which, despite six Austrians in their boards, showed a fairly wide variation in origin among its executives from other European countries, with only two Swiss people. The DAX-boards were thus fairly Europeanized by 2005, but it should be mentioned that the Americans with ten members (three of them at Fresenius Medical Care) represented the largest single category of foreigners in 2005.

In the AEX-firms, four fifths of the non-native executives originated from Europe in 2005, but these were less evenly spread over the continent than in the case of the

[32] Bestuur ABN AMRO krijgt internationaler gezicht. In: Het Financieele Dagblad 31 May 2000 (quotation translated by authors).
[33] Couwenberg P, Slagter JM (2005) Hollandse multinational strijkt de vlag. In: Het Financieele Dagblad 2 July 2005.
[34] Birkner (2005), pp. 107–109.

DAX-firms: Great-Britain, Belgium and France dominated the scene here. Half of the sixteen British executives were employed by products of Anglo-Dutch mergers (Unilever, Shell, Reed-Elsevier) and Vedior, that acquired British recruiting company Select in 1999, and thus represented a very specific kind of regionalisation of management within Europe. The high share of persons from neighbouring Belgium among the AEX-executives could be interpreted as regionalisation too, but the general picture is distorted here by the fact that one company, Fortis, the product of an amalgamation of Dutch and Belgian financial firms, was responsible for seven of the thirteen Belgians. On the other hand, each of the ten American executives was active in a different company. This suggests that Americanisation in a very literal sense is more general phenomenon among Dutch top management than regionalisation within Europe.

Conclusions

In this chapter we have studied the backgrounds of executive boards of the top listed German and Dutch companies between 1990 and 2005 (DAX- and AEX-firms). We expected that general trends of internationalisation and liberalisation of European industries would have an impact on the composition of these boards. Two indicators were considered for analysing this impact: educational background and nationality. The main questions we raised were: 1) can we observe a convergence between the backgrounds of German and Dutch executives, and 2) if so, does this convergence culturally speaking imply Europeanisation and/or Americanisation?

Regarding educational backgrounds, in 1990, the DAX-boards more reflected the supposed typical continental European focus on product rather than markets than the AEX-ones did. While engineering studies and sciences represented the largest category in Germany, business administration and economics occupied the first place in the Netherlands, which, however, to a large extent was due to differences between the relative number of industrial companies and service providers among the DAX-and AEX-firms. After 1990, the composition of the boards in both groups converged: graduates from business and economics studies had gained the upper hand by 2005. Rather than crowding out the "technical" specialists, business scientists and economists replaced another kind of generalists, that is, jurists. In particular, the advent of the MBA's in the executive boards suggests convergence in the sense of "Americanisation".

Both DAX and AEX executive boards were almost completely populated by natives in 1990; contradicting prevailing views in the literature on cross-cultural differences in European management, Dutch companies were still almost as "ethnocentric" as the German ones. In the course of the next fifteen years, foreigners increasingly entered the DAX and AEX boards. While both participated in the general internationalisation trend, the composition of the boards of each only converged in a limited sense. Nearly a quarter of DAX board members were non-natives in 2005, compared to half of their AEX counterparts. As the Europeans among them

(14 % of all executives) were distributed quite evenly across a range of countries, DAX-boards could in some sense be called truly Europeanised. Compared to the DAX-firms, the distribution of Europeans in the AEX-boards (40 %) across different countries was much more skewed to a few nations: Great-Britain, Belgium and France. This typical regionalisation within Europe can for a significant part be attributed to cross-border mergers and acquisitions.

Americans, while lower in number than European non-natives, represented the single largest or third largest category among the DAX- and AEX-firms (5 % and 9 % of all board members respectively) in 2005; they were more widely spread across the AEX-boards than any other nationality. "The impression that since 1990s we have more interchange at the board-level within Europe"[35] has thus been confirmed, but only partially. The question is to what extent this qualified Europeanisation will be a permanent feature of executive boards of the firms based in Europe or only an in-between step towards Americanisation or internationalisation.

[35] Schröter in this volume, p. 16.

Suez Towards a European Enterprise (1982–2006)?

Hubert Bonin

Compagnie universelle du canal maritime de Suez had been specialised in the management and the development of the Suez Canal in Egypt, up to its nationalisation in 1956. Afterwards, owing to its accumulated reserves and the indemnity paid by the Egyptian state, it became a financial company under the name *Compagnie financière de Suez*[1]. It developed a multi-activities strategy, investing funds into banking subsidiaries, industry and services companies, and financial funds, focusing mainly on French firms. Its (second) nationalisation in 1982 and its privatisation in 1987 coincided with the rapid globalisation of its industrial and services partners on a European scale and the building of a common finance and banking market in Western Europe, especially from January 1993, which involved directly its banking subsidiary, Banque Indosuez[2]. A long-term strategy emerged therefore, which transformed an almost wholly French-oriented firm into a Europeanised group, which was symbolised by the purchase of the huge financial holding *Société générale de Belgique* in 1989. That was the climax of a strategy which intended to set up a finance- and banking-oriented firm, or a "*groupe financier*"[3]. It was perceived as a beacon for the reconstruction of French capitalism around a few groups[4], notably Suez and Paribas[5].

But a dramatic turnaround occurred in the 1990s, when Suez was committed to a drastic revolution to assert itself as a key European leader in utilities[6], able to challenge big groups like Veolia, RWE, EON, EDF, ENEL, Vattenfall or ENDESA.

[1] Bonin H., *Suez. Du canal à la finance (1858–1987).* Paris: Économica, 1987.

[2] Bonin H., *Indosuez. L'autre grande banque d'affaires (1975–1987)*, Paris, Économica, 1987.

[3] Bonin H., *Les groupes financiers français*. Paris: PUF, 1995.

[4] Morin F., *La structure financière du capitalisme français.* Paris: Calmann-Lévy, 1974. François Morin, *Le capitalisme en France.* Paris: Cerf, 1977. Allard P., Beaud M., Bellon B., Lévy A.-M., and Linhart S., *Dictionnaire des groupes industriels et financiers en France.* Paris: Seuil, 1978. Bellon B., *Le pouvoir financier et l'industrie en France.* Paris: Seuil, 1980.

[5] Sagou M., *Paribas, anatomie d'une puissance.* Paris: FNSP, 1981. Baumier J., *La galaxie Paribas.* Paris: Plon, 1988.

[6] Bonin H., « Suez, de la finance aux services collectifs: analyse du redéploiement stratégique des années 1990», in Cailluet L., ed. *Marché(s) & hiérarchie(s).* Toulouse: Presses de l'Université des sciences sociales de Toulouse 1, 2000: 389–403.

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It consequently sold its stakes in the banking and finance areas. The purpose was to rationalise its structure and to spread the various activities worldwide: Water management, waste management, facilities management[7], and energy became the fourfold basis of the refurbished group. The "French model of concession"[8] – that is the management by private firms of city public services – has been gaining ground worldwide from the 1980s alongside the process of "privatising" of such services in the name of economies of scale, of management skills and because public authorities were more and more lacking funds to renovate the networks and face the requirements of urbanisation. Both French groups, Suez and Veolia, became the champions of such a move all around the world and conceived a worldwide expansion.

The Original Failure of Suez to Become a Europeanised Group

We have then to evaluate how much a European dimension was involved throughout these changes. After a first step of success in the Europeanisation process with the purchase of the *Société générale de Belgique* group, and the development of the Europeanised finance and banking strategy, the remodelling of the activities portfolio led to a Europeanisation of the whole utilities group. We have therefore to analyse the business structures, the design of an actual Euro-globalised firm, with centres of responsibility shared between Paris (in charge in water and waste management) and Brussels (through Electrabel-Tractebel, in charge of power and facilities management). Up to the recent developments the Brussels centre has been conducting partly its own worldwide strategy and its own portfolio of activities and skills. This "Belgianisation" of the group in these areas was somewhat favoured by French government authorities facilitating the transfer of French public power entities to private companies competing with EDF, whereas French control of these entities was being kept, because Suez controlled the Belgian companies involved in the process.

Tackling the topics of business power, we will scrutinize the bipolarisation of stake holding of the actors exerting influence on the Board, and of the management teams themselves. The "Frenchisation" of the Belgian SGB stirred worries all around Belgian elites, but Belgian influence has regained momentum within Suez, thanks to the Frère institutional investor (see below) and to a reshuffling of managers in favour of a balance between French and Belgian leaders (up to the recent reengineering of the group at the very end of 2005). The key issue lies with drawing up a rationalised architecture for a Europeanised company alongside the managerial rules of a "firm": How to shape it despite the requirement to respect national sensitiveness and some nationality balance among high executives? Such management aspects are

[7] That is activities "beyond the water meter", beyond the regulated services provided to customers, through the management of services within their facilities.

[8] Bonin H., « Le modèle français du capitalisme de l'eau dans la compétition européenne et mondiale depuis les années 1990 », *Sciences de la société*, n°64, *Société civile et marchandisation de l'eau. Expériences internationales* (February 2005), pp. 55–74.

all the more critical because the scheme adopted had to help developing the group worldwide. It meant to define whether such a firm should be managed alongside several national poles of power – still a utopian solution – or whether these elements were only political and diplomatic steps toward the latter emergence of a unified Paris group, only pumping a portfolio of skills, of energy networks and power, and of cash from its Belgian sister company. Strategy, structures, and governance will thus be a core topics, which will help understand how a new transnational firm[9] has been built since the 1990s – even if our study tackles only the European side of the story.

Despite the apparent simplicity the development was deadlocked, and Suez failed to achieve its desired form: It never reached the scope of a Europeanised group through the diversified scheme imagined in 1988. There were still two strategies in management developing their way parallel: the French one and the Belgian one. Suez had to follow its pledge of respecting Belgian interests through the process of rationalisation of the SGB group. It had to take into account the will of autonomy asserted by the Frère group. This quest for independence was underlined in 1993 when Albert Frère played a key role to stop the French oil firm Elf from taking over the Belgian Petrofina. The reshuffling and the sale of industrial and service assets of SGB had to be conceived alongside Belgian requisites, in order to preserve their value, to avoid closing plants too rapidly. At the same time rationalisation was required to enhance the very value of the firm. A beacon for this "Belgianisation" of SGB was the choice of its chairman: The chairmanship escaped to Suez itself and a consensus was reached to select Etienne Davignon himself – at that time a key Belgium leader[10] – as the chairman, from April 1988 to February 2001, and then as vice-chairman up to October 2003. He should convince resistant persons, and was to show that Suez had postponed its aspirations to absorb SGB. That gave time to Belgian interests to be reorganised by SGB alongside the wishes of Belgian business and the general interests of Belgian economy. In the meanwhile, Albert Frère and its BBL holding purchased a stake in Suez (7.5 percent) in 1996, as a means to have a say in the strategic choices of the mother company itself and to symbolise the new cross-border way of life of the group. In parallel, Suez preserved the alliance with another key figure, Maurice Lippens, who stayed at the board of SGB. He was one of the Belgian business leaders who took part to the reshaping of Belgian capitalism in the wake of Suez-SGB reorganisation: after creating the Fortis banking and insurance group in 1990, he inherited in 1998 of *Générale de Banque*, the subsidiary of SGB, which was integrated into Fortis. He was thus the symbol of the tacit gentlemen's agreement between Suez and the Belgian business community alongside which Suez could tackle the utilities activities whilst leaving

[9] Bonin H., et al. eds. *Transnational Companies (19th–20th Centuries)*. Paris: PLAGE, 2002.

[10] Étienne Davignon had been the Belgian ministry of Foreign Affairs from 1969 to 1976 and a key actor of the process towards the building of an integrated European Community ("*Davignon Report*" in 1970). He presided over the International Energy Agency in 1973–1977, before joining the European Commission in Brussels in charge with industry, research, energy, and the market supervision, from 1977 to 1981, then as the vice-president in 1981–1985.

local businessmen reshuffling SGB interests in industry and banking. Many political considerations were involved: if the French Suez group would take control of SGB and Tractebel, and if important Belgian, Spanish and French steel activities would merge into Arcelor (another French and European group), robust Belgian groups could emerge meanwhile as balance between pure Belgian interests and European integration.

Most significant was the managerial limit of the cross-border group: The Suez team could not imagine a Europeanised management of the group; a Europeanisation was not still understood because of the very culture of the Suez groupe since its foundation in the 1960. Its core rules of management were based on decentralisation. Beyond the choice of its leaders and arguments over financial resources, each subsidiary could follow its own way, live its own life, either in France or in Belgium. Some kind of an invisible ceiling hindered Suez from changing its "business culture" and conceive the very reality of an actual "cross-border group", to evolve from a "holding culture" to a "transnational firm culture". At the same time Belgian executives set up strong resistance, fearing French involvement in Belgian industrial developments. French managers were suspected to intend strategically solutions to Belgian capitalism as well as to take profit of these reorganisations to favour French companies. Distrust often prevailed among Belgian financiers and industrialists, high civil servants and journalists[11]. There were no cultural affinities between French managers of Suez – all formed through the "*grandes écoles à la française*", and thus entertaining "one single mould" of management – and their Belgian counterparts; there were no habits to socialize to establish informal links between the two "worlds" of Paris and Brussels marketplaces such as attending common clubs, sports, or cultural events. There were no actual "Europeanised" minds in fact, and it seems a fairy tale to imagine such a trend. Harsh internal struggles grew among its leaders about the managerial structures and habits, but no actual change occurred. Such a way of management meant that each sector developed independently without synergies, economies of scale, and rationalisation.

Such a discrepancy between equity controls and management became still more evident when Suez merged with *Lyonnaise des eaux* in 1997. The Suez-Lyonnaise des eaux group and the SGB group nurtured therefore in parallel similar activities in utilities – because SGB controlled Tractebel-Électrabel, constituting 42.7 percent of its assets in 1996 – without any attempt to build a structure able to unify the management of these activities alongside rationalised and Europeanised methods and strategies. The Belgian state itself got involved in the argument: The ministry of Finance and the Prime Minister opposed to a submission of Tractebel's management to the direct influence of the French holding, confusing any rationalisation of the services of Lyonnaise des eaux and Tractebel. Belgian local authorities and political parties feared that Électrabel, the private group which provided electricity to the

[11] « Dans un contexte de méfiance vis-à-vis des jacobins français prêts à sacrifier les intérêts des Belges sur l'autel des nécessités hexagonales, l'inquiétude était grande », Rosenszweig L., *Capital* (April 1997).

local public companies of distribution (“*les intercommunales*”)[12] and Distrigaz, its sister company for gas distribution, should escape indigenous management. The illusion that SGB was still an autonomous firm vested to Belgian interests was preserved as some kind of a levee against francisation.

The Belgian tactics to follow was first to assert SGB as the key stakeholder in Tractebel and indirectly of Électrabel because it was conceived that a stronger SGB-Électrabel should counterbalance more efficiently the power of Suez-Lyonnaise des eaux. This explains why the competing but cooperative holding company BBL sold its 25 percent stake in Tractebel to SGB in September 1996. The second path to follow was to fix Tractebel as the key stakeholder of Électrabel. In September 1996, the former acquired 22.6 percent owned by Belgian institutional investors Électrafina and *Royale belge*, which pushed Tractebel’s stake in Électrabel’s from 39.8 to 64.2 percent. On the one hand Belgian circles were somewhat happy to anchor SGB and its energy companies alongside a strong shareholder as Suez, thus paving the way to its worldwide development. On the another hand Suez had to respect local energetic “patriotism” among local communities and industrialists – intending to keep their Belgian-anchored relationship – in the name of investment policies and tariff controls. The Belgian state discussed with Tractebel about the Belgian 1995–2005 electric program which included in 1996 investment into three new power stations. Local authorities reinforced in 1996 their stake holding in Distrigaz, the Tractebel subsidiary dedicated to gas activities[13]. These insignificant moves are anyway clues of “nationalistic” barriers which could hinder the building by Suez of a Europeanised architecture: It had to take into account capitalistic, political and aspects of law to be posed as obstacles to pushing offensives to rationalised and unify the group alongside basic managerial rules.

Toward a Bi-national Stake Holding?

During the period up to 2000 Suez strategy had been rationalised and refocused; non-core activities had been sold out; indebtedness had been alleviated. The new team imposed harsh managerial decisions since the ousting of chairman Gérard Worms and his replacement by Gérard Mestrallet in July 1995 – who had man-

[12] Sterck A. & Hamel P.-J., « Les sociétés d’économie mixte en Belgique : les intercommunales et le groupe Tractebel », in Petitet S. and Varaschin D., eds. *Intérêts publics et initiatives privées. Initiatives publiques et intérêts privés. Travaux et services publics en perspectives.* Vaulx-en-Velin: ENTPE & Presses universitaires de l’Artois, 1999 : 163–168. Électrabel was formed in 1990 when its holding company Tractebel merged the large three firms producing and delivering electricity to local municipalities, the “*sociétés exploitantes*”: EBEC, INTERCOM and UNERG, which managed key grids all over Belgium.

[13] Local authorities controlled altogether Publigaz which pushed its part in Distrigaz to 16.6 percent in 1996 and got a 50 percent stake in Distrihold, which owned 16.6 percent of Distrigaz, both moves providing them influence over a blocking minority of a third of the regulated firm, whilst Tractebel kept the other half of Distrihold and a majority of Distrigaz (16.6 percent being sold on the market in 1996).

aged SGB for Suez's sake since 1991 (up to October 1996) and thus had acquired a good knowledge of Brussels' subtleties. In the meanwhile Suez' representatives in Brussels (Philippe Liotier, then Gérard Mestrallet as "*administrateurs délégués*" under the chairmanship of Étienne Davignon) had successfully rationalised and subsequently sold various subsidiaries of SGB in industry and transport, before even selling the jewels of the crown, *Générale de Banque* to Fortis (in 1998). Its cash revenues helped develop the energy divisions in Europe (Germany) and abroad. Suez had thus presided over a thorough reshuffling of SGB's strategic basis, but the bi-national status remained upheld: How could a French group be Belgian at the same time?

Alongside diplomatic (and political) devices A. Frère had been convoked to help such a balance to be kept on. His influence was used to convince the Belgian business and politics world to leave Suez rationalise its group; but as a counterpart his own influence within Suez was to be reinforced as a stakeholder and as a member of the board. The "most Frenchised" Belgian – he owned grands crus in the Bordeaux region and several stakes on the Paris marketplace – became a sort of an ambassador of Suez in Brussels to alleviate nationalistic fears. Frère's *Groupe Bruxelles-Lambert* became its largest shareholder, with 7.2 percent of Suez equity in 2002 and 2003 and 7.1 percent in 2004, which provided it with 12.5 percent of the voting rights in 2002 and 2003 and 12.3 percent in 2004. Another Belgian firm, Sofina, held 1.2 percent of the capital in 2004, with 1 percent of voting rights. The Belgian side was thus rich with 8.3 percent of the shares and 13.3 percent of the voting rights: A balance was somewhat preserved between Belgian and French shareholders, to assert the bi-national way of life of the group. Being the leading investors, Belgian shareholders exerted influence at the board in order to preserve the economic and managerial interests of the Belgian economy. However, was A. Frère but a mere man of straw for to hide French penetration of Belgium? He earlier favoured the purchase of Petrofina by Total over Elf-Aquitaine, both French companies, although he chaired the Belgian oil company Petrofina and could have blocked the process – , or did he exert enough influence on Suez to impose a cross border and bi-national management? His group was a partner in business, a levee to preserve Belgian interests against an over-dose of French economic imperialism, an influential pole at the board, but not a co-leading pole of management of the Suez group. His very strength came from the fact that, on the French side, the shareholding was dispatched between several institutional investors which had not durable motive to stay faithful in case of a bid on Suez: COGEMA as a state-owned nuclear firm, which invested for to face long-term demand of its nuclear facilities (dismantlement); CDC and CNP primarily managed customers' savings; French *Crédit agricole* was holding a stake just because of the partnership during the previous purchase of the Suez group; and finally Barcelona's savings bank Caixa was present because Suez sustained links with Agbar in Catalonya. Free-standing capitalism was playing its game as three-quarters of Suez equity were spread freely among the "floating" investors. In case of a bid or a crisis, the Belgian group could therefore have been posed as the leading force to structure a reaction; but the day to day management of Suez did not actually depend on a cross-border balance.

Frère's partnership was thus the key to get access and to reinforce Suez' edge over the Belgium interests of the SGB group and subsidiaries. The strategy to transform the decentralised SGB group into a modern industrial and services group required the rationalisation of its structure and the dismantlement of independent divisions (some of which were even quoted on the stock exchange). One main move occurred on September 1996 through the purchase by SGB of the 24.5 percent stake in Tractebel held by Albert Frère: SGB reached thus 65 percent of Tractebel, the key holding of the energy and services, over which Suez had secured some control since the success of its bid over SGB in 1989. The same year when Suez sold its banking division Indosuez, its progress into the services sector symbolised its strategic turnover. Étienne Davignon and A. Frère were then mobilised to alleviate fears among their Belgian business counterparts about such a purchase. The very role played by A. Frère in the 2000–2005 years laid in his ability to exert a personal influence over the Suez board and to convince the "techno structure" of Suez to require more drastic financial reconstruction and harsher reengineering within the group. He himself proved that he knew how to tackle financial issues under the dire constraints of a patrimonial approached explained by a family business profile. The economic newspapers therefore traced A. Frère's pressure behind the managerial decisions of G. Mestrallet: Sales of non-strategic assets, change of high managers: "To many observers, the plan of rigor and the reorganisation of management express the wish of A. Frère, the almighty deal maker of Charleroi, who owns 7.2 percent of the group. And, through himself, the Belgian faction of the group regains control of this latter; the faction which, during the two last decades, favoured the stake of Suez into the first financial institution in Belgium and the main electricity group of the kingdom."[14] Such an influence could explain the resignation of the finance manager François Jaclot because the debt load, the fall of the equity value, and the provisions because of the Argentina collapse had led to a difficult financial situation, from which the board draw lessons in November 2002 and required drastic changes.

What About a Bi-national Managerial Location?

But the multiutilities concept was kept against the desire of some members of the board, some ex-Belgian managers of the group and some institutional investors, who suggested a split between the environment sectors (water and waste management and energy), because energy seemed more profitable on short term. Such a strategic compromise between the Belgian (supported by North-American key partners) and French interests was possible because chairman Mestrallet succeeded in preserving a balance between Belgian and French managers and altogether a bi-national way of life within the group.

The reality of a bi-national structure has also to be gauged through the operational organisation. Did Paris bypass Brussels as the head of the group? Undeniably, the Suez headquarters represented the core of decision, Paris defined the

[14] Fontaine G., « Mestrallet PDG en liberté surveillée », *L'Expansion* (avril 2003): 156.

ultimate strategic choices. In Summer 2005 Suez announced its bid for Électrabel's shares it did not owned yet (49.9 percent). With this step, the process of unifying the structures of the group became irresistible. There was anyway some kind of a fiction to presume that the Suez group will stay bi-headed: The bid over Électrabel (11,2 billion euros) put an end to such a myth; an organisation has to be unified. Suez replaced Électrabel as a quoted company on the Brussels stock exchange. Its role there remained substantial because its equity quoted in Belgium represented 18 percent of the index of the Brussels stock exchange (on 20 September 2006), ahead of the Fortis bank itself with 15 percent. Such a "Frenchisation" of the big Belgian utility sparked a political outcry in Belgium and stirred discontent among shareholders. But the local authorities involved in the day to day life of Électrabel – these 17 intercommunal entities owned 4.65 percent of Électrabel – did follow the move towards integration; everyone was well conscious that the energy war which had started all over Europe required strong competitors, and the merger between Électrabel and Suez would favour lower energy prices in Belgium and thus add to its competitiveness. Rationalisation and integration were considered urgent indeed, which seemed to weaken the bi-national strategy.

The bi-national profile of Suez was represented by the bi-national markets of the group, France and Belgium, well ahead of other European and worldwide outlets: The turnover coming from both countries reached more than half of the turnover. Moreover the bi-national style of management has to be evaluated within the process of structuring a "globalised" group, that is an organisation which is managed alongside "activities", where sectors are supervised with a transcontinental or even a worldwide scope. Such a move was already achieved on the "productive" levels, within each sector of globalised groups. Financial pretenders – through little financial funds – questioned the dual activity of the group, preaching for the sale of the environment activities – less profitable than energy on short-term duration. But that would have focused the group on energy and on Belgium, and deprived it from the long-term and steady revenues fed by water concessions. Any over-focus could have destabilised the group, which had to keep a balance between becoming a conglomerate and developing a few efficient activities. The board choose to stay with its strategic portfolio, in the name of "synergies" between its activities, which led to the key bi-national argument. To become a strong competitor on the French energy market, Belgian Électrabel needed the support of French *Lyonnaise des eaux* and Sita, and altogether they had to join forces to prospect the market for facilities management. Complementarities and convergence were the key for growth, because the capital of relationship among local authorities and big companies had to be mobilised for the sake of common causes.

In parallel with such a faithful dedication to the strategy of multiutilities, specialisation has been the key managerial strategy in order to elaborate a bi-national group. Because Électrabel's strength relied mainly on its energy sector, gas and electricity, it had become the functional heart for these activities in general, first in Europe and then worldwide wide (because it purchased Tractebels' assets outside France and Belgium in 2001), and finally in France itself, because it acquired managing

control of companies owned by the suez group). As an apparent result, Belgium was thus to keep core responsibilities and was not deprived of its heritage of skills: "Suez Energy International is organized into four regional entities coordinated by a central organization located in Brussels."[15] The reinforcement of the Brussels centre was confirmed in March 1999 when Suez chose to transfer to Brussels its facilities management activities. The complementary between providing energy to a plant or a services to a building, on one side, and managing power, networks of heat, refrigeration, air-conditioning and small cogeneration units, beyond this mere delivery became obvious, all the more because one activity helps introducing the other one to the customers. The upsurge of outsourcing of public and private facilities management all over Europe paved the way for larger market shares, to be managed from Brussels: Suez played the Belgian card to alleviate its French profile.

Électrabel was endowed with its own strategy of development on the energy fields; it had set up subsidiaries in several European countries and worldwide: The decisions for investing abroad and for managing the technical achievements of these investments were managed from its Brussels headquarters, all the more because Belgium[16] represented 25 percent of its energy production capacity in 2004, versus 31 percent elsewhere in Europe, and 31 percent in North and South America. Brussels was also the location of a large part of the facilities management division, with its Belgian entity Fabricom, its foreign subsidiaries, and a supervision power on the French branch Élyo. In Parallel, Paris was keeping the headquarters of "environment" activities (water and waste management), but they were located in another building than the Suez's one itself, as a beacon of the desire to separate the management of the group and that of the entities. The heritage of skills in the management of services and of legal skills to develop concessions, delegations of public services, private-public partnerships constituted the core business of the Paris centre.

Because of such constraints, the argument got still hotter: How can a Europeanised group appear as a European corporation and escape a pure national look? How to preserve the bi-national approach of Suez as a heritage of the purchase of SGB in 1988? The worldwide investment of energy and facilities management was collected under the banner of *Suez Énergie International* in 2005, which means that the Suez name was prevailing over that of Électrabel. However, the key issue was the management of cash flow within the group. Centralisation and intense compulsory co-operation were more and more prevailing, but the principles of decentralisation seemed still to be respected: Thus, the mother company Suez was helped by a joint-venture, the GIE Suez Alliance, linking Suez and Tractebel, for the issuing of bonds and negotiating bank lending facilities for the group, whilst a few special-purpose financial vehicles were used on the group level (for treasury

[15] Suez 2004 report, p. 44.

[16] In Belgium, Électrabel was the leader in electricity, in association with local authorities, and controlled numerous companies distributing electricity, and also the grid, the independent transmission network operator, Élia, 31.2 percent owned in 2004. The Distrigas subsidiary (57.24 percent owned) is the leading firm on its field and is propped up by the gas network, itself split-up, Fluxys (57.25 percent owned).

notes, US commercial paper, etc.). The official documents cannot provide sufficient elements to foster a structured analysis on these financial matters. But "structurally, the parent company and the financial vehicles act as lenders vis-à-vis the group's energy and environment divisions"[17]; and "GIE Suez Alliance, created in November 2001, is the group's preferred financing vehicle in the banking and bond markets". An historian cannot check whether the "complaints of minority shareholders are disadvantaged by Suez's propensity to use Électrabel as a cheap lending bank to fund its expansion plans"[18].

Still a Belgian Influence on Suez? How to Set Up a Bi-national Management?

Our question lies once more with the Belgian influence within the Suez group. Were the Belgian aspects of the Suez group condemned to disappear – even if Brussels did keep the group's location of the management centre of energy? Did the Paris Suez headquarters respect any proportion of Belgian top executives within the group? Did they respect a Belgian management over Électrabel in Belgium itself? Did they promote Belgian executives within the energy sector on European and worldwide levels? And did they promote Belgian executives at the very head of the Suez group that is in Paris? These points tend to gauge the reality of the "Europeanisation" of the management of a corporation, the "density" of foreign executives on high ranking levels. The key question lies precisely in the invisible ceiling through which upward executives are denied or get access to top management. On the one hand a strong French tradition has been sustained the career of executives coming from the "*grandes écoles*", because of the technical aspects of the activities of the Suez group, which required a mix of engineering, finance and management. This explains how G. Mestrallet reached chairmanship. Conversely another tradition of promoting engineers coming from middle-range schools has been preserved along the sectors of the group: Jean-Louis Chaussade, for example, is a "mere" engineer from a public works school[19] and has been elected as head of Suez Environnement in 2004. Such a profile is more in line with the predominant engineering culture which had prevailed in the Tractebel-Électrabel group from the 1880s.

Another question lies with the Belgian basis of the management, linking the SGB-Tractebel-Électrabel group with Brussels' business circles. Skilfully Suez succeeded in preserving such a Belgian profile for its sister company through the recruitment of Philippe Bodson. This engineer had piled up a larger range of international diplomas (MBA, INSEAD) and experience (Canada, US, France, Germany) and ended as the CEO of the glass firm Glaverbel in Belgium (1981–1989); he emerged as a symbol of a new generation of Belgian businessmen, open to modern management and

[17] Suez 2004 report, p. 116.
[18] *The Financial Times* (September 2005): 17.
[19] Even if he added the *Sciences Po Paris* diploma to his academic luggage.

internationalisation, which explains that he became the chairman of the Belgian businessmen's organisation between 1987 and 1990. He was called to chairmanship (as the president of the executive committee and as "*administrateur délégué*") of Tractebel in 1989, the holding company through which SGB controlled its stakes in the energy sector, and Suez kept him at this job in the name of efficiency and of the respect of Belgian influence within the group newly constituted between Paris and Brussels. He intensified the policy of rationalising and focusing Tractebel around its core energy activities, and moreover he started a successful project to internationalise them: Tractebel ended providing 52 percent of the assets of SGB in 1998 instead of 20 percent in 1987. P. Bodson's position within the group and on the Belgian business level forged his strong influence within the SGB group, where he was a member of several boards, even at the top SGB's board.

However, distrust grew in Belgium towards the French "invaders" because, despite the prudent stance of the Paris direction, the French influence over the Brussels direction seemed more and more decisive. The façade of a shared responsibility was preserved because Suez kept SGB as a holding company, with a dual head, Étienne Davignon, a member of the Belgian establishment, as the chairman, and French Christine Morin-Postel as the "*administrateur délégué*". But this SGB was no longer a key to power, because the energy activity became the core of Belgian activities and decisions, around the sister company Tractebel (overseeing Électrabel and Distrigas). What was at stake was the actual control over Tractebel: A real Europeanised group had to be set up under French control, which ought to replace the bi-headed and dual group. P. Bodson well understood such a strategy and tried to stifle its achievement: he mobilised Belgian business and political circles of influence, called for opinion through the medias, to convince them that he could not imagine that Suez would locate the management of its energy division in Belgium and that such a bi-national project was a tricky device to impose the French rule.

But P. Bodson was defeated because of the clear-cut expression by Suez of its bi-national project and of the support of his Belgian allies (A. Frère and É. Davignon, especially). Suez could thus impose the departure of P. Bodson, the chairman of Tractebel, on 19 March 1999, which shocked the opinion of some Belgian business elites because he was one of their members and because he represented an influential capacity of networking within the Belgian circles of power[20]. His ousting was followed by the resignation of the head of the international subsidiary of Tractebel EGI. Some trouble aroused among Brussels' teams about such a trend towards the annexation of Tractebel by Suez: "Belgian engineers who had been the basis of the group's strength consider with horror the promotion of *énarques, polytechniciens*, who think of themselves to know of everything and seem to despise them."[21] And Suez-SGB ended purchasing the whole equity of Tractebel, before this latter

[20] P. Bodson used his position to join the Liberal party and to be elected as a senator in June 1999. To precise our approach to P. Bodson's career, we used: Kurgan Van Hentenryk G., "Philippe Bodson", in Kurgan G. & Buyst E. eds. *Cent patrons du* XX*e* *siècle en Belgique,* Brussels: Alain Renier, 1999: 22–25.

[21] « *Énarques, polytechniciens* » *:* who are graduate of French *École nationale d'administration*

Table 1 The managers of Suez in 2004–2005

- *French high managers:*
  - Gérard Mestrallet, chairman and co-CEO
  - Jérôme Tolot, corporate, and energy industrial services (as a deputy of J.-P. Hansen)
  - Jacques Pétry, environment activities and local services (water and waste management,
  - under a sole banner *Suez Environnement* since July 2002) – replaced on March 2004 by
  - Jean-Louis Chaussade (also CEO of Ondeo)
  - Christian Maurin, environment activities and facilities management
  - Yves-Thibault de Silguy, international development
  - Patrick Buffet, strategy and development
  - Valérie Bernis, public relations
  - Patrick Ouart, general secretary
- *Belgian high managers:*
  - Jean-Pierre Hansen, co-CEO and COO ("administrateur-délégué")
  - Gérard Lamarche (from Louvain university), finance (deputy co-CEO; promoted as
  - co-CEO on March 2004)
  - Emmanuel van Innis, human resources
  - Dirk Beeuwsaert, electricity and gas (international)
  - Willy Bosmans, electricity and gas (Europe)

absorbed the prestigious SGB[22] on 31 October 2003. Up to the start of 2003, under G. Mestrallet, French managers were predominant at the Paris headquarters, some of them as part of the human heritage of the company: Patrick Chambolle (innovation), Philippe Brongniart (services) had lived the evolution of *Lyonnaise des eaux*; C. Morin-Postel (head of human resources since September 2000) had been the leverage force of the internationalisation of the Suez-Lyonnaise des eaux group, before reaching her top job – all three retired in 2003.

Conversely, Belgian management ability was much recognised by Suez when P. Bodson was replaced in March 1999 by a Belgian engineer trained at the Électrabel division, Jean-Pierre Hansen: He became the (non executive) chairman of Tractebel, but especially as chief operations officer at Suez itself, that is the co-number 2 of Suez, with F. Jaclot, a French manager overseeing finances. F. Jaclot himself was replaced in February 2003 by a Belgian manager, Gérard Lamarche. The process towards some kind of a balance between French and Belgian capacities was thus started and even possibly reached. But no revenge from the Belgian side took shape indeed despite the grumbling postures of a few Belgian ex-managers (like P. Bodson, ex-head of Tractebel) who resented against the dilution of Belgian influence within the group. In fact, since February 2003, an actual unification of the Suez management was achieved, because the dualist structure of the

and *École polytechnique*, which train high civil servants and engineers. A witness, quoted by Orange M. and Rosenzweig L., *Les Échos*, March 1999.

[22] Loppe P., « L'histoire s'arrête pour la Société générale de Belgique », *La Libre Belgique*, 24 April 2003.

direction disappeared: the Paris headquarters gathered the whole executive team, either Belgian and French, alongside a sole "bi-cultural head". "From a mere holding company, Suez is evolving toward an industrial group."[23] A clue could have been the transfer of J.-P. Hansen to Paris in 1999 as a vice-president of Suez but more importantly as one of the seven members of the executive committee of the group and one of the three members of the general direction (with G. Mestrallet and, since March 2004, Gérard Lamarche); he appeared as a key executive officer, since, besides G. Mestrallet, the five other members left the group between 1999 and 2004 and since he came back to Brussels in September 2004 as the CEO and COO of Électrabel – with G. Mestrallet as the chairman in place of Willy Bosman, in charge since 1999. Some balance between French and Belgian skills and responsibilities was thus preserved throughout the unperceivable power struggles and personal trust networks as does exist in every corporation (Table 1).

Conclusion: Toward a "European Society"?

To focus on Europe, Suez became thus a "European group" but our key issue is to determine how it succeeded to balance its French roots, culture and management with the requirements of a Europeanised day to day management. We can conclude that the "European culture" or "spirit" does not still exist at the beginning of the 21st century for the public services activities because nationalistic postures are prevailing: Local authorities (and the "citizen-costumers") are sticking to fears about privatizing such services, about excessive fees on bills. Moreover, such services are rich with political effects because their management and the life of local authorities and majorities are intimately intertwined not because of corruption practices – even if it occurred here and there – but because of often lack of transparency in the negotiation of contracts when local authorities refuse to admit publicly that they wish to delegate the investments charges to private companies (because of budgetary constraints) or to put a brake on the costly social advantages of public workforce in favour of introducing more and more outsourcing (because of excessive social charges for local budgets). One key issue lies with the slow process of unbundling "regulated" services (the management of energy[24] or water networks, and what is called "universal service", that is the access of everybody to a minimum public service) and free-market services, because national or local authorities lagged in acquiring the skills to exert the deep controls required. Was it another case of absorption of a Belgian company by a French one? Do cross border firms represent a durable concept? Or are they a mere fairy tale among a Darwinian and nationalistic business world? The issue of a "Europeanised management" is still

[23] Orange M., *Les Échos*, 1st August, 2003.

[24] For example, Distrigaz controlled Fluxys, the gas network, and Électrabel controlled Elia, the electric network, both network companies having been split-up and thus "sorted out" from consolidated integration from management and balance-sheet of both mother companies.

pervading about the French-Belgian structure of the group since the purchase of SGB. The success of such a managerial strategy was found in the strength of the breeding ground of engineers and managers in both countries. Belgium and France share the same profile in producing managers mixing engineering and management abilities,[25] the Paris' and Brussels' teams could thus share quite the same "enterprise culture" joining managerial figures and technological moves. This explains that Belgium could deliver several high level executives who where admitted in cross-border responsibilities.

A real "Europeanised" corporation thus emerged, which explains the opinion of the Belgian Minister of Economy about "a European company with a French and Belgian anchor"[26]. Its limits were obvious: such a balance ought forever to be preserved from divisions and internal struggles, and it was not an easy way. A model such as provided by Unilever and Shell (both companies employing a dual-management between London and Amsterdam for decades) is not easily transferable, even if it ought to be studied as a way to pave the way to actual Europeanisation. The French way of management based on domination (and arrogance?) thanks to the "one best way" style of direction, learnt in public affairs schools, did impose a trend towards the enlargement of French influence within Suez, all the more because the headquarters are in Paris. French "economic patriotism" is still firmly predominant among French political circles, trade unions and public opinion. Despite the fact that Suez did succeed in rejuvenating the "Unilever and Shell model", it had also to take into account the fact that French leading opinions were considering Suez as a true French group having to promote national interests versus European considerations. The laws of patriotic or political gravity still had to be respected, and the recent events – the merger between Suez and Gaz de France – are confirming our statement: Threatened to become a three-country group through a bid by Italian Enel on the French-Belgian group, Suez in Summer 2006 has started a process to join the still 70 percent state-owned utility *Gaz de France* to constitute a even more French group, preserved by a 34 percent stake by the state against the dilution of the French influence and management into an uncertain European melting-pot.

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[25] Dyas G. and Tanheiser H., *The Emerging European Enterprise: Strategy and Structure in French and German Industry.* London: MacMillan, 1974. Whittington R. and Mayer M., *The European Corporation. Strategy, Structure, and Social Sciences.* Oxford: Oxford University Press, 2000. Barca F. and Becht M., eds. *The Control of Corporate Europe.* Oxford: Oxford University Press, 2001. Perez R., "La diversité des modèles de gouvernance des entreprises en Europe : situation, évolution et perspectives", *L'option de Confrontations Europe*, n°19 (January 2004).

[26] Declaration published in *Le Monde*, 11 August 2004.

Greek Business in Southeast Europe: National, Regional, or European?

Margarita Dritsas

Introduction

Looking at Greek business in south eastern (SE-) Europe – or the Balkans[1] – is a challenging task, not least because of the deep historical roots of the phenomenon. What complicates it still further today is the differential status of the countries in the region in relation to the European Union: Some are already full members of EU and EMU; others are members in waiting; others still have not begun negotiations for accession. Most of the countries have a common legacy of institutional and structural elements shaped over long periods of foreign rule or foreign influence. Many of them belonged to different Empires, the Habsburg and the Ottoman. Some gradually acquired autonomy (e.g. Rumanian provinces); others fought early for independence (Greece); others remained under Ottoman rule until the end of the 19th century (Bulgaria, Albania etc.). In Rumania and Greece – both of them non-Slavonic countries – the role of the Fanariots, an elite group of bureaucrats of the Ottoman Empire, was important for forging a European national consciousness and for introducing European institutions. Subsequent political development has not obliterated common traits, aspirations or national ambitions.

Since 1989 and the collapse of communist regimes, there are a multitude of 'foreign' firms – multinational corporations, national and local enterprises operating side by side. What the paper proposes to do is to formulate certain tentative hypotheses by looking briefly at the history of business in the region, at the structure of the economies and at the different status of the countries concerned, as factors inducing particular business ventures.

Historical Background

The role of Greek entrepreneurs' right up to the end of the 19th century in the Balkan region has been amply documented in Greek and SE-European historiography. Most studies record Greek business activity extending to central, SE-Europe, the Ottoman

[1] Balkan was the Turkish name for the Aimos Mountain which extends from the Black Sea through Bulgaria, the former Yugoslavia, Albania, the European part of Turkey and Greece to the Adriatic Sea and Northwards to the Danube and its confluent Savo.

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Empire and the Black Sea area from the 15th century. The role of Greek merchants and financiers has been particularly well documented by several historians, (Berend & Ranki, Asdrachas, Stoianovich, Svoronos, etc.).[2] This activity has left deep imprints in the cultural and economic environment of the whole region.

Geography and culture have enhanced unity, which was furthermore based on a dense road-network linking western and central Europe to Asia. Gradually, prosperous Greek-speaking merchant and banking communities settled from the Black Sea to the Adriatic, inland and north to the Danube area and beyond and south, to the Mediterranean Sea, enabling a constant movement of resources and people, open borders and friendly relations with many Slavonic countries over long periods.

Strategic interests of the Great Powers were on the other hand, important factors too, many international organisations having settled in the area but common business practices having forged a sort of 'Balkan' solidarity, the term 'Greek' essentially being used to describe and denominate all Balkan Christian orthodox business communities.

Discussing business co-operation in SE-Europe must, therefore, take into consideration the cultural affinity, which developed over time and gave rise to a sense of common identity, which has inspired several projects of political and economic integration, during the last century.[3]

Timing in the development of the region was important, and until the First World War, the Greek economy was the most open and internationalised among the national economies. But, because of the collapse of trade, the country found itself in a similar position with the rest of the Balkan countries. A determination was shown then by Greece to foster formal co-operation with the neighbouring Slavonic countries, especially with regard to export trade of particular commodities.[4]

The agenda included proposals for a customs union and the setting up of a Balkan Tobacco Office (1932). Greece, Yugoslavia, Rumania and Turkey signed

[2] Berend I. T. & G. Ranki, 'Foreign Trade and the Industrialisation of the European Periphery in the XIX Century', in *The Journal of European Economic History*, 9, 3, 1980; Stoianovich T., 'The con- quering Balkan Slav Merchant', in *The Journal of Economic History*, XX/2,1960; N. Svoronos, *Le commerce de Salonique au XVIII e. s.* Paris 1956, and 'To historico ypovathro ton diavalkanikon scheseon' (The historical basis of inter-Balkan relations) in *Analekta neohellinikis Historiakai historiografias,* Athens 1978; Zakythinos, D.A., *The Making of Modern Greece: From Byzantium to Independence,* Oxford 1976.

[3] Among the most serious ones, was the Balkan Federation project envisaged already in the 18th century by the Greek intellectual Rhigas Velestinlis. The disintegration of the Ottoman Empire and the birth of the Greek nation-state inspired many other modernization movements in the Balkans. Several projects were also devised for rekindling a Balkan integration policy (e.g. the Balkan League in 1866 and again in 1912 or the 'Petite Entente' in the interwar years). Balkan cooperation was an integral part of Greek foreign policy as late as the interwar years, when the international exchange system had collapsed.

[4] In 1930 G. Papanastasiou, a liberal politician, headed a Greek initiative to organize the first Balkan Conference in Athens with the purpose of setting up the mechanism for promoting intra-Balkan trade, an integrative transport system and energy sharing. Between 1934 and 1938, over 56.3 % of Greece's foreign trade took the form of exchanges through clearing agreements (Jackson, M., 'Intra-Balkan Trade and Economic Cooperation: Past Lessons for the Future' in Petrakos, G. & S. Totev (eds.), *The Development of the Balkan Region*, Aldershot 2001, pp. 41–43, 46).

an agreement in 1934, and a permanent international council, a Balkan bank and a system of legislative co-ordination were put in place. Further attempts at co-operation were made in 1938 and 1942 but came to no avail and all expectations of common policies were thwarted when Greece joined NATO after the Second World War. The situation was eased in the 1970s and co-operation resumed during the last two decades of the 20th century, when most Balkan countries entered a period of transition to a free market economy and Greece became a EU-member.

Structure of the Balkan Economies

During this time, the scope of Greek business and influence was broadened, several factors having been responsible for the present situation. Among them the structure of the Balkan economies, but also European integration policy, in the making of which Greece participates, play an important role.

The structure of the economy inherited from the state-planned period in all Balkan countries was rather similar. A high percentage of GDP was generated by agriculture and industry (higher even compared with Greece, which of all EU countries has still the highest share of agriculture). Tertiary development has been very limited, and it is this sector, which has grown spectacularly in the last two decades. In terms of GDP per capita, Balkan countries range between 77 % and 11 % that of Greece (Slovenia and Albania respectively). Again, it must be noted that Greece's per capita GDP is only about 60 % that of Germany.[5] These indices are supplemented by per capita telephone supply and road density, reinforcing a picture of severe lags among these economies. A full picture would also include the role of Austria from the north, which exerts strong pull factors in regard to neighbouring countries like Slovenia. Greece from the south also exerts similar pull factors for her neighbours Albania, Bulgaria and so on. For Balkan states, economic interaction and strong relations with older EU-member-countries offer much needed experience and bring them closer to EU-membership. Greece, on the other hand, by virtue of its EU-membership, geographic and cultural advantages, seems to be on the way towards becoming a regional power. Greek enterprises may be considered the architects of this profile, structure, however, is not the only factor responsible for the present state of affairs.

Non-Structural Factors

Other variables have also been discerned such as:

1. Post-war trade patterns, which have changed: Greece seems to have been increasingly disadvantaged within the EU, especially during the 1990s.

[5] Petrakos, G. & S. Totev (eds.), *The development of the Balkan region*, Ashgate, Aldershot 2001. p. 13.

2. Western European members of the EU seem more preoccupied with internal issues and their domestic economies, on the one hand, and on the other, the potential for investment in the former Soviet bloc is rising. This leaves less enthusiasm for investing in SE-Europe (including in Greece).
3. Negative though these trends may appear, they have nevertheless functioned as incentives for the Balkan economies to come closer to one another and form economic alliances. There is also evidence that more intense interaction is already taking place between neighbouring countries (Slovenia, Austria and Italy, on the one hand, Albania and Italy, or Bulgaria and Greece, on the other). Although these efforts have not taken any fixed configuration yet, co-operation along the pattern followed by the Basel triangle or the Copenhagen-Malmo region is not impossible.[6]
4. Greece has had a history of faster development than most of the countries in the region. It is today, along with Slovenia, the most advanced in the group. It is a full member of the EU for over two decades and has also joined the EMU. Moreover, it perceives herself as a regional power, the agent bridging the gap between the west and the east, possessing the know-how to do business in the Balkans, and to function as the stepping stone or network core to the Balkans from the European Union.[7] Undoubtedly this brings back the standard historical perception of the Greek political and economic elite, one that is close to tradition, whereby the Balkans (and Turkey) was considered Greece's hinterland for the benefit of Greek business. Such feelings are today common in the north; Thessaloniki is still being considered the old hub of economic interaction and communication in the Balkans. Thessaloniki was until its annexation by Greece in 1913 a multiethnic and multicultural business centre with an externally oriented economy and with a strong industrial tradition. It has moreover been a strategic pole of attraction for investment from the whole Northern Greek and Southern Balkan territories. Local business elites today are motivated by the growth prospects of SE-Europe and engage intensively in cross-border initiatives. This strategy takes on a symbolic aspect when they specifically consider they have a 'personal relationship' with SE-European businesses.[8] Several hundred Greek businesses based in Macedonia have extended their operations northwards and have built important production and distribution networks. By doing so, they not only create development opportunities, but also diffuse new organisational and management patterns when employing and educating local staff.
5. Europe has in the last few years fostered new economic ties by allocating special EU resources and by helping the establishment of specialised institutions.

[6] Cooperation for the construction of a natural gas pipeline built through Bulgaria (Burgas) to supply Greece has resumed, after a short stalemate. The agreement was signed in March 2007 between Greece, Russia and Bulgaria, the latter already an EU-member since January 2007.

[7] This position has been also documented by Milica Zarkovic Bookman, *Economic Decline and Nationalism in the Balkans*, 1994, p. 168.

[8] G. Mylonas, 'Nothern Greece, Engine of the Greek Economy' *Kathimerini* (daily newspaper), various issues, 19.6.2005.

6. The idea of Greece functioning like a bridge for SE-Europe and the Middle East is generally shared by the rest of European countries, and it is a perception actively promoted by Greek governments.

Geographic Proximity

Apart from the general factors outlined above, there are more specific regional forces and conditions, which have acted as pull factors for Greek business to engage in nearby countries, especially after 1989.

1. The vacuum left by the collapse of the centrally planned economy; the relative weakness of local entrepreneurship; the shortage of local managerial and organisational skills necessary in a market economy: these were all challenges which appealed to Greek and other European firms, which found no difficulty entering the Balkan markets. Earlier entry in neighbouring countries was easier and cultural advantages are still strong, but with time, firms found they must also compete with non-European interests like Korean and other Asian ones.
2. Incentives provided by host governments were considerable ranging from favourable legislation for FDI to guarantees for the transfer of profits and capital (in case of liquidation). In the case of Greek firms, often these agreements were negotiated by Greek government officers on behalf of or with the participation of Greek businessmen.[9] Additionally, tax reductions are given while large government orders are negotiated (e.g. military provisions etc.).

Further advantages arising from local conditions have to do with the fact that even though these markets are not very big yet, the prospect of growth is real. Labour costs are much lower than in the rest of Europe. Transport costs are reduced because of geographic proximity. What makes the area particularly interesting in the case of Greek firms is that technology requirements are still modest, and therefore the size of the newly established companies need not be large. In view of the reduced capital requirements in combination with lower wages, Greek SMEs preferred to settle directly in the Balkan countries rather than work through contractual relations, although these are not absent either.

The conditions described above have included incentives for other European SMEs. In this respect, what emerges as a particular feature explaining the Greek success is the long history of smooth trade relations in the region, which have created a residual level of trust, on the one hand, and cultural reasons, on the other. If further liberalisation occurs, cultural affinity based on the history of the region may grow more important. The case of the Balkans is not unique in Europe. Other regions, for instance the Scandinavian countries and Finland, have been marked by similar affinities, which result in a common identity. Among Balkan countries

[9] Cf. Dritsas, Margarita, 'Business and politics: The state and networks in Greece', in T. Gourvish (ed.), *Business and Politics in Europe 1900–1970*, Cambridge, 2003.

geography, history and climate, fostered a '*certain unity'*, so profound that cannot be hidden by superficial phenomena of discord, unfriendliness and conflict.[10]

The past continues to shape perceptions of statesmen, intellectuals, businessmen and governments alike as Balkan states continue to engage in economic modernisation. What best illustration than what is suggested by the following Greek government sponsored advertisement in the American press.[11] The choice of target group should not surprise, since it appeals to potential investors who are wealthy Americans of SE-European origins. On the other hand, relations of dependency already developing between SE-Europe and the USA also explain the emphasis.

> An agent is needed, who knows the area, who can and does understand the people, their habits, their idiosyncracies, who can work within local customs and who can provide an example of political stability, democracy and economic growth. Greece is this agent.

Equally, the Greek President of the Republic was expressing a general feeling when in 2003 declared that '*Greek entrepreneurs investing in Serbia-Montenegro are not only looking after their private interests but also after the country's national interests, since they are facilitating the way of this country towards the EU*'.[12]

Greek Firms Investing in SE-Europe

In the last few years, along with the improvement of political conditions and the enhancement of stability, there is a growth of business activity and a proliferation of firms from Greece emigrating to the Balkans. The region is perceived as a new emerging market of 65 million people, and a special Reconstruction Plan for the Balkans of a total value of 550 million Euros was drafted for six countries. In addition to the economic potential that these countries represent, the Europeanisation of certain areas, e.g. Serbia-Montenegro, is important for strategic reasons. Rough estimates suggest that approximately 7,000 Greek, mainly family-owned, firms operate in the region employing several tens of thousands of manpower and a considerable number of Greek nationals. Most of them are to be found in industry, banking and more generally services with utilities also figuring high on the list of investors.

On the whole there is an increase in FDI to SE-Europe and usually the origin and nationality of investors is taken as the criterion, although distinctions are sometimes difficult to make especially when one looks closer at firm co-operation.

The distribution of FDI is far from even, with Bulgaria, Croatia and Rumania enjoying about 60 % of FDI coming from the EU. In contrast, Macedonia, Bosnia and Herzegovina, have received much more from the Near East. A significant part of FDI comes from outside the EU, in many cases investors often come through Cyprus or Liechtenstein but are domestic firms or individuals from the same countries where FDI moves, or of Russian origin. No exact figures are available.

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[10] Cf. N. Iorga, Roumanian historian quoted by Bookman, 1994, p. 169.
[11] *N.Y. Times*, No.11, 1992.
[12] *Eleftherotypia* 16.10.2003.

Manufacturing has been the most important activity, with over 45 % of invested capital. Trade, telecommunications, energy and financial services follow. Most FDI is orientated towards local market demand (e.g. electrical equipment producers expect commissions from government financial investment in the energy sector), although not exclusively. Export-oriented ventures are also important, but focus on traditional products such as food, clothing, shoes, furniture and building material.

A representative case is MEVGAL S.A. a family run dairy producer which, having completed 50 years of operation in Greece has since 2000 invested capital worth 1.46 million Euros in Bulgaria for the complete acquisition and modernisation of a cheese production unit in Veligrad (Bulgaria). Interestingly enough, MEVGAL has had a prominent presence in northern Greece, where 65 % of the raw material used (i.e. milk) is produced. MEVGAL is the third largest dairy producer in Greece, occupying eighth position in the market for industrially produced food and 40th in the total of Greek firms in terms of turnover.[13] Another dairy group, also family owned and run, Delta Protypos S.A., and a series of affiliated companies targeted Bulgaria, Rumania, Serbia, FYROM and Ukraine (the latter as a stepping stone to the Russian market). According to some estimates, their turnover abroad represented 9 % of the group's total in 2003. It operated three factories in Bulgaria, Serbia and Rumania and an established chain for refrigerated products. It also owns transport facilities and storehouses. Since 1996 it has considerably increased the sale points of ice cream Delta abroad and recently has expropriated minority interests controlling currently 99 % of the Stara Pazova ice cream factory near Belgrade. In Montenegro, Delta founded the Delfor sales and distribution company, which has the exclusive distribution of the Greek Chipita products (biscuits, cakes, croissants etc.). One of the companies of the Delta Group, General Food S.A. producing under the brand BarbaStathis, has founded an affiliate in Bulgaria (Uncle Stathis Food) and invested 9 million Euros for the construction of a factory freezing fresh vegetables in Plovdif. There are also plans to use the Delta ice cream distribution network for the promotion of specially packed vegetables in Bulgaria and Rumania.

Just like other European firms, MEVGAL and DELTA are typical Greek – and European – medium-sized family firms, now in their second or third generation and with a tradition of national importance. They are typical of the large majority of Greek firms, which, especially in northern Greece, have grown in size and expanded into larger neighbouring markets in order to survive.

In the food sector, another firm, Chipita International, shows a different pattern. It has invested abroad, partly in SE-Europe, when its exports from Greece started to go down by founding a SE subsidiary, Chipita East Europe, controlled by its holding company, Chipita Participations Corporation. The latter, a Cypriot firm consists of several investors with wide interests in the region and in Russia. Chipita Participations controls 51.5 % of Chipita East Europe, in which Delta also owns 12.5 % and the Saudi Arabian Olayan Group 4.5 %. This firm has more characteristics of a large

[13] *Oikonomiki Viomichaniki Epitheorisi*, December 2002, p. 80.

multinational enterprise, with a network of investors and wider interests, targeting big markets extending as far as Russia, the Middle East and Latin America. Chipita International is a 40 % stockholder of Matutano Sociedad Productos Alimentares. The latter is an affiliate of Snack Ventures Europe, a consortium between Frito-Lay (belonging to the Pepsico group) and the American multinational food company, General Mills. In 2000, Frito-Lay invited Chipita to form a consortium for the production of croissants in Mexico as a first step towards expansion in Brazil and Argentina. Chipita International thus participates in the American Snack Food (35 %). The second partner is Gemesa, a Frito-Lay affiliate in Mexico (65 %). In 2001, a plant was established in Monterrey, absorbing 13 million dollars. Earlier, in 1997, Chipita International acquired 25 % of Edita and collaborates with a prominent entrepreneurial family of Egypt, also owning interests in textile and food production. An extension into Turkey is probable and Chipita CEOs have clearly stated that they are not affected by any nationalistic problems. Politicians, they added, are on the right path towards solving these problems, and Chipita is ready to conclude business deals when the opportunities arise. Quite symptomatically, Chipita already exports to Turkey, but through its Bulgarian affiliate. At the same time, Chipita branches have also been established in Germany and in Italy (Bologna). Both types of Greek/European firms, SME family-owned firms and large multinationals are thus involved in FDI in the Balkan region.

Banking

Bank privatisation in many Balkan countries has been one of the main driving forces of FDI inflows. During the last ten years, Greek banks have invested in the same sector, amounting in all to over 750,000 Euros in SE-Europe, mostly in Bulgaria and Rumania, while Greek banking investment in Serbia is estimated at 330 million Euros. Greek banks control today 13 % of the regional market and employ both local and Greek staff. Usually Greek expatriates staff all top managerial positions. Serbian banking expanded as industrial production and consumption demand grew. The 39 Serbian banks are expected to increase their assets by 30 % (reaching 8.5 billion Euros). Eleven of them with central offices in Belgrade are already controlled by foreign groups, led by the Austrian group Raiffeisen.[14] Six national banks were recently sold to foreign investors, while in 2004 Serbia attracted almost 500 million Euros of capital invested in banking in SE-Europe.[15]

The National Bank of Greece has been a protagonist in the Balkan periphery. In 2003, a 22.5 % of total gross profit came from banking business abroad, and almost half of that from SE-Europe. It was estimated that it could be trebled by 2008. The NBG has invested over 400 million Euros and is the owner of the United Bulgarian

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[14] A bank with origins in early 20th century German cooperative movement and savings banks. It has inspired the French Credit Agricole, which is also present in the region.

[15] *Business File*, (monthly Newsletter for SE-Europe) Kerkyra Publ., 2002–2005, May 2005, p. 6.

Bank (UBB), Stopanska Banca in FYROM, Banca Romanesca in Rumania and NBG Cyprus. The National Bank of Greece has already established 15 branches, which is expected to rise to 30 until the end of 2005, while Albanian and Serbian networks are in the process of construction. NBG is today the fourth largest bank in the region after the Austrian group Raiffeisen – Bank Austria, the Italian Unicredito and the French SocGen. NBG banking in the region represents 4 % of the total and is expected to rise to over 7 % by 2008. Its activities focus on retail banking, an area where experience was obtained from the Greek market and is now being transferred northwards, but depending on the progress the organisation makes, plans include offering the whole range of banking products for which the NBG is known in Greece. Within this framework a special group was founded by the NBG in 2003 with the exclusive purpose of systematically transferring know how from the Greek headquarters

Two more private Greek banks have operated in the region. Alpha Bank, the largest private Bank in Greece has affiliate companies in Cyprus, FYROM and Rumania and has branches in Albania, Bulgaria and Serbia. Within the Serbian privatisation scheme, Alpha Bank was selected to submit a final proposal for Jubanka, the fifth larger general bank in Serbia. As for performance, in 2003, Alpha Bank announced that its units in Albania, Bulgaria, FYROM, Rumania and Serbia increased their deposits by 27 %, while credit went up by 47 % and profit by 27 %. Strategically, however, the policy was relatively low-risk since most of the business was done with Greek customers of the bank investing in the region.

The third Greek bank, EFG Ergasias Eurobank, had an alternative strategy in SE-Europe, equally cautious – using different risk-aversion tactics in the short run – but also with the ambition to become a top regional bank with a customer base exceeding 50 million people. It aimed to use the experience gained in Greece during the last 10 years in relation to the development of banking during the process of economic integration in the EU. Within this process, it acquired several post office savings banks, which were privatised while enjoying large deposits, a wide customer base and limited lending. It targeted Bulgaria and Rumania as a medium term investment plan and Serbia as a longer-term venture. Eurobank introduced technological modernisation in these countries, homogenising its network along the lines followed in Greece, where the back office was converted into a sales office. It has also initiated corporate lending and risk management services. EFG Eurobank is a candidate for the sale of 82 % of Novosadska Banka and 98 % of Continental Banka, and is competing with the Austrian Erste Bank, the Italian Unicredito for Novosadska Banka and with Ova Ljubljanska Banka for Continental. Eurobank, among the youngest of Greek banks expanding in SE-Europe, exhibits a less pronounced sense of national interest and identity than in the case, say, of the National Bank of Greece, which is the oldest Greek bank and has maintained particularly tight relations with the State for almost a century. More European in its outlook, this bank has a very different attitude with a long-term regional strategy. As one Eurobank official put it: '*The EU convergence process offers many opportunities for profit increase. If the Bank captured them and used them correctly, it could build a strong regional company*

instead of just a national organization.'[16] The statement is corroborated by IMF's assessment of the impact, whereby FDI in the Balkans has marked '*the beginning of more standardized banking such as lending to really private Cos*'. Margins for lending are quite high in the region, since the ratio of loans to GDP is much smaller compared to the equivalent in the EU.[17]

Utilities

In the utilities sector, the Greek OTE (Hellenic Telecommunications Co.) has also invested in the region. OTE was founded in 1949 as the first public utility firm in Greece. It became a national agent responsible for all telecommunications previously controlled by the Ministry of communication, the Greek Telephone Co. and the Rhodes Power Co. Its spectacular growth during the 1960s coincided with Greece's special affiliation to the Common Market and later with her full membership of the European Community. OTE also benefited initially from generous American capital inputs and gradually from large inputs of European capital. Beginning in 1996, a process of privatisation was set in motion with the release and floating of packets of shares. As the process was intensified, OTE starting in 1998 began to turn to foreign markets and to compete internationally. Its total capital invested outside Greece is today 1.5 billion Euros, with different levels of participation and/or acquisitions in Albania, Armenia, Bulgaria, Rumania, Serbia, and Ukraine but also further afield in the Middle East (Jordan, Yemen, etc.). These range from 20 % (Telekom Srbija) to 100 % (Cosmo Bulgaria Mobile previously Globul and Cosmofon Mobile Telecommunications in FYROM).[18]

Similarly the Greek DEH (Public Power Corporation), still very much a national monopoly, began to change its strategy and to expand in SE-Europe. Bulgaria and Rumania are considered prime targets while locally, in Greece, the pressure is mounting for its privatisation, break up and creation of several smaller private firms. In Rumania, three energy systems of a 5,870 MW capacity are being privatised, and in Bulgaria a 2,290 MW complex will be sold. Since in Rumania lignite deposits are considerable, the Greek DEH is well placed because it has expertise since the basis of Greek electric energy production is lignite to the tune of about 80 %. Scale economies in energy production and regional networks are very important and neighbouring countries are an obvious target for DEH in its strategic planning. At the same time, Kossovo, FYROM and Albania complete the map of potential expansion with thermoelectric and hydroelectric production plants as well as management of energy distribution networks by Greece. With the introduction of a free economy in SE-Europe and the fact that Greece already imports energy both

[16] EFG Eurobank-Ergasias, *Annual Report* 2003, and *Oikonomiki Epitheorisi*, October 2004, p. 49.
[17] *Business File*, April 2004.
[18] Information on recent developments is drawn mainly from *Business File*, a monthly Newsletter for Greece and SE-Europe, Kerkyra Publications, various issues.

from Rumania and Bulgaria, the prospect of an integrated energy market creates additional incentives for Greece and DEH as regional actors.

In Bulgaria, utilities are also being privatised and passing into the hands of foreign owners. Bulgarian Telecommunications Co. sold 65 % of its share to the American Advent International Corporation in 2004. In January 2005, the remaining 35 % still owned by the Bulgarian state was floated on the stock market. Mobile telecommunication has grown, covering almost 95 % of the population. The main firm MobilTel is controlled by Telekom Austria, while a second firm Globul is owned by Greek Telecom.

Services

Tourism is one of the most important sub-sectors of Greek services. While scant evidence exists about the expansion of tourism businesses, there are indications that the expansion of Greek firms will not be delayed. Already in Albania, Hyatt Regency, one of the big international tourism corporations, has acquired an exclusive 15-year permit to operate a casino in Tirana. The agreement was signed in the framework of the decision by the Albanian Government to promote gambling in the country. Hyatt owns 51 % of a consortium with the local owner of Tirana Hotel and will invest 20 million Euros. Negotiations and mediation for the acquisition of the license were carried out by the Gaming Investment Overseas Co., owned by the Greek Laskaridis Group to a proportion of 60 %. The same group owns and runs another two casinos in Greece. (Thessaloniki and Mont Parnes).[19]

Another venture, which highlights the situation, is the establishment in Bucharest of a Business Advisory Corporation, ‘Response International’. It is headed by Greek experts and has settled there in the year 2000. It works within the international network of Stanton Chase International specialising in the assessment, education and selection of personnel for Greek firms and multinationals in the area. Its customer list includes most of the big Greek corporations, especially banks, utilities and fast moving consumer goods companies. All such firms recruit middle managers locally, but Greek staff occupy all ‘key positions’, i.e. transfer of technology, plant management and less frequently sales positions, marketing and economic services. Multinational firms and Greek groups such as the Loulis Group (flour industry and foodstuff), Star Foods etc. also employ Greek executive officers.

Most of these managers confirm that there are many similarities between SE-Europe and Greece and this is a positive factor in the process of their adjustment to the new environment, which is much easier compared with that experienced by other Europeans. Similarities are not restricted to the work environment, but also include conditions in which Greek firms seem less unwilling than other European ones to engage. They range from relative economic instability to a high-risk and fast-changing business environment, where flexibility is an asset. According to

[19] Ibid. p. 11.

one report, *'executives have to think fast, make swift decisions, often by-passing company procedure, be flexible, look for profit situations and prepare new cadres'*.

Conclusion

When Greek enterprises started to expand in SE-Europe, they faced conditions much more difficult than they expected, mainly because of economic and political instability. Delta Dairy, for example, started operating in Serbia just before the Kossovo bombings started. The National Bank of Greece bought the largest bank in FYROM a while before the economic collapse as a result of the civil war. This caused her to delay entry in Rumania. Alpha Bank was late to enter Serbia because it took it much longer to build a network in Rumania. Regardless of size and national or international outlook of the firms, risk-taking seems to be inherent in the new strategy they have to follow if they want to compete effectively with more efficient antagonists in the larger EU.[20] If their size domestically is small, it is only through the new market potential that they can grow and remain afloat.

Looking at the historical experience of the region, Greece emerges as a pioneer of Europeanisation for the Balkans. At the beginning of the 21st century, Greek businesses have assumed a similar role for the regional economies. Greek FDI, although exhibiting national characteristics, bears at the same time strong European features and may pave the way towards homogenisation of the area through the establishment over time of more European firms. At the same time, Greek companies seem to maintain their versatility, being at one and the same time obliged and capable to operate in the European Union like European firms while they must operate like national firms in the emerging regional markets. The impact on the Greek economy is varied, since on the one hand, it implies faster rates of de-industrialisation of the North with consequent rise of unemployment, and more general restructuring of the Greek economy with increasing weight of services.

[20] Most of the figures presented are drawn from a special issue entitled 'Greek investment abroad' in *Oikonomiki Viomechaniki Epitheorisi* (Economic Industrial Review), October 2004, pp. 38–51.

Did the Progressive Absorption of the French Paper Industry Create European Firms?

Marc de Ferrière le Vayer

The story of the pulp and paper industry is always told as one involving a global industry with a few giant enterprises. Such a description is false, even at the beginning of the 21st century. In fact, this branch was dominated by national champions in individual countries in Europe and even in North America. The trend from the 1960's onward was to enter foreign markets, and to improve vertical integration.

Such vertical integration relies for the most part on gaining control of raw materials, i.e. forests for the pulp until the 1980s, and then used paper and board to produce recycling paper. This gave a competitive advantage to Nordic countries and Canada.

The French market is an interesting case as some companies were integrated in this way during the whole period under consideration here, whereas others bought their pulp in foreign countries.

Between 1960 and 2000, French pulp production moved from a world ranking of ninth to tenth in terms of output, while French paper production climbed from seventh to sixth place. This shows that French pulp and paper industry was able to preserve its position as a producer.[1]

However, there is a big difference in the structure of this industrial branch between those two dates. At the end of the 1950s, more than 90 % of all companies were family owned. In year 1997, more than 80 % of the French paper industry was property of international big paper companies (Table 1).

The share of the United States, the Nordic countries or even Great Britain is not surprising. The large place of Irish industry is more impressive as it was a country without forest. This is the family firm Smurfit, the biggest world packaging Company which plays also a leading role in French paper industry.

The aim of this paper is to try to explain why and how this happened, as it seems to be peculiar to France. Neither Germany, nor Great Britain could achieve such a modernisation. Germany no longer belongs to the top ten pulp producers, and the same is true for Great Britain. Through this story, we try to explain if such a change

[1] Additional information on the French pulp and paper industry since 1945 may be found in my book Ferrière le Vayer, Marc de, (2006) *De la fin des familles à la mondialisation, L'industrie papetière française depuis 1945*, Orléans, ENP éditions.

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Table 1 Ownership of French paper industry in year 1997[2]

Annual turn-over by shareholder's Nationality in %	
North America	**27, 1**
US	23, 4
Canada	3, 7
Nordic Countries	**20, 6**
Finland	10
Sweden	8, 3
Norway	2, 3
EEC	**34, 6**
Eire	19, 7
UK	13, 1
Italy	1, 4
BRD	0, 4
France	**17, 7**

in ownership created European firms or not, in the sense of Martin Iversen when he writes "about Danish companies becoming more European".

French Paper Industry from World War Two to the 1960s

In the period after 1945, the French paper industry was not on the way to modernisation. Except for some rare companies, i.e. Béghin, Papeteries de la Chapelle, Darblay, the whole branch was in the same economic condition as it was during the inter-war period. Post-war reconstruction and US financial help were not enough to modernise the branch (Table 2).

As shown in Table 3 productivity remained low during 1950s and 1960s. The reason was that firms did nit have money to invest and to modernise mills and paper machines. They were far too small, and they were undercapitalised. As most of them were family owned firms, they did not want to borrow because they feared the bankers would take over control of their firm.

The result was that the number of mills remained high, but was slowly decreasing along with employment (Fig. 1). Such an evolution was not a real modernisation.

Table 2 Comparative productivity, France/US 1951

Paper grade	US	France
Newsprint	135	53
Other Print paper	44	15
Kraft Paper	91	47
Board	167	30
Kg/hour/worker		

[2] Since 1997, foreign shareholders increased their control over the French pulp and paper industry. Two big companies were acquired, La Rochette in 2002 and Otor in 2005.

Table 3 Productivity per hour, 1949–1966

Year	Kg/worker/hour
1949	15,8
1951	19,3
1955	23,4
1960	33,2
1966	46,3

Small factories with obsolete paper machine closed, but not in sufficiently numbers. Too many new medium-sized mills opened at the same time. (Table 4)

For example, in 1961 563 paper machines were running. Only six of them delivered more than five tons of paper per hour, and 330 could not reach 500 tons of paper per hour (Fig. 2). This explained the very low rate of productivity and competitiveness. The main reason of such a situation came from a very protective policy, with quotas for newsprint paper and with very high taxes for all other paper grades. Small and very small mills could survive in such a situation.

At the end of the 1950s, a number of factors changed things. The creation of the EEC and the subsequent disappearance of many tariffs constituted one of them. Additional factors included the new European Free Trade Association founded by Great Britain with the Scandinavian countries and the Kennedy Round of the General Agreement on Tariffs and Trade (GATT). These posed a big threat to the French paper industry.

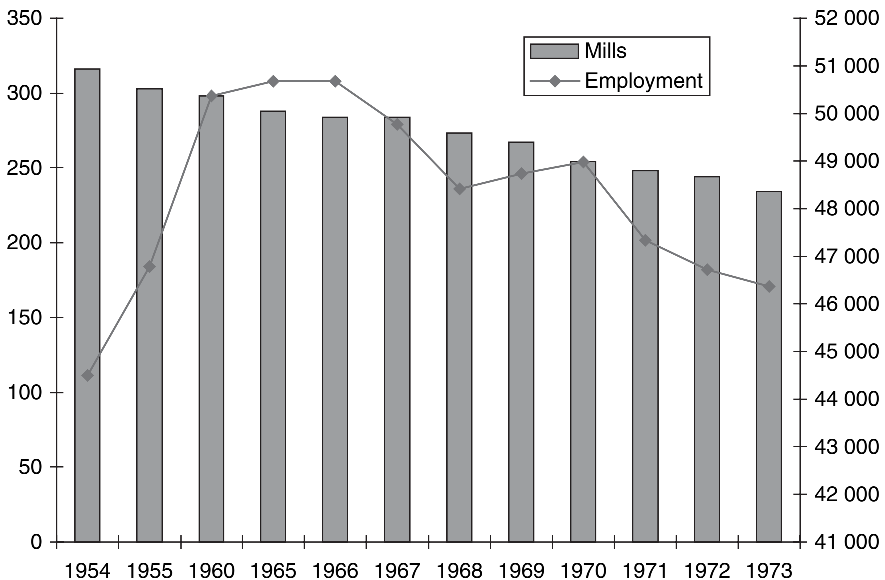

Fig. 1 Mills and employment, 1954–73

Table 4 Number of mills running by annual production in metric tons

	< 5 000 mT	<15 000 mT	<50 000 mT	<100 000 mT	>100 000 mT
1955	211	57	18	3	2
1960	171	75	34	3	3
1965	148	79	41	6	4
1966	139	81	44	6	4
1967	137	80	46	8	4
1968	125	78	47	9	4
1969	113	72	55	11	5
1970	96	69	62	10	6
1971	90	69	61	11	6
1972	89	59	68	9	8
1973	73	58	73	13	7

The administrators of both the industry and its syndicate were divided. The vertically integrated companies produced paper with their own pulp. In order to continue, they needed tariffs since French pulp was more expensive than Nordic pulp. The small companies whose mills and paper machines were often obsolete wanted the suppression of tariffs and quotas. They believed that with cheaper pulp they would be more competitive, and they could continue to sell board and paper at prices high enough to generate profits.

The fight between the two opinions was so intense that Unipac, the employers' association, could no longer function and disappeared. There was no employers' association in the French pulp and paper industry between 1959 and 1963. At that point, we can clearly see that French pulp and paper industry was not a European

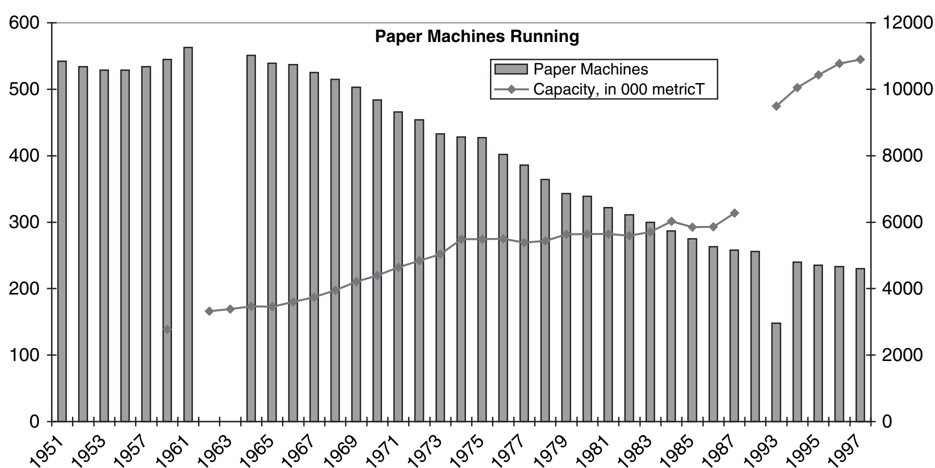

Fig. 2 Number of French paper machines and total capacity of the branch

one. French situation was exactly the contrary of the Norwegian one,[3] but very similar to the Spanish one.[4]

First Moves: 1960 to 1970

The chairmen of the big French companies were aware of the two problems the industry would face. The first one was to deliver products that could be sold, i.e. ones that were adapted to the market. For example, at the beginning of the 1960s, no French mill produced coated board, and no French mill produced coated printing paper. Béghin owned the Champion patent for coated board, but it used it only in one mill established in Kenitra, Morocco, in order to test the product on the local market. But it did not produce such a grade in France before 1962. The French customers began to ask for new products, as did US customers: e.g. coated newsprint paper in order to have colour photos and better quality of printing, or coated board because packaging and marketing became the most important vector for sale in the new self-services shops. As the economy grew, the need for corrugated paper expanded too, but not deliveries. Urban customers, especially young people living in towns, asked for tissue paper, toilet paper, domestic paper and so on. As no mill produced tissue paper in France before 1967, there was shortage.

During 1967, Béghin started operation of a new mill in Kunheim, in the east of France, and offered two new brands, Lotus and Vania. Those two brands became leaders on their market, toilet papers in the first case and women's care prodcuts in the second.[5]

This same year, the Darblay family, one of the biggest entrepreneurial families in paper and one of the most ancient in French paper industry, established a joint venture with Kimberly-Clark. This could be seen as a symbol of the relative weakness of French industry. Even Darblay, company a hundred years old, could not enter this new market alone. The family needed the financial help and the technical knowledge of Kimberly-Clark. The new company was called Sopalin, and it built a mill near Rouen, on the Seine River and delivered house tissue with the brand name Sopalin and facial tissue with the brand name Kleenex. As Kleenex was and is one of the most well known brand names, Sopalin was specifically created for the European market.

During the next two years, other paper companies tried to enter this market, but not on the same scale because it was too expensive. Only the Béghin-Say Company could achieve a success alone because its sugar activities gave it the cash needed for such an investment.

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[3] Sandvik, Pål Thonstad, in this book.

[4] Puig, Núria, Álvaro, Adoración, Castro, Rafael, in this book.

[5] Ferrière le Vayer, Marc de, (1998), *Les 5 vies de Corbehem, l'Histoire d'une usine, de Béghin à Stora Enso*, Douai, Pagine.

The second problem to be solved by the French pulp and paper industry was the modernisation of the structure of the branch in order to compete against foreign paper firms. Thus, a number of mergers and acquisitions took place with the goal of building companies with a capacity of at least 100,000 metric tons per year. The first "big" merger occurred in 1956, when Papeteries d'Arches (est. 1492, Vosges), Papeteries Johannot (est. ca. 1560, Ardèche), Papeterie du Marais (est. 1828, Seine et Marne) and Papeteries de Rives (est. 1561, Alpes) created Arjomari. This new company had a capacity of 40,000 metric tons in five mills, but it remained small in comparison either to the big French ones, or to the European and American ones.[6]

During the 1960s, La Rochette, La Cellulose du Pin, Papeteries Navarre, Aussedat-Rey and Arjomari merged with numbers of small companies. The goal remained the same, to reach a capacity of 100,000 metric tons per year per company. Such mergers entailed closing older factories and stopping use of the oldest paper machines or board machines. For example, Papeteries Navarre shut down Sorel-Moussel Mill in Normandy in year 1968, an historic mill where the first French Fourdrinier machine was installed in 1816.

Such an evolution could be a path towards modernisation. Copacel, the new French employers' association, estimated during the 1960s that mergers and acquisitions were too slow. But, if we look at the future of the new firms, we have to point that lot of them have financial problems because of the merger. It was not the right answer because mergers concerned mostly companies with financial difficulties.

The best example is that of Papeteries Navarre. One of the most important French companies in term of technical capacity, its chairman was also chairman of Copacel. He also gave advice to the French government during Uruguay round of GATT in order to protect French paper industry. At the beginning of the sixties, Papeteries Navarre was one of the five most important pulp and paper French companies. Ten years later, the firm went bankruptcy because it had been involved in too many mergers and acquisitions and had too high a level of investment.

The Difficult 1970s

In 1973, French paper branch was not able to face the crisis. The paper companies remained too small even compared with European one (see Table 5). With the new economic situation and the energy crisis, they didn't earn enough cash to modernize as they lose some of their greater clients. Béghin should buy part of its greater client in order to save some of its debts. Moreover, a commercial war began between US pulp producers and Scandinavian pulp producers to conquer European market. For the French producers it was a disaster.

Papeteries Navarre declared bankruptcy, Papeteries de La Chapelle and Darblay merged to form la Chapelle-Darblay, mainly owned by Paribas and Idi, Institut de développement industriel, a state structure. Between 1972 and 1982, this new com-

[6] Darnaud, Carole, (2000),*Rives, la mémoire du papier*, Grenoble, PUG.

Table 5 Top 30 pulp and paper companies in the EEC in 1969

World Ranking	Firm	Country	Turn Over in Million Francs	Employment
5	Zellstofffabrik Waldhof	Ger.	909	10 074
	Béghin	**Fr.**	**858**	**5 548**
12	**La Chapelle-Darblay**	**Fr.**	**643**	**3 389**
16	Aschaffenburger Zellstoffwerke	Ger.	515	
18	Cartiere Burgo	It.	429	
19	Papeterie de Belgique	Bel.	423	3 000
20	**Rochette-Cenpa**	**Fr.**	**367**	**4 474**
21	Kononklijke Neder Papierfabriek	Nl.	356	2 801
22	**Cellulose du Pin**	**Fr.**	**348**	**2 415**
23	**Arjomari-Prioux**	**Fr.**	**321**	**2 721**
24	**Groupement Européen de Cellulose**	**Fr.**	**316**	**495**
25	Heinrich Nicolaus	Ger.	295	
26	**Papeteries de France**	**Fr.**	**288**	**2 565**
27	Cartiere Riun. Donzelli, E. Meridionali	It.	272	
28	Intermills	Bel.	241	2 536
29	**Papeteries de Navarre**	**Fr.**	**227**	**3 128**
34	Cartiere des Timavo	It.	176	
35	Cartiere Tolmezzo E. Prealp	It.	170	
36	Cartiere Italiane Sertorio Riunite	It.	161	
37	Cartiere di Verona	It.	146	
39	**Aussedat-Pont-de-Claix**	**Fr.**	**144**	**1 052**
40	**Papeteries de Gascogne**	**Fr.**	**134**	**1 324**
41	Cartiere di Cairate	It.	121	
42	**Lafarge Emballage**	**Fr.**	**115**	**994**
44	Denayer	Bel.	109	1 300
46	**Papeteries de la Seine**	**Fr.**	**107**	**1 054**
49	Cartiere Miliani Fabriano	It.	74	
50	Cartiere di Ascoli	It.	70	

From *Lettre de Copacel*, N°70 décembre 1970. « Classement des 1000 premières entreprises de la CEE en 1969 ».

pany never made a profit. Her debts reached 1.4 billion francs, with a stock of 180 millions francs and a turn over of 1.4 billion francs. La Cellulose du Pin survived with the help of Saint-Gobain, the owner of the company, and Béghin began losing money as the sugar activity could no more sustained the paper one. We could give lots of other example of the bad situation of French paper industry. As shown in Fig. 3, the number of mills and employment levels both decreased rapidly.

Tissue paper producers suffered a lot. Arjomari sold this activity in 1976, Cellulose du pin in 1977 and, in 1979, Sopalin became 100 % subsidiary of KC. The Darblay family could no longer pay for it.

Such a financial situation gave foreign companies the opportunity to acquire some firms. Saint Regis Paper (US) bought 20 % of la Rochette in 1973, Sodipan, a Finnish firm acquired Arjomaris's tissue subsidiary, Mölnlycke acquired sanitary

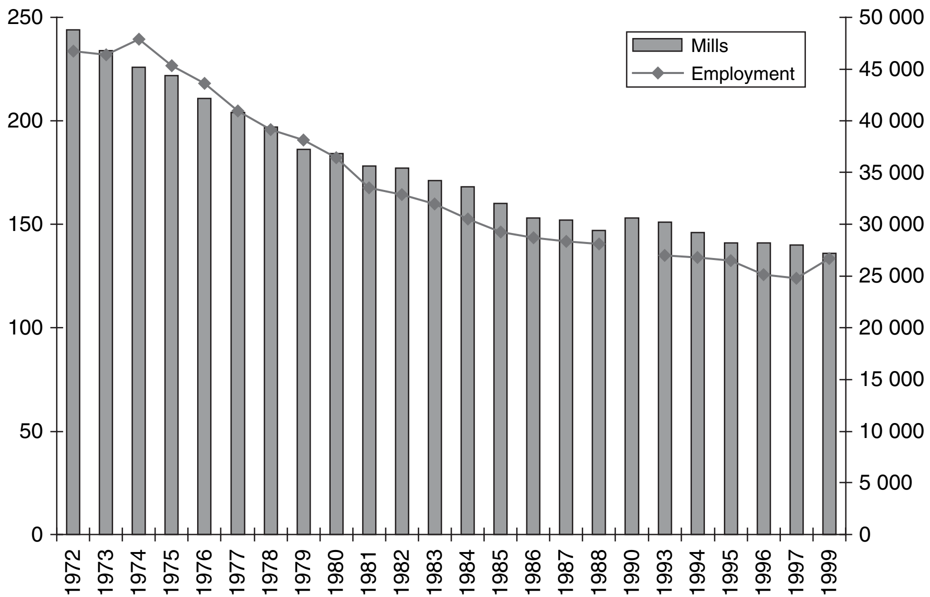

Fig. 3 Mills and employment, 1972–99

division of Cellulose du Pin in 1979 and Modo Paper bought Groupement Européen de Cellulose (GEC) in 1980 after the latter declared bankruptcy.

Those acquisitions were made mostly by Scandinavian companies. But there were no European paper firms in France yet. They acquired subsidiaries in order to enter the French market. They modernised the mills and the paper machines, and they acquired or created commercial division to sell their products in France. They did not build integrated companies with the goal of adapting to the European market. Most of the previous French administrators remained at the head of mills or subsidiaries in the acquired firms.

The End of the 20th Century

With the 1980s, the trend towards a French paper branch under foreign control grew. At the beginning, it seemed that North American firms would have the lead. In 1985, Cascades (Canada) bought La Rochette's Board Division, with two mills and 300,000 metric tons of capacity. In 1986 La Chapelle Darblay bought France's biggest newsprint paper company. Scott Paper operated a new mill near Orleans, and James River bought the tissue division of Compagnie de Kayersberg, from Béghin, in 1987.

In 1988, the family owners decided to sell Aussedat-Rey to International Paper. It was a surprise for the whole paper industry and for the French government. The family explained it could no longer support the financial cost of the development

of the company and that no firm in France was able to acquire it. The entry of International Paper on the French market might appear as the triumph of the North Americans. But it was the end of the inflow of investment from there.

European companies now took the lead. In 1989, Béghin's writing paper division was sold to Feldmühle, the biggest German firm, which was then sold to Stora, a Swedish one, in 1990. This same year, Arjomari perceived a need to expand its size, but it could not find a partner in France. The firm decided to merge with Wiggins, a British firm and Appleton a US one. Together, they formed the British-based firm Arjo-Wiggins.

After Stora acquired Béghin-Feldmühle, most of the Scandinavian companies invested in France. Kymmene bought La Chapelle Darblay (print paper) in 1990, Ahlstrom bought Sibille (tissue paper) in 1992 and SCA acquired Sept Industrie (tissue paper) in 1995. British firms also entered France starting with David Smith Packaging, which acquired Compagnie de Kaysersberg (board) in 1992. The most important acquisition was made by Jefferson Smurfit which bought La Cellulose du Pin, the French leading packaging company, in 1994. The sole large firm remaining in the hands of French shareholders at that time was La Rochette. The Crédit Agricole, the main shareholder of La Rochette could not sell it because it would lose too much money. Still, the Spanish Saica and the British Mondi acquired this firm in 2000, at a time when it was cheaper to acquire an existing mill than to build a new one (Table 6).

Still, when there was no company available to acquire, Scandinavian companies built new mills. For example, Norske Kog installed a first newsprint paper machine in Golbey, Vosges, in 1992. Its capacity was 230,000 metric tons. A second one was built in 1999, with a capacity of 330,000 metric tons.

How do we explain the desire of foreign firms for a presence in France? There are two main reasons. First of all, the mills were in good condition, with relatively new paper machines and efficient personnel with good know-how. The world research centre of Ahlstrom was built near the Pont-Audemer Mill, for example, because there was good technological knowledge in France.

The second reason was the market. France became a great market for all grades of paper and is geographically a good location. Norske Skog's Golbey produced not only for the French market, but also for the German one. Stora Enso Mill in Corbehem, Ex Béghin, delivered paper to the big print shops of the north of France as well as to those of Belgium.

But the most important thing in my view is that this trend was not limited to France. I think that we are in a process of building some versions of European paper firms. The first element to confirm this idea was the market. On one hand, the paper market in Europe, mostly in the EEC, was unified. On the other hand, the investments for building a paper machine were even higher. The companies could no longer focus just on a national market to amortise such amounts. For example, it cost between 200 and 300 million Euros for a new paper machine with a

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[7] Otor is still a French company, but the first shareholder is an American fund, Carlyle.

capacity of 200,000–500,000 tons of paper per year. To take a specific example: the brand new paper machine built by Emin Leydier in Nogent-sur-Seine (France) in 2005 cost 170 million Euros and had a production capacity of 300,000 t/year.[8] Actually, the firm had to specialise on a particular paper grade in the mills and for the paper machines, and to sell the production of that grade into the whole market. Stora Enso did this with the two mills in Corbehem in northern France and Landenbrugge in Belgium. Each mill produced one grade of paper, and they are thus complementary.

The second element which might be seen as evidence confirming the reality of European paper companies are the men who lead them and the strategic decisions they make. Boards of companies are no longer national. Stora Enso is a good example. In 2006, the CEO of the French subsidiary is a Frenchman. He succeeded a German CEO. The current CEO of the mill of Corbehem is a German. The former CEO of Corbehem, Frenchman J Grassin, is from now senior vice-president of Stora Enso publication papers. The same type of pattern applies to Smurfit and Cellulose du Pin.

Table 6 Ownership of some French firms

Name in 1963	Today's Owner	Country
La Rochette-Cenpa	Saica/Mondi	Spain/G B
	Cascades	Canada
	Tembec	Canada
Béghin	Georgia Pacific	US
	Stora Enso	Finland
Papeteries Navarre	Closed	
Papeteries de France	International Paper	US
	Stora Enso	Finland
La Cellulose du Pin	Smurfit Kappa Group	Eire/Netherland
Darblay	Kimberly-Clark	US
Arjomari	Arjo-Wiggins	G-B
Papeterie de la Seine	Smurfit Kappa Group	Eire/Netherland
Papeteries de Gascogne	Papeteries de Gascogne	France
Papeteries de la Chapelle	Otor	France[7]
	UPM Kymmene	Finland
Papeterie de Kaysersberg	David Smith Packaging	G-B
Papeterie de Pont-Audemer	Ahlstrom	Finland
Papeteries du Limousin	Smurfit Kappa Group	Eire/Netherland
Papeterie de la Robertsau	International Paper	US
Papeteries de Vizille	Closed	

[8] « The Emin Leydier mill in Nogent-sur-Seine » in *La papeterie export,* N°274, Février mars 2006, p. xiv.

Conclusion

In conclusion, is it correct to see European companies in the pulp and paper industry? Before 2000, we could contend that the unification of the European market brought with it the building of European companies, with European boards and a global vision, instead of national companies, with national boards and local market. This development was not enough to say that French paper firms became European companies. In fact, they merged with other companies to survive and most of those foreign companies were European. As for the Norwegian aluminium companies, we could ask if they are European or western firms? If we wrote this paper six years ago, we could answer that the new paper companies were European ones

Since 2004, things are changing quickly. Globalisation seems to be changing the paper industry fundamentally with a new wave of mergers and acquisitions. It seems this time that the new companies are built on a world scale. Maybe European companies were just a transitional phase between national companies and world companies? If this explanation is true, we are not "in search of the European"[9] paper firm. The building of European paper companies represents just a step toward Americanisation, or better, toward globalisation.

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[9] Schröter, Harm, Introduction.

Part IV
European Business or Business in Europe?

The Rise of the New Public Service Transnationals: European or Global Phenomenon?

Judith Clifton, Francisco Comín and Daniel Díaz-Fuentes

Transnational Corporations (TNCs) and public enterprises are usually perceived as organisations that evolve in separate, not to say antagonistic, economic and ideological spheres. Public enterprises are usually associated with national or subnational organisations, often operating as publicly protected monopolies, subject to government policy and interference. TNCs, on the other hand, operate, by definition, across national borders, and are usually associated with private enterprises subject to market forces, financially accountable to shareholders and relatively independent of government interference. During the interwar period and the years following the end of the Second World War, many enterprises in Europe were nationalised, in order to limit the influence of TNCs over the national economy, amongst other reasons. Yet, from the 1980s, privatisation, liberalization, de(re)regulation[1] and integration policies have been accompanied by a pronounced return of TNCs to Europe. Among the most important of these newcomers is the transnational public enterprise, particularly those that operate in networks, such as communications, transportation, electricity, gas, postal/logistic and water sectors. Though there was some, limited, public network service transnationalisation during the C19th – mainly undertaken by private entrepreneurs[2] – the rise of the transnational public network service at the end of the C20th is dramatic in scope and importance. During the first few years of the 1990s, public network services were entirely absent from the United Nations Conference on Trade and Development (UNCTAD) list of the world's top fifty non-financial TNCs: just one decade later, they constituted thirteen of the top fifty.[3] This recent rise of public services, in telecommunications, electricity, gas and water, from national or local actors to transnational players poses a multitude of new questions that require further analysis. One first set of questions concerns *how* this occurred, and focuses on economic theory and its understanding of the relationship between ownership, enterprise behaviour and performance. From the 1970s, a

[1] The term de(re)regulation is used because the deregulation of industry and services has usually led to the emergence of new regulatory bodies. See M Thatcher (2002) Regulation after deregulation: independent regulatory agencies in Europe, *J European Public Policy* 9(6) pp. 954–72.

[2] See R Millward (2005) *Public and Private Enterprise in Europe: Energy, telecommunications and transport 1830–1990,* Cambridge: Cambridge University Press.

[3] UNCTAD (1993–2006) *World Investment Report*, Geneva: UNCTAD.

H. G. Schröter (ed.), *The European Enterprise.*
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debate gathered momentum on the relative virtues of public and private ownership. With mounting support of the latter, the question of ownership became polarised, and dominated much of the discussion on enterprise.[4] Public enterprise in general came under increased attack for being sluggish, inefficient and bureaucratic: they became the 'ugly ducklings' of the mixed economy.[5] How could these self-same enterprises become transformed into some of the world's largest TNCs? Answers to these questions are provided elsewhere:[6] here, suffice to say that economic debate placed too much emphasis on the ownership question, whilst underplaying other factors such as competition, competitive advantage, financial and technical backgrounds of enterprise. A second set of questions concerns *why* this occurred. What were the roles of global forces and technological change in these transformations? How important were developments at the regional level, such as the liberalisation of Foreign Direct Investment (FDI) and the deregulation of services such as telecommunications, electricity and gas within the European Union (EU)? How relevant is the EU in the face of globalisation? Are these transnationalising network services, which have been bound up tightly with the nation state over much of the C20th, gradually unravelling? Can and will national distinctiveness continue to dominate as networks transnationalise, or, will enterprises move towards a 'global', universal, American, Japanese or European model? Section two of this chapter deals with these questions and, for the purposes of this volume, formulates the enquiry in the following way: after decades of European integration, does the rise of the public service transnational provide evidence as to the existence of the 'European' enterprise?[7] A third body of questions, which will be synthesised in section three of this chapter, concern the *consequences* of public service transnationalisation for society and public service provision. Are public services being commodified and citizens rendered into mere consumers? What role for regulation as public services go transnational?[8]

In the search for a European enterprise, there are many and varied approaches and frameworks at our disposal, and the authors of this volume have selected differing techniques in order to contribute to the search for the European enterprise.[9] Rather than attempting to distil static characteristics of enterprise that may be associated as sharing distinctly European traditions, values or culture, or conceptualising what

[4] See A Aune (2001) *Selling the Free Market*, New York & London: Guildford Press, for how 'free trade' was sold using think tanks and funding world-wide. See M Shirley (1999) 'Bureaucrats in Business: The roles of privatisation versus corporatization in State-owned Enterprise Reform, World Development 27(1), pp. 115–36 for a positive approach to private enterprise, and see J Stiglitz (2003) *Globalization and its Discontents*, New York: W. Norton & Company, for a critical view.

[5] J Clifton, F Comín & D Diaz-Fuentes (2003) *Privatisation in the European Union*, Dordrecht: Kluwer.

[6] See (eds.) J Clifton, F Comín & D Díaz-Fuentes (2007) *Transforming Public Enterprise in Europe and North America: Networks, Integration and Transnationalisation*, London: Palgrave.

[7] See introduction by Schröeter, this volume.

[8] J Clifton, F Comín & D Díaz-Fuentes (2005) Empowering Europe's Citizens? On the Prospects for a Charter of Services of General Interest, *Public Administration Review*, 7(3) pp. 417–443.

[9] H Schröeter, this volume.

ownership and organisational arrangements would constitute a European MNC,[10] here, emphasis will be placed upon tracing developments within enterprises that can be positively measured as evidence that they are moving 'towards Europe', as opposed to staying at home or moving more globally. It is argued here that the new public service transnationals, in telecommunications, electricity, gas and water, today do indeed represent cases of European enterprise. These enterprises have different marketing ideals: some publicise themselves as 'European' (Electricité de France and Tele2), others as 'global' (Vodafone and Cable & Wireless). Nonetheless, they are all European, in the sense that EU institutional change, particularly from the 1980s, shaped – and was shaped by – these enterprises. Their emergence and evolution were connected to EU sectoral liberalisation directives, as well as EU policies to develop a Trans European Network. Though the UNCTAD claims the recent increase of FDI in services is a global trend,[11] Aharoni points out this should properly be considered an intra-regional trend, particularly in the light of the establishment of the common market.[12] Though many of the new public service transnationals have ventured deep into Africa, Oceania, Latin America and the Caribbean, and Asia, the vast bulk of their business in the first few years of the C21st is in Europe. Because the enterprises operate in Europe, they are bounded by European rules on liberalisation, competition, mergers and acquisitions and public service obligations, and are offered opportunities in the Trans European Network project. Moreover, as formerly nationally or locally owned and run network services go abroad, a new layer of supranational regulation of services of general interest is being introduced, which establishes common, European-wide conceptions of public service provision. All public services in Europe are subject to this new, Europeanised regulatory framework. This chapter does not argue that these enterprises will remain bound to Europe forever: perhaps they will retreat home, perhaps they are mid-way, in transition between a national and international or even global enterprise.[13] Rather, like many accounts of the process of Europeanisation, stress is placed on reversible processes that experience ebbs and flows. So, it is not being claimed that these enterprises are European *de jure*, and they have not opted to take on possible benefits associated with the *Societas Europeae*[14] (though they could be potential candidates in the future). There is evidence, however, of their Europeanisation at many levels, in the sense that European policy, laws, directives and regulation were key to their shaping and evolution.[15]

[10] See M Wilkins, this volume.

[11] UNCTAD (2005).

[12] Y Aharoni (2005) 'The globalizer than cannot globalise: the world airline industry', Working Paper.

[13] For a classic account of European champions, see (ed.) J Hayward (1995) *Industrial Enterprise and European Integration*, Oxford: Oxford University Press.

[14] See Amatori, this volume.

[15] The definition of Europeanisation used here is from C Radaelli (2003) 'The Europeanisation of Public Policy' in K Featherstone and C Radaelli (eds.) *The Politics of Europeanisation*, Oxford: Oxford University Press.

The rest of the chapter is organised in the following way. Firstly, the emergence and evolution of network service transnationals are analysed in the context of institutional change. It is argued that these new TNCs in telecommunications, electricity, gas and water are European in the sense that European developments were critical in shaping their trajectory and current organisation, whilst the bulk of their activity is in Europe. Particular attention is paid to the telecommunications sector since this has had longer to respond to institutional reform than electricity, gas and water. Secondly, we synthesise the emergence of a novel European-level regulation of public services, showing how this has helped to Europeanise the enterprises in question. Conclusions follow.

The Rise of the New Network Public Service Transnationals

During the 'golden age' of public enterprises, spanning roughly from 1950 to 1980, the dominant consensus among mixed economies was that the state had a legitimate role in economic activity. In most countries around the world, justifications for State intervention in the ownership and running of public enterprise were common, and included public finance, defence, lack of private initiative, market failures and natural monopolies, social justice, technological change, avoidance of foreign ownership, and so on. In Europe, public services played an important role in the historical evolution of Member States, and there were many common features in terms of organisation, ownership, regulation and timing, as well as some differences. Similarities included the kinds of activities that have been managed by public enterprises, a resistance to allowing private interests to govern these activities, the introduction of similar laws on how services of public utility or of general economic interest should be run (such as monopolies, exclusive or special laws), and obligations on the operator. The consensus on the virtues of the state in business reversed during the 1980s: the state was forced onto the defensive.

Liberalisation, de(re)regulation and privatization of public enterprises became popular in many countries around the world. If, at first glance, it seems the spread of privatisation was as a 'global' fashion embraced for similar reasons and implemented in the same way by diverse governments, closer inspection reveals a host of different reasons, approaches and results of privatisation around the world.[16] In Europe, responses to global, ideological and technological changes were far from automatic or mechanical. Indeed, Europe acted as a catalyst, filter, and shaper of these global forces via competition law and other policies. During the first few decades of post-war integration, a 'blind eye' had been turned to government subsidies and preferential treatment of public enterprises, including the public network services. As the ideological climate shifted towards the end of the 1970s

[16] Whilst D Parker (ed) (1998) *Privatisation in the European Union,* London: Routledge highlights diversity of EU privatisation, J Clifton, F Comín & D Díaz-Fuentes (2003 and 2006) point to some common, European logics.

and throughout the 1980s to a more 'neoliberal' economic model, epitomised by Margaret Thatcher and Ronald Reagan, however, it became increasingly difficult to avoid formalising the role of public enterprises in the face of privatisation and increasingly integrated markets. Progress towards the Single Market was achieved in the 1980s, and a landmark in the European Economic Community's position towards public enterprises came in 1992 with the Maastricht Treaty, as well as the completion of the Single Market. The elimination of national restrictions to FDI and the introduction of sectoral liberalisation directives, such as in telecommunications and, albeit more slowly, electricity (with the postal sector imminent) were key to shaping the development of public service transnationals.

From the mid-1990s, there were three significant changes in world FDI flows, as shown in Table 1. Firstly, there was an unprecedented increase in world FDI flows, which grew over five times in five years from an annual average of 252.1 billion dollars between 1991 and 1995 to over one trillion dollars in 1999. Although this decreased to 539.5 billion in 2002, it recovered again from 2004. Mergers and Acquisitions (M&A) have been a major component of FDI, indicating that firms opted to grow via established firms abroad rather than through greenfield investments. Secondly, Europe constituted an increasingly important player vis-à-vis the United States (US) or the North American Free Trade Agreement (NAFTA). Thirdly, by sector, there is an unprecedented shift towards FDI in services and away from manufacturing. M&A in manufacturing and services between 1985 and 1990 were around two thirds and one third respectively: these ratios reversed by 1999. This could represent a long-term structural change in world FDI flows. This historical shift of world FDI towards services coincided with the global and regional deregulation of services that occurred in the 1990s, symptomatic of the structural change within the national production and employment systems of post-industrial societies. Within the services category, transport and communications and, to a lesser extent, electricity, gas and water, were key contributors to the overall amount. Was this trend towards FDI in services a global one, or more specifically, a European one?

Table 1 Foreign Direct Investment and Mergers and Acquisitions by Region and Industry 1987–2004

	1985–90	1991–95	1996	1997	1998	1999	2000	2001	2002	2003	2004
FDI (billions of US dollars)	**195.4**	**252.1**	**397.9**	**483.1**	**694.4**	**1,108.2**	**1,244.5**	**764.2**	**539.5**	**561.1**	**813.1**
M&A (billions of US dollars)	**120.3**	**111.4**	**227.0**	**304.8**	**531.6**	**766.0**	**1,143.8**	**594.0**	**369.8**	**297.0**	**380.6**
M&A *Distribution by region*											
European Union	*31.9*	*46.6*	*37.5*	*38.3*	*36.0*	*47.6*	*52.6*	*37.3*	*56.5*	*42.4*	*47.0*
NAFTA	*56.7*	*34.5*	*35.4*	*32.2*	*43.1*	*36.1*	*35.4*	*41.0*	*26.1*	*25.6*	*28.4*
M&A *Distribution by industry*											
Manufacturing	*61.8*	*50.9*	*39.1*	*43.7*	*48.4*	*37.5*	*26.4*	*33.7*	*31.2*	*38.0*	*31.4*
Services	*37.0*	*46.2*	*57.4*	*57.3*	*48.5*	*61.1*	*73.6*	*62.0*	*59.4*	*53.7*	*62.7*
Finance	*12.1*	*14.6*	*16.2*	*16.7*	*15.7*	*16.5*	*16.1*	*20.5*	*11.3*	*18.4*	*21.5*
Transport and communications	*4.3*	*6.3*	*7.7*	*5.8*	*9.7*	*21.9*	*32.0*	*20.5*	*8.3*	*11.7*	*9.5*
Electricity, gas and water	*0.4*	*3.5*	*9.4*	*9.7*	*6.1*	*5.3*	*4.1*	*3.5*	*16.7*	*5.4*	*6.5*
Social services	*2.8*	*5.9*	*3.0*	*7.7*	*1.7*	*2.1*	*5.8*	*2.3*	*4.3*	*4.1*	*1.6*

Source: Elaborated by authors based on UNCTAD (1991–2006)

Notes: FDI: Foreign Direct Investment (outward flows) M&A Cross-border Mergers and Acquisitions sales

If one of the most important economic transformations of the 1990s was the shift of FDI to services, Europe played the leading role in this development. The rise of new TNCs in telecommunications, electricity, gas and water within Europe, being very recent, has received scant attention so far.[17] In order to see this more clearly, UNCTAD data on the world's largest non-financial TNCs between 1990 and 2004 was analysed, in preference to other available databases.[18] This seeks to capture the extent to which enterprises are transnationalised using a ranking based on foreign assets, and a transnationalisation index that averages out foreign assets, sales and employment. At the beginning of the 1990s, there were no network services included in UNCTAD's top fifty non-financial transnational corporations. By 2004, there were thirteen, all of which were European: they included five in telecommunications, seven in electricity, gas and water, and one in transport and logistics, as shown in Table 2. In order to analyse this trend in more detail, attention will now be turned to the telecommunications sector, and for space considerations, an outlook for electricity is briefly considered.

Table 2 The New Public Service TNCs: World ranking position by foreign assets 1997–2004 and Transnationality Index 2004

			TNC Ranking position in								TNI
TNC	Home country	Industry	1997	1998	1999	2000	2001	2002	2003	2004	2004
Vodafone	United Kingdom	Telecom				1	1	2	2	**2**	**87.1**
France Telecom	France	Telecom						9	10	**10**	**48.7**
E.On	Germany	E.G.W.				23	20	12	13	**16**	**42.7**
RWE Group	Germany	E.G.W.		66	66	61	22	13	16	**14**	**50.1**
Vivendi-Générale des Eaux	France	E.G.W.	80	53	47	4	4	14	20	**22**	**55.4**
Electricité de France	France	E.G.W.					30	18	12	**20**	**32.4**
Suez Lyonnaise des Eaux	France	E.G.W.		13	19	15	11	23	11	**15**	**75.2**
Telefónica	Spain	Telecom		52	30	9	14	28	36	**33**	**45.0**
Veolia Environment	France	E.G.W.							37	**46**	**55.9**
Deutsche Post World Net	Germany	Transp				64	41	43	42	**44**	**34.3**
Endesa	Spain	E.G.W.						45	53	**52**	**43.3**
Deutsche Telekom	Germany	Telecom					5	56	14	**13**	**50.0**
Telecom Italia	Italy	Telecom						67	24	**35**	**72.7**
National Grid Transco	United Kingdom	E.G.W.					50	68	66	**66**	**40.7**
Scottish Power	United Kingdom	E.G.W.					76	81	87	**91**	**45.6**

Source: Elaborated by authors based on UNCTAD (1999–2006)

Notes: E.G.W. Electricity, gas and water. TNI: Transnationality Index, calculated by UNCTAD as the average of the following three ratios: foreign assets to total assets; foreign turnover to total turnover, and foreign employment to total employment

[17] Although P Ghauri and L Oxelheim (2004) *European Union and the Race for Foreign Direct Investment in Europe*, Oxford: Elsevier, highlight a 'race' for FDI within the EU, most attention continues to be paid to the manufacturing sector, failing to recognise the trend of FDI in telecommunications, electricity, gas and water in the region. A Rugman (2005) *The Regional Multinationals*, Oxford: Oxford University Press, has developed his thesis on regional multinationals, but, again, there is little focus on the network services. The important exception is the UNCTAD *World Investment Report* published in 2004, subtitled *The Shift Towards Services*.

[18] Many US-based academics use Fortune, such as Rugman (2005), though Fortune has data on the largest corporations in the world, rather than the largest TNCs.

Telecommunications

During the first few years of the 1990s, there were no transnational telecommunications enterprises listed in the world's top fifty non-financial TNCs. Cable & Wireless reached position 37 in 1997, however, since then, it declined, falling from the ranking of the top 100 in 2002. Lower down, amongst the top 100, were some US telecommunications companies, such as ITT (1990–4), AT&T (1993–7), SBC (1998–2000), Verizon, the result of a merger in 2000 between GTE and Bell Atlantic (1991–2004) and Canadian ones, including BCE (1995–2001) and Nortel (1995–2004). The Canadian telecommunications enterprises had higher transnationality indices than their US counterparts; peaks were Nortel 83 and BCE 47, in contrast to ITT 22, AT&T 19, SBC, 13 and Verizon 23. From 1998, European telecommunications enterprises emerged amongst the top fifty ranked transnationals in the following order: Telefonica (1998), Vodafone (2000), Deutsche Telekom (2001), and France Télécom and Telecom Italia (2002). These European operators have notably higher transnationality indices: peaks are Telefonica 54; Vodafone 87; Deutsche Telekom 50; France Télécom 49 and Telecom Italia 26. Singtel is the only telecommunications enterprise outside the EU or NAFTA zones that reached the top 100, having played a role as a global partner with US and European TNCs.

How can this dramatic emergence of telecommunications enterprises as world TNCs be explained? Major technological change in the telecommunications sector from the 1970s has been an important force for change, as convergence leads to a proliferation of new communication technologies in the so-called 'information society'.[19] Rapid technological change has been accompanied by regulatory reforms such as market liberalisation, which some authors attribute to pressures originating from the break-up of the Bell system in the US from the 1970s.[20] Global forces and technological change, however, were filtered and shaped by Europe. During the 1980s, the European Commission introduced modest reforms to open up certain segments of national markets, such as terminal equipment in 1988, and public procurement in 1990. The Commission's Green Paper on Telecommunications of 1987 aimed to ensure Europe had a competitive market able to successfully challenge the US and Japan, to introduce some liberalisation measures and promote research and development in the computer and telecommunications industries.[21] The transformation of former telecommunications monopolies began from the 1980s, when most European governments transformed their direct regulation by bureaucratic public operators (typically Post, Telecommunications and Telegraph) of state-owned enterprises. It was not until the 1990s, however, that a new regulatory framework for liberalisation and independent regulation of the sector were established, by a series

[19] See M Castells (1996) *The Rise of the Network Society*, Oxford: Blackwells, and C Freeman & L Soete (1994) *Work for all or Mass Unemployment*? London: Pinter.

[20] V Schneider (2002) 'The institutional transformation of telecommunications between Europeanisation and Globalization', in (ed.) J Jordana, *Governing Telecommunications and the New Information Society in Europe*, Edward Elgar.

[21] Schneider (2002) p. 39.

of Commission directives. As a consequence, privatisation revenue was dominated by sales in telecommunications, electricity, gas and water. Telecommunications privatisation in the EU had two main stages. Firstly, between 1981 and 1993, the process was dominated by the United Kingdom (UK), which generated US$24.4 billion (90 % from BT), whilst the EU-14 only accounted for US$2 billion. From 1994, as the liberalising directive (EC 96/19/EC) was passed, the EU-14 countries started to dominate, with 55 operations generating US$124 billion (some 97 % of the proceeds in the period under consideration, and 82 % of the total during the 1980s). Regulatory reforms in Europe shaped the development of telecommunications enterprises. There was, for instance, a clear correlation between the establishment of independent re-regulatory agencies, liberalisation and privatisation in this sector, and the emergence of new telecommunications transnationals in Europe. The median year of establishing independent regulatory agencies was 1993;[22] telecommunications privatisation was 1996; and full liberalisation of services and infrastructure in most countries was 1998 (in Ireland and Portugal it was 2000, and in Greece, 2001). In terms of transnationalisation, the three years 1999–2001 were key years for telecommunications, which could no doubt be connected to full liberalisation from 1998.

Within Europe, countries did not respond in a mechanical way, however. Smaller countries, and transition economies, were under more pressure to privatise in the face of European market liberalisation. The threat of takeovers by larger firms (possibly from larger national markets) was considerable, indicating that economies of scale and size matter. So, while France Télécom and Deutsch Telekom were hesitant and opportunistic privatisers, telecoms firms in smaller economies, such as Denmark, sought an active strategic alliance with SBC and Singtel so as to reinforce their competitiveness in Europe as well as globally. In a similar way, Finnish and Swedish telecommunications firms sought joint ventures to expand in Denmark, Norway and prospective new EU Member States such as Estonia, Latvia and Lithuania.

Are these new telecommunications TNCs European or global?[23] Table 3 is a snapshot look at Europe's top telecommunications TNCs. The first important point is that not all have been fully privatised: of the former public monopolies, state ownership was still important in 2006 in Telia-Sonera (where the Swedish and Finnish state own a combined 45 %), France Télécom (32.5 %), Deutsche Telekom (15.4 %) and KPN (7.8 %) to a lesser extent. Though ownership structure is bound to change, the interesting point is that both private and publicly owned telecommunications enterprise have embarked on ambitious transnationalisation activities, so it is not just privately owned enterprise that is dynamic and more disposed to risk taking, as some analysts would claim.[24]

[22] OFTEL was established in the UK in 1984, the Autorité de Régulation des Télécommunications in France in 1997, the Regulierungsbehörde in Germany in 1998, and the Autorità per le garanzie nelle comunicazioni in Italy in 1998.

[23] OECD (2005) classifies the new telecommunications TNCs as global.

[24] For the last two decades, debate on enterprise has been dominated by a dichotomisation of public and private ownership with their associated merits: this dichotomy has exaggerated

Table 3 Large European Telecommunication TNCs: State ownership; Internationalisation by foreign/total revenues; European revenues excluding home country in total revenues

TNC	State ownership			International revenues as %							European revenues excluding home %		
	1999	2003	2005	1999	2000	2001	2002	2003	2004	2005	2003	2004	2005
Vodafone				*63.2*	*77.0*	*83.5*	*84.7*	*83.6*	*85.3*	*85.0*	54.8	57.7	59.5
Deutsche Telekom	63	43	37.5	*8.5*	*19.1*	*27.3*	*34.3*	*38.1*	*39.4*	*42.6*	23.6	22.7	22.3
France Telecom	61	43.3	32.5	*13.3*	*25.8*	*35.8*	*41.2*	*41.3*	*41.4*	*42.6*	38.6	38.7	39.8
Telefonica				*58.1*	*43.4*	*38.3*	*41.5*	*38.4*	*40.0*	*48.1*	0.0	4.9	6.6
Telecom Italia	3,5			*5.9*	*13.2*	*13.6*	*21.6*	*20.5*	*21.2*	*20.6*	8.0	8.3	7.6
Telia-Sonera	70,6	$45^{s} + 19^{f}$	$45{,}3^{s} + 13{,}7^{f}$	*10.3*	*14.0*	*16.8*	*24.6*	*23.0*	*26*	*35.3*	19.5	20.9	27.9
Tele Danmark Co				*41.8*	*45.6*	*54.2*	*53.1*	*45.3*	*45.8*	*49.0*	45.3	45.8	49.0
Cable & Wireless				*69.9*	*73.5*	*60.0*	*61.6*	*54.8*	*50.9*	*47.0*	1.7	1.8	1.9
Tele2				*18.8*	*35.7*	*63.9*	*65.6*	*72.3*	*78.8*	*79.5*	65.0	71.1	70.9
KPN	43	19.9	7.8	*9.5*	*15.0*	*22.0*	*18.0*	*20.2*	*26.2*	*28.7*	20.2	26.2	28.7
BT				*7.1*	*26.0*	*24.7*	*6.4*	*7.2*	*8.5*	*13.4*	7.0	7.1	9.7

Source: Elaborated by authors based on firm annual reports and OECD (1999–2005) *Communication Outlook*

Notes: ^{s} Swedish government ownership, ^{f} Finnish government ownership

Secondly, none of Europe's largest telecommunications enterprises have been taken over or subject to M&A by other European or foreign operators. The only significant M&A has been Telia-Sonera (Swedish-Finnish). TeleDanmark (TDC) was the first case where non-EU technological partners were selected to compete in the EU market. This was followed by a takeover of Belgacom by TDC and its foreign partners. SBC left the partnership in 2004. Among the minor telecommunications enterprises, there have been takeovers, such as the exchange of shares between Portugal Telecom and Telefonica, the partial acquisition of Telekom Austria by Telecom Italia (but resold in 2004), and the partial acquisition of Eircom by KPN-Telia. However, in no cases were non-European companies involved. Other small operators, such as PT Luxembourg, is still wholly state-owned, and the privatisation of Greece's OTE was destined for individuals, not telecoms shareholders. Finally, telecoms operators from the four largest EU-25 new Member States have been partially acquired by large European operators. Deutsche Telekom has been active in Hungary and the Slovak Republic, France Télécom in Poland, while both Telefonica, as well as a consortium led by KPN with Swisscom and AT&T, have been active in the Czech Republic. To summarise, in the face of globalisation, the process of transnationalisation of ownership remains dominated by European operators.

Thirdly, and following OECD methodology of measuring the evolution of foreign revenue as a percentage of overall revenue,[25] we can see that this increased within European companies at much higher levels than elsewhere between 1999 and 2005. The largest European telecoms enterprises have higher percentages of foreign revenues than smaller operators, in general. There are two main exceptions to this

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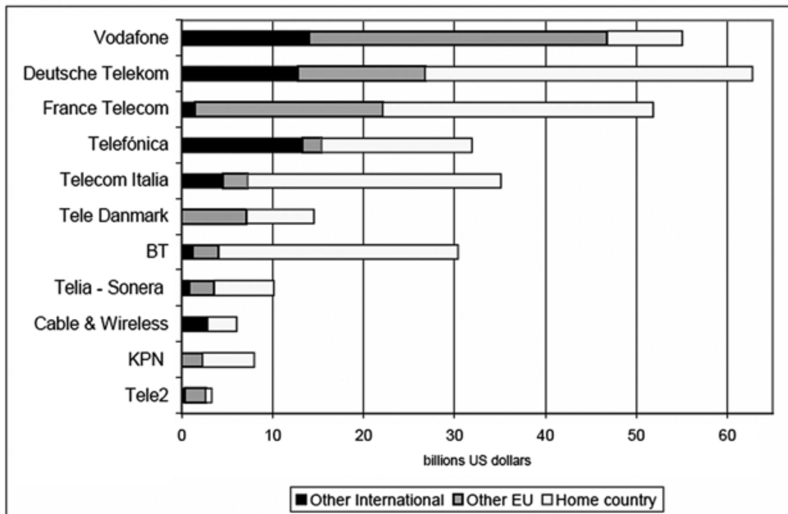
and over-simplified differences in enterprise. For more discussion see J Clifton, F Comín and D Díaz-Fuentes (2003).

[25] As in OECD (2005).

trend: firstly, Cable & Wireless and BT[26] have both seen declining foreign revenues, since both have pursued a strategy of returning activity to the UK; secondly, Tele Danmark and Tele2, which both have high levels, particularly for small operators. The highest ratio of foreign revenue was earned by new entrant Vodafone (85 %), and the lowest BT (13.4 %). But how much of this foreign revenue is in Europe, and how much beyond? The last three columns of Table 3 show investment in Europe (excluding home country). Despite Vodafone's claim to be a global operator, (its logo is 'world mobile telecommunications leader'), it emerged as basically a UK business but, by 2005, nearly 60 % of its investments were in Europe (it gave up its business in Japan in 2006). Tele2 corporate communication positions itself against the former government monopolies, claiming it is 'Europe's leading alternative telecom operator'. From its origins as a Swedish operator, it now does do most of its business in Europe (71 %), followed, after Vodafone, by Tele Danmark, France Télécom, Deutsche Telekom and Telia-Sonera follow with 49 %, 40 %, 28 % and 22 % respectively.

Finally, Fig. 1 maps out Europe's leading telecoms operators according to their European sales vis-à-vis their internationalisation. With results well over 60 %, new operators Vodafone and Tele2 are the most internationalised: moreover, the bulk of their business is in the EU (most of Tele2 non-EU business is in eastern Europe, whilst once Vodafone's retreat from Japan is included, Vodafone would be mainly



Source: Elaborated by authors based on firm annual reports

Fig. 1 European versus Global: European Telecom TNCs ranked by foreign turnover in 2005
Source: Elaborated by authors based on firm annual reports

[26] BT is listed here due to its size, but is not listed on the UNCTAD list of top 100 non-financial TNCs due to its low transnationalisation performance.

EU). Mid-way internationalisers, around 50 %, such as Tele Danmark and France Télécom, have nearly all internationalisation accounted for by Europe: exceptions are Telefonica, which opted to invest in Latin America, Cable & Wireless in the Caribbean, and Deutsche Telekom, to a lesser extent. Finally, less enthusiastic internationalisers such as BT, KPN, Telia-Sonera[27] and Telecom Italia all have most of their business in Europe, with the exception of Telecom Italia, which, like Telefonica, opted for Latin America.

Given the emerging importance of transnationals in electricity, gas and water, it is worth noting that the EU internal electricity market liberalisation developed in parallel to that of the telecoms industry from the 1980s, with the first measures taking place in 1996 (92/EC) and 1998, but has been subject to delays and reforms (Directives 2003/54/EC and 2003/55/EC). As in the telecommunications sector, some national and regional public monopolies were restructured as limited companies (though they were still state-owned) during the 1980s. In Belgium and Spain, electricity had historically been mostly privately owned. Electricity privatisation also started early in Germany (during the 1960s), and Austria and Spain in 1988. Other EU countries started to privatise in the 1990s, such as Sweden (1991), Finland (1994), Portugal (1997), Italy and the Netherlands (1999), Denmark (2000) and Greece (2003). France has deliberately resisted liberalisation, privatisation and transformation of electricity in order to protect the incumbent operator.

Privatisation of electricity, gas and water has been, after telecommunications, the most important sector in the EU, making up 22 % of total proceeds between 1980 and 2004. Most transactions occurred in 1998 and 1999, when stock markets were strong, but there remains much to privatise and transnationalise. Water continues to be largely characterised by public or mixed ownership in the EU, with the exceptions of England, Wales, France and Spain. In other sectors, such as the generation, or the transmission and distribution of natural gas, ownership also remains public or mixed in most countries. In Germany, Austria, the Netherlands, Belgium, Denmark and Sweden, regional or local public companies still fully or partly control these activities. By 2000, public enterprises in electricity, gas and water represented less than a quarter of public activity in Belgium, Spain, and the UK. However, in the EU as a whole, this represented 43 % of sectoral activity in 2000. (Although this has fallen by 24 % in terms of the EU-15 average in 1990, the basic fact remains that these activities have not been deeply privatised, moreover, many are still publicly owned in most EU countries).

Europeanising Public Service Regulation

As privatisation took off in continental Europe, from 1993, concern from many quarters, including EU social partners including the Centre Europeén des Enterprises à Participation Publique y des enterprises d'intérêt économique général

[27] Most of Telia-Sonera's non-EU investment is in Russia.

(CEEP) and the European Trade Union Confederation, as well as some politicians and citizens' groups, increased as to the possible damaging effects privatisation, deregulation, liberalisation, predatory competition and hostile take-overs could have upon the quality, accessibility and universality of traditional public services. The CEEP was particularly active in crystallising these demands in the form of a Charter for Public Services, or, Charter for Services of General Interest.[28] At this time, European politicians were striving to broaden integration from economic to political and social union, as well as increase their own legitimacy. Already, a*d hoc* decisions taken by the European Courts of Justice (such as the case of Corbeau 1993 and Almelo 1994) were interpreted as turning points in the recognition of the need to limit competition and place more weight on the side of public services. The Commission responded to pressures to secure the role of public services in an increasingly integrated Europe by publishing several Communications during the 1990s, Green and White papers on Services of General Interest, in 2003 and 2004 respectively, the inclusion of the role of services of general interest in the draft European Constitution, and their exclusion in the services directive in January 2006.

The long-winded process towards producing a Charter that protects services of general interest, that is acceptable for all, is still ongoing, and represents a clear case of the Europeanisation of regulation. This regulatory framework attempts to encapsulate and unify fundamental, common features of all pre-existing regulation in Member States, whilst positioning itself against an 'American' regulatory model. The process of Europeanisation can be analysed 'bottom-up', that is, how individual Member States influence European regulation, and top-down, meaning how European regulation may affect national or subnational institutions.[29] Even the term 'service of general interest' reflects regulatory Europeanisation. In the 1990s, the EU decided to replace the term 'public service' with 'service of general interest' in its official political vocabulary. The reason provided was that 'public service' was often associated with two things: public ownership of public services, as well as services in the public, or general interest. Service of general interest was held to be a more neutral term. This terminology is derived from the French language and tradition.[30] This new terminology also indicates a change in the way in which public services are understood within the EU. Firstly, it is citizen-centred, in that the EU stresses its neutrality on whether public services are privately or publicly owned: ownership is irrelevant, what matters is that citizens and consumers receive proper and sufficient services. Secondly, public services are divided up into services of general interest and services of general economic interest. Services of general interest may include defence, schooling, health and so on, whilst services of general economic interest would include telecommunications, electricity, gas, transport and so on. The division is important as the EU has historical competence on the latter

[28] See J Clifton, F Comín & D Diaz-Fuentes (2005).

[29] See C Radaelli (2003).

[30] See T Prosser (2005) *The Limits of Competition Law*, Oxford, Oxford University Press.

but very little on the former, whereas, in contrast, at the national level, the state has competence in all areas.

As progress towards a charter progressed, two traditions clashed: these could be roughly described as a continental and an Anglo-Saxon approach. Whilst the first prioritised egalitarianism, universalism, access for all, no discrimination, subsidies for the excluded, and so on in the provision of public services, the latter focused more on a New Public Management-style agenda,[31] including consumer protection and information, transparency, efficiency and benchmarking. Rather than opt for one tradition over the other, a compromise was reached from 2000, so that the official EU policy towards public service regulation merged into a hybrid the continental and Anglo-Saxon traditions. Increasing emphasis was placed upon citizens-as-consumers' right to public services that work, of a reasonable cost and performance level, as part of a fundamental 'pillar' of the 'European way of life'. Perhaps one of the features of Europeanisation is precisely this: the bringing together of two or more traditions that sometimes sit uncomfortably together, but that all parties accept.

The fate of this directive or charter has been stalled along with that of the European Constitution. Nevertheless, it is important because it shows how different Europeans traditions of public service regulation have been merged, in a consensual manner, in order to define and protect a collective of public service institutions. Of course, this European regulation does not replace national regulation, but acts as a supplement. Top-down Europeanisation occurs when public service delivers, regulators and users refer to these concepts developed at the supranational level when discussing the development of local or national public services. So, this European regulation plays some role in shaping the *raison d'être*, identity and possibilities of these enterprises.

Conclusions

Are the new public service transnationals in telecommunications, electricity, gas and water representative of some kind of European enterprise? Rather than attempting to distil an intrinsic and static definition of what might be construed as 'European enterprise' with distinct characteristics that cannot be found elsewhere, it is argued here that the process of Europeanisation is clearly at work within enterprise development. Firstly, the behaviour of formerly national public service enterprises has been shaped by – and has sought to shape – EU public policy developments (particularly privatization, liberalisation, de(re)regulation and transnationalisation). Though many former public services have become leading world transnationals, on closer examination, it has been shown that, in practice, many have expanded across borders – into the EU, even Russia, rather than representing truly global players. On the one hand, then, formerly nation-based enterprises have dramatically

[31] For a classic definition of New Public Management see C Hood (1991) A Public Management for all Seasons? *Public Administration*, 69, pp. 3–19.

transnationalised into Europe, in contrast to, say, US-based firms. However, if we take the unit of analysis of Europe, rather than a Member State, public services have not actually transnationalised very much outside their own immediate integration zone either in the EU or the US. Telefonica, Telecom Italia and Cable & Wireless differ by their preference for a cultural heritage in former colonies, whilst BT was always a reluctant transnationaliser, which has now retreated. Moreover, all these enterprises are bound by a novel European regulatory framework, which has arisen due to pressures to protect traditional public service values in an age of globalisation and commercialisation. As Schröter has argued,[32] many TNCs have first expanded to their neighbours and use this as a stepping stone armed with experience, to go further a field. But do networks – with their pipes, lines, distribution centres and hubs – have specific characteristics that favour geographical closeness, rendering them fundamentally different to industrial enterprises? Or is the current Europeanisation of public services merely a transitory step towards a real globalised presence? The role of networks in the process of European and global integration must be left for future research.

[32] H Schröeter (1994) ’Foreign Direct Investment and Mentality: the Nearby factor in Austrian, German and Swiss Investment’ in H Pohl (ed.) *Transnational Investment from the 19th Century to the Present*, Stuttgart, pp. 205–226.

Corporate Responses to Institutional Changes – the Effects of Europeanisation in the Case of Denmark, 1973–2003

Martin Jes Iversen

Introduction

The European Corporation. Does it exist or not? This apparently simple question requires a simple answer: Any company registered in Europe must be a European Corporation – just like any company registered in France must be regarded as a French company and any company registered in Paris a Parisian company. The problem arises in the moment one tries to include more meaning than just geography. Richard Whittington and Michael Mayer have suggested that in historical perspective the European Corporation might be marked by a particular organisational structure such as the holding-company structure in contrast to the typical American M-form, while Randall Morck and Lloyd Steier have differentiated between the Anglo-American dispersed ownership from the widespread private ownership in the rest of the world – including Europe.[1] But why should the label "European Corporation" be used exclusively for companies with a certain organisational structure or a particular ownership structure just because researchers have found that these specific structures and strategies were quite common in Europe? What makes a French family owned holding company more "European" than a British multidivisional company with a dispersed ownership?

It is indeed problematic to attribute real meaning to the term European Corporation. But for two important reasons it is worthwhile investigating the development of the European Corporation in the second part of the 20th Century.

First of all, the definitional difficulties noted above do not apply just to the concept of "the European Corporation". What, for instance, is "an American Corporation"? Is it a multidivisional company with dispersed ownership? Perhaps, but how about the majority of American companies which are small family owned businesses with a simple functional structure? The basic problem is that strategic and structural characteristics of companies are more likely to follow industries and/or chronology than geography. If the researcher is looking for strategic and structural similarities

[1] Whittington, Richard & Mayer, Michael: The European Enterprise, Strategy, Structure and Social Science, Oxford, 2000; Morck, Randall & Steier, Lloyd: The Global History of Corporate Governance – An Introduction, 2005.

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between companies those similarities are more likely to be found inside particular industries rather than in particular geographical regions. This leads us back to the simple proposition that the European Corporation is a company situated in Europe. This basic understanding of the European Corporation becomes interesting when it is combined with the second important reason for focusing on the "European Corporation" namely the phenomenon of "Europeanisation".

Europeanisation can be regarded as a regional dimension of the difficult and much-debated term globalisation. According to the two American researchers Fligstein and Merand globalisation is a set of processes whereby "firms and nations around the world are interacting under different dynamics".[2] In this context "Europeanisation" implies a process in which European firms and nations interact under different dynamics. In the second part of the 20th Century European these dynamics – and hence Europeanisation – have become increasingly more relevant since the institutional framework in Europe changed by virtue of further market integration following the signing of the treaty of Rome in 1957. The institutional integration of European accelerated from the mid-1980s with the Single European Agreement (SEA) in 1987 via the Single Market from January 1993 to the common currency in 2003.

This article is an attempt to analyse the applicability of the Europeanisation process to a particular kind of "European Corporation", namely the largest companies in small country like Denmark in 30 years following its membership of the EEC in 1973. The aim of the article is thus to explore two key questions:

To what extent was the economy "Europeanized" in a small European country like Denmark following its membership of the EEC in 1973?

Did the possible "Europeanisation" process correspond with changes in the corporate governance systems among the largest Danish corporations from 1973 to 2003?

The article will not end up with a definition of "The European Corporation" but it will suggest some consequences of the Europeanisation process for a particular group of companies – namely the largest corporations in a small European country, Denmark.

Europeanisation and the Danish Economy

Globalisation is a widely debated and difficult term. Despite this debate it is a matter of fact that world trade has grown substantially in the second part of the 20th century – particular in the 1980s and 1990s. Table 1 shows how world trade in constant prices almost quadrupled from 1,691 billion US$ in 1973 to 5,817 billion US$ in 1998. Three general conclusions can be drawn from the table. First of all globalisation after 1950 was first and foremost a matter of increased trade between three parts of the word: Western Europe, the western offshoots (North America and

[2] Fligstein, Neil & Merand, Frederic: Globalisation or Europeanization: Changes in the European Economy, 1980–2000, Acta Sociologica, 45:7–22, 2002, p. 21.

Table 1 Value of world exports by region at constant prices, 1973–1998 (billion 1990 $) and percentage (%)

	1950	1973	1990	1998
West. Europe	122 (41 %)	73 (46)	1.598 (46)	2.491 (43)
West. Offshoots	63(21)	254(15)	570(16)	1.071(18)
East. Europe	15 (5)	127 (8)	166 (5)	237 (4)
Latin America	25 (8)	66 (4)	140 (4)	286 (5)
Asia	42 (15)	372 (22)	883 (26)	1578 (27)
Africa	29 (10)	97 (6)	99 (3)	154 (3)
World total	296 (100)	1,691 (100)	3,457 (100)	5,817 (100)

Source: Maddison, Angus: The World Economy- a Millennial Perspective, OECD, 2000, p. 362, own estimations of percentages.

Australia) and Asia. Less developed parts of the world – particularly Africa and Latin America – did not experience dramatic growth in their exports. Secondly the table shows that Asia was in a strong catch up-situation with a rising share of world exports, growing from 15 % percent in 1950 to 27 % in 1998. Finally – and for this article most important – the table illustrates that the Asian growth was not at the expense of Western Europe's dominant share of world export: from 1950 to 1998 Western Europe's share of world export was constantly above 40 percent. From 1950 to 1998 the total value of world exports rose by 5,521 billion $ in constant prices – and remarkably Western Europe counted for 2,369 billion $ of this growth.

Having noted that Western Europe was the main player in total world trade growth after 1950, another interesting question arises: who did the West European countries trade with and how did the destination of the trade change over time? Between 1970 and 1980, the percentage of European Union trade with a destination of Europe was quite stable at around 60 percent. However, from 1985 to 1993 it grew substantially from 59.5 percent in 1985 to about 72 percent in 1992. Thereafter, it stabilised at a high level between 67 and 71 percent in the rest of the 1990s

Table 2 Percentage of total manufacturing trade of European Union countries with others in the EU

	1970	1980	1990	1997
Austria	53	65	79	78
Belgium	77	86	83	89
Finland	21	35	41	51
France	82	84	86	90
Germany	70	75	79	81
Ireland	27	61	54	42
Italy	70	61	67	70
Netherlands	68	69	77	77
Portugal	28	41	53	64
Spain	43	69	75	81

Source: OECD Outlook No. 64 (1998:154)

(Table 2).[3] The substantial rise in intra-European trade took place in the latter part of the 1980s and in the early 1990s. A similar pattern can be noted if one focuses on foreign direct investment (FDI) in Europe. In 1986 35.6 % of total FDI in the EU was invested inside the EU. In 1993 it was 65.8 percent of total FDI which went to other West European countries.[4] The FDI and growth of intra-European trade indicates that the political integration agreements Single European Agreement (SEA) from 1987 and the Common Market from 1992 played an important role for the destination and growth of European trade.

Denmark became a member of the European Economic Corporation (EEC) on 1 January 1973, along with Great Britain and Ireland. The important issue in this context is to identify the consequences of the membership for the Danish economy in general and for the companies in particular. How did Danish exports and investments develop – is it possible to identify an increasing European trade and thus a process of Europeanisation?

Following membership in the EEC on 1 January 1973, Danish trade with the European countries rose from DKK 24.4 billion in 1973 to DKK 42.1 in 1978, in other words from 65 percent of the total export to 69.5 percent of total Danish exports. But remarkably the share of Danish export to the other West European countries stagnated and even fell in the early 1980s from 63.5 percent in 1982 to the lowest point, 58.7 percent, in 1984. This stagnation – which indicates that Danish EEC membership was not followed by any immediate "Europeanisation" – went on to the mid-1980s. The picture changed in the latter part of the 1980s. Between 1985 and 1991, the share of exports to the other the later EU countries rose from 58.7 percent in 1984 to 68 percent in 1991. Throughout the 1990s and early 2000s the level of export to other West European countries was stable around 65 percent. The high share of EU export compared to the total Danish export indicates that the European market gradually became more important for the Danish companies, in particular in the late 1980s and early 1990s when the institutional framework in terms of the SEA and the Common Market was implemented.

One of the questions which remains to be answered is how these increasing international activities were organised. There are basically two ways that firms can choose to make investments. Firstly, the company can choose to buy other firms; or, secondly, the company can choose to build new plants and businesses from scratch.

Table 3 shows the Danish outward FDI to the European Union, outward FDI in total, and finally the EU percentage of the total FDI in 20 years from 1982 to 2002. At least two important lessons can be learned from these outward FDI figures. The first lesson is that Danish companies went through a substantial transition in a quite short time. From a relatively low level of outward FDI in the early 1980s – 596 million DKK in 1982, or just 0.3 percent of the GDP – towards a very high level of outwards FDI in the 1990s and early 2000s – in 2000 and 2001 outward FDI was 10.3 and 3.6 percent of GDP respectively. In other words Danish companies – and

[3] OECD Outlook No. 64 (1998), p. 154.
[4] Fligstein & Merand (2002), p. 18.

Table 3 Outward foreign direct investments by Denmark; the EEC, in total, and EEC% of total, 1982–1992 (mill. DKK, annual prices)

Denmark FDI out	1982	1987	1992	1997	2002
FDI outward EEC	124	2,395	11,402	18,300	24,420
FDI outward total	596	4,227	13,502	27,800	37,378
EEC of total FDI	20.81 %	56.66 %	84.45 %	65.83 %	65.33 %

Source: Danish Statistical Department, for the years 1982–1990, the EEC included the following countries: Belgium-Luxembourg, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, and the UK

indeed Danish economy – became more open and international from the mid-1980s onwards.

A second important lesson to be learned from tables three and four is the fact that outward FDI to the EEC and later the EU became much more important. In the early 1980s less than 33 % of the Danish outward FDI went to the other EEC members. From 1985 to 1988, total outward FDI was quite stable at between four and five billion DKK, but the share which went to other EEC countries increased substantially from around 30 % in 1985 to more than 50 % in 1985, 1987 and 1988. From 1989 to 1992, the European share of the FDI grew dramatically to new high level between 67.5 % in 1990 and 84.5 % in 1992. 1993 was an exceptional year, but from 1994 to 2002 Danish FDI in the EU was at a constantly high level, ranging from the lowest point of 42.6 % in 1994 to the highest point of 95 % in 1998. As was also the case for export, Danish companies invested still more in other EEC countries from 1987 to 1992 – exactly when the Single European Agreement was enforced and the Single European market was established. The single market was opened 1 January 1993, and 1993 proved to be a very poor year for outward FDI – perhaps because the Danish companies already had made most of necessary investments in the common market in the previous years. The exceptional year 1993 was followed by a high level of EU investments in the late 1990s, when the Danish economy entered a stable upswing.

Europeanisation and Danish Companies

Having described both the general Europeanisation process with still more intra-European trade and the particular Danish Europeanisation process after 1970 it is appropriate to turn the focus towards the development of Danish corporations – how did the Europeanisation process affect companies following Danish membership of the EEC in 1973? Can we talk about Danish companies becoming more "European" – and, if so, what does that mean? Researchers such Whittington and Mayer, Fligstein and Merand have argued that Europeanisation has had some specific consequences for the strategies and structures of European Corporations.[5] Analysing

[5] Fligstein & Merand (2002); Whittington & Mayer (2001).

datasets of the rising number of European mergers and investment in European physical assets, Fligstein and Merand argue that EU multinationals have used a "Eurocentric" growth strategy by investing more in European markets than multinationals in general. Fligstein and Merand only analyse some very general growth strategies in terms of higher FDI and more European mergers. They do not indicate any European convergence in relation to organisational structure, performance or ownership. In contrast, they conclude their analysis by emphasising the fact that European corporations are still marked by national identity and thus national "character":[6]

We have shown that the EU market-building project appears to have been successful in changing European business. While large European firms have engaged in mergers with firms from their home country and with firms from other countries, they have maintained their national identity. This can be explained by the fact that they continue to be incorporated in a particular society and dependent on the institutions of that society. In sum, firms are competing more across markets, but they are also maintaining their national character.

This study will focus on the consequences of the above described "Europeanisation" for Danish companies – first, through an analysis of the relative importance of the largest Danish companies for the total economy, and secondly through a specific focus on the development of corporate governance. The analysis is built on lists of the 25 largest Danish corporations in 1973, 1983, 1993 and 2003 respectively.

The Changing Importance of the Largest Danish Enterprises

The first part of the analysis is an attempt to unveil the changing importance of the 25 largest companies in relation to Danish economy in general. One could expect that the growing international trade should cause a growing importance of the largest companies as the traditionally tend to export more than SMEs.

In order to unveil the changing relative importance of the 25 largest non-financial Danish companies in respectively 1973, 1983, 1993 and 2003 are listed in the appendix of this article. These lists are based on revenue and they include a comparison between the total revenue and total number of employees worldwide in the top 25 companies and the contemporary Danish GDP and the total number of employees in Denmark.

At least three interesting lessons can be learned from table seven, which is a short summary appendices one to three. First of all, the largest Danish enterprises became substantial larger during the 30 years from 1973 to 2003. Interestingly, the total top ten revenue in fixed prices was relatively stable from 1973 to 1993; thereafter, it almost doubled from DKK 403 billion in 1993 to DKK 771 billion in 2003. This pattern is even more visible in terms of total top 25 employers. From 1973 to 1983 the number of employees of the top 25 employers only rose modestly from 155,329

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[6] Fligstein & Merand (2002), p. 14.

Table 4 Total top 25 revenue in fixed prices (billion 2004 DKK), top 25 revenue in percentage of GDP and top 25 total employees, 1973, 1983, 1993, 2003

	1973	1983	1993	2003
Total top 25 Revenue (f.p.)	290	359	403	771
Top 25 revenue in % of GDP	34 %	37 %	35 %	55 %
Total top 25 employees world wide	155,329	190,925	386,337	814,312
Top 25 employees in % of empl. in DK	6.7 %	7.5 %	14 %	29 %

190,925. Thereafter, it rose substantially to 386,925 in 1993. Finally, in 2003 the 25 largest companies employed 814,312 people around the world.

The second interesting lesson which can be learned from Table 4 is that at the end of the period the total revenue of the largest Danish companies grew substantially faster than the Danish economy in general. From 1973 to 1993, the total revenue of the top ten firms corresponded to approximately 35 percent of the Danish GDP. In the 1990s, the 25 largest companies grew substantially faster than the economy in general, and in 2003 the top 25 revenue equalled 55 percent of the Danish GDP. Traditionally Danish economists and historians such as Peer Hull Kristensen, Hans Chr. Johansen, and Svend Aage Hansen have described Denmark as a country marked by small and medium sized enterprises.[7] This interpretation has also been confirmed in the international literature for instance in Harm G. Schröter's study of business historical development in small and medium-sized European countries – although in this study of the largest enterprises, Denmark was only represented by Carlsberg.[8] The interpretation of Denmark as marked by small and medium-sized enterprises was still valid in 1973 when only three out of the ten largest companies for instance had more than 10,000 employees (Schröter's definition of a large company in small European country). The above-mentioned growth of the very largest companies might indicate a future need for revision of the interpretation of Denmark as a country marked by few large companies and a dominating group of SME's.

The third interesting characteristic is the fact that the substantial growth of the largest Danish enterprises took place simultaneously with both the intensification of trade in Europe (in this article labelled as the Europeanisation) and with institutional European changes such as the single European agreement in 1987, which was followed by the single market in 1993. The single market made it possible for Danish companies to enter large European markets almost free of trade and customs barriers. Table 4 and Appendix 1–3 indicate that the very largest Danish companies were able to exploit these opportunities as they grew substantially faster than the

[7] Hull Kristensen, Peter: Strategies against Structures: Institutions and Economic Organisation in Denmark, Whitley, Richard: European Business Systems, London, 1992, pp. 117–137, p. 119, Hull Kristensen, Peter: Strategies against Structures: Institutions and Economic Organisation in Denmark, Whitley, Richard: European Business Systems, London, 1992, pp. 117–137, p. 336, Hansen, Sv. Aage: Økonomisk vækst i Danmark, vol. II, 1914–1970, Copenhagen, 1974, pp. 153–154.

[8] Schröter, Harm G.: Small European nations: Cooperative capitalism in the twentieth century in Chandler et. al., Big Business and the Wealth of Nations, 1997, p. 181.

general Danish economy which had itself entered a stable economic upswing in the mid-1990s. This interpretation is supported by the figures in Table 6 of the outgoing Danish foreign direct investment (FDI) which grew dramatically in the end of the 1980s and again from the mid-1990s. Since a large degree of these FDIs went particularly to markets in the EU, there are reasons to believe that the outstanding growth of the very largest Danish companies built upon a European rather than a national platform.

Corporate Governance – Ownership and Management

Corporate governance is a disputed phenomenon which implies many different understandings. Often corporate governance relates to the classical principal-agent conflict between owners and managers already identified by Berle and Means in 1932. Indeed, this conflict traces its origins to the earliest limited liabilities companies.[9] The principal-agent conflict obviously implies that ownership is important for the corporate governance structure. The second part of the analysis focuses on corporate governance systems in Denmark based on assessment of ownership and management systems among the 25 largest companies in, respectively, 1973, 1983, 1993 and 2003. The ownership definitions are inspired by Whittington and Mayer's analysis of the strategy and structure of 100 largest corporations in France, Germany and Great Britain, but with some national differences.[10]
Definitions 1. Ownership categories

- Dispersed ownership – Nobody owns or controls more than 50 percent
- Personal ownership – No single person or family owns or controls more than 50 percent
- Bank or financial ownership – Banks or investment companies/funds own/control more than 50 percent
- State ownership – The Danish state owns or controls more than 50 percent
- Firm ownership – Other companies own or control more than 50 percent
- Foreign ownership – Foreign companies own or control more than 50 percent
- Co-operative ownership – More than 50 percent of the company is owned or controlled by a co-operation
- Foundation ownership – More than 50 percent of the company is owned or controlled by a foundation

As showed in definitions 1 ownership is divided into eight categories. These categories feature ownership limits of 50 percent, whereas Whittington and Mayer placed limits at just 5 percent. That difference makes it impossible to compare the results, which is not so important as Whittington and Mayer did not find any European convergence within ownership. On the other hand, it might be interesting to see

[9] Berle, Adolph & Means, C.G.: The Modern Corporation and Private Property, New York, 1932.
[10] Whittington & Mayer (2001).

Table 5 Ownership categories in Denmark top 25 in 1973, 1983, 1993 and 2003 (see Appendix 5–8)

Disp.		Pers.	Bank	State	Firm	Foreign	Coop.	Found.
1973	3	4	0	2	0	5	6	4
1983	4	1	0	4	1	5	4	6
1993	6	1	0	2	0	3	5	7
2003	7	1	0	1	3	2	4	7

how the ownership of Danish business changed in relation to the intensification of European trade activities (Table 5).

Table 8 shows the ownership categories of 25 largest Danish corporations in 1973, 1983, 1993 and 2003. It is remarkable that the category "dispersed ownership" grew from three of the 25 largest companies in 1973 to seven of the 25 largest companies 30 years later. This growth indicates that the largest Danish companies gradually became more Anglo-Saxon in their ownership structure. Morck and Steier have in particular pointed to dispersed ownership as the characteristic of "American Capitalism", this in contrast to the rest of world in which family ownership and holding constructions are widespread. The importance of dispersed ownership among the largest Danish corporations should not be overestimated though. The most frequent Danish ownership types "Co-operative Ownership" and "Foundation Ownership" continued to be important, and, in 2003, 11 out of the 25 largest Danish companies were either co-operative or foundationally owned. On the other hand, foreign ownership became less important in the three decades following Danish entry into the EEC. This development can partly be explained by the fact that subsidiaries of foreign corporations – such as Dansk Shell or Dansk Esso – were founded to serve the Danish market. These foreign owned – but home-market oriented – companies did not grow enough to keep their place among the 25 largest companies after the mid-1980s when most of the largest companies grew internationally.

Neither co-operative ownership nor foundation ownership proved to be any limitation for global growth in the 1990s. Foundational ownership represented some the largest and most successful Danish companies, such as AP Møller-Mærsk and Carlsberg. The most important consequence of the widespread foundation ownership has probably been an increased stability in ownership in Denmark. This stability is a consequence of the fact that foundations are restricted by by-laws which, for instance, can make it very difficult if not impossible to sell the company abroad. In general the Europeanisation of the 1990s was not followed by any "internationalisation" or convergence of ownership in the very top of Danish business. This conclusion in much in line with Fligstein and Merand's conclusions

Table 6 Management categories, the 25 largest Danish companies, 1973, 1983, 1993 and 2003

	CEO & Chairm.	CEO = Chairm.	Collect. Man.	Director Gen.
1973	18	3	2	2
1983	19	3	1	2
1993	24	0	0	1
2003	25	0	0	0

which state that despite continued Europeanisation and the opened markets European corporations maintained "their national character". Whittington and Mayer's analysis of the 100 largest manufacturing enterprises in Great Britain, Germany and France, 1983 and 1993 also did not indicate any European convergence tendency in terms of ownership.[11] In conclusion, Danish ownership structures did not change dramatically in the 30 years – it is just that dispersed ownership became more important while foreign ownership vanished. In contrast to fast growing importance of the largest Danish companies and expanding FDI particularly in the late 1990s, ownership seemed to have been a stable factor in these decades.

Ownership categories mirror the position of the principal in the corporate governance system. In order to cover the other part of the conflict – the agent – it is necessary to change focus towards the daily management of the corporation. Danish limited companies are governed in the continental tradition by two managerial "boards". The daily management is headed up the daily leader (CEO) on the one side; on the other side, there is the board of directors, which supervises the daily management and is responsible to the supreme institution in the company, namely the General Assembly. This particular system is the focus of the management analysis in this article. The question is to what extent the companies followed the intentions of the system, or, if the system was violated, then which kind of ownership did these companies represent?

Definitions 2. Management Systems

- CEO & Chairman – Companies in which the chairman of the board (d. bestyrelsesformand) and the CEO are two different persons.
- CEO=Chairman – Companies in which the chairman of the board (d. bestyrelsesformand) and daily manager (d. administrerende director) is the same person.
- Collective management Companies with one chairman of the board (d. bestyrelsesformand) and a collective daily management (d. kollektiv ledelse).
- Director General – Companies with a director general (d. generaldirektør).
- As showed in definitions 2 analysis the managerial systems of the largest 25 companies are divided into four very simple categories. The four management categories in this analysis makes is it possible to unveil how many Danish companies "violated" the supervision principle behind the corporate governance structure by having the same person as CEO and Chairman.

The development of the managerial structure shows an interesting but not significant change in the development of managerial structure among the largest Danish companies. In 1973 and 1983, three out of the 25 largest Danish companies had one and the same person as chairman and CEO. Two state owned companies had a Director General (the Danish Railways and P&T), one company a collective management while 19 companies had the typical division between a daily leader and another chairman of the supervising board of directors. In 1993 and 2003

[11] Fligstein & Merand (2002); Whitting & Mayer (2001).

respectively 24 and 25 of the 25 largest Danish companies were managed through this division between a leader of the daily management and a chairman of the supervisory board.

It is worth noting that the three companies in 1973 and 1983 with the same chairman and daily leader – ØK, AP Møller-Mærsk and Danfoss – were among the very largest and most important companies. In the case of AP Møller-Mærsk it was Mærsk McKinney-Møller – a second-generation family member – who controlled the foundation which owned the company and at the same time served as both chairman of the board and manager of the daily business. Danfoss was also family-owned, but Andreas Jepsen – who was both chairman and daily leader – was not part of the family. Instead, he was a trusted person who took over after the founder Mads Clausen died at a relatively young age in the mid-1960s. By the end of the 1990s, Mads Clausen's son – Jørgen Mads Clausen – took over as daily leader of the company, while an experienced person from outside the family continued as chairman. In the third case – ØK – it was interesting that the company had a dispersed ownership. But a particular holding-company construction meant that ØK's daily management controlled 25 percent of the company – and thus was the largest shareholder. This construction probably made it difficult for the dispersed and thus weak shareholders to change the structure with one extremely powerful daily manager and chairman of the board – Mogens Pagh.

In 1993 and 2003 almost all the largest Danish companies had turned to a straight version of the continental corporate governance system. This was not because the ownership types changed dramatically, as has been shown already. One reason for the disappearance of the CEO=chairman system perhaps was that investors have been – and still are – very sceptical about this construction. Also the legal system has been important. In Denmark, one the largest business scandals took place in 1990 when the CEO and chairman of the large company Nordisk Fjer – Johannes Poulsen – betrayed the board of directors and then committed suicide before the scandal was public. After the Johannes Poulsen tragedy, Danish corporate law was changed and all listed company was prohibited to have the same person as CEO and chairman of the supervising board.

Summary

The Danish economy in general and the largest Danish companies in particular have gone through some dramatic changes since the mid-1980s in terms of more international activities in general and a higher degree of European export and investments in particular. This "Europeanisation" process followed the changes as suggested by the literature of Fligstein & Merand and Jack Hayward:[12] Danish companies have traded more intensively with the surrounding world and, in particular, trade with other European Union countries has proved important. The outgoing FDI figures rose dramatically in the second part of the 1980s when European economic

[12] Fligstein & Merand (2002); Hayvard (2001).

integration was intensified by the Single European Agreement in 1987 and later through the Single European Market in 1992. One of the consequences of this process was that the largest Danish companies became substantially larger compared with overall growth in the size of the Danish economy. In the early 1970s, the top list of the largest Danish companies was dominated by home-market oriented companies such as DSB (the Danish railways), P&T and FDB (co-operative retailing chain). Thirty years later, the largest Danish companies were larger, more global, companies with employees all around the world. How did these changes then affect the corporate governance structure?

Changes in the corporate governance pattern are not so straightforward. First of all, ownership structures did not change significantly in the 30 years following Danish entry into the European Community. Even though dispersed ownership became more important than national particularities such as foundation ownership and family ownership, the latter continued to be the most widespread types of ownership.

According to Randall Morck and Lloyd Steier capitalist systems can be divided into two fundamental types: American capitalism, in which powerful CEO's control companies on behalf of dispersed shareholders; and the rest of the world, where families continue to be important owners and managers of large corporations.[13] One could say that dispersed ownership with institutional investors and powerful analysts perhaps will prove to be more important in Europe in the future when the larger and more internationalised companies need to raise capital on stock exchanges. On the other hand, national corporate governance patterns have proven to be very strong and durable. Even though market access and business strategies change – for instance, from a very nationally oriented business environment with relatively many small companies to a business environment with larger multinational companies –, the institutional framework such as ownership structure and corporate governance system will not necessarily change. Mancur Olson has argued that major institutional changes require major disruptions, like wars or disasters, which weaken the elite sufficiently to interrupt its control of the state.[14] Perhaps the "Europeanisation" process from the mid-1980s on made large corporations more important in a small European country like Denmark – but apparently the disruptions have not been so strong that ownership structure and corporate governance regimes have changed dramatically – at least not so far.

Appendix 1 Top 25 non-financial companies in Denmark, 1973, revenue (mio. DKK), revenue (mio. 2004 DKK), employees

No.	Name	Revenue	Revenue DKK 2004	Employees
1.	ØK	13,637	67,074	36,474
2.	A.P Møller	9,496	46,705	13,675
3.	FDB (Coop DK)	3,942	19,389	7,760
4.	ESS-FOOD	3,439	16,913	500
5.	Carlsberg	2,584	12,709	7,500

[13] Morck & Steier (2005), pp. 3–5.
[14] Olson, Ulf (1982).

Appendix 1 (continued)

No.	Name	Revenue	Revenue DKK 2004	Employees
6.	KFK	2,200	10,821	686
7.	DLG	2,128	10,467	1,416
8.	P&T	1,977	9,728	17,369
9.	J. Lauritzen	1,848	9,088	9,029
10.	FL Smidth & Co.	1,764	8,678	5,100
11.	Superfos	1,723	8,476	4,500
12.	DSB	1,445	7,107	21,765
13.	Dansk Esso	1,415	6,960	1,374
14.	Danfoss	1,298	6,385	11,100
15.	Andelssmør	1,266	6,229	110
16.	Dansk Luftfartsselsk.	1,204	5,920	4.305
17.	Tulip Slagterierne1.	160	5,705	2,890
18.	Gulf Oil	1,147	5,642	843
19.	Irma	1,118	5,501	4,600
20.	BP	1,094	5,380	1,342
21.	Skandinavisk Motor	1,045	5,140	3,008
22.	S.C Sørensen	1,025	5,041	1.400
23.	Dansk Shell	1,015	4,992	850
24.	FSA	971	4,777	1,459
25.	Phillips	934	4,594	1,875
Total		60,875	289,864	155,320
Danish GDP 1973		178,155	Total Danish workforce: 2,293,000	
Top 25 in % of GDP		34 %	Top 25 in % of workforce 6.7 %	

Appendix 2 Top 10 non-financial companies in Denmark, 1983, revenue (mio. DKK), revenue (mio. 2004 DKK), employees, Danish GDP, Danish workforce

No.	Name	Revenue	Revenue DKK 2004	Employees
1.	A.P Møller	28,417	51,313	13,604
2.	ØK	16,882	30,484	22,154
3.	FDB (Coop DK)	14,159	25,567	10,660
4.	J. Lauritzen	10,865	19,619	14,900
5.	ESS-FOOD	8,949	16,159	500
6.	Sukkerfabrik. (DDS)	8,038	14,514	10,233
7.	DLG	7,804	14,092	2,144
8.	Superfos	7,576	13,680	4,511
9.	P&T	7,423	13,404	31,991
10.	Carlsberg	7,177	12,960	13,267
11.	Dansk Shell	6,587	11,894	2,367
12.	KFK	6,325	11,421	1,653
13.	Dansk Esso	6,168	11,137	1,094
14.	Mejeriselskabet	5,853	10,570	2,323
15.	Kuwait Petrol	5,565	10,049	472
16.	F.L Smith and Co	5,511	9,950	8,161
17.	ISS	4,749	8,578	51,400
18.	BP	4,298	7,760	2,060
19.	DSB	4,294	7,754	22,520
20.	Dansk Luftfartselskab	4,291	7,749	4,886
21.	Danfoss	4,278	7,724	11,485

Appendix 2 (continued)

No.	Name	Revenue	Revenue DKK 2004	Employees
22.	Skandinavisk Holding	4,205	7,593	5,180
23.	Isefjordsværket	3,724	6,725	764
24.	Dagrofa	3,430	193	956
25.	Novo Industri	3,360	6,067	4,200
Total		197,351	359,024	190,925
Danish GDP 1983		531,728	Total Danish workforce	2,293,000
Top 10 in % of GDP		37 %	Top 10 in % of workforce	7.5 %

Appendix 3 Top 10 non-financial companies in Denmark, 1993, revenue (mio. DKK, revenue (mio. 2004 DKK), employees

No.	Name	Revenue	Revenue 2004	Employees
1.	AP Møller-Mærsk	44,229	72,995	25,000
2.	FDB (Coop-DK)	23,889	30,199	13,767
3.	TDC	18,259	23,082	17,064
4.	Dansk Supermarked	17,442	20,967	10,253
6.	Carlsbergs	15,595	19,714	17,762
7.	J. Lauritzen	13,584	17,172	14,100
8.	ISS	13,307	16,822	125,900
9.	Danisco	12,884	16,237	11,055
10.	Novo Nordisk	12,163	15,375	11,648
11.	FLS	12,143	15,350	13,618
12.	ØK	11,125	14,064	13,978
13.	Sophus Berendsen	9,874	12,482	27,900
14.	Norsk Hydro DK	9,630	12,173	3,135
15.	Skandinavisk Holding	9,309	11,768	5,552
16.	Danish Crown	9,180	11,605	6,019
17.	P&T	8,674	10,965	25,598
18.	Vestjyske Slagterier	8,030	10,151	5,777
19.	Superfios	8,005	10,119	5,254
20.	Danfoss	7,932	10,027	13,190
21.	IBM Danmark	7,534	9,542	3,939
22.	Monberg &Thorsen	7,288	9,212	4,403
23.	KFK	7,254	9,170	1,715
24.	ESS	7,214	9,119	0
25.	DONG	6,777	8,568	411
Total		317,907	403,317	386,337
Danish GDP		900,153	Total Danish workforce: 2,674,000	
Top 10 in % of GDP		35 %	Top 10 in % of workforce	14 %

Appendix 4 Top 10 non-financial companies in Denmark, 2003, revenue (mio. DKK), revenue (mio. 2004 DKK), employees

No.	Name	Revenue	Revenue DKK 2004	Employees
1.	AP Møller-Mærsk	157,112	158,997	
2.	TDC	50,263	50,866	25,432
3.	Dansk Supermarked	45,697	46,245	19,446
4.	Arla Foods	40,647	41,135	17,791
5.	Danish Crown	40,368	40,852	23,053
6.	ISS	36,165	36,599	246,073

Appendix 4 (continued)

No.	Name	Revenue	Revenue DKK 2004	Employees
7.	Coop Danmark	32,182	32,568	19,778
8.	Carlsberg	34,626	35,042	31,531
9.	Group4Falck	34,564	34,979	246,366
10.	Borealis	27,328	27,656	5,034
11.	Novo Nordisk	27,541	26,859	18,381
12.	Skandinavisk Holding	22,384	22,652	9,032
13.	Dagrofa	18,657	18,881	2,292
14.	DSV	17,676	17,888	9,249
15.	Danisco	16,397	16,594	8,440
16.	Danske Trælast	16,112	16,305	5,880
17.	Danfoss	15,434	15,619	17,485
18.	FLS	14,911	15,090	10,234
19.	DLG	14,567	14,741	2,832
20.	DONG	14,247	14,481	1,125
21.	Statoil	13,150	13,308	2,291
22.	Vestas	12,279	12,246	10,234
23.	Bunker	11,413	11,550	477
24.	Vesterhavet	11,197	11,331	5,200
25.	Grundfos	11,152	11,285	11,675
Total		770,767	790,596	751,151
Danish GDP 2003		1,390,537	Total Danish workforce: 2,782,000	
Top 10 % of GDP		55 %	Top 10 % of workforce	27 %

Appendix 5 Top 25 non-financial comp.s in Denmark, 1973, ownership and management

No.	Name	Ownership	Management
1.	ØK	Dispersed	CEO=Chairman
2.	A.P Møller	Foundation	CEO=Chairman
3.	FDB (Coop DK)	Co-operative	CEO& Chairman
4.	ESS-FOOD	Co-operative	CEO& Chairman
5.	Carlsberg	Foundation	CEO& Chairman
6.	KFK	Dispersed	CEO& Chairman
7.	DLG	Co-operative	CEO& Chairman
8.	P&T	State	Director General
9.	J. Lauritzen	Foundation	CEO& Chairman
10.	FL Smidth & Co.	Personal	CEO& Chairman
11.	Superfos	Dispersed	Collective Management
12.	DSB	Public	Director General
13.	Dansk Esso	Foreign	Collective Management
14.	Danfoss	Foundation	CEO=Chairman
15.	Andelssmør	Co-operative	CEO& Chairman
16.	Dansk Luftfartsselsk.	Public	CEO& Chairman
17.	Tulip Slagterierne	Co-operative	CEO& Chairman
18.	Gulf Oil	Foreign	CEO& Chairman
19.	Irma	Personal	CEO& Chairman
20.	BP	Foreign	CEO& Chairman
21.	Skandinavisk Motor	Personal	CEO& Chairman
22.	S.C Sørensen	Personal	CEO& Chairman
23.	Dansk Shell	Foreign	CEO& Chairman
24.	FSA	Co-operative	CEO& Chairman
25.	Phillips	Foreign	CEO& Chairman

Appendix 6 Top 25 non-financial comp.s in Denmark, 1983, ownership and management

No.	Name	Ownership	Management
1.	A.P Møller	Foundation	CEO=Chairman
2.	ØK	Dispersed	CEO=Chairman
3.	FDB (Coop DK)	Co-operative	CEO& Chairman
4.	J. Lauritzen	Foundation	CEO& Chairman
5.	ESS-FOOD	Co-operative	CEO& Chairman
6.	Sukkerfabrikker (DDS)	Dispersed	CEO& Chairman
7.	DLG	Co-operative	CEO& Chairman
8.	Superfos	Dispersed	Collective Management
9.	P&T	State	Director General
10.	Carlsberg	Foundation	CEO& Chairman
11.	Dansk Shell	Foreign	CEO& Chairman
12.	KFK	Foreign	CEO& Chairman
13.	Dansk Esso	Foreign	CEO& Chairman
14.	Mejeriselskabet	Co-Operative	CEO& Chairman
15.	Kuwait Petrol	Foreign	CEO& Chairman
16.	F.L Smith and Co	Personal	CEO& Chairman
17.	ISS	Dispersed	CEO& Chairman
18.	BP	Foreign	CEO& Chairman
19.	DSB	Public	Director General
20.	Dansk Luftfartselskab	Public	CEO& Chairman
21.	Danfoss	Foundation	CEO=Chairman
22.	Skandinavisk Holding	Foundation	CEO& Chairman
23.	Isefjordsværket	Public	CEO& Chairman
24.	Dagrofa	Firm	CEO& Chairman
25.	Novo Industri	Foundation	CEO& Chairman

Appendix 7 Top 25 non-financial comp.s in Denmark, 1993, ownership and management

No.	Name	Ownership	Management
1.	AP Møller-Mærsk	Foundation	CEO& Chairman
2.	FDB (Coop-DK)	Cooperative	CEO& Chairman
3.	TDC	Dispersed	CEO& Chairman
4.	Dansk Supermarked	Firm	CEO& Chairman
5.	MD Foods (Arla)	Cooperative	CEO& Chairman
6.	Carlsberg	Foundation	CEO& Chairman
7.	J. Lauritzen	Foundation	CEO& Chairman
8.	ISS	Dispersed	CEO& Chairman
9.	Danisco	Dispersed	CEO& Chairman
10.	Novo Nordisk	Foundation	CEO& Chairman
11.	FLS	Personal	CEO& Chairman
12.	ØK	Dispersed	CEO& Chairman
13.	Sophus Berendsen	Dispersed	CEO& Chairman
14.	Norsk Hydro DK	Foreign	CEO& Chairman
15.	Skandinavisk Holding	Foundation	CEO& Chairman
16.	Danish Crown	Co-operative	CEO& Chairman
17.	P&T	Public	Director General
18.	Vestjyske Slagterier	Co-operative	CEO& Chairman
19.	Superfios	Dispersed	CEO& Chairman
20.	Danfoss	Foundation	CEO& Chairman

Appendix 7 (continued)

No.	Name	Ownership	Management
21.	IBM Danmark	Foreign	CEO& Chairman
22.	Monberg &Thorsen	Foundation	CEO& Chairman
23.	KFK	Foreign	CEO& Chairman
24.	ESS	Co-operative	CEO& Chairman
25.	DONG	Public	CEO& Chairman

Appendix 8 Top 25 non-financial comp.s in Denmark, 2003, ownership and management

No.	Name	Ownership	Management
1.	AP Møller-Mærsk	Foundation	CEO& Chairman
2.	TDC	Dispersed	CEO& Chairman
3.	Dansk Supermarked	Firm	CEO& Chairman
4.	Arla Foods	Co-operative	CEO& Chairman
5.	Danish Crown	Co-operative	CEO& Chairman
6.	ISS	Dispersed	CEO& Chairman
7.	Coop Danmark	Co-operative	CEO& Chairman
8.	Carlsberg	Foundation	CEO& Chairman
9.	Group4Falck	Dispersed	CEO& Chairman
10.	Borealis	Foreign	CEO& Chairman
11.	Novo Nordisk	Foundation	CEO& Chairman
12.	Skandinavisk Holding	Foundation	CEO& Chairman
13.	Dagrofa	Firm	CEO& Chairman
14.	DSV	Dispersed	CEO& Chairman
15.	Danisco	Dispersed	CEO& Chairman
16.	Danske Trælast	Dispersed	CEO& Chairman
17.	Danfoss	Foundation	CEO& Chairman
18.	FLS	Personal	CEO& Chairman
19.	DLG	Co-operative	CEO& Chairman
20.	DONG	Public	CEO& Chairman
21.	Statoil	Foreign	CEO& Chairman
22.	Vestas	Dispersed	CEO& Chairman
23.	Bunker	Firm	CEO& Chairman
24.	Vesterhavet	Foundation	CEO& Chairman
25.	Grundfos	Foundation	CEO& Chairman

European, Global or Norwegian? The Norwegian Aluminium Companies, 1946–2005

Pål Thonstad Sandvik

Norwegian output of primary aluminium rose from 45,000 metric tons in 1950 to 520,000 tons in 1970 and to 850,000 tons in 1986.[1] In 1971, Norway accounted for 18 % of the world's primary aluminium export. Most of her production was sold on European markets.[2] One of the Norwegian companies involved, Norsk Hydro, became in 2002 the world's third largest producer of aluminium.

The question that will be investigated here is whether the Norwegian aluminium companies have been 'Europeanised' in any sense since the early days of European integration? A European firm is defined as an enterprise carrying out most of its business in Europe and which primarily has European – and not just national – managers, stake- and shareholders. Would it be appropriate to label the aluminium producers as 'European' firms, or is it more accurate to label them as for instance Norwegian, Scandinavian or western? The political framework, ownership, value chains, markets, relations to other companies and labour relations will be scrutinised.

The Norwegian aluminium industry represents an intriguing case when discussing 'the European firm'. Several aspects helped shaping the Norwegian aluminium companies. Domestic politics played an important, yet changing role. Most of the aluminium firms shared some Norwegian, or in fact typically Scandinavian, traits with regard to labour relations. But the firms were also deeply embedded in European and global value chains, and they all depended on European markets. The question is therefore which of these aspects, the domestic, the European or the global has been the most important, and whether we can spot any changes in the 'European' direction during the last decades.

To start with, we will take one step back and look at the origins and development of the Norwegian aluminium industry 1908–1945.

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[1] SSB (1994), Tabell 16.6, Historisk statistikk.

[2] OECD (1973), Problems and prospects of the primary aluminium industry, Paris: OECD, p. 20. (Canada accounted for 45 % of world exports, France 6 %.)

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A Short Industrial Prehistory

The Norwegian metallurgical and chemical industry developed very quickly between 1905 and 1920. It was technologically savvy and internationally oriented. The enterprises had close links with foreign firms – through ownership, sales or personal bonds. A substantial number of the managers and leading engineers had studied in Germany and/or had worked at industrial plants in North America.

Some of the 'particularities' of the Norwegian business system had long-term implications, not least for the aluminium industry, and need to be mentioned here. Firstly, the state played a prominent role from 1906 onwards. The exploitation of natural resources became tightly regulated, especially hydro-power. Secondly, domestic investors had a relatively weak position, both financially and politically. Most metallurgical and chemical firms were foreign owned. Thirdly, organised labour steadily gained momentum in the first decades of the 20th Century. In the last respect, conditions were more or less similar to Denmark and Sweden, but different from Germany, Great Britain or the United States. Historically speaking, the homogeneous and relatively egalitarian Scandinavian countries have had similar and peaceful ways of handling social conflicts. This in turn influenced relations between firms and society and especially between firms and organised labour.[3] A well positioned observer like Bayer manager Carl Duisberg found that Norwegian society and firms were less hierarchical than their German counterparts and more democratic. According to Duisberg, Norwegian society was even more permeated by democratic attitudes than Switzerland or the US.[4]

I would therefore argue that by 1920 Norwegian companies had acquired some distinct national, or perhaps Scandinavian, traits, especially with regard to labour relations. In a technological sense, many firms were heavily influenced by German models, not the least since most senior engineers had studied at German *Hochschulen*. As much of the metallurgical industry was in foreign hands, it would also be safe to assume that company culture to a large extent depended upon ownership. Swedish-owned firms were oriented towards Sweden, US-owned towards the US, British towards Britain etc. This was also the case in the aluminium industry. In the official history of the aluminium producer DNN (partly owned by Pechiney), Egil Kollenborg describes the firm as solidly French.[5]

The First Norwegian Aluminium Smelters

By the early 20th Century the international aluminium industry was totally dominated by vertically integrated firms. They controlled all stages of production, mining

[3] See Larsen, H. K. (ed.), (2001). *Convergence, Industrialisation in Denmark, Finland and Sweden 1870–1940,* Helsinki, p. 9 and C. A. Nilsson's contribution in this book: Employers strategies against unionism and socialism 1899–1940, esp. pp. 160ff.

[4] Ketil Gjølme Andersen brought my attention to Duisberg's perceptions of Norway. See also Andersen, K. G. (2005). *Norsk Hydros historie 1905–1945*, Oslo, p. 18.

[5] Kollenborg, E. (1962). *Det norske Nitridaktieselskab 1912–1962*, Oslo, pp. 106–07.

of bauxite, the manufacture of the intermediate product alumina, smelting of primary metal and partly also the fabrication of end products. The sole Norwegian competitive advantage was cheap hydroelectric power for smelting, but, since there existed no arms-length market for bauxite or alumina, it proved difficult to operate independent smelters. This had profound consequences for the structure as well as the character of the Norwegian aluminium industry.

The smelters were – with one partial exception – foreign owned and were wholly dependent on their mother companies (Alcan, BACO and Pechiney) for technology, supply of the intermediate product alumina and for market access. It was therefore natural that the smelters were administered and directed from foreign head offices.

However, the most independent and technologically advanced Norwegian aluminium producer was a firm called Naco.[6] The shares in this company were equally divided between domestic investors and Canadian Alcan. While Alcan appointed the majority of board members, the company was de facto run and controlled by its Norwegian top management. Even though Naco was dependent of Alcan for the supply of bauxite, it was the only semi-integrated Norwegian aluminium company, operating a refinery and smelter in Høyanger in western Norway, as well as fabricating plants in Eastern Norway, Sweden and Denmark. Its smelting capacity was 8,500 tons, almost a fourth of Norwegian total in 1940.[7]

There were massive German investments in the Norwegian aluminium industry during World War II. The plans included a tenfold increase in refining capacity and a sevenfold increase in smelting capacity (to almost 250,000 tons primary metal.) However, the ambitious goals were not fulfilled as most of the plants did not come into production during the war.[8]

These inter-war and wartime developments are important because the experiences helped shape Government policies after 1945. Leading politicians and industrialists were convinced that Norway had comparative advantages in the aluminium industry, especially in smelting, due to the abundant supply of cheap hydropower. To reap the full economic benefits it was necessary to bring production under national control. It was believed that the foreign-owned aluminium corporations had used their Norwegian plants as swing capacity in the inter-war period. Aluminium production had stagnated in the 1930s and never surpassed its 1929 peak before the outbreak of war.[9]

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[6] Fasting, K. (1965). *Norsk Aluminium gjennom 50 år,* Oslo. Naco was established by domestic investors in 1915, but due to financial difficulties half the shares were sold to American Alcoa in 1923. Alcoa transferred the shares to its Canadian affiliate Alcan in 1929.

[7] Fasting (1965). pp. 137–38, 159–162 and 205–206. The Swedish plant was not 100 % owned by Naco.

[8] Andersen (2005).

[9] Rinde (1996). *Utenlandske interesser i norsk aluminiumsindustri 1908–1990,* BI, pp. 17ff. Contemporary suspicions were probably wrong. The most likely reason for Norwegian stagnation in this field was rising trade barriers in important markets, especially in France, Germany, the US and Great Britain.

The German aluminium projects had opened new possibilities, both for growth and for increased independence from the multinational aluminium companies. The unfinished plants and patents were, along with all other enemy property, confiscated in 1945.

Phase One of the Aluminium Programme: National Ambitions and State Ownership

For Norwegian authorities in the post-war period, modernisation was equivalent with industrialisation. To generate hard currency, export industry was to be developed at a rapid pace. The natural advantages of cheap and abundant hydropower were to be exploited. This strategy came to the fore in the national long-term programme presented to the OEEC in 1948.[10] The programme stated that the aluminium industry was given priority. As smelting of aluminium consumed more electricity than of any other metal this was ideally suited for Norwegian conditions.

A state-owned aluminium producer was established, which was later known as ÅSV. This company brought the German-built smelter in Årdal on stream in 1947 with an initial capacity of 24,000 tons. A somewhat larger smelter in Sunndal was subsequently financed through ESA and the American stockpiling programme.[11] ÅSV enjoyed high profits in the following years and used the cash flow to expand smelting capacity. In 1960 ÅSV produced 114,000 tons of primary metal.

Besides investment capital, the most pressing issue in the late 1940s was the supply of the intermediate product alumina. Norway did not have any deposits of bauxite and was therefore practically excluded from the upstream activities. Neither did the country have significant domestic consumption of aluminium products, something which limited the possibilities of downstream integration. All this had major implications for ÅSV.

In 1946–47 a sharp debate ensued about which strategies to pursue. The most radical alternative was to use the domestic mineral labradorite instead of bauxite and to do the refining in Norway. For this purpose, Naco had developed the so-called Pedersen-process in the 1920s. This autarchic approach would have ensured independence from the international aluminium companies, but was discarded, as it would have induced higher capital outlays and production costs. The wartime German plans of importing bauxite from Greece were also shelved.[12]

This meant that one would have to co-operate with one of the industry majors. In 1946 Alcan was invited to become a shareholder in the new company. This would at one stroke have solved both the capital and the alumina problem. According to

[10] Stortingsmelding 54, (1948), Om utarbeidelsen av et langtidsprogram til Organisasjonen for europeisk økonomisk samarbeid.

[11] Ingulstad (2006). *USA og ÅSV: amerikansk strategisk råvarepolitikk, Marshallplanen og finansieringen av Sunndal Verk,* MA-thesis, NTNU, Trondheim, pp. 42ff.

[12] Grønlie, T. (1976). Årdal verks oksydavtale med Alcan i 1947, *Historisk Tidsskrift* no. 4.

Duncan Campbell, the offer was turned down by Alcan's manager Edward Davis, 'who didn't favour the principle of partnership with governments at any time, particularly socialist governments'.[13]

The new state firm did nevertheless enter long-term barter arrangements with Alcan ensuring the alumina supply. For six tons of alumina Alcan received about one ton of primary metal. Later, similar deals were also made with Alcan's American sister company, Alcoa.[14] Internationally, this kind of arrangement became quite usual for state controlled aluminium smelters that were established around the world in the following decades. Nearly all of them participated in joint ventures or co-operated closely with one of the global majors.[15]

The implication of all this was that the structure of the Norwegian aluminium industry was substantially altered. The state owned ÅSV accounted for 80 % of the expansion in smelter capacity during the late 1940s and 1950s leaving the pre-war and foreign owned plants far behind. National share- and stakeholders thus became much more important than foreign. While one did not adopt more or less autarchic policy regarding domestic raw material supply, there is no doubt that the industry was 'Norwegianised'.

The long term barter contracts let ÅSV focus on national developments. Alcan and Alcoa took care of the global parts of the value chain. In addition to this the pre-war and foreign-owned players within the Norwegian aluminium industry lost importance. They were to a large extent managed from abroad and lacked – with the exception of Naco – strong domestic organisations. This limited their ability to gain access to the coveted hydropower and to expand. The 50 % Norwegian-owned Naco was for its part accused of collaboration with German authorities during wartime occupation. Although the board and top management were cleared in court, the firm lost political favour in post-war Norway. As a result, a large state-owned and very nationally oriented aluminium producer came into existence.

Phase Two of the Aluminium Programme: Joint ventures and Accelerated Expansion

In the second half of the 1950s the government intensified its efforts to expand Norway's production of primary aluminium. In 1958 government plans called for almost tripling production capacity to 300,000 tons per annum by the end of the 1960s. Targets were subsequently revised upwards to 7–800,000 tons. By comparison, in 1960 total production in Western Europe was around 860,000 tons.[16]

[13] Campbell (1985/1989). *Global Mission, The Story of Alcan,* Montreal, vol. 2, pp. 555–556.
[14] Tresselt, D. (1968). *Strategi og kontroll i norsk aluminiumsindustri*, Oslo. pp. 21–23.
[15] Stuckey, J. A. (1983). *Vertical Integration and Joint Ventures in the Aluminum Industry,* Cambridge Mass., p. 193.
[16] Stortingsmelding 6, (1962–63). p. 18.

This expansion would not be possible without huge foreign direct investments. American, Canadian and Swiss firms invested heavily in the Norwegian aluminium industry. The question here is how this influenced the industry? To what extent was the trend towards increased 'Norwegianisation' reversed – was it possible to detect an Americanisation or an Europeanisation of the industry?

The state producer ÅSV more than doubled its output,[17] but the rest of the expansion depended on large-scale foreign investment. However, foreign aluminium companies were not allowed to establish 100 % owned smelters in Norway, but were invited to form joint ventures with domestic companies. Joint ventures were believed to give larger benefits to Norwegian society than subsidiaries of the industry majors. Inter-war experiences were not forgotten.

Between 1958 and 1972 four large aluminium smelters were established. The first one out was the privately owned Norwegian metallurgical company Elkem. It formed a joint venture with Swiss AIAG (later Alusuisse) and in 1958 Mosjøen Aluminiumsverk (Mosal) came on stream. However, the partnership proved to be rather troublesome. In 1963 AIAG was replaced by the American company Alcoa, the world's largest producer of aluminium.[18] Elkem also chose a partnership with Alcoa when it later built a large smelter at Lista in southern Norway.[19]

Two aluminium smelters were built in the mid-1960s. Both were planned as joint ventures between Norwegian business interests and foreign companies. The leading Norwegian commercial bank DnC tried to organise a consortium to build a smelter at Husnes in the Hardangerfjord together with AIAG. However, the bank did not succeed in raising the Norwegian share capital and the venture was dominated by AIAG's 80 % stake.[20] The government had to accept de facto Swiss control over the plant. In the early years, the plant manager was recruited from abroad, something that was unheard of elsewhere in post-war Norway.

On the island of Karmøy in western Norway, Norsk Hydro built a smelter and a fabricating plant together with the American company Harvey Aluminum. At the time, almost half the stocks in Norsk Hydro were state owned and the company received preferential treatment with regard to hydropower. Unlike Elkem, Norsk Hydro was a newcomer in the aluminium industry and depended on Harvey for alumina supplies as well as technical expertise. However, the partnership with Harvey turned sour and in 1973 the Americans were bought out. In 1976 Norsk Hydro acquired DnC's shares in the Husnes smelter as well.[21]

The establishment of joint ventures fitted in nicely with international developments in the 1960s: Smelting was seen as the easiest point of entry in the aluminium business. In order to secure supplies of bauxite, patent rights and technological

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[17] Owe, A. W. (1966). "En industribedrift blir til", NHH, Bergen 1966, p. 6.
[18] Pedersen, R. (1997). *Til verket. Elkem Aluminium Mosjøens historie gjennom 40 år,* Mosjøen, pp. 144ff.
[19] Børtnes, K (1999). *Lista Aluminiumverk, veien frem 1960–1971*, MA-thesis, Oslo, pp. 41ff. Sogner, K. (2003). *Skaperkraft, Elkem gjennom 100 år, 1904–2004,* Oslo, pp. 190ff.
[20] Sejersted, F. (1982). (ed.), *En storbank i blandingsøkonomien, DnC 1957–1982,* Oslo.
[21] Johannessen, Rønning, Sandvik (2005), p. 401.

support, new players often sought to establish joint ventures with more experienced partners.[22] Since the international majors were not offered the possibility of establishing wholly owned new smelters in Norway, they had to take in Norwegian business partners in order to benefit from cheap hydropower.

However, when deemed necessary, national ownership was relinquished: This was first demonstrated in 1962–63 by the acceptance of AIAG's dominating share of the smelter at Husnes. More was to come: In a surprising move in 1966 half the stock in the previously 100 % state-owned ÅSV was sold to Canadian Alcan. The ÅSV management had become increasingly pessimistic with regards the possibility of succeeding as an independent producer of primary metal in an industry that was highly vertically integrated. In the early 1960s ÅSV saw its customer base erode, as leading aluminium companies bought independent fabricating firms. Instead of establishing its own fabricating units, ÅSV's management invited Alcan to invest in the firm.[23] We will soon see what influence Alcan and AIAG had on the Norwegian aluminium industry.

The Changing Character of the Norwegian Aluminium Producers

We have now looked at three aspects concerning the Norwegian aluminium industry, namely the shifting structure of value chains, ownership, and domestic political strategies.

Before the Second World War, most plants were wholly foreign owned. Strategic decisions regarding raw material supply, investments and marketing etc. were made at head offices in Paris, London, New York or Montreal. The plant management had only local or national responsibility, handling technical operations, questions regarding supply of hydropower and relations to unions and employers associations. It was only in the Naco company, in which domestic owners controlled 50 % of the shares, that Norwegian management had influence over a larger part of the value chain. As we recall, Naco operated both an alumina refinery and several fabrication plants.

After the war, the global political economy of aluminium changed. This had significant consequences for how the industry was organised and for relations between firms, states and other stakeholders. The multinational aluminium companies lost some of their previous omnipotence as governmental influence was strengthened. Company success was increasingly contingent upon co-operation with host governments. In Norway, the most important government tools were earmarking of hydropower and credit. Aluminium producers also had to rely on the government to represent their interests within multilateral institutions as the OEEC, EEC and EFTA in order to gain easier access to export markets.

[22] Stuckey (1983), pp. 84–85, 155 and 211.

[23] Rinde, H. (1997). Alcan tur-retur, in: Amdam, Gjestland & Hompland, eds., *Årdal, Verket og Bygda 1947–1997,* Oslo. Naco was at this point merged with ÅSV.

After the Second World War, West Germany opened its markets for Norwegian aluminium. This was important as consumption soared during the 'Wirtschaftswunder'. However, with the harmonisation of external tariffs within the EEC in the early 1960s customs were raised. France was vehemently opposed to free imports of aluminium from Norway, which would threaten her own industry. But the German market was secured through a generous quota system. And with the ongoing liberalisation of trade within EFTA, tariff-free access was gained to Great Britain.[24]

The main question here is whether improved market access and increasing European sales implied that the Norwegian aluminium companies became 'Europeanised'? Did recruitment of managers, share- and stakeholder-relationships change in this direction? Or were the companies still primarily shaped by domestic politics and by their links to multinational (i.e. primarily North American) companies?

We will start by looking at the largest domestic producer: ÅSV. As a state company, with plants only in Norway, ÅSV became a truly national firm, with regard to ownership, stakeholder interests, decision-making structure and organisational character. This did not change very much after Alcan acquired half the shares in the company in 1966.

The first managing director Aage Owe had made his career at the intersection between science, state bureaucracy and business. He was known as an eminent engineer and a well connected political operator. ÅSV excelled at winning political favours such as cheap hydropower, credit and currency allocations. The company's focus was on expansion, production and on improving smelting technology,[25] not on markets or on creating value for shareholders.

When Alcan in 1966 became a shareholder in ÅSV, the differences in the two companies' value system came to light. Alcan did not manage to exert much influence. ÅSV was in many ways devised entirely for production, being geared to the achievement of a national objective, namely the smelting of aluminium. Profits were of course important, but were not the main goal, and became even less so as the 1970s progressed.

Following the referendum on membership in the EEC in 1972, Norwegian politics were radicalised. Whereas the Norwegian government previously had sought co-operation with global majors in aluminium as well as in oil and petrochemicals, industrial policy turned more nationalistic.[26] As a result, Alcan was pressured to sell half its shares in ÅSV in 1975. From then on, conflicts escalated. For Alcan, the last straw was the 1979 decision to modernise the small Høyanger smelter. The Alcan board members concluded that the plan lacked business merit and that it was carried through solely because 'the principal shareholder as a political institution has a particular obligation to provide employment in places with few alternative op-

[24] Johannessen, Rønning and Sandvik (2005). p. 407.

[25] Myrvang, C. (1997). Falkeblikk og styringsteknikk, in: Amdam, Gjestland & Hompland, eds., *Årdal, Verket og Bygda 1947–1997,* Oslo, pp. 84ff. and 90–93.

[26] Sejersted, F. (1984). *Opposisjon og posisjon, Høyres historie bd. 3,* p. 333 and 385. Sejersted, F. (1999), *Systemtvang eller politikk,* Oslo, p. 247.

portunities'.[27] As a consequence Alcan sold its remaining shares in ÅSV. In spite of 13 years of Canadian co-ownership, ÅSV had very much remained a state company with regard to business values and stakeholder relations. One can neither detect any 'Europeanisation' as a result of increased market access in the EEC nor any Americanisation due to Alcan's ownership.

The privately owned Elkem was an entirely different type of company than ÅSV. It was internationally oriented and commercially adept. As Knut Sogner has shown, Elkem's owners represented the traditional business elite in Norway and some of its top managers had played prominent roles in the Resistance during the war.[28] They managed to co-operate closely with Norway's post-war Labour governments. Elkem was granted access to cheap hydropower and the company became one of Europe's largest producers of ferroalloys. In 1958 it started to produce primary aluminium on a joint-venture basis.[29] Elkem became Norway's most expansive and profitable industrial company in the 1960s. In 1969 Elkem Aluminium's profits amounted to 23 % of sales.[30]

Elkem had sold the so-called Soderberg-technology to the global aluminium industry since the 1920s and was not as technologically dependent on its aluminium partners as for example Norsk Hydro. Elkem was thus able to secure favourable contracts with Alcoa. The close relationship to Alcoa is interesting and contributed to a lasting American influence on Elkem's management culture. While also Elkem's main markets were in the EEC and EFTA one cannot detect much 'Europeanisation' in this firm in the 1960s and 1970s.

The third Norwegian aluminium producer, Norsk Hydro, was mainly known for its manufacture of nitrogen fertilisers and heavy water. The company was arguably one of Norway's most European firms, both with regard to company culture, ownership and markets. Norsk Hydro had maintained close links with business elites in Sweden, France and Germany since 1905. In the inter-war period most shares were owned by German IG Farben and by French investors. In 1945 German shares were confiscated, but government ownership did not noticeably affect company culture or Norsk Hydro's corporate identity. The close relationship to the French investment bank Paribas continued up till the 1980s. Norsk Hydro also maintained strong links with the British chemical company ICI, which more or less was viewed as a model company.[31]

At the same time, Norsk Hydro was distinctively Norwegian, both with regard to political behaviour and labour relations. This became especially evident in the mid 1960s when Norsk Hydro entered the aluminium business in a joint venture together with the American upstart Harvey Aluminum. The new director general of Hydro, Johan B. Holte, tried to break down barriers between management and workforce,

[27] Alcan's entry in the ÅSV board minutes 22. February 1979. Quoted from Rinde 1997, p. 300.

[28] Sogner, K. (2003). *Skaperkraft, Elkem gjennom 100 år, 1904–2004,* Oslo, pp. 114ff. and 141ff. Sogner, K. (2004). *Creative power, Elkem 100 years, 1903–2004,* Oslo, pp. 34ff.

[29] Sogner, K. (2003). pp. 114ff. and 141ff. Sogner, K. (2004), pp. 34ff.

[30] Norges 500 største bedrifter 1970, pp. 30–31.

[31] Andersen (2005), Johannessen, Rønning and Sandvik(2005), *Norsk Hydros historie,* Oslo.

quite in tune with the prevailing social democratic values in Norway. This development went furthest at the aluminium plant at Karmøy, where the appointed manager, Lorenz Conradi, was a radical socialist. Conradi's worldviews and management style could hardly have been more different from the entrepreneurial and hard-nosed business culture of Harvey. Even worse, seen from Harvey's point of view, both Holte and Conradi were very conscious of the importance of stakeholder interests. Political considerations could easily override short- and medium-term profit goals. 'You act and think like the government' was Lawrence Harvey's exasperated verdict at a strained meeting with Johan B. Holte in 1970. 'If you continue like this you will sooner or later go broke'. As a prediction of Norsk Hydro's future, Harvey was far wide of the mark, but it speaks volumes about how Norwegian business culture was assessed from America.[32]

Elkem, Norsk Hydro and ÅSV did not co-operate closely; there was no sign of any 'German' co-operative capitalism. The firms were rivals with regard to the exploitation of natural resources and government privilege. When Norsk Hydro ran into serious technical difficulties at its Karmøy smelter, it did not turn to its Norwegian rivals for help, but to French Pechiney and Japanese Sumitomo.[33] Elkem's owners were for their part wary of becoming dependent on the (partly) state-owned firms Norsk Hydro and ÅSV.

The three Norwegian players in the aluminium industry could tentatively be characterised the following way: The (originally) state-owned, home-grown and technologically savvy ÅSV was primarily shaped by Norwegian management and political traditions. Elkem had a certain North American blend in its management thinking and profit orientation, but still had Scandinavian traits with regard to labour management. Norsk Hydro had its particular mix of European and Norwegian business culture. Until the 1980s, all three firms had almost all their production facilities located in Norway.

The foreign-owned players in Norwegian aluminium industry exerted minimal influence on Norwegian business culture. The Alusuisse-dominated smelter at Husnes was the only state-of-the art plant to be built and operated by a foreign company after World War II. Even in this case wider influence on Norwegian business was very limited. The local management at the rather remote plant at Husnes was only responsible for technical operations and labour relations. Important strategic decisions were taken by Alusuisse head office, and later – when Norsk Hydro acquired 20 % of the shares – in collaboration between the two companies. In other words: Alusuisse's investments and engagement did not set any 'Europeanisation' of Norwegian business in motion.

Whereas Germany had been a source of technical and organisational inspiration in the early stages of Norwegian industrialisation, American influence became more significant after 1945. This was most pronounced in the privately owned Elkem, where not only a divisional structure, but also American principles of financial

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[32] Johannessen, Rønning and Sandvik (2005).

[33] Johannessen, Rønning and Sandvik (2005) p. 405; Lie (2005) p. 241.

management were put into use in the 1960s.[34] Norsk Hydro also studied American development, but this did not lead to any far-reaching organisational or behavioural changes. Norsk Hydro had never been as oriented towards American markets or partners as Elkem. At Norsk Hydro, a divisional structure was for example only half-heartedly introduced, as it did not fit with operational requirements. As illustrated by the conflict with Harvey, Norsk Hydro's company culture was distinctively un-American: Norsk Hydro's top managers were first of all industrialists, not businessmen. For them, industrial expansion was a part of post-war nation building. It must also be added that shareholders had limited influence in Norsk Hydro. Decision-making power rested squarely with the top management.[35]

1980–2005, Global, European or Still Essentially Norwegian?

The depression and the low aluminium prices of the early 1980s nearly bankrupted the Norwegian aluminium industry. Both Elkem and ÅSV were brought to their knees. Interestingly, the least efficient primary producer, Norsk Hydro, survived, thanks to its investments in the North Sea oil industry, which generated more than enough cash to pay for losses incurred in aluminium. Norsk Hydro had also started the process of vertical integration. In the early 1970s it acquired a 5 % stake in a Brazilian bauxite mine and established a number of fabricating (extrusion) plants in different European markets.

In the mid-1980s, Norsk Hydro made two important leaps towards becoming a major aluminium company.[36] In 1986, ÅSV was brought under the company's control, after which Norsk Hydro became Western Europe's second largest producer of primary aluminium. Almost as important was the acquisition of several of Alcoa's and Alcan's extrusion plants in Europe. Shortly afterwards, Norsk Hydro relocated its head office for the extrusion business from Oslo to Lausanne. At first sight this subunit of Norsk Hydro thus became truly European. The national character was toned down. Production, sales as well as management were concentrated to Europe. But the unit's leader, Ivar Hafseth, aimed at and succeeded with establishing an American-modelled corporate culture with a global outlook. By 2005 this part of Norsk Hydro had become truly global with e.g. a strong presence in China.

When Norsk Hydro bought German VAW for around 3 billion Euros in 2002 Norsk Hydro became the world's third largest aluminium company. Again one may argue that the acquisition made the Norsk Hydro's aluminium business more European. VAW had its historical roots and corporate base in Germany. But VAW's German smelters are being phased out, whereas primary production is continued at its plants in Australia and Canada. Norsk Hydro is also building a huge new smelter in Qatar.

[34] Sogner (2004). pp. 183–89.

[35] Johannessen, Rønning and Sandvik (2005) pp. 324–326.

[36] The next paragraphs are based on Lie (2005). pp. 172ff., 361ff., 423ff.

In his book on Norsk Hydro's history 1977–2005, Einar Lie describes the company's international expansion within the aluminium as well as the oil and gas business. The markets and the operational theatres have become global. At the same time top management, the most important stakeholders and the largest owner (the state) have remained Norwegian. It is therefore tempting to conclude that while Norsk Hydro has expanded globally it has kept many of its national traits. The label European does certainly not fit.

Knut Sogner argues in his chapter in this volume that Elkem has developed differently. It used to be one of Norway's most Americanised firms with a strong global position in many metallurgical products. In the 1990s, some of the more global activities were sold. Since it acquired the Swedish company SAPA, a large manufacturer of finished aluminium products, Elkem has become – at least for the time being – much of an interregional Scandinavian company with sales concentrated to Europe.

Conclusion

The question which has been examined in this article is whether the Norwegian aluminium companies have become 'Europeanised'. The political framework, stakeholders, labour relations, ownership, value chains and markets have been scrutinised.

Today only two Norwegian-based aluminium companies still exist, Elkem and Norsk Hydro. Neither of them would have managed to enter the aluminium industry without political favour and support from the Norwegian government. This helped shape the companies. In order to succeed, they had to maintain good relations with national stakeholders, including labour as well as domestic civil society. Since the 1970s, the economy has of course been increasingly liberalised and government favour is not as decisive as it used to be. The importance of state ownership has been significantly reduced. But politics still play a part, not the least when electric power contracts are renegotiated, and Norsk Hydro has upheld much of its sensitivity towards national stakeholders and labour.

However, the national orientation should not be exaggerated, neither in the past nor in the present. The Norwegian aluminium industry has since its inception had strong international ties with regard to ownership, raw material supply and sales. For a long time, Norway was primarily a host country to several strong multinational aluminium firms. After the Second World War the domestic players were strengthened. From the 1970s, Elkem and Norsk Hydro began making foreign investments. This process accelerated in the new millennium and the companies increased their presence in European as well as global markets.

The question is how this international expansion has changed the firms? Perhaps it is too early to tell. It seems however that the two remaining Norwegian aluminium companies have developed rather differently in the recent years. Norsk Hydro has managed to attain a more global appearance while retaining its Norwegian corporate culture and stakeholder relations. Elkem has for its part retreated from some of its global positions and has become more of an interregional Scandinavian and European firm.

Changing Transnational Affections. Orkla, Elkem and Norwegian Big Business, 1960–2004[1]

Knut Sogner

When Orkla purchased Elkem in 2005, one of Norway's five largest companies bought one of Norway's twenty largest.[2] A Norwegian company with a strong footing in Sweden bought another Norwegian company with an equally strong Swedish footing, but there the similarity ends. Orkla, a conglomerate with strong sales in food and branded consumer goods that prided itself on being "a moderately diversified company", bought an outright metallurgical company and thus became even more diversified.

The two companies' Swedish connection seemingly did not matter. There was no connection between the companies' contact with Sweden, as Orkla had a huge foodstuffs business in Sweden, whereas Elkem was in control of the Swedish aluminium-processing company Sapa. Few benefits were expected from rationalisation. Both companies had been established in Stockholm in 1904, but that was because both needed a lot of capital and Sweden was in union with Norway. This was of no consequence in 2005.

Non-Scandinavians may not be surprised by the existence of Norwegian-Swedish companies. Norway and Sweden are geographical neighbours and were in a political union between 1814 and 1905. The languages are similar and people understand each other. Swedish financial interests have a long history of taking positions in Norwegian companies (e.g. Orkla and Elkem), and there are important examples of the reverse.[3] Yet historically large Swedish-Norwegian *companies* are rare, and Scandinavian Airline Systems used to be the shining exception. Companies from both countries have not been occupied in conducting Scandinavian operations, but have instead been nationally based, but export-oriented, and geared towards the larger markets in Europe, America and Asia.

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[1] This paper is based on two recent books: Sogner, K. (2003). *Skaperkraft. Elkem gjennom 100 år 1904–2004*, Oslo: Messel forlag and Bergh, T., Espeli, H. and Sogner, K. *Brytningstider. Storselskapet Orkla 1654–2004*, Oslo: Orion forlag. My colleagues Trond Bergh and Harald Espeli wrote about the period from 1974 to the present.

[2] See Bergh et al. and Sogner 2003.

[3] Gasslander, O. (1956–59). *Bank och industriellt genombrott. Stockholms Enskilda Bank kring sekelskiftet 1900*, I–II, Stockholm: Centraltryckeriet/Esselte Aktiebolag. Sejersted, F. (1993). *Demokratisk kapitalisme*, Oslo: Universitetsforlaget.

H. G. Schröter (ed.), *The European Enterprise.*

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The 1990s have seen a plethora of new Scandinavian and Nordic entities, however. Orkla went Nordic from the mid-1990s, while Elkem waited until after 2000. In banking (Nordea), insurance (If), pharmaceuticals (Nycomed), shipping (Wallenius-Wilhelmsen) there are important examples of what may seem a trend, and while the proposed huge merger between the main telecommunications operators Telia (Sweden) and Telenor (Norway) failed, both companies have extended their Nordic business extensively afterwards. Similar developments seem to be the rule in financial services. Do we have a process of some sort of geographic semi-Europeanisation going on? Are new regional, trans-national entities based on amalgamations of companies from small countries a viable answer to new opportunities and challenges in the European and global competitive arenas?

Orkla and Elkem until recently both represented versions of "the Americanised corporation" in the sense that they were diversified and divisionalised.[4] They were also nationally based exporters rather than multinational companies, and their recent expansion into Sweden and several European countries signals a *geographic* change of their arena of operations. In tandem with this development both companies have decentralised responsibility and introduced flatter organisational hierarchies. Leadership is less about instruction and more about self-control. This "Japanisation" of the companies seems a vital part of the geographical change, making the companies more dependent in their operations on their employees than before, at the same time as those employees represent a broader geographical area. The companies have become transnational and semi-European, both in terms of geographical operations and in terms of organisational logic, emphasising bottom-up processes and organisational integration. This article tries to explain how and why this has happened.

Strong and Weak Americanization

When sweeping terms like "European", "American", "Scandinavian", "Norwegian" and "Swedish" are used, their meaning must be sought in the phenomena they seek to understand. In this article Norwegian companies (under the law) are studied in their interaction with several streams of (foreign) influences, most notably of an organisational-cultural and political-legal nature.

Both Elkem and Orkla had, during the post war-period, been influenced by attitudes commonly ascribed to Americanisation. This involved both conscious building of organisational culture, as well as authoritative attitudes to what large companies were expected to do, namely grow as multidivisional and multinational export-driven corporations, global companies. Elkem, it has to be said, was more influenced in this direction than Orkla.

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[4] Whittington, R. and Mayer, M. (2000). *The European Corporation. Strategy, Structure and Social Science*, Oxford: Oxford University Press.

At the beginning of the 1960s, the larger Norwegian companies were still somewhat "European" in nature:[5] Both Elkem and Orkla originally had strong ties to their Norwegian and Swedish owners, who prior to World War II again were tied to European financial networks. In Orkla, the Swedish banking family Wallenberg was present on the board of directors from 1905 to 1977, and this implied inter-war deals with the Rothschilds, with IG Farben, as well as Orkla's management being tied through business deals and the inter-war international cartels with European (and American) enterprises. Most Norwegian exporting companies – like Orkla and Elkem – were at best only partly vertically integrated, something which emphasised the importance of foreign interconnections. The Norwegian exception was Norsk Hydro, the vertically integrated producer of synthetic fertiliser.[6]

Both Elkem and Orkla were marked by European influences. Elkem, originally started in 1904 as a venture company for electrochemical and electrometallurgical processes, with its first task that of making the technology workable which was in 1905 to become the basis of Norsk Hydro. It had been thoroughly reorganised and scaled down in 1921 after the post-World War I crisis. It then became specialised as a knowledge-selling company, building a business around the sale of the right to use the Söderberg-principle of electric smelting-processes and production of aluminium, a principle developed by Elkem in 1918 as one of several in-house research-projects. With strong interconnections with European companies and a clever patent and licensing system, Elkem was able to place itself at the centre of several international technological interchanges. The most important of these was the development of the Söderberg-system for smelting of aluminium, which was owned and sold by Elkem, but developed by Elkem with crucial input in the 1920s and 1930s from France (Camargue) and Switzerland (AIAG).

Orkla originally started by exploiting a huge pyrite mine in Løkken, south of Trondheim, but also developed important production processes related to the exploitation of the mine. Most important was its patented industrial Orkla process to make pure sulphite out of pyrite, a process that was licensed to the pyrite giant Rio Tinto and other companies and became an important tool with which Orkla forged business relations.[7] Orkla was positioned as a supplier of strategically important minerals within a European political economy plagued by two world wars and developed strong connections to both Germany (the IG Farben-sphere) and Great Britain (Rio Tinto especially), a balancing act not altogether easy.

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[5] For introduction of the divisional model in three large Norwegian companies, see Gammelsæter, H. (1991). *Organisasjonsendring gjennom generasjoner av ledere*, Molde: Møreforskning.

[6] Andersen, K.G. (2005). *Flaggskip i fremmed eie. Hydro 1905–1945*; Johannessen., F.E., Rønning, A. and Sandvik, P.T. (2005). *Nasjonal kontroll og industriell fornyelse. Hydro 1945–1977*; Lie, E. (2005). *Oljerikdommer og internasjonal ekspansjon. Hydro 1977–2005*, Oslo: Pax.

[7] See Harvey, C. (1981). *The Rio Tinto Company. An economic history of a leading international mining concern 1873–1954*, Cornwall: Alison Hodge. About Rio Tinto and the Orkla-process, see Bergh et al. for more extended information.

Orkla and Elkem had remarkably similar approaches to the Norwegian challenge: How to be an international company from a small country when the trade climate changed for the benefit of home suppliers in the inter-war period. Both companies "shared" their technology with European competitors, and forged relations with the important international players. Orkla was active in both the pyrite and sulphite cartels, using the Orkla-process as a tool to further its position. Elkem became – for all intents and purposes – a technology-provider to the Alcoa-dominated international aluminium-cartel. Both Norwegian companies used their technical expertise for what it was worth, as a card played against larger companies with larger and protected home-markets.

After World War II both companies became more Norwegian. Elkem became a national producer of metals and grew as an exporter after 1945, and Orkla invested as an owner in Norwegian export-oriented companies. Both were intrinsically linked to the state-involved national effort of Norway at the time, i.e. production growth by utilising national resources, based on electricity, and with the helping hand of tax-concessions and an active policy of building new power-stations, many of them for the purpose of creating the power-hungry production craved by many chemical and metallurgical processes.[8] Elkem's way into production also related to changed international circumstances making international technological collaboration more difficult than before.[9]

Elkem became a producer of ferroalloys and aluminium in Norway. The large aluminium operation was first done in collaboration with AIAG (Alusuisse). From 1962, Alcoa replaced AIAG as Elkem's partner in what became two plants. Elkem also expanded through the establishment of an engineering division, a furthering of the sale of knowledge from the inter-war years. Earlier Elkem had sold knowledge and production rights; after the war Elkem started selling ovens and even whole factories. This concerned in particular ferroalloys. Aluminium, however, was not part of the Engineering division's activities and this was a furthering of the non-competitive climate of the inter-war years.

Orkla had by the early 1960s stagnated. Its pyrite mine – huge by international standards and previously very important – was still exploited, but, beginning in the early 1950s, deposits were diminished. Rather than reinvesting in the mine, or in new ventures, or paying dividends, Orkla in the 1940s started to build a portfolio of shares in other Norwegian companies. Elkem, Norsk Hydro and other significant companies all had Orkla as a fairly important shareholder (3–10 percent). Orkla's main owners – the Wallenberg and the Norwegian Astrup/Fearnley family – were also main owners in companies that Orkla bought shares in. Orkla thus became important in systems of ownership-control, being in a position to guide the development of Norwegian large-scale-industry.

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[8] Bergh et al. and Sogner 2003. For macro-trends in the after-war industrial policy, see Hanisch, T.J and Lange, E. (1986). *Veien til velstand. Industriens utvikling i Norge gjennom 50 år*, Oslo, Bergen, Stavanger, Tromsø: Universitetsforlaget.

[9] Smith, G.D. (1988). *From Monopoly to Competition. The transformation of Alcoa, 1888–1986*, Cambridge: Cambridge University Press. Also Sogner 2003.

Both Elkem and Orkla looked to America for inspiration during the 1960s. As Elkem grew in size, it also applied the divisional model of big business.[10] The 1960s saw the coming of economists into top management in what had heretofore been an engineer's company. Elkem needed new organisational techniques to oversee the growing entity. Financial indicators, the divisional model and internal programs about "leadership", equipped what had been a small company to function as a bigger one. It also helped young engineers and economists coming from "modest" backgrounds to find roles as leaders, often involving workers who themselves came from a farming background in rural Norway and were unaccustomed to hierarchies and industrial work. Americanisation, understood in this way, really was a tool with which to build the large organisation of a Norwegian company.

Orkla, to a lesser extent, because it was a smaller company in terms of people and actual production-capital, also "Americanised". Orkla diversified and formed a business-partnership with an American enterprise that marketed ferroalloys, a product Orkla had started to produce in 1962 in order to make new use of its old sulphite-plant.[11] Orkla, whose owners also were important owners of Elkem, kept in touch with American business. Both companies, it must be added, had had important American connections since the inter-war years, but the 1960s meant renewed activity. Because of Orkla's role as an owner of shares in Norwegian companies listed on the stock exchange, it also had a role to play in the Norwegian merger-movement and the building of larger and diversified and divisionalised companies up to 1973. Elkem merged in 1972 with equally large steel- and ferroalloy-producer Christiania Spigerverk (where Orkla also owned shares) to become what was for a short time Norway's largest company in terms of number of employees – around 9,000.

Until 1980, both Elkem and Orkla had almost all their production in Norway. Americanisation meant structuring smaller Norwegian enterprises into bigger enterprises, with emphasis on diversification strategies, scale-production and the functionality of organisations. Americanisation thus meant a deepening of the nationalisation process that had followed the Europeanisation of the inter-war years. In terms of internal life, Orkla hardly had any American traits. Elkem, on the other hand, had a headquarters with jargon and interrelationships that was influenced from America. This reflected managerial schooling as well as strong connections to Alcoa. Yet the company was strongly rooted in Norway and Norwegian society.

The story of Orkla and Elkem between 1945 and 1980 differed in other respects. Elkem grew a lot, benefiting from the application of its own metals-producing knowledge and the favourable political surroundings. Orkla stagnated as a producer. The new ferroalloy-business was hardly a success, and certainly not so in the troubled 1970s. What had been a success up until the values of its stocks fell in the mid-1970s crisis was Orkla's large investment-portfolio.

[10] Elkem's CEO from 1959 had spent the whole of World War II in USA and had personal relations with the leadership of Alcoa. See Sogner 2003.

[11] The sulphite production became uneconomical as the production of the mine diminished and the price of sulphur fell.

So while both companies clearly were deeply affected by the turbulent 1970s, Orkla had a very uncertain future. Elkem, who came away from the metals crises of the 1970s relatively unaffected, had to face the fact that it faced an uncertain future, being ensconced firmly in the ferroalloys and steel sector. So, as the 1970s closed, both companies looked for new openings, and they did so at a time when the growth-minded industrial policy of an active government turned into hands-off governmental policy, which also favoured environmental policies. Gone were the glory days for power-hungry Norwegian industrial enterprises.

Strategic Implementations

Although both companies' will to change was related to the general economic crisis of the time, very different and internal reasons also applied for both companies. Elkem saw a real need for expansion outside Norway because it was hindered at home, while Orkla needed a new footing if the company was to survive after the mine was emptied. The companies followed very different paths of development.

Although Orkla bought into several kinds of activities, most of these were later sold. The 1986 merger with Borregaard, a paper and pulp *and* branded consumer goods conglomerate, became Orkla's new firm – and profitable – footing.[12] Borregaard was one of Norway's largest enterprises, and had vied with Elkem and Norsk Hydro in 1972 for the title of Norway's largest company in terms of number of employees. Borregaard's problems were why Orkla came into position to merge with this larger company. The Orkla-Borregaard merger was extended when Orkla in 1991 merged with Nora, a specialist supplier of branded foods sold mainly to the Norwegian market. Elkem, on the other hand, sought to become the major global player in ferroalloys. Its 1981 purchase of Union Carbide's ferroalloy business was followed in 1986 by purchasing Orkla's ferroalloy plant. The overall strategy proved to be a near disaster, however, and Elkem was only saved because of the refinancing made possible by its owners in 1992 and 1993.

None of the companies Europeanised – whatever one means by the term. Orkla transformed, but continued as a Norwegian company. A company with a mine, a ferroalloy plant and a valuable share portfolio, was transformed into a huge conglomerate that came at the beginning of the 1990s to be focussed on branded foodstuffs and consumer goods, but also with newspapers, fine chemicals and significant holdings in other companies. The two large mergers (1986 and 1991) were partly responsible for this considerable growth, but well timed transactions based on Orkla's old assets and organic growth were important reasons behind this success. And the large portfolio of shares still owned by Orkla made it also a powerful company. With 14,500 employees at the end of 1991, Orkla had become one of Norway's biggest companies.

[12] Technically bigger Borregaard took over Orkla, but the process was directed by Orkla.

Unlike Orkla, Elkem was very much recognisable as a company – as an international producer of metals. Unlike Orkla, Elkem had had very deliberate plans behind its expansion already in the 1970s, and the goal was to secure a leading price-influencing role in the global ferroalloy business. In most respects Elkem in the early 1990s still was a (albeit Americanised, divisionalised) Norwegian company, although it operated plants in USA, Canada, Iceland and Brazil. Its mounting problems of the 1980s were related to the international steel crisis, as ferroalloys mostly were sold to the steel industry. Twice (1988 and 1992) Elkem had to sell assets and to concentrate on the troubled ferroalloy-business and the more successful aluminium business it operated in Norway. Elkem had over 13,000 employees in 1981, and ten years later this number was reduced to 6,000 – most of the reduction followed from sales of businesses.

On one level the changing fortunes of Orkla and Elkem during the 1980s involved the experience of different cycles in different businesses. The times were not good for producers of primary metals, period. Orkla, with more and more sales in branded consumer goods in a fairly protected national market, reaped benefits from mergers of previously competing firms. On another level, two very different business ventures were played out. Well established Elkem sought to exploit what it perceived as its superior technical and market knowledge by building a multinational operation. The growth effort in the dwindling ferroalloy-business had been based on a strategic premise that when Elkem became the world's largest supplier (which it did in some niches), it would also be able to manage prices. That did not materialise, or it did not happen in a way that benefited Elkem enough.

The ten years after 1986 saw two different destinies. While Elkem fought for its life, Orkla blossomed and grew into "a European company". Although Orkla was affected by the general economic cyclical downturn following the Gulf War, Orkla came through this period as strengthened compared to several other companies.[13] In two transactions in 1995 and 1997, Orkla purchased Volvo's huge food and drinks operation. This vastly expanded Orkla's foodstuffs operation, in both volume and geographic space, and especially the merged beer business became a formidable force, with strong market-positions in both Sweden and Norway as well as a very good position in Russia and part of the former Eastern Europe. This again led to a beer-business merger with Danish Carlsberg, and eventually Carlsberg took over this huge beer operation, leaving Orkla with a lot of cash, something that was spent in part on purchasing Elkem in 2005.

Orkla is still a very successful operator in the Nordic area of "branded consumer goods" in general and foodstuffs in particular. Production of food is done mainly in Norway and Sweden, but the direction of the operation is characterised by gradual growth, also including takeovers. Orkla has clearly been able to foresee the consolidation of food retailing, a business characterised by the building of huge and powerful chains, often with their own products to sell in competition with branded

[13] The following is based on Harald Espeli's extended analysis of the major changes in Orkla these years. Bergh et al.

goods. Orkla could be termed a "European firm" in the sense that its operations are firmly rooted in more than one country, and that the process of European integration and global changes in agricultural policies have been an important factor in shaping opportunities and threats. Taking the short crossing above the Swedish-Norwegian border has been a classic first step for Norwegian and Swedish companies set to grow as exporters, but the building of a Norwegian-Swedish big business enterprise rooted in the two countries like Orkla has done is a new phenomenon. Orkla may also be a European firm in the sense that its organisational traditions to a very large degree are both Norwegian and Swedish, and that will be dealt with below.

While Orkla performed very well in the fifteen years after 1986, Orkla's large purchase of shares in Elkem in 1989 was far from a success.[14] That year, Orkla increased its position in Elkem up from its traditional level of 8 % to 30 %, a purchase that dramatically reduced in value over the next couple of years. Given Orkla's special insight into Elkem (it had been a major shareholder since 1948) and its involvement until 1986 in one of Elkem's main areas of business (the alloy ferrosilicon), this is remarkable. Clearly Orkla did not foresee Elkem's problems, nor really understand the depth of Elkem's challenges in the late 1980s. Elkem was involved in a different, more competitive, business than was Orkla, producing bulk metals for the global market. It faced new competition from China and eventually Russia. Orkla misjudged Elkem.

Orkla's solution to Elkem's problems also gives insight into Orkla's way of conducting its own business. As the major owner in Elkem, Orkla in 1992 and 1993 restructured Elkem financially. Orkla's second-in-command became chairman of Elkem's board, and he hired a new CEO. Orkla's contribution to the running of Elkem's business in these years was to emphasise continued cutting of costs, and Elkem changed from being a stylish, image-conscious "big business" operation with a beautiful headquarters that the company owned into a no-nonsense, cheaply run company with rented office space. Elkem, which had been a major facilitator of American consultancy in Norway during the 1960s, and a stronghold of managerial talent and expertise for other companies, had failed. Orkla certainly had no miracle cure, which was rather to be expected of a Norwegian-based company taking over Elkem, which operated on a global scale.

The new CEO, Ole Enger, led Elkem back into profitability in the mid-1990s, mainly through the cost-cutting spirit installed in Elkem by Orkla's top management. But Elkem hardly was the success Orkla had hoped for, nor were there apparent brilliant strategies present for getting this competitive business back into long-term profitability. Ferroalloys were not a lucrative business, not even for "an expert-company" like Elkem.

The years after 1980 turned out to be an eventful period for both companies, although they had very different fortunes. Orkla was a huge success, while Elkem was a kind of failure. In overall terms these differences must be understood on the basis of the different businesses the companies were involved in. Yet Elkem had

[14] See Sogner 2003 as well as Espeli's account of Orkla in Bergh et al.

been an expert in its business, even a first mover of sorts via its central technological role in the global metallurgical industry. Orkla was just a start-up in its lines of production, and this switching of position calls for further investigation of other factors lying behind the very different developments.

New Geographic and Organizational Footings

In retrospect Orkla seems to have been much more conscious of the organisational challenges following its growth than Elkem. Elkem, the expert metallurgist, operating an Americanised, divisionalised and decentralised company, turned out to have very little constructive to do to address its problems, while Orkla developed an organisational policy based on both decentralisation and centralisation.

Elkem should have been the superior producer of the two. Competing on a worldwide scale at least since 1981, in a business in trouble, Elkem needed low costs. Orkla, with production of branded foods and goods selling to a Scandinavian market, operated much more as a traditional pre-American management-style company, focussing on cost-cutting and structural rationalisation and the furthering of market penetration. Orkla combined decentralisation and divisionalisation with a certain central authority, and top management intervened in daily practices if they deemed it necessary. Moreover, all Orkla's restructuring involved the complex handling of several businesses: batch-produced foodstuff and branded goods, processing of timber for a variety of purposes, production of chemicals, publishing of newspapers etc. Cost control – over numerous production units – was of the utmost importance, and the production-units were benchmarked against each other.[15] Orkla became a specialist, finding niches with higher margins.

Orkla was also a conglomerate involved in markets that were not competitive in the same sense as those in which Elkem was involved. While Elkem's development up until 2000 had little to do with what happened to the European Union, Orkla's new role as a large Nordic player in branded goods and foodstuffs occurred against the backdrop of liberalisation of trade in agricultural products though GATT and the EU. The threat of large European grocery chains and their increased bargaining power over food suppliers was a strong motivation behind the mergers and acquisitions of the 1990s.[16] Orkla's ambitious actions must be seen as a conscious move to play an active role in the restructuring of branded foods. Orkla thus changed as a company.

As companies, Orkla and Elkem were very different. Elkem was "Americanised" and, until 1992, set for continued growth. Orkla was until the 1990s a Norwegian company both in terms of where its main businesses were located, but also in terms of management style.[17] The roots in the mining industry appeared in the form of

[15] Conversation with Finn Jebsen June 18 and August 22, 2003.

[16] Bergh et al., p. 321.

[17] The following is based on Trond Bergh's extended analysis of the major changes in Orkla these years. See Bergh et al.

paternalistic attitudes and a sense of direct – not decentralised responsibility. And because Orkla was involved until 1986 in purchasing and selling companies, as well as in running the old and new parts of Orkla, it functioned more like a (British) holding company than a large American divisionalised company. So Orkla until 1986 may well be described as a "paternalistic holding-company". The merger with Borregaard in 1986 made the company bigger, and in many respects the increased size was met with normal divisionalising principles.

Yet Orkla's leaders made sure that they brought their own ideas and past practices to the merged company. Orkla developed an organisation policy called "Goals and values", a "constitution" for the company based on common sense considerations.[18] Orkla's top management tried through organisational training to form a company culture with clearly formulated ideals, ideals that were tested in turn against performance. Attitudes were important. Orkla's CEO from 1979 to 2001, Jens P. Heyerdahl d.y., liked to show how he drank tea he made himself from teabags, and that he used the same teabag twice.[19] He said he acted in the old mineworker's tradition of dealing with scarcity. Be that as it may, the goals set for the organisational development were directed at creating and facilitating individual responsibility. Top managers were supposed to be examples for the rest of the organisation. Whether or not they succeeded in "decentralising self-control" to the individual worker might be hard to both prove and believe, yet there is much to be said for the combination of applying decentralisation and formulating values at the same time that top management took a very active part in cost management.

Orkla was organisationally ready to absorb the large Swedish organisations bought in 1995 and 1997, as well as subsequent purchases elsewhere. While decentralisation coupled with cost control might have been instrumental in success, rationalisation of old businesses was also part of the explanation. Rationalising Norwegian small businesses was the formula of the 1980s and 1990s, and subsequent rationalisation was done internationally. Orkla has been a player in the new global economy and gradually since World War II has seen more and more businesses exposed to international competition. Orkla is not a pioneer in any specific task, but its success is a combination of the application of a number of tasks plus good timing.

Elkem's problems were related to its mature business, although its aluminium smelters faired better than the ferroalloys (or the steel that came with the 1972 merger). The fall of the "iron curtain" after 1990 pushed China and former states from the Soviet Union onto the world market with their ferroalloys as they lost their isolated and highly protected national markets. The irony for Elkem was that many of their competitors were built with the company's own help. Elkem had through its engineering business helped create its own competitive environment, yet for all its vain attempts of getting its business in shape through strategic and structural operations, the change in management focus in the early 1990s proved to have long lasting effects.

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[18] See the above note.

[19] I have experienced this myself.

Starting gradually in the early 1990s, and building momentum from 1997 onward, two strongly interrelated processes have changed Elkem profoundly. First, Elkem started an effort to improve production efficiency, especially in its ferroalloy business (its Norwegian aluminium smelters were co-owned with Alcoa and very well run). Although Elkem was the leading expert in the construction of the ovens used for making ferroalloys, Elkem had neglected streamlining its production. Crisis ridden Elkem had amassed over ten different plants, each of them with its own production culture and own technical hierarchies that ran production. This was not efficient in the new competitive climate of the 1990s (nor in the 1980s). Gradually, building upon Elkem's own research results from the 1960s, Elkem was able to run the ovens more efficiently (through best practice and benchmarking) and with fewer shutdowns than before. Elkem also expanded research and improved its old links with the Norwegian University of Science and Technology. Elkem, which has had a scientific approach to metallurgy since the 1910s, re-emphasised the role of science in the mid-1990s.

The other new development has been termed the Elkem Business System, and represents Elkem's application of Toyota's production system.[20] Elkem learned from Alcoa Business System. To gain decentralisation of responsibility by placing the production worker at centre stage, Alcoa had changed its production principle to that of building the company from below. Since 1997 – starting in aluminium and extending it to ferroalloys – Elkem has done the same thing, trying to cut storage time and to make do with simpler operations and rotating work, while all the time increasing the worker's responsibility. Gradually, this has yielded results, and increasingly the production worker has taken on new responsibilities. There has also been an application of statistical techniques for the interpretation of what happens in the ovens and more and more emphasis on being in charge of the factories for long periods of the day. The number of man hours employed has been reduced, not least owing to a drastic reduction in the number of managers – both in the factory and in the company as a whole. Costs of production have been reduced, and the technical efficiency of production has improved a lot (less use of energy, fewer stops, better use of raw materials). Elkem began to earn money again, even in its niche operations which faced the most intense competition. These improvements were mostly made by making old ovens function better than before.

Placing production workers at centre stage added to a scientific approach to developing production-principles seem to be functioning in a mutually reinforcing way. Elkem *is* looking to apply best practice and to lean on what the centrally located engineers demand. That is a top-down approach all by itself. The knowledge about best practice has been changing, however, because of the involvement of the production workers and their knowledge about what happens in the ovens, creating a new role for the workers through increased responsibility and giving them a part to play in processes of innovation. Through the sale of the ferromanganese business (which

[20] Womack, J.P., Jones, D.T & Roos, D. (1990). *The Machine that Changed the World*, New York etc.: Rawson Associates etc.; Spear, S. and Bowen, H.K (1999). Decoding the DNA of the Toyota Production System, *Harvard Business Review*, September–October 1999.

was nearly the size of its ferrosilicon business), and increased earnings, Elkem came into a much more favourable position around 2000.

The sale of the ferromanganese business in 1999 and the gradual purchase of the Swedish processor of aluminium, Sapa, reflected the profound change of Elkem. Gone were the days of the strategic planning for taking strong and smart positions in global niches; now was the time for looking for efficient and knowledge-based production. That said, the sale of the ferromanganese business reflected that some global positions were to be got rid of, and Sapa – as a purchaser of aluminium – was a potential market for Elkem's aluminium (still jointly done with Alcoa). By owning Sapa, Elkem also gained a possible shield against Alcoa, as it was likely that the EU authorities would not allow Alcoa to own Elkem-Sapa because of its strong position in the European aluminium-markets.

Sapa was a company of the about the same size as Elkem. Its purchase doubled Elkem's volume of sales, and the integration of Sapa is being carried out in the spirit of the Elkem Business System. Although Sapa is a Swedish company, it has sites located all over Europe (and elsewhere) and has integrated a number of production units. The idea behind Sapa is to be a flexible and very niche-market-oriented company. Whether or not the application of Elkem Business System succeeds with Sapa is something that lies beyond the scope of this article, but by its inclusion in Elkem a new Scandinavian-European corporation seems to have been created.

Elkem has been able – in its Norwegian plants, and according to Elkem – to decentralise more responsibility to its workers than has Alcoa done.[21] Elkem's CEO believed that the Norwegian – and Scandinavian – culture of local democracy, individualistic spirit and social equality was more suited to this kind of reorganisation than Americanised manager-led production. Management is replaced by attitudes. The Norwegian worker has taken particularly well to the new challenges and opportunities. Japanisation has "freed" a "Norwegian spirit".

While both companies have decentralised responsibility and placed emphasis on self-control and self-motivation, Elkem seems to have gone further than Orkla in this development, improving and formulating standard operation procedures developed in-house. Decentralisation seems to be a tool with which both companies are approaching regional expansion, and they are implementing it in two phases. First, both grew by going to Sweden. Then they expanded into Europe at large, on the basis of a transnational regional footing that was fairly new to them. These are not *national* companies going European, but interregional companies trying to become more European. Orkla did it exactly this way. Elkem gained its broad geographic European footing directly by purchasing Sapa, and it has upheld Sapa's strategy of European expansion by acquisitions.

The combined Nordic-European orientation is clearly related to the more competitive climate since the 1970s, though it was not a natural reaction to globalisation. Elkem countered the globalisation challenges of the 1970s by globalising itself through foreign purchases, striving for building on its core knowledge and creating

[21] This is according to Elkem, which, it must be added, is on good terms with Alcoa.

stronger market power than before. That was a typical strategy of the multinational company of its day, with strategy orientation taking market-analysis as its starting point.[22] The global restructuring of the metals business showed this to be problematic, and in the end deep cost-cutting and deep structural and organisational change was the only remedy for sustainability. The Nordic-European orientation was a thing of the 1990s, and it may well have been connected to the conscious building of a new European Union and the new Europe as an arena for development of new European enterprises. But more than that, it was "the only way out" – because there was no alternative than internal change as there would have been few buyers for Elkem's troubled business.

For Orkla, company growth based on the restructuring of the Nordic branded foods sector was very much a conscious decision, and an idea that apparently had been discussed in the Norwegian companies since the early 1970s and prior to Orkla's involvement.[23] From 1986 Orkla became the leading Norwegian supplier of branded foods. In many respects Orkla's Nordic growth of the 1990s might be seen as a fulfilment of the European Union's goal of creating a single European market, and it must be seen as a reaction to an "eat or be eaten" situation. Orkla's media business developed much on the lines of the branded foodstuffs business. A lot of newspapers were purchased in Norway, Denmark and Poland and their production was rationalised. The paper and pulp business of Orkla was developed differently, namely by in-house development and innovation – and not growth by acquisitions. It was, however, an example of Orkla's goal of building the company from below. Each product was to find its own profitability.

The decentralisation movement of business around the world, inspired and fired by Japanese concepts,[24] has played an important part both in Orkla and in Elkem – and elsewhere. But the contradictory development of these two companies in the 1990s – when Japanisation involved simultaneous decentralisation and international regionalisation in the direction of Europeanisation – has to be explained, and to do that the perspective of the inter-war period is enlightening. The most striking similarity of the inter-war period and the 1990s was the lack of strong national and governmental support for exporting corporations, something that was particularly difficult for the export-oriented Norwegian minerals and metals industry and their dependence on the large foreign markets. In the inter-war period that was somehow compensated by the financial networks and enterprising technological co-operation, giving the companies positions they would not have achieved through free competition alone. In the competitive climate of the 1990s, when European anti-trust law mirrored traditional negative American attitudes to most forms of collusion, and most large companies were listed at the stock exchange with the subsequent limitations to ownership power, the remedies of the inter-war years were not viable. The solution to some extent was the internally integrated company.

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[22] Hax, A.C. and Majluf, N.S. (1984). *Strategic Management. An integrative perspective*, Englewood Cliffs, NJ: Prentice-Hall.

[23] Oral communication from Leif Frode Onarheim, former CEO of Nora.

[24] See Lazonick, W. (1991). *Business Organization and the Myth of the Market Economy*, Cambridge: Cambridge University Press, Chap. 1.

Both Orkla and Elkem traditionally had good employer-employee relations. Elkem's good relations went far back, and Orkla's were improved after 1979 and the appointment of Jens P. Heyerdahl as CEO. Out of the competitive climate grew a new and closer relationship between top management and production workers, first seen perhaps when Heyerdahl gained the trust of Borregaard's employees and sealed the 1986 merger.[25] It would be impossible for Orkla – or Elkem – to grow by acquisitions without some sort of solid organisational calm and foundation. When the state – during the 1970s and 1980s – gradually lost its grip on the development of the Norwegian export industry, a new rooting of Orkla and Elkem emerged, namely that of the stronger relationship with their employees.

This process also explains why an internally integrated company could become "a European company". The internal cultural changes taking place, which in many respects involved a kind of Japanisation, more than anything else created a new collaborative climate. The point of this Japanisation was not specific systems with tags such as "Total Quality Management", "Quality Circles" or "Just in time", but a new climate for communication. The most elaborate form of this in this article is "Elkem Business System", Elkem's adaptation of "Alcoa Business System", originally taken from Toyota. But rather than being the copying such name-tags imply, this was more than anything a program for real and effective collaboration, a way of establishing – through communication – new best-practices in production involving a number of employees. As such the "Elkem Business System" will work differently within Elkem's daughter-company Sapa, simply because Sapa is a very different company in terms of technology compared to the old Elkem. What comes first, then, is not the way you do it, but the collaboration, the task of finding new ways of doing things, and as such these kinds of collaborative companies have organisational capacities to grow in several directions.

Orkla and Elkem have constructed new systems of production, and the organisation have been built upon these new and transnational systems of production. This is a new way of doing business in Scandinavia; not just the old export-orientation, but also the creation of new systems of production that are designed for rationality and cost-effectiveness, not just on the basis of market considerations and for market operations. Such systems of production are European also in their logic, because they are created for more than just being part of Norwegian-based multinational companies. They are multinational in their "inception" so to speak, and they are directed at the old national goals of the past, namely exports.

Conclusion

Orkla and Elkem's have developed over the last decades into what may be described as semi-European companies. They are no longer based only in Norway, but have a broader geographical footing, especially in Scandinavia. While they continue to display characteristics that may be deemed to be "American" in terms of behaviour and

[25] See Bergh's account in Bergh et al., p. 264.

structure, the internal organisational changes opening up for decentralisation mean that the involvement of the employees – who now come from several countries – are more important for company behaviour than they used to be.

The 1990s saw decentralisation of responsibility added to cuts of management layers, and in Elkem new core capabilities at headquarters level were added for the streamlining of efficiency. The spirit of organisational change is not really about decentralisation and centralisation, but involves the means by which hierarchical "instruction" has been replaced by "interaction". The 1990s were characterised by growth in Scandinavia, and especially Sweden. Both companies have become really international by virtue of large purchases in Sweden. There is a relationship here between regional growth, decentralisation of power and a changed role for the headquarters. The central emphasis is more on internal function and less on strategy, at least in relative terms. Maybe this emphasis on creating a Scandinavian core will prove to be an obstacle in the future, but as of the moment of writing it seems more like a platform for continued European expansion.

This is a process of Europeanisation because the expansion is in that direction. The new political room created by the EU, and the ensuing new internal competitive climate created, has been instrumental in these changes.[26] The economic process of EU seems to have influenced Orkla more than Elkem, to have influenced the food business more than metals. But the increasing competitive climate within the EU in the food business mirrored the earlier globalisation of the metals business, so in many respects both companies were faced with similar situations.

While political and economic factors have played their part, cultural factors must also be emphasised. When room for development created by the national government dwindled during the 1970s and 1980s, companies needed other footings. Faced with the need to grow internationally and through a multitude of owners, and operating within a competitive climate enforced by law which closed off possibilities for strategic alliances that had been so helpful in the inter-war period, the companies had almost no other option than to create stronger relationships with employees. Not only did obstacles to cost problems belong in these relationships, but solutions were to be found here as well. The 1990s and 2000s was characterised by the need for deeper internal legitimacy for top management in Orkla and Elkem. So companies needed employee relationships that involved the employees understanding both challenges and opportunities. That has solved problems and created opportunities for both Orkla and Elkem and been the basis for the creation of transnational-based Scandinavian and semi-European companies.

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[26] Norway is through the European Economic Area part of the economic EU.

European Challenges and Opportunities: The Role of Europe in the Internationalisation of Spanish Firms

Núria Puig, Adoración Álvaro and Rafael Castro

This chapter examines the role of Europe in the recent internationalisation of Spanish firms.[1] As in other countries of the European periphery, in Spain this phenomenon is inseparable from three major processes: the modernisation of the Spanish economy, Spain's formal integration into the European Union (1986), and the second globalisation wave. The fact that all this has taken place almost simultaneously has strongly affected the geography and patterns of internationalisation of most Spanish firms. We look first at the strong and persistent influence of a few advanced countries in Spanish management and performance. Then we look at the recent internationalisation of Spanish firms, identifying its main actors (former monopolies, banks, and family firms), markets (Latin America and Western Europe), and specialisation (services and labour-intensive manufacturing). Finally, a multiple case analysis based on 10 out of Spain's top 50 multinational firms shows how the prospects and materialisation of the European integration have shaped the internationalisation of Spanish companies since the 1960s. We conclude that the EU has challenged and created opportunities for existing national enterprises through privatisation, deregulation and concentration. Most of our firms, however, have kept much of their inherited corporate culture to strengthen their domestic leadership and globalise.

Spanish Economic and Entrepreneurial Modernisation Under Foreign Influence

Spain has been and remains a major host economy for international investment. Since the mid-19th century, its social and economic modernisation has been strongly and positively influenced by foreign countries and firms. The 20th century provides

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consistent evidence about the strong dependence of Spain on more developed nations: at macro as well as at microeconomic level, Spain stagnated or went backward when it closed itself to foreign trade and investments (1939–1959) and grew fast when it opened (from 1959 onwards). 1959 marked a turning point. With the assistance of international economic organisations, Franco's dictatorial regime gave up its self-sufficiency project and started to liberalise the economy. This was a requirement to enter the European Economic Community. It took Spain 16 years (1970–1986) to achieve this goal. Hesitant and contradictory as it may have been, the first steps of the liberalisation opened Spain's economy and fuelled inward FDI.[2]

Trade and FDI inward flows show Spain's strong dependence from four countries – France, United Kingdom, Germany and the United States – since the 19th century. They account for over 50 % of FDI inward flows[3] and 80 % of Spanish international trade. Foreign capital led the second industrial revolution in Spain by focusing for a long time on the chemical and to a lesser degree the steel industries, before diversifying since the 1980s into banking, trade, manufacturing and, more recently, transport and telecommunications. Except for the period of extreme economic nationalism known as autarky (1939–1959), Spanish big business has been dominated by foreign companies or national firms linked to foreign capital and technology.[4] At the same time, there have not been Spanish multinational companies until recently.

The Internationalisation of Spanish Firms

One of the most remarkable outcomes of Spain's delayed liberalisation has indeed been the emergence of Spanish multinational firms, particularly after 1986.[5]

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[2] The degree of openness (Exports + Imports/GDP) of the Spanish economy has evolved from 8.8 % in 1960 to 26 % in 1985 and 64 % in 2002.

[3] This figure must be higher, as some US firms operate, for fiscal and other reasons, through Switzerland and, more recently, the Netherlands.

[4] Muñoz, J. et al. (1978). *La internacionalización del capital en España*, Madrid: Edicusa; Carreras, A. & Tafunell, X. (1993). La gran empresa en España (1917–1974). Una primera aproximación, *Revista de Historia Industrial* 3:127–174; Carreras, A. & Tafunell, X. (1997). Spain: Big manufacturing firms between state and market, 1917–1990, in Chandler, A., Amatori, F. & Hikino, T. eds. *Big business and the wealth of nations*, Cambridge: Cambridge University Press, pp. 208–236.

[5] Since the early 1980s, interest of applied economics and business management in the Spanish internationalization process has increased, although focusing on recent times. See Durán, J.J. & Sánchez, P. (1981). *La internacionalización de la empresa española: inversiones españolas en el exterior*, Madrid: Ministerio de Economía y Comercio; Alonso, J.A. & Donoso, V. (1994). *Competitividad de la Empresa Exportadora Española*, Madrid: ICEX; Alonso, J.A. (1998). *Competir en el exterior. La empresa española y los mercados internacionales*, Madrid: ICEX; Fonfría, A. (1998). *Patrones de innovación e internacionalización de las empresas innovadoras españolas*, Ph.D. Thesis, Universidad Complutense de Madrid; Durán, J.J. (1999). *Multinacionales españolas en Iberoamérica: valor estratégico*, Madrid: Pirámide; Toral, P. (2001). *The Reconquest of the New World: Multinational Enterprises and Spain's Direct Investment in Latin America*, Hampshire: Ashgate; Durán, J.J. & Úbeda, F. (2002a). *La Marca y la Tecnología Tácita como Factores*

Most companies have gone international gradually: export-commercial subsidiary or production subsidiary, by means of alliances or not, and eventually through mergers and acquisitions, usually starting in culturally close markets before diversifying geographically as well as economically. Yet there are some recent examples of born global. On the whole, international experience has mattered a lot.

The historical significance of Spain's internationalisation at firm level is shown by Fig. 1. Membership into the EU fuelled inward, but also outward, FDI. Inward flows outpaced outward flows for a decade. Since the late 1990s, however, this trend reversed and Spain became a net capital exporter. Portfolio investment also boomed after 1986 and keeps on playing a relevant role in most Spanish listed companies.

Spain's most international companies are either former public or private monopolies and state-owned firms (Telefónica, Repsol-YPF, Cepsa, Iberdrola, Gas Natural, Iveco Pegaso, Aceralia, Iberia, Endesa, Unión Fenosa), banks (SCH, BBVA, La Caixa, Caja Madrid), or family firms (Inditex, Puig, NH Hotels, Abengoa, Esteve, Pescanova, Ebro Puleva). As shown by Fig. 2, much of Spanish outward direct investment focuses on Western Europe and Latin America. Whereas geography explains the former, language and social know-how, in addition to the opportunities brought about by massive privatisation in the 1990s, explain the latter. The United States, often through Mexico, is getting increasing attention. By contrast, and notwithstanding the accumulated experience of many Spanish firms that have successfully adapted from a non-competitive to a competitive environment, few firms have ventured into Eastern Europe and Asia. What stands out is the strong industrial profile of FDI in Europe as compared with the more service-oriented profile of Latin American investment.

However rough and impressionistic, Figs. 1 and 2 allow us to establish a chronology of Spanish outward FDI flows. From the early 1960s to 1974 there was a tentative period where Spanish private, mostly family-owned, firms explored close markets either in Western Europe or to a lesser degree in Latin America. Firms with foreign links and partners had a comparative advantage. The interest for Europe intensified from the mid-1970s through the-mid 1980s due to the prospect of membership into the EC after Franco's death in 1975. Spain's technological backwardness, the lack of commercial networks, and the poor reputation of "made in Spain"

Determinantes de la Multinacionalización de la Empresa Exportadora Española, Working Paper 2.54, Centro Internacional Carlos V; Durán, J.J. & Úbeda, F. (2002b). *The Economic Capital And The Multinationalisation Of Spanish Export Firms. An Integration Of Resources Based Approach Into The Eclectic Paradigm*, Working Paper 2.55, Centro Internacional Carlos V; Frantz de Vasconcelos, K. (2004). *La internacionalización de las PYMES*, Master Thesis, Universidad Complutense de Madrid; Durán, J.J. coord. (2005). *La empresa multinacional española. Estrategias y ventajas competitivas*, Madrid: Minerva; Guillén, M. (2005). *The Rise of Spanish Multinationals: European Business in the Global Economy*, Cambridge: Cambridge University Press; and Martín, F. & Toral, P. eds. (2005). *Latin America's Quest for Globalization: The Role of Spanish Firms*, Hampshire: Ashgate. Despite the existence of a wide case-study research, economic history has still paid little attention to the whole process in the long run. See Valdaliso, J. (2004). La competitividad internacional de las empresas españolas y sus factores condicionantes. Algunas reflexiones desde la historia empresarial, *Revista de Historia Industrial* 26:13–54.

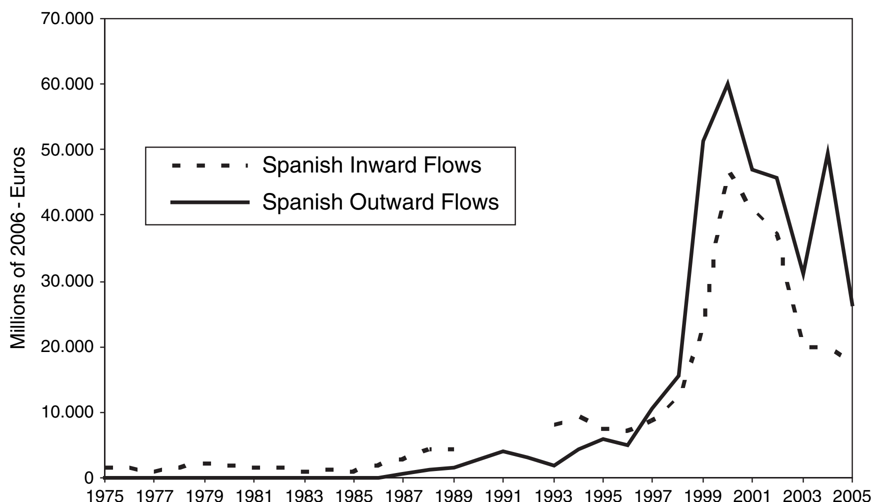

Fig. 1 Spain's FDI inward and outward flows, 1975–2005 (millions of 2006-Euros)
Sources: Muñoz et al.; Durán & Sánchez; Barquero, C. (1971). *Inversiones extranjeras: la realidad española*, Barcelona: Escuela de Administración de Empresas de Barcelona; Velasco, R. (1992). Internacionalización de la industria española: estrategias y políticas, *Economía Industrial* 287:41–51; Maté, J.M. (1966). La inversión directa española en el exterior, *Papeles de Economía Española* 66: 220–234; Subdirección general de Estudios en el Exterior (2002). Una década de Inversión Española en el exterior, 1991–2001, *Boletín ICE Económico: Información Comercial Española* 2734; and Ministerio de Industria, Turismo y Comercio, Registro de Inversiones Extranjeras (1993–2005, http://datainvex.comercio.es/principalinvex.aspx)

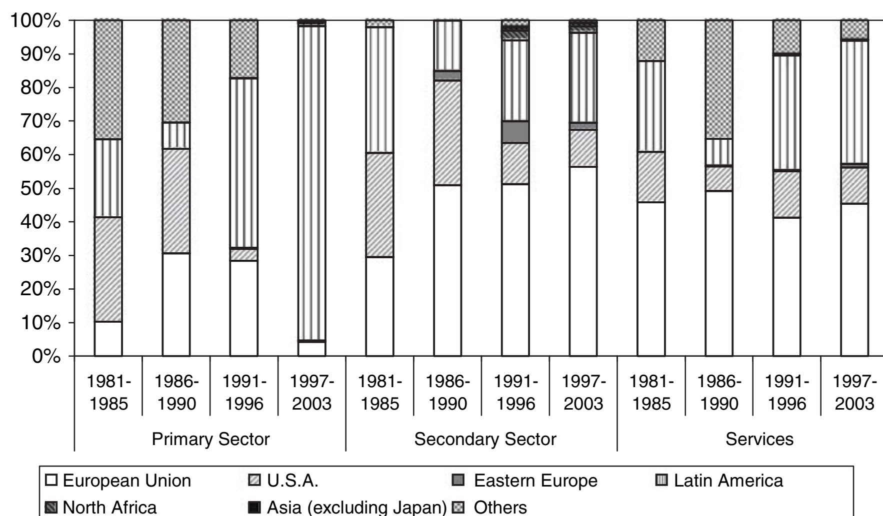

Fig. 2 Spain's outward flows: distribution by regions, 1981–2003 (percentage)
Source: Durán, J.J. (2003). Veinticinco años de inversión directa española en el exterior. 1978–2003, *Economía Industrial* I-II (349–350):147–154

products and services were powerful disadvantages. The impressive development of mass tourism, Spain's smooth political transition, and last but not least the 1982 football world championship helped overcome them. 1986 inevitably marked the start of a new era. The influence of the 1992 Olympic Games, held in Barcelona, in the improvement of Spain's economic and corporate reputation is undeniable. Yet the watchword of the 1990s was privatisation. And the biggest opportunities arose in Latin America, not in Europe. In addition, the lower development stage of most Latin American countries made this continent the favourite place for Spanish investors to operate. Spain became the region's second largest direct investor after the United States and, as stated, outward FDI flows soared. The focus of Spanish firms on utilities and financial services is explained by the business opportunities created by privatisation. One should not ignore, though, other fields opened to Spanish-based companies, such as engineering. The risks of concentration became obvious by the turn of the century, as Argentina collapsed, financial crisis mushroomed, and populism threatened liberal democracy all over Latin America. Spanish capital turned then its attention towards Western Europe, its natural domain, and increasingly to Eastern Europe and Asia. As we write this, the largest investors in Latin America (Telefónica, Santander, Repsol, BBVA, and Endesa) have just announced the start of a second wave of direct investments in this region. Currently, the focus of Spanish investment is in urban services, construction, real estate, and engineering. Whereas emerging markets are extremely attractive for firms with accumulated experience in the transition from an interventionist economy to a market economy, mature markets are the locus for high technology. Within the European Union we find both. And deregulation keeps on creating new opportunities across the world.

A Multiple Case Study

In order to understand how the European challenge has been met, and whether or to what extent it has encouraged the rise of more European-oriented and European-minded firms in Spain, we have conducted a multiple case study. We have selected 10 out of Spain's 50 largest multinational firms and then systematically examined their internationalisation and the particular impact of the European Union on them.[6] The sample includes various types of firms: old and new; incorporated and not incorporated; former monopolies; family owned and managed or not. Moreover, our firms represent very different sectors and patterns of internationalisation. Our exercise has been summarised in Tables 1 to 3. Whereas the internationalisation strategy and main foreign markets of the examined firms are shown in Table 1, Table 2 focuses on the recent evolution of their corporate governance structure, and Table 3 highlights their major foreign influences, the impact of the EU, and the way they present themselves.

Our research shows primarily that 1) internationalisation goes back further in time than is indicated in most available analyses; 2) western Europe is only one of

[6] An updated ranking of Spanish largest firms in *Fomento de la Producción* 2004: 1246.

Appendix 1 Internationalisation strategy

Firm	Foundation date	Sector	Internationalisation strategy	Main foreign markets	Internationalisation start
Santander Central Hispano	1857/1999	Banking	Wholly-owned branches (Latin America 1950s, Middle East 1970s and Asia 1990s); strategic alliances (with Bank of America 1966 to create Bankinter); minority shares (Royal Bank of Scotland 1989, United States Sovereign Bank 2005); mergers (CC-Bank of Germany 2002, Abbey National Bank of United Kingdom 2004, Norwegian Bankia Bank ASA 2005)	Latin America, United Kingdom	1950s
Aceralia/ Arcelor	1902/2002	Steel	Acquisitions (Aristrain 1998) and strategic alliances with internationalized firms (Arbed 1997; joint venture with Arbed and Usinor to create Arcelor 2002)	Europe	1990s
Puig	1914	Perfume	Brand performance (advertising, sponsorship, joint ventures with fashion designers Paco Rabanne 1968, Carolina Herrera 1988 and Prada 2005); strategic alliances (with German manufacturer Mühlens 1929); acquisitions (Paco Rabanne 1988, Nina Ricci 1998); and commercial agreements (Comme des Garçons 2004)	Europe, United States	1960s
Telefónica	1924	Telecom.	Contracts for specialised services (data transmission, Latin America 1980s); acquisitions (Lycos 2000; China Network 2005, O2 2006); licenses (Latin America since 1990s; Europe, Asia and United States afterwards); joint-ventures (with Portugal Telecom 2001 to operate in Brasil); international consortiums (Eutelsat, Intersat and Inmarsat)	Latin America	1980s
Esteve	1929	Pharma-ceuticals	R&D and marketing effort; commercial and technological agreements (in Europe since 1960s); international ventures (since 1990s in EU, Mexico and China); international strategic alliances with United States partners	Europe, Latin America	1950s
Agrolimen	1939	Food	Diversification and joint-ventures with techological partners (branches of Gallina Blanca with Borden, Arbor and Ralston Purina in 1960s; Arbora-Ausonia with Procter & Gamble in 1976); acquisitions (Mars and Royal Canin brands forming the Affinity division in 2002); pioneering geographical (China) and sectoral (fast-food) investments	Global	1980s
Abengoa	1941	Engineering	Diversification of engineering activities (industrial waste, bioethanol producer, environmental and information engineering); subsidiaries and acquisitions (Latin America since 1970s, other markets since 1990s, purchase of United States firm High Plains in 2002 to establish the new division of bioenergy)	Global	1970s
Endesa	1944	Energy	Acquisitions (Yacylec and Edenor 1992)	Latin America, Europe (since 2000)	1990s

Appendix 1 Continued

Firm	Foundation date	Sector	Internationalisation strategy	Main foreign markets	Internationalisation start
Inditex	1975	Fashion	Franchises, joint ventures, advertising	Global	1980s
NH	1981	Hotels	Acquisitions	Europe	1980s

Sources: Álvarez, L.A. (2000). Vistiendo a 3 continentes: la ventaja competitiva del grupo Inditex-Zara, 1963–1999, *Revista de Historia Industrial* 18:157–182; Álvaro, A. (2004). *Designing Knowledge in a Peripheral Country: The Emergence of Technical Consultancies in Spain since the 1950s* (8th European Business History Association Annual Congress, www.econ.upf.es/ebha2004); Álvaro, A. (2006, forthcoming). Changing Patterns of Ownership and Labor Management under Changing Institutional Regimes: The case of Telefonica in Spain, 1924–1970, in Hjerppe, R. et al. eds. *Historical Perspectives on Corporate Governance: Reflections on Ownership, Participation and Different Modes of Organizing,* Helsinki: Helsinki University; Berges, A. & Zurita, J. (2005). El primer Eurobanco transfronterizo, *Economistas* 104: 152–159; Bilbao, I. (2003). Zara Japan Corporation, *Boletín ICE Económico: Información Comercial Española* 2770:95–98; Bombín, V. (2002). Caso: el Grupo Inditex, *Harvard-Deusto Finanzas & Contabilidad* 44: 42–53; Caballero, D. (2002). La familia Botín en su laberinto, *Cambio 16* 1595:26–28; Castellano, J.M. (2002). El proceso de internacionalización de INDITEX, *Información Comercial Española* 799:209–217; Durán, J.J. coord. (1996). *Multinacionales españolas I: algunos casos relevantes,* Madrid: Pirámide; *El Periódico* Agrolimen SA, una multinacional catalana de capital familiar, 25/01/06; Hoyo, J. & Escriñá, J.M. (2003). *Javier Benjumea Puigcerver (1915–2001): primer Marqués de Puebla de Cazalla,* Madrid: Lope; Isidro, R. (1994). *La evolución de las telecomunicaciones españolas, 1982–1993: el caso de Telefónica de España, S.A*., Working Paper 9404, Madrid: Fundación Empresa Pública; Martín, R. (1998). ENDESA en América Latina: el sentido de una presencia, *Síntesis: Revista Documental de Ciencias Sociales Iberoamericanas* 29–30:211–218; Miranda, R. (1998–1999). La experiencia de Endesa en Mercosur, *Economía Exterior* 7:117–122; Miranda, R. (2002). Estrategias de Internacionalización: la experiencia de Endesa, *Información Comercial Española* 799:181–187; Mochón, F. & Rambla, A. (1999). *La creación de valor y las grandes empresas españolas*, Barcelona: Ariel; Navarro, M. (2004). La larga marcha de la siderurgia española hacia la competitividad, *Economía Industrial* 355–356:167–184; Pizarro, M (2004). Las multinacionales españolas en Iberoamérica. La experiencia de Endesa, *Universia Business Review* 3:26–35; Puig, N. (2003a). *Bayer, Cepsa, Puig, Repsol, Schering y La Seda. Constructores de la química española*, Madrid: Lid Editorial Empresarial; Puig, N. (2003b). The Search for Identity: Spanish Perfume in the International Market, *Business History* 45(3):90–118; Puig, N. (2006a). La empresa en Cataluña: identidad, supervivencia y competitividad en la primera región industrial de España, in García J.L. & Manera, C. dirs. *Historia Empresarial de España. Un Enfoque Regional*, Madrid: Lid Editorial Empresarial, pp. 29–58; Puig, N. (2006b). Antoni Puig Castelló, in Cabana, F. ed. *Cien empresarios catalanes*, Madrid: Lid Editorial Empresarial, pp. 680–687; Puig, N. (2006c). Antoni Esteve Subirana, in Cabana, pp. 445–455; Salazar, J.M. (2005). La estructura Organizativa en la empresa actual. El caso Inditex, *Boletín ICE Económico: Información Comercial Española* 2850:7–19; Salgado, J. & Blanco, X. (2004). *Amancio Ortega: de cero a ZARA,* Madrid: La esfera de los libros; Sánchez, A. (1998). Grupo Santander: expansión y crecimiento nacional e internacional, *Bolsa de Madrid* 65:40–43; Sierra, M. (2000). Grupo Santander: expansión y crecimiento nacional e internacional, *Bolsa de Madrid* 65:40–43; Torres, E. (2000). *Los cien empresarios españoles del siglo XX*, Madrid: Lid Editorial Empresarial; Torres, E. (2007a). *Cien empresarios vascos*, Madrid: Lid Editorial Empresarial; Torres, E. (2007b). *Cien empresarios madrileños*, Madrid: Lid Editorial Empresarial; *Fomento de la Producción* (various issues); Corporate websites and annual reports. See also note 5.

Appendix 2 Corporate governance

Firm	Ownership	Management	Diversification Strategy	Structure
Santander Central Hispano	Personal (Botín family) and financial (Chase Manhattan, Mutua Madrileña, Assicurazioni Generali)	Personal	Single business	Geographical divisions
Aceralia/ Arcelor	State owned firm until 1990s; privatisation parallel to transnational merger to create Arcelor (since 2006 under control of Anglo-Indian Mittal)	Professional	Related business	Product line divisions
Puig	Personal (Puig family), but recent incorporation of professional CEO	Personal + Professional	Dominant business	Geographical divisions until 2002; conceptual (fashion, prestige brands, fragrances and personal care) divisions
Telefónica	State until 1990s; financial (Chase Manhattan Bank, BBVA, La Caixa, Citibank)	Professional	Related business (telecom., contact centers, equipment)	Geographical and product line divisions
Esteve	Personal (Esteve family)	Personal	Related business	Multidivisional
Agrolimen	Personal (Carulla family) and financial (Dutch firms Merimare Investments and Venelpark BV)	Personal	Unrelated business	Product lines
Abengoa	Personal (Benjumea family and traditional) and financial (minority interest)	Personal	Related business	Holding based on product lines
Endesa	State owned until 1990s; financial (Caja Madrid, Caixa)	Professional	Single business	Centralised, multifunctional and geographical divisions
Inditex	Personal (Ortega family)	Personal	Single business	Multi-brand model
NH	Personal until 1980s (Catalan family); collective and financial (Ortega family, Caja Madrid, Bancaja, Ibercaja, Deutsche Bank)	Professional	Single business	Multinational and multidivisional

Sources: see Table 1.

Appendix 3 Foreign influences and identity

Firm	Main foreign influences	EU's impact	Identity
Santander Central Hispano	American (Bankinter's foundation, increasing value of American market)	Concentration and leadership at domestic market (acquisition of some regional banks in 1980s and of Banesto in 1994, merger with Central-Hispano Americano in 1999); strategic alliances and mergers in EU	Global firm strongly influenced by Santander's corporate culture
Aceralia/ Arcelor	European partners	Concentration and leadership at domestic market (acquisitions of Aristrain and Ucín groups in late 1990s); mergers (foundation of Arcelor); internationalisation	European corporation
Puig	French, German, American	Concentration and leadership at domestic market (acquisitions of Gal in 1990 and Myrurgia in 2000); push to strength brand performance	Global firm
Telefónica	American	Liberalisation policy; acquisitions of EU firms	Multidomestic firm
Esteve	European, American	Concentration and leadership in the domestic market; changes on patent systems (from product to process patent system); increasing R&D effort	Family-owned, socially committed global firm
Agrolimen	American	Concentration and leadership domestic market (acquisitions of Pansfood in 2003, Biocentury in 2004); market for differentiated products; acquisitions and joint ventures	Socially committed global group
Abengoa	American (technological agreements since 1950s)	Market for advanced engineering	Socially committed global group
Endesa	Not relevant	Liberalisation and concentration at domestic market (Enher, Gesa, Unelco, Encasur in 1980s; Fecsa and Sevillana de Electricidad in 1990s); expansion into the EU market due to liberalisation of 2000; alliances (ENDEX, 1999)	Global firm
Inditex	Japanese just-in-time	Enlarged market	Global corporation
NH	European (business hotels)	Enlarged market	European group

Sources: see Table 1.

our firms' foreign markets, some of them being much stronger in Latin America or the United States; 3) leadership in the domestic market has usually preceded internationalisation; 4) family and personal ownership has nor hindered internationalisation; 5) a high degree of personal management survives the general trend towards professionalisation; 6) most firms have gone international by strengthening its core business, adopting a related diversification strategy and various structures; 7) foreign influence (in the form of business partnership, technological assistance, or inspiration) is an explanatory variable of internationalisation; 8) American influence is as strong as European influences; 8) prospects of becoming a member and membership into the EU have fostered competition, modernisation, concentration, and internationalisation; 9) particularly relevant seem the opportunities created by deregulation and privatisation that have led to mergers and acquisitions within the EU; 10) internationalisation has not led our firms to become European, but global; 11) much of their corporate identity has been deliberately kept at domestic level and either adapted or omitted at international level and 12) the transnational groups in charge of their communication strategy have apparently advised them to look global, not European.

Although we have not made it explicit in the tables, lobbying stands out as one of the dimensions most affected by the EU. Industrial relations having been redefined shortly after Franco's death, most employers' associations, particularly CEOE (Confederación Española de Organizaciones Patronales), founded in 1977, were inspired by the idea that Spain soon would join the European market and that firms had to cross borders and look at Brussels. CEOE's main founder and long standing president, Carles Ferrer Salat, for instance, was an already internationalised entrepreneur who held later top positions in European employers' associations. Most of the branch-specific associations created (out of the old fascist structure) in the late 1970s and early 1980s were linked to their European partners. Yet collective action was more visibly influenced by the EU among family firms. The Instituto de la Empresa Familiar (IEF) was founded in 1992 by a small group of Catalan entrepreneurs as a response to the single market. The most effective Spanish lobby so far, it has pushed the creation of a European lobby of family owned and managed firms. Six firms of our sample did or do play a relevant role in IEF.

Conclusions

This chapter has examined the role of Europe in the recent internationalisation of Spanish firms. Like other authors contributing to this volume (Dritsas, Iversen), we consider that internationalisation patterns provide many insights into the overall influence of the European integration on particular countries at micro and macro level. We have argued that it is inseparable from three major processes: the modernisation of the Spanish economy, Spain's formal integration into the European Union (1986), and the second globalisation wave. The fact that all this has taken place almost simultaneously has strongly affected the geography and patterns of

internationalisation of most Spanish firms. Privatisation, deregulation, and concentration are the watchwords under which much of what we are interested in has occurred. As other contributors (Amatori & Colli), we have also taken into account the evolution of corporate governance in order to assess the impact of the EU on Spanish firms. Our research looks thus systematically at ownership, strategy and structure, and confirms many similarities between Spain and other Latin countries. We point out, however, some specificities in timing and structure. Finally, we pay attention to the way in which internationalisation has influenced the way firms understand or present themselves to the public and their employees.

We have first pointed out the strong and persistent influence of a few advanced countries on Spain's modernisation since the advent of the industrial age. This has to be taken into account to understand the role of long term technological assistance and business partnerships in Spanish business culture. Although the United States has played a major role in the Spanish economy, particularly after 1950, the relationship between Spain and the EU has intensified in the last decades. We have then turned our attention towards the internationalisation of the Spanish economy and firms. To identify the main actors (former monopolies, banks, and family firms), markets (individual countries of Latin America and Western Europe), and specialisation (services, labour-intensive manufacturing, and lately also cutting-edge technology) of this historically significant process is not difficult. More complex and interesting, however, is to learn how individual firms have planned their growth strategies and performed in the international markets.

Designed to understand how the prospects and materialisation of the European integration have shaped the internationalisation of Spanish firms since the 1960s, our multiple case study show that, for Spain's most outward looking firms, finally, the EU has been as challenging (because it has exposed Spanish firms to foreign competition) as it has been full of opportunities (because it has enlarged markets and made intra-European alliances and acquisitions easier). Yet our examination does not indicate that Spanish firms have become more European as they have gone international. On the contrary, inherited corporate culture has played a lead role in their globalisation, along with the opportunities created by privatisation, economic development, technological progress, and scale across the world.

Part V
Conclusion

The Development Toward a European Enterprise: Results and Conclusions

Harm G. Schröter

Most published scholarly literature leaves the meaning of “European” “Europeanisation” or “Europeaness” largely undefined, referring just to firms registered and/or doing business in Europe. The contributors to this volume have used various definitions of a European firm, highlighting different ideas about how to describe this kind of enterprise. This was an approach reflected in the work of all authors, although it was not stated anew in every case. Explicitly or not, issues such as country of origin, nationality of owners or their organizations (funds, banks), and the nationality of management played an important role in all contributions, as did places of production, the character of the firm, and markets for sales and purchases.

Some of our authors, for example Takafumi Kurosawa,[1] seek out static issues primarily, i.e. those which have validity over the course of time, such as European characteristics. On the other hand, the majority of contributions examine a particular development over a given period in order to find a trend – or to exclude it. This diversity of approaches, methods, viewpoints and results is one of the most fruitful results of our joint research. This diversity was enlarged by the fact that the contributors come from twelve different countries, including two non-European ones. Consequently, the volume represents the state of the art of the research on the emergence of the European enterprise. There are three main groups of findings, including authors with primarily positive results, those with mixed ones and finally those with primarily negative findings.

Research on the European Enterprise with Generally Positive Results

There are surely a handful of truly European firms; truly European, because they were set up on a European scale with the purpose, by means of co-operation, of developing certain capabilities which no firm of any individual nation would be able to produce on its own. Consequently, a European solution was sought out. EADS, Galileo Industries, or Airbus are some representatives of such enterprises, as

[1] Names and citation without additional notion refer to the person’s contribution in this volume.

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well as Unidata, which Susanne Hilger deals with in her contribution. Unidata was founded in order to bridge the technological IT-gap which existed compared to the USA. The basis of Unidata's foundation was industrial policy, the desire not to fall further back in key-technologies. Consequently politicians had more to say in this firm than usual; or as Hilger suggests, more than was good for Unidata. National political ambition combined with different organizational traditions and cultures caused deep-seated problems, and finally the end of the firm. This European firm was a failure. Though Airbus has a substantial record of success since its foundation in 1970, every now and then tensions emerged between representatives of several nations; tensions of a kind unknown in normal enterprise. The latest ones emerged when Noël Forgeard tried in 2004 to extend the French influence within the firm at the expense of the Germans, and in 2006, when he and his family members, "purely by chance" sold their stockholdings only a couple of weeks before the Airbus stock price collapsed.[2] On this occasion he again accused the Germans of causing the troubles that led to the fall in the price. Whether this accusation was correct or not, such behaviour underlined yet again the fragility of politically constructed enterprise. Unidata and others are the proof: we do have European firms, but this special kind of politically initiated enterprise does not represent normal, economically oriented enterprise. Furthermore, it exists only as long as the political will lasts on which the firm is based. The next task is to look for European enterprises which exist without political incentives.

Judith Clifton, Francisco Comín and Daniel Díaz-Fuentes called European utilities "ugly ducklings",[3] which after privatisation and deregulation became Europe's new "swans". Indeed companies such as EDF, e-on, Enel, Deutsche Bahn, Vattenfall, Suez, or RWE invested beyond their traditional national borders in order to create international networks of supply. Often these networks are physically linked. Several have labelled themselves as "European companies". They still have a traditional focus, however, and only Vattenfall's and e-on's revenue was earned to a greater extent outside rather than inside their country of origin in 2005. Others, such as Suez – despite the fact that Hubert Bonin characterised Suez' engagement abroad as the actions of a "European firm with a French and Belgium anchor" – really represent rather traditional firms; promoting in this case French interests, if necessary against European ones. Thus it is more their future potential which might eventually turn these firms into truly *European* "swans". Today the most Europeanised "swan" is probably Vattenfall, which in 2005 supplied at least four times as many customers abroad than it did in its home country, Sweden. Still this company labelled its three main regions as "Nordic", "Poland" and "Europe", which indicates at the very least a biased understanding of "Europe".[4]

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[2] Forgeard was forced to resign in July 2006.

[3] Clifton, Judith and Francisco Comín and Daniel Díaz Fuentes, (eds.), Transforming public enterprise in Europe and North America: Networks, Integration and Transnationalization, Palgrave, 2007.

[4] Furthermore: into "Europe" counts for little more than just going into Germany. (Taken from Vattenfall's homepage 4.6.2006 http://www.vattenfall.com/www/vf_com/vf_com/ Gemeinsame_Inhalte/DOCUMENT/360168vatt/417846keyx/P02.xls).

Europeans and European enterprises are said to be more concerned with environmental and ecological questions than others. Public utilities are to a large extent directly connected to these issues, since they deal with water, sewage, garbage, air-polluting electricity generation and so on. Consequently the question arises to what extent European utilities are more committed to these questions than their non-European competitors? It may be here that we may find traces of a European profile. In 2006, for instance, the most important issue highlighted on the Vattenfall homepage was the company's commitment to environment protection.[5] However, since the articles in this volume did not compare European with non-European utilities, the question could not be answered and must remain open to speculation.

Organisational theory suggests a homogenisation of institutions of the same purpose, or in Walter W. Powell's and Paul J. DiMaggio's own words: "Once a field becomes well established, however, there is an inexorable push toward homogenization."[6] Enterprise in Europe is without doubt "well established"; we consequently might expect a trend towards homogenisation. Since we see fairly little homogenisation, though, theorists may maintain that that reason for this lies in the lack of a common legal framework across European countries. Such a common framework, however, has been pushed forward in a stepwise fashion by Brussels,[7] and there has been a major step forward in this regard during the last one or two years. A new form of a European enterprise, the societas europaea (SE), now exists after decades of negotiations.[8] Since the *Competitiveness Advisory Group of Industrialists*, chaired by Carlo Ciampi, expected savings up to 30 billion Euros for European firms by using the SE, one might have expected a rush toward this new opportunity in order for firms to make easy money. However, the SE seems to be more a theoretical question discussed and debated by lawyers than a practical one. A few companies have taken over this form, but the number is very small. Royal Dutch Shell plc is quite a characteristic case. When this company was created in 2005 by merging Royal Dutch and Shell, which for nearly 100 years served as parent companies for what is commonly known as "Shell", the question of using the new SE form of enterprise was not seriously considered. In fact, it is more often medium-sized enterprise (i.e. medium-sized on a global level) which applied this new form, such as Strabag. Bauholding Strabag SE is an important and fairly sizeable firm in the construction business, employing 40,000 people mainly in Austria, Germany, and Central-East Europe in 2005.

However, there might be an important change in future. Allianz, one of Europe's largest insuring companies, has become a SE. It probably will represent an important

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[5] Vattenfall's initial homepage 4.6.2006 (http://www.vattenfall.com/www/vf_com/vf_com/index.jsp).

[6] Powell, Walter W. and Paul J. DiMaggio, The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields, in: idem (eds.), The new institutionalism in organizational analysis, Chicago & London: The University of Chicago Press, 1991, pp. 63–82, p. 64.

[7] We use Brussels as a synonym for European administration and politics.

[8] Expected to be in force already in 2004, it took the various member states some time to pass the background legislation at the national level.

change in symbolic value. If one of the largest financial firms in Europe takes on this form, it will be considered more seriously than it has been to date. Another example is MAN, which announced that it planned to combine its activities in large diesel engines (for ships) in an SE. The reason given for this is particularly interesting: "In a European Company we will think and act on an even more international scale, which is absolutely essential in the face of global competition," explained Håkan Samuelsson, Executive Board Chairman of MAN AG.[9] Recently also other German firms, such as BASF, Porsche, Deutsche Bank, Continental, and Fresenius have expressed their desire to acquire this form. It seems, however, that European enterprise in general has not taken the SE form seriously up to now in Europe. Looking more closely at the German case in particular yields the impression that it is more likely to be used as a tool to reduce the influence of German trade unions by replacing some of the unions' representatives on supervisory boards with representatives of foreign union activists.

But, does it matter? Is the label important? History has shown that there is a correspondence between form and content; we therefore can expect an emergence of a more European enterprise culture in firms which adopt the European corporate form. In the past few years, however, we find not so much a widespread adoption of the SE form as an increasing use of the British LTD registration. These are often free-standing companies, with no business in the UK, paying taxes only in their countries of activity. They make use of the uncomplicated form of a UK-registration because the same process in other countries costs more time and money. Though unintended, this form of enterprise, too, may become a European one. Here again, we can detect a certain trend towards European enterprise, but at the moment the examples represent rather seedlings than grown-up trees. Still: seedlings exist.

In the case of FORCE, Lars Heide demonstrates the positive impact of policy from Brussels. Reaction to definitions of European technical standards and the emergence of the Single European Market led to the creation this company through mergers. The new enterprise of FORCE started to compete in many European markets and beyond. According to Heide, these European standards provide the firm with competitive advantages compared to US competitors on third markets. Companies themselves also indicate a recent trend towards Europeanisation at the level of boards of directors.

Wouter Fioole-Hugo van Driel and Peter van Baalen compared the boards of stock-exchange listed companies of a small country (the Netherlands) and a larger one (Germany) during the period 1990–2005. Their observations were surprisingly similar: In 1990, the Dutch boards were nearly as purely national as the German ones, while 15 years later foreigners had acquired half or a quarter of the seats. The latter came mostly from Europe. Also the educational background of the managers tended to become more similar over the same period: lawyers lost out to managers

[9] Press release of MAN 21.02.2006. The future company MAN Diesel SE, formerly MAN B&W Diesel AG will combine the plants in Germany, Denmark, the UK, France Czechia and China.

educated at business schools. Both trends indicate a closer interconnectedness of European firms at this level of activity.

Outside perceptions often differ from inside ones. The same is true here. As a director of Olivetti put it in 2006, 'American business has been very quick to grasp the profound meaning of the European integrating movement, anticipating its potentials if not realities, and thus taking bold actions ahead of time and indeed very much ahead of its European competitors.'[10] Asian business as well, we have to add. Asian and US companies treated Europe as one single market long before the Single Market come into power in 1993. Their engagement in Europe was supposed to serve the whole of the European market, not just one country; for instance, Exxon Mobil's brand "Esso" is distributed all over Europe, but not in the United States. On the other hand, Takafumi Kurosawa has shown that in Japan European firms are identified with their country of origin, not with Europe per se. However, while he cannot detect Japanese perception of European enterprise, he does suggest several common characteristics of European firms. Among these are values shared by Europeans which are different from those in other areas of the world. He lists, among others, the emphasis on public interest, different from private or national ones. He also notes a special diversity within enterprise, which is partly based on a related issue: the irrelevance of inner-European borders. Another issue is the impact of European trends in taste and culture which are transferred to less developed nations, there are peculiar assets of "the European consumption style." To highlight this relationship is a typical original view from an outsider. It has not been mentioned previously in the existing literature.

Research on the European Enterprise with Mixed Results

Other typical European characteristics are related to ownership and governance. As Franco Amatori and Andrea Colli show, there are differences in ownership, structure, and governance between the various countries. But compared to the Anglo-Saxon model, which includes the UK and Ireland, the differences among continental European countries are minor. What is more interesting in our context is the diagnosis of a tendency towards convergence since about the last 20 years when privatisation of state-owned assets met the liberalisation of capital markets. The convergence is defined by a trend towards the American model,[11] though "Continental countries are still far from the American model of professional management and dispersed ownership." We thus have a mixed result, a differentiated European characteristic, which, under Anglo-Saxon influence may create something new. Whether this will end up in a European type of government and ownership remains a question of the future.

[10] Second Allianz lecture in Munich, 7.5.2006, Taken from Allianz' homepage, 11.06.2006, http://www.allianz.com/azcom/dp/cda/0,,1133778-44,00.html.

[11] Schröter, Harm G., Americanization of the European Economy. A compact survey of American economic influence in Europe since the 1880s, Springer, Dordrecht, 2005.

Functionalism is one of the theories which describe the process of European unification. It suggests a framework of rules will lead to more and dynamic integration. It has been claimed that more than one-half of all economic legislation in the EU is initiated by Brussels. What effect did this lawmaking have on the emergence of European enterprise? Margrit Müller and Kersti Ullenhag examine into how Swiss and Swedish business associations, acting as mediators between Brussels and national enterprise, dealt with this question. Both cases are very interesting since both countries are small and thus rely heavily on external economic relationships. Brussels cannot rule over purely internal matters, but it does have power over all cross-border trade and commerce. Because of their high proportion of external trade in relation to GNP, small nations are affected by such rulings to a greater degree than larger ones. Both countries have declared neutrality, which entailed a certain distance to the NATO-related EU during the 1970s and 1980s. But in contrast to this political stance, industry in the two countries tried early on to establish links with the EU. In 1974, more than 20 years before Sweden became a member of the EU, Swedish employers associations became associated members in UNICE, their counterpart at the EU-level. Already a year earlier Landsorganisation, the central organisation of Swedish trade unions, had taken the same step. In Switzerland, similar organisations worked hard for a Europeanisation of Swiss firms in order to avoid comparative disadvantages when Switzerland would have to apply the rulings of the Single European Market under the terms of trade agreements. Upon closer examination, however, we find fewer effects than may have been expected. Swedish firms had no desire to heighten their European profile. They thought of a Swedish or of a global option but not of a European one. In Switzerland the process of adaptation was abruptly stopped when the electorate voted against the treaty with the EU – which indicates a lack of domestic interest in this question. Thus we have in both cases a certain amount of Europeanisation, but motivated solely by the desire to avoid disadvantage. The idea that European enterprise is different from firms based outside this European continent, something which may lead to definable (dis-) advantages, was not entertained. Though all business handbooks insist on a strength-and-weakness analysis as a precondition for decision making, this idea was not applied. We have no indication that organisations and firms in other European countries acted differently.

A second idea advocated by functionalists is that technical norms will create integration. Marine Moguen-Toursel investigated the European automobile industry in this regard by asking two questions: did technical harmonisation create a European product? And did technical harmonisation create a more or less coherent group of European firms? The EU defined many technical standards such as axle-weight, maximum pollution, safety-standards and so on. All this intervention did not create standard European cars or lorries, however. Also competitive pressure from abroad did not create unified European action. The functionalist's approach does not seem to be especially fruitful in this regard.

Did the integration of consumer markets create a European enterprise? Ford was the first major company to create a pan-European car, designed to serve the whole of the (West-) European market, the *Transit*. Other cars such as Volkswagen *Golf*, FIAT

Panda, or Renault *Clio* were likewise sold all over Europe in large numbers, but in all cases they were linked to a certain national car producer, not to a European one. On the other hand, the supply-chain for car production is also heavily Europeanised; no car is built entirely on the basis of supplies from only one country. In many cases, such deliveries over borders are heavy; for instance, Audi's motors are assembled in Hungary. Still this did not create European enterprises in the car industry. In the case of Audi, its German origin was even underlined by including in non-German advertisements the slogan "Vorsprung durch Technik" in its original German, which nobody could read and understand, of course. Nationality still is used as an argument for sales. There is no European car producer in sight. This is strange, because the car industry in Europe is so inter-twined, in the sense that plants in separate countries supply each other and a whole network of independent suppliers. In other words, if production alone were to be considered many automobile firms should be considered as European enterprises. While in textile industry we find "Made in EU"-labels, suggesting quality and commitment, automobile firms instead stress "Made by . . ." than a "Made in . . .". The automobile industry wants customers to be linked to an economic body: the enterprise, not to a political organisation; be it a nation state or the EU. The car industry provides an example that the European firm goes beyond a Europeanised network of supplies and sales: self-understanding and commitment are key to the concept of the European enterprise.

This book provides several contributions which look more closely into the possibilities of Europeanisation by trade and foreign direct investment (FDI). Margarita Dritsas examined the effect of such FDI in south-eastern Europe. She uses the example of Greece, which like Austria for central-eastern Europe, acts as a stepping stone for FDI into the Balkans. According to Dritsas, Greek firms though their FDI play a positive role in an Europeanisation of enterprise in the respective countries, for instance in teaching their approach to how to pursue business. The influence extends also to joint ventures, where Greek managers introduce modern governance structures. At the same time, Dritsas points to a certain regional "Balkan" mentality which promotes such FDI. Therefore, what is at issue is the extent to which firms in these East European countries become Europeanised in this process – and this remains open.

Similar questions are raised concerning France, both as a home and as a host to FDI. In 1960 the French paper industry was characterised by many family firms, showing a typical European profile. 40 years later, 80 percent had been taken over by large foreign enterprise. These firms followed a European strategy, based on the many different types of paper in demand. Their idea was to serve the whole of the European market by employing just one machine for each type of paper. These one-type-of-product machines were situated in several European countries, and consequently the EU-market could be served only in an integrated way. We can thus agree fully with Marc de Ferrière le Vayer in calling such firms European enterprises. However, this turned out to be just one stage of development. Shortly after these firms had established themselves as integrated on a European level they embarked on a strategy of globalisation, manifested by heavy FDI outside Europe.

This raises the general question whether "European" enterprise may be just a stage of development between national and transnational enterprise.

The example of Suez (Compagnie financière de Suez) reveals another important problem which needs to be solved as a precondition for a European enterprise: trust. Suez's takeover of Société générale de Belgique in 1989 caused the introduction of an extremely well balanced system of influence between the French and the Belgian parts of Suez. Both parts retained a certain national identity and displayed a certain degree of mistrust against the other, despite sharing a common French language. Suez carefully used Belgian co-investors and managers to proceed with its plans. This mistrust extended beyond Belgian investment into a "local energy 'patriotism' among local communities and industrialists" (Hubert Bonin) in Belgium. Considering this experience, Suez later chose joint ventures with local firms for its FDI in Germany and Italy. Bonin calls Suez as it exists today a "European group", rooted in French business culture but with "Europeanised day-to-day management."

We have similar cases were firms are based mainly in two nations, for instance ABB, Glaxo, Royal Dutch Shell, or Arcelor (today Mittal-Arcelor). Of course, it is not necessary for a "European enterprise" to be active in every European country. US firms need not be present in all of the states of the USA in order to label them "American". But while Suez generates 80 percent of its turnover inside Europe, the other firms mentioned are much more globalised. Still we have to point out to the fact that also many globalised US firms are understood to be American firms. Consequently globalisation as such needs not wipe out national roots and commitment. Such national roots and commitment are to be found even in most globalised firms such as Nestlé, which produces and sells less than three percent of its turnover inside Switzerland. But the headquarters, management and decision-making remained to a large extent Swiss until today. In contrast, the above mentioned firms are not known for their common European roots and commitment.

Another indicator for the existence or the emergence of a European firm is cross-border hostile takeovers. Hostile takeovers *within* a given country did not provoke intervention in the past. But in many European countries hostile takeovers were excluded by tradition as well as by mutual understanding, especially when a foreign competitor was involved. Therefore, the existence and extent of resistance against hostile takeover bids by foreign but European firms can be used as one indicator of change or lack thereof. European enterprise will emerge when such takeovers no longer meet politically based resistance. Traditionally European enterprise applied various means against hostile takeovers, means which could be ratcheted up when such a move came from abroad. The famous cascades of ownership in Italy, or the mutual companionship of large shareholders typical of Rhenish Capitalism in Germany, were just two possibilities. When Carlo de Benedetti in 1988 made a hostile bid for the Belgian Société Générale, he tried in vain to convince indigenous shareholders by promising that his future holding companies would be situated in this enterprise and country: "Belgium is the best country to set up a European project and the Générale the best choice available to become a leverage for a true European

holding."[12] But here, too, things were changing. Thus, while in 1991 Pirelli's hostile takeover of Continental was blocked by German shareholders and banks, Vodafone's 2000 hostile bid for Mannesmann ended in victory. Since Mannesmann was counted as a crown jewel – in contrast to Continental – it was generally accepted that special protection for national enterprise had petered out in Germany. The same applies to most other European countries, including Italy. There still is some politically based intervention, as the case of e.on and Endesa showed in 2006/07. But the winds have changed: When German e.on launched its bid for Endesa the Spanish government announced its disapproval, but refrained for *open* intervention. Such open political intervention is only maintained in France. When Paris-based Sanofi launched its bid for the German-French Aventis in 2004, the latter called for the Swiss Novartis to act as a "white knight". Novartis considered a counter-bid, but when the French government announced its massive resistance against Novartis and backed Sanofi, the deal was struck. The same happened in 2006 when the Italian electric utility company Enel launched a bid for Gaz de France: Paris mobilised Suez for a politically backed counter-bid. In spite of these political interventions the sector of public utilities became quite European as shown by Clifton, Comín and Diaz Fuentes. Generally, since the new millennium cross-border hostile takeovers are much more accepted inside Europe than previously. It seems that in this respect only France is not yet ready for a European enterprise.

We do count the UK as part Europe (even if many British, when talking of Europe, exclude themselves; indeed, we occasional find this in conversation with Norwegians and Swedes as well). According to Isabelle Lescent-Gilles there are three basic approaches to accounting standards, the British, the American and the French/German one. The European Commission started already in the 1960 to harmonise European accounting standards.[13] The three models competed against each other world wide and in Europe. During the 1990s the US GAAP-standard was able to make extensive inroads. But after the Enron and other major frauds in the US were discovered, it was the British standard which was singled out to be adopted within the EU, and probably world wide. Though this is in contrast to the standards of core European nations, it is unification on a European standard and as such Europeanisation. (We do indeed count the UK as part Europe!) A similar argument is presented by Knut Sogner, who maintains Orkla and Elkem to be semi-European because of their Scandinavian character: How much "Europeanness" do we need and how many characteristics of single nations or regions have to be given up to label an enterprise as European?

Since about a decade, all firms active in more than one European country have to have a European works council. Theoretically such works councils could be a formidable instrument in the hands of employees' organisations when used skilfully.

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[12] De Benedetti, 19 January 1988, in Bruno Dethomas & José-Alain Fralon, *Les milliards de l'orgueil. L'affaire de la Société générale de Belgique*, Paris, Gallimard, 1989, p. 106, cited after Bonin in this vol.

[13] See Choi, Frederick, International finance and accounting handbook, Hoboken, N.J.: John Wiley & sons, 2003 (3).

It would at the same time generate a common European feeling on the side of employees and, as a consequence, on the side of management. However, to the present day, national unions and works councils jealously guard their influence and information. Consequently the European works councils have become lightweights with little impact on a potential emergence of European enterprise.

Research on the European Enterprise with Rather Negative Results

Takafumi Kurosawa maintained most Japanese distinguish enterprise from Europe not by their European-ness, but rather by their identification with individual European countries, something US citizens tend to do as well.[14] Thus, only in exceptional cases does outside perception understand national enterprises as European. This appears to stand in contrast to potential developments, such as in the case of heavy industry, which was supervised by a supra-national, European body after the European Coal and Steel Union (ECSC) was founded in 1952. Consequently, this sector might be the most likely one in which to find European enterprise. Because coal does not play a significant role anymore, it is the steel sector which we examined, especially since Europe experienced several waves of concentration in just this case. During the first decades after 1945, we saw primarily consolidation on a national scale. In Germany, Thyssen merged with, and acquired through purchase, several enterprises until it in the 1960s had assembled nearly all firms which previously were part of Vereinigte Stahlwerke, which was broken up after 1945. Today, after another merger, there is only one large firm left, ThyssenKrupp. Its investments in Europe are comparatively small in the steel sector, which represents only one third of the whole firm's assets. Thus ThyssenKrupp is neither a European enterprise nor a representative steel firm. Corus, the British-Dutch merger would be a better candidate, as would Arcelor, a fusion of firms from France, Belgium, Luxemburg, Spain, and Brazil. However, we cannot detect any relation to Europe or a pan-European approach in the European steel industry. There is a small indicator, however, of a European feeling at Arcelor: Its president of the management board, Guy Dollé, disgusted by Mittal Steel's hostile takeover bid in 2006, did not even try to hide his contempt for Mittal and its Indian owner Lakshmi. Though Mittal was incorporated in Rotterdam, Dollé suggested publicly that the Indian Lakshmi was no serious partner, paying with "monkey-money". Dollé tried to save Arcelor with the help of the Russian firm Severstal acting as a "white knight", but in the end was forced to give in. At the very least, the incident reveals a degree of prejudice against people of Third World countries. It indicates a different identity of Dollé and Arcelor – probably a European one, if the character of Arcelor is taken into account. But more Europeanness than this negative one was hardly to be found. More than 50 years of integration in the steel sector have created large national and transnational

[14] Opinion of Prof. Geoffrey Jones' (Harvard Business School) mail to the author.

enterprises, but no European ones. Since the ECSC intended strong cross-border integration for political and economic reasons, we can notice a substantial failure at the political level of the EEC/EU.

According to Pål Sandvik, Norwegian aluminium companies acted distinctly Norwegian or Scandinavian by co-operating with both government and workforce. This earned the largest firm, Norsk Hydro (Hydro), a devastating critique by an American competitor: "You act and think like the government... If you continue like this you will sooner or later go broke."[15] Interesting in our context is not so much the fact that Hydro did not go bankrupt, but rather that it became a quite sizeable enterprise, indeed growing to a global scale. But it is also noteworthy that this American CEO could not imagine success based on a different approach than the American way – which implies that there is at least a different, European, one. However, there are no traces of Europeanisation. Sandvik covered the early period, from 1945 to 1970s, and found traces of Americanisation. The choice of period leaves the question of a later Europeanisation open. However, even much later, Hydro showed no commitment to Europe. In 2005, it closed its Hamburg plant despite the fact that it was an extremely modern one and it made sizeable profits. Hydro simply wanted to reduce the amount of aluminium on the world market. Even more striking: Hydro showed little commitment even to Norway! In 1999, in spite of the fact that the Norwegian state still owned the majority of shares at that time, CEO Egil Myklebust threatened to move Hydro's headquarters to London. Such a provocation against both the government and the major shareholder (which was the state!) would have been unthinkable in other countries, for instance in France. It seems that the co-operative attitude, which generally characterised the European and even more the Scandinavian approach to doing business, was watered down at Hydro, and maybe other enterprise. In any case we cannot detect traces of Europeanisation.

While the aluminium industry represents a case on a mesoeconomic level, evidence on the macroeconomic level is provided by Martin Iversen for Denmark and by Núria Puig, Adoración Álvaro, and Rafael Castro for Spain: To what extent were whole economies Europeanised by means of trade and FDI? Europe became more important for Danish and Spanish enterprise, but this did not change their fundamental character. Here, too, the answer is primarily negative. There are of the traditional telltale signs of European character, such as many family firms, but there was little *movement* towards Europeanisation. Still Danish family-firms became stronger exactly during the period of globalisation pressure, which may be taken as a sign of persistence of this special type of enterprise, representing one of Europe's economic characteristics. Spanish and Danish FDI without Europeanisation contrasts to the findings on FDI by French enterprise. This in turn raises the question of regions and their commitment to Europe: Are firms from the periphery of Europe less related to ideas of a European community than those of the core? While we read in Kersti Ullenhag's contribution: "There has been no Swedish feeling of a European heritage", a similar statement from European core countries is hardly imaginable. With

[15] Cited from Sandvik's contribution in this volume.

such a range of views and nuances in assessment, we have also to take into account the embeddedness of the authors, because it may shape a more optimistic or more pessimistic view on Europeanisation. The regional issue brings this into sharper focus than is the case with other issues, but this question of authorial embeddedness exists for all contributions, of course. In any case, our evidence suggests the need for more comparative research, also in this regional dimension.

As was the case in Sweden or Greece, regionalisation on a supra-national level can be identified (Dritsas, Ullenhag) to a much greater degree than can Europeanisation. There are many trends towards such a supra-national regionalisation in Europe, for instance special ties between the UK and Ireland, between South Germany, Austria and German-speaking part of Switzerland or in the development of the so-called *Euregios* (Copenhagen-Malmö, Aachen-Liège-Maastricht, Basel-Strasbourg-Freiburg and others). Perhaps at this level European enterprise may develop – and indeed we have some examples for it: Nordea, a Scandinavian bank which was formed through merger of enterprises from four countries; Galleria di base del Brennero / Brenner Basistunnel BBT SE, an Italian-Austrian enterprise to construct an major tunnel in the Alps; or even Delta Protypos S.A. with its FDI all over the Balkans. But at the moment, we detect individual cases rather than a general trend.

Mira Wilkins again points to the lack of coherent definitions. According to her, there can be no European firm until the adoption of a European Constitution. But would the legal approval of the constitution create European enterprises virtually overnight? A constitution might help, but it probably would not trigger the emergence of European enterprise. Perhaps Pesmazoglou's idea of more or less "European-minded" firms is not a bad one (though not measurable), since Europeanness is not – or at least is not only – created by law. Wilkins also reminds us that history is long-term process, and what has not been achieved within two decades may still come later.

Conclusion

The "state of the art" of research on the European enterprise represents to a large extent the state of development of the issue itself. Both are unsatisfactory from a European point of view. Of course, there are some issues not covered in this volume; for instance, armament industry, workers participation, a quantitative survey of the Europeanisation of management, advertising, distribution or image construction. There are, however, no indicators that any of these issues would come up with a completely new picture.

Our survey revealed some – but minor or maybe nascent – traces of the European firm as a form of an enterprise existing "between" national and transnational ones. It became quite clear at the very beginning of our project, that *European enterprise* is not sufficiently defined by enterprise being busy in several European countries, but that there has instead to be a link to European ownership, management, workforce,

plants, tradition and commitment to stakeholders. The common understanding of a European character of firms was underlined, which includes an important role for family firms, holding companies, border-crossing investment, a co-operative style in internal and external relations, high variety and competence concerning languages and culture, ecological commitment, and so on. What was added here in particular was the notion of a unique "consumption style" which is attractive to non-Europeans, who, at least in this case, understand Europe as a whole rather than as a number of individual countries. This was surely promoted by the introduction of thousands of product-standards through the EU-administration. We found some indications of a trend towards deepening this special profile, for instance, an acceleration of border-crossing FDI or a trend towards Europeanisation of boards of directors. In spite of this, firms in Europe did not – or rather did so only in exceptional cases – evaluate their inherent European profile when considering potential competitive advantages and/or disadvantages in comparison to non-European firms.

There are, of course, a handful of European firms, such as Airbus. They exist primarily on a political basis and are endangered if this political basis erodes. A second group of European enterprises may emerge out of pan-European utilities. There is a trend not only towards FDI in Europe, but it is also important that several such firms label themselves "European" and pursue a pronounced and detailed environmental policy.

Another issue is the introduction of common legal forms into the whole of Europe. The societas europeae has been established as a super-national, pan-European legal form, and a handful of enterprises have already used this opportunity. There is, however, no rush to adopt this special form, which indicates limited desire for it. In accounting, one standard European form is slowly emerging, based on British standards. In this case, organisational theory, which suggests a homogenisation in an established field, is to be seen. But on our more general level, concerning the issue of the European enterprise, the theoretically predicted homogenisation is not yet sufficiently in evidence in historical development. Here as well, we find such species, but also rather as seedlings than as trees.

Another theory, functionalism, which predicts an automatism towards more homogeneous structures if certain incentives are set within a political framework, fails in the case of the European enterprise. More intra-European trade and even more binding commitment in the form of FDI surely enhanced intra-European interdependence. But, as the car industry shows, even tightly knit networks of suppliers and sales within Europe did not establish pan-European automobile firms. Perhaps even more striking, more than 50 years of special integration and even direction by the "High Authority" failed to create a truly European enterprise in the steel sector. Commitment (beyond financial interest) does not *automatically* follow economic forms of engagement, be it trade or FDI or both.

We can view the growing number of cross-border hostile takeovers as well as the Europeanisation of directorates as indicators of tolerance and commitment. For about a decade, attempts at cross-border hostile takeovers by other European enterprise are much more likely, relevant and promising. Prior to this, various national barriers and co-operative arrangements prevented such bids. The same new

openness is to be seen at the level of boards of directors. They used to be made up entirely of persons of the same nationality. Though the majority of mergers still takes place on a national basis, and internationally assembled boards are to be found mainly in large enterprise, both trends are promising. Corresponding to such an opening is growing border-crossing co-operation. Many hundreds of such firms have been established. Maybe European enterprise will emerge to a substantial part out of border regions in the first instance. Here we have a defined and rapid movement. At the moment, it is quite promising concerning our question, but it will have to be evaluated again in the future.

There are, of course, limits and countervailing trends at the same time. European enterprise may just turn out to be one step in development between national and global markets. In this case the firm involved probably will not develop a special commitment to Europe. Though the peak of the fashion of focusing entirely on shareholder value is now over, and more firms again are underscoring their relationship to their environment, some enterprises go on severing their traditional commitment to stakeholders against the background of globalisation. This policy undermines the traditional European commitment to stakeholders and thus to a distinctive European profile.

On balance, our search for European enterprise as a special type of firm has not met with overwhelming success. There is indeed a handful of truly European firms, and there are some indicators of a change in that direction for still more. But their magnitude is so small that it provokes the question: why is there so little Europeanness on the microeconomic level after 50 years of integration? Our project suggests several reasons. The most important are: 1) Even firms which keep up European networks of supply and sales do not understand their networks as a potential asset against non-European competition. They do not evaluate these possibilities, and neither do they evaluate potential disadvantages deriving from a common European background. Also lobbying in Brussels for common advantages has not created enterprises which feel committed primarily to Europe. 2) There are not enough economic incentives to establish enterprise on a European footing. The societas europeae is a first step, but it took 40 years to establish a compromise even on this. 3) "Corporations are essentially the genetic code of European economic integration" (Franco Amatori), but European politicians have failed to imagine the potential of the European firm, of enterprise committed to Europe; they have not understood the potential of culture in the economy. The electorate, which in some European countries recently voted down the European constitution, usually feels committed to its hometown or home-region, to their nation state, which provides security, and to the firm offering them their workplace. European politicians can and should not do anything about the first issue, the hometown or -region. Concerning the second issue, building Europe, they successfully transferred power and commitment from the nation-state to the European level. But concerning the third issue they failed to understand the political potential which lies in commitments to workplaces and everyday life.

Will the European enterprise play a role in future? The precondition for the European enterprise is the maintenance of the specific characteristics of enterprise

in Europe, such as the important role of families, holding companies and so on. Incentives for this type of firm lie in: 1) dynamics of cross-border regions, 2) cross-border establishment of utilities, 3) cross-border mergers, 4) the recent trend to Europeanised boards of directors, and, in some cases the work force, 5) the legal status of societas europeae, and 6) the upkeep of a distinct Europe-wide consumption style, and 7) more importantly, European firms such as Airbus – to mention a few. An additional potential is represented in the form of European works councils – in the case that national trade unions and national councils should allow it. Finally a certain potential, one we certainly do not hope for, lies in economic or/and political pressure from outside, since outside pressure nearly always creates groups of common commitment and purpose.