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# **Europe's Business Environment:**

## ***Rules, Reform, and Restructuring***

Professor Simon J. Evenett, PhD.  
Course Syllabus & Reading Suggestions

International Study Program  
Spring 2008

## **Course Aims and Objectives:**

A deeper understanding of the environment that firms operating in Europe and the choices available to savvy companies is the objective of this class. This involves understanding the circumstances faced by Europe's firms, some of which are legacies of history and some which are changing faster than many think, and the effects of numerous government and EU initiatives to bolster European corporate performance.

The perspective taken is always that of firm and their market and non-market strategies and not of any particular European political or governmental organisations. As such this course blends insights from corporate strategy, international business, business economics, and European political economy. This firm-based perspective is what differentiates this course from traditional academic courses on the globalisation.

The class will cover seven important topics. Each topic's material will require 3-4 hours of class time to cover. We will work methodically through the material discussing frameworks, case studies, and applications to real world problems.

For each topic, two types of reading are listed in this outline. The "essential" readings should be studied during the course, ideally before we meet to discuss the relevant topic. The case studies should be regarded as essential readings too. I appreciate that you have plenty of work to do each week and so have numbered the essential readings in order of priority. You should, therefore, first read the document listed first under "essential readings," then work down the list. The "additional" readings are optional readings that will further deepen your understanding of each topic.

## **Course assessment:**

Assessment for this course will comprise of three components, as follows:

1. A maximum score of 20% for participation in class discussions.
2. A maximum score of 40% for analytical assignment due (at a date to be specified).
3. A maximum score of 40% for analytical assignment due (at a date to be specified).

Please note that un-notified and unauthorised absences from the class will severely affect the score for class participation.

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Please note there is no textbook for this course. A file of electronic documents has been prepared.

## Topic 1:

### A Toolkit for Global Business Decision-making

In this first session the goal is to adapt Porter's classic approach to firm strategy so as to include the challenges and opportunities created by governments and other important actors, such as unions, courts, and non-governmental organisations (NGOs.) Baron's analysis extends Porter's approach and highlights some deeper points that are worth reflecting on. The case study is a treat. It's short and, even better, includes four highly-opinionated sets of recommendations at the end. You will have to decide which of those recommendations, if any, make sense. We will discuss these recommendations in class.

### Essential Reading.

1. Panjak Ghemawat, "*Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*," Harvard Business School Press, Chapter 3, September 2007. This chapter identifies the six sources of value that can be created by the international operations of companies. The framework described here builds on Porter's Five Forces approach to strategic analysis and systematically develops the international dimension to value creation.
2. David P. Barron, "*Integrated Strategy: Market and Non-Market Components*," California Management Review, 1995, Volume 37(2). Barron provides a neat way for business people to devise strategies in situations when firms, activists, courts, the media, and governments can take steps that affect a firm's profitability. Barron shows how the market-based competition that Porter originally analysed with the Five Forces can be augmented to devise "integrated strategies" for the market and the "non-market" environment.

### Case Studies

**(Don't forget to read the expert advice at the end of each case study)**

1. Julia Kirby, "*Mad About Plaid*," Harvard Business Review, November 2007. A case study at first glance appears to be about whether a firm should continue to outsource production--but are there more fundamental factors that the firm is overlooking? (Can you identify the British company this case study is based on?)
2. Ben Gerson, "*Taking The Cake*," Harvard Business Review, March 2004. A case study that highlights (to me) just how inter-related the market and non-market challenges facing a firm often are. What do you think of the advice offered by the four experts at the end of the case study?

### Additional Readings

**(Some of the best writings on strategy formation in the market and non-market arenas)**

#### *Market-based competition*

1. Michael Porter, "*How competitive forces shape strategy*," Harvard Business Review, 1979, Volume 57, number 2, pages 137-145. The classic statement of the Five Forces framework. Still worth a read (and re-read).
2. Michael Porter, "*What is strategy?*," Harvard Business Review, November-December 1996, pages 61-78. A defence of the Five Forces framework at a time when the "benchmarking" and "core competences" were all the rage.
3. Michael Porter, "*The Five Competitive Forces That Shape Strategy*," Harvard Business Review, January 2008. The very latest statement of the relevance of the Five Forces approach to corporate strategy making.

4. Michael Porter, *"Know Your Place: How to assess the attractiveness of your industry and your companies' place in it,"* Inc, 1991. This remains for me the best succinct account of how a manager can effectively use Porter's Five Forces approach.
5. Adam Brandenburger and Harbourne W. Stuart Jr., *"Value-Based Business Strategy,"* Journal of Economics and Management, 1996. Shows how firm-specific sources of value can be incorporated into the Five Forces framework.
6. Pankaj Ghemawat, *Sustaining Superior Performance*, Chapter 5 (in:) Pankaj Ghemawat, *"Strategy and the Business Landscape"*, 2006. Second Edition. Addresses the critical question of the steps firms can take to sustain first rate performance over time.
7. Jeffrey Pfeffer and Robert I. Sutton, *Strategy is Destiny? and Change or Die?* Chapters 6 and 7 of their book *"Hard Facts, Dangerous Half-Truths & Total Nonsense: Profiting From Evidence-Based Management,"* Harvard Business School Press. Provides a useful corrective against corporate strategy zealots who obsess over ideas and change and overlook implementation and the value-generated by existing corporate structures.

*Strategy-making in the non-market environment.*

1. David P. Baron, *"Integrated Strategy, Trade Policy, and Global Competition,"* California Management Review, Winter 1997. Shows how the Integrated Strategies approach can be applied to analyse how firms persuade governments to implement trade policies that favour them over their rivals.
2. David P. Baron, *"Going Head to Head: When companies and activists square off, sometimes no one wins,"* Stanford Social Innovation Review, Spring 2003. Shows how the Integrated Strategies approach can help firms formulate responses to activists and non-governmental organisations.
3. Aidan Vining, Daniel Shapiro, and Bernhard Borges, *"Building the firm's political (lobbying) strategy,"* Journal of Public Affairs, 2005, Volume 5. Presents an alternative to Baron's Integrated Strategies that emphasises government regulation and policies as a sixth force that affects business and is influenced by business. Includes useful advice on firm lobbying strategies, at least as seen by from a North American perspective.
4. David Coen, *"Business-Regulatory Relations: Learning to Play Regulatory Games in European Utility Markets,"* Governance: An International Journal of Policy, Administration, and Institutions, Volume 18, number 3, July 2005. Analyses how distinct regulatory structures in the UK and Germany for the utility sectors have created incentives for firms to engage in markedly different non-market strategies.

*Firm strategies during a time of pronounced changes in the physical environment: market and non-market considerations.*

1. Michael Porter and Forest L. Reinhardt, *"A Strategic Approach to Climate,"* Harvard Business Review, October 2007. A recent and provocative analysis using the Five Forces framework of the possible implications for corporate strategy of potential measures to slow climate change.
2. Elizabeth Economy and Kenneth Lieberthal, *"Scorched Earth: Will Environmental Risks in China Overwhelm Its Opportunities?"*, Harvard Business Review, June 2007. A really interesting recent analysis of how the deteriorating physical environment in China is posing market and non-market challenges to Western firms operating in that country.

## Topic 2:

### European Economic Performance and Corporate Restructuring.

Just how bad is Europe's recent economic performance? What factors account for this perceived underperformance? And in what ways, if at all, have firms restructured their operations in Europe?

More generally, one of the most fascinating features of the global economy is that governments have such different ideas about what makes for a dynamic business climate, and so do other elements of society. Of course, these ideas and the government policies that go with them condition the threats, opportunities, and hurdles faced by firms at home and abroad. In recent years a number of analyses have shed light on how these factors condition firm strategy and the essential reading and case studies develop these points. The underlying frameworks for these analyses can be found in the additional readings by Hall and Soskice and Porter. We will spend some time discussing what these perspectives mean for firm strategies in a number of European industries that are undergoing restructuring.

### Essential Reading

1. Michael Porter, *"New Global Strategies for Competitive Advantage,"* Planning Review, May/June 1990. This short article provides a neat overview of the different elements of national business environments as seen by Porter, of what governments can do to improve their country's competitiveness, and what the implications are for firms.

### Case Study

1. Tony Edwards, *"Corporate governance, industrial relations and trends in company-level restructuring in Europe: convergence towards the Anglo-American model?"*, Industrial Relations Journal, 2004, 35:6. Demonstrates how national laws towards employees and corporate financing policies markedly affect how different European firms restructure their operations.

### Additional Readings

2. Peter Hall and David Soskice, *"Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,"* Oxford University Press, 2001. Chapter 1. (The chapters in part III of this book are also of direct relevance to firm strategy-making in industrialised economies.) Provides a very different perspective from Porter. Argues that there are different types of capitalism and that managers and governments will make serious errors if they fail to appreciate the ways in which capitalisms differ and the implications for how incentives supplied to managers, other employees, and suppliers.
3. Steven Casper and Richard Whitley, *"Managing Competences in Entrepreneurial Technology Firms: A Comparative Institutional Analysis of Germany, Sweden and the UK,"* Research Policy, 2004. Shows how firms' innovation strategies are importantly affected by national labour regulations, the protection of intellectual property rights, and corporate financing decisions. A convincing demonstration that "nationality matters" (for firm strategy formation.)
4. Guillermo de la Dehesa, *"Europe at the Crossroads: Will the EU Ever Be Able to Compete with the United States as an Economic Power?"*, McGraw Hill, 2006. The author, the Vice Chairman of Goldman Sachs Europe, describes in Chapter 6 the steps that European governments must take to increase productivity and efficiency and in Chapter 8 -- if Europe can preserve its social model.

5. Christel Lane and Jocelyn Probert, "*Between the Global and the Local: a Comparison of the German and UK Clothing Industry*," *Competition & Change* 2004, Volume 8, number 3. Compares restructuring strategies in the German and British clothing sector.
6. Nicolas Veron. (2006). "Farewell National Champions" Bruegel Policy Brief. Provides useful information on the scale and expansion of Europe's largest businesses in recent years.

### Topic 3:

#### The European Union and Business.

Here we explore the relationship between the European Union and business. Doing so requires some understanding of how the EU has evolved, from its origins in the Treaty of Rome to the present day. One of the interesting questions concerns how firms lobby "Brussels" and the differences that exist between lobbying in the EU and in the United States.

#### Essential Reading

Valeria Marziali (2006). "Lobbying in Brussels Interest Representation and Need for Information" Center for European Integration Studies, Rheinische Friedrich-Wilhelms-Universität Bonn.

#### Case Studies

David Coen. "Business–Regulatory Relations: Learning to Play Regulatory Games in European Utility Markets" *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 18, No. 3, July 2005 (pp. 375–398).

Peter Markussen and Gert Tinggaard Svendsen. "Industry lobbying and the political economy of GHG trade in the European Union" *Energy Policy* 33 (2005) 245–255

#### Additional Reading

Jean-Philippe Bonardi, Amy J. Hillman, and Gerald D. Keim. "The Attractiveness of Political Markets: Implications for firm strategy." *Academy of Management Review* 2005, Vol. 30, No. 2, 397–413. (For a framework on the firm behaviour in so-called "political markets".)

Pieter Bouwen (2004). "The Logic of Access to the European Parliament: Business Lobbying in the Committee on Economic and Monetary Affairs," *Journal of Common Market Studies*, Volume 42, number 3, pages 473-495.

Douglas A. Brook (2005) "Meta-Strategic Lobbying: The 1998 Steel Imports Case," *Business and Politics*: Vol. 7: No. 1, Article 4. (For an American case study).

David Coen (1997). "The European Business Lobby" *Academy of Management Review* 2005, Vol. 30, No. 2, 397–413.

David Coen (1998). "The European Business Interest and the Nation State: Large-firm Lobbying in the European Union and Member States." *Journal of Public Policy*, 18, 1, 75–100

Carina Gerlach (2006). "Does Business Really Run EU Trade Policy? Observations about EU Trade Policy Lobbying" *Politics*: 2006 Vol 26(3), 176–183.

Geoffrey Jones and Peter Miskell (2005) "European integration and corporate restructuring: the strategy of Unilever, c.1957–c.1990" *Economic History Review* Volume 58, Page 113 -February 2005. (A fascinating article of long-standing historical interest.)

John Wright (2004) "Campaign Contributions and Congressional Voting on Tobacco Policy, 1980-2000," *Business and Politics*: Vol. 6: No. 3, Article 1.

## Topic 4:

### The Euro.

Here we explore the impact of the adoption of the Euro on business, inside and outside of the European Union. What transitional costs were involved? Did the transition to the Euro create any opportunities for some firms? Does the use of a common currency create price pressure from rivals based in the Euro zone? What are the longer term prospects of the Euro?

### Essential Reading

Her Majesty's Treasury. (2003). "EMU and Business Sectors". Executive Summary only.

### Case Studies

David S. Walke and Andrew M. Tobias (2005). "Would the UK automotive industry benefit from entering the European Monetary Union? A drive too far?" *Strategic Change*, 14: 327–335.

### Additional Reading

Johan Ahlberg et. al. (1999). "The euro: How to keep your prices up and your competitors down." *McKinsey Quarterly*. Number 2, 112-118.

Francesco Caio. (1999). "The Catalyst for a New Organisation." *Harvard Business Review*.

Nicholas G. Carr. (1999). "Managing in the Euro Zone." *Harvard Business Review*.

Her Majesty's Treasury. (2003). "EMU and Business Sectors" Full report.

Richard Luker and Peter Townroe (1999). "The trade barrier removal effects of a single European currency: similarities with the Single Market measures" *European Business Review* Volume 99 · Number 3 · 1999 · pp. 137–144.

Alan Spall and Richard Sykes. (1999) "Beyond the Currency Question." *Harvard Business Review*.

## Topic 5:

### EC Merger Control: An Example of the Multiple Regulator Problem.

Multinational firms, by definition, operate in many markets and so face many national and even supra-national regulators, often for the same government function. New products, for example, may have to be approved by health and safety agencies in many jurisdictions. Few appreciate the pitfalls and opportunities of operating in a multi-jurisdictional world. Arguably Jack Welch didn't when he pushed the proposed merger between GE and Honeywell—but his American rivals did. This session will highlight the relevant factors with an in-depth analysis of this proposed merger. You might ask yourself how, if at all, GE could have gotten its merger approved by the European Commission? Or were the decks stacked up against it right from the start?

Please note that most of the additional readings are 2-4 pages long.

### Essential Reading

1. Eleanor J. Morgan and Steven McGuire. "Transatlantic divergence: GE-Honeywell and the EU's merger policy." *Journal of European Public Policy*. 2004. Volume 11(1), pages 39-56.

### Additional Reading

The Economist "Engine Failure."

Knowledge Wharton "Lessons from the GE Honeywell Non-Merger."

Time "How the GE-Honeywell Merger was killed."

Time "The Anatomy of the GE-Honeywell Disaster."

Global "Why the GE-Honeywell Merger Will Fly." (Oops!)

NERA "Competition Policy in Europe: A Trans-atlantic Perspective."

EC Competition Policy Newsletter "General Electric/Honeywell—An Insight into the Commission's Investigation and Decision."

European Commission Decision on GE-Honeywell case (Skim for details in which GE and Honeywell operate, in particular pages 4-12 and 56-59. Avoid the legalese. Stick to the information/insights about structure of the markets being investigated.)

Simon Bishop and Mike Walker. *The Economics of EC Competition Law*. Chapter 1 (pages 1-6 only) and chapter 6 (all).

## Topic 6:

### **Corporate and Economic Restructuring in Eastern Europe.**

The fall of the Berlin Wall began a process of reintegrating Eastern Europe's economies into the world economy, with direct consequences for Western European businesses. In this session we shall examine the corporate and economic restructuring that has taken place in the formerly communist countries of Eastern Europe. The contributions of entrepreneurship, national policy changes, the possibility of EU membership, and the foreign direct investment to corporate restructuring in Eastern Europe will be assessed.

### **Essential Reading**

Kálmán Kalotay (2006). "New Members in the European Union and Foreign Direct Investment" *Thunderbird International Business Review*, Vol. 48(4) 485–513

### **Additional Reading**

Klaus Uhlenbruck, Klaus E. Meyer and Michael A. Hitt. (2003). "Organizational Transformation in Transition Economies: Resource-based and Organizational Learning Perspectives" *Journal of Management Studies* 40:2.

David M. Woodruff (2004). "Property Rights in Context: Privatization's Legacy for Corporate Legality in Poland and Russia," *Studies in Comparative International Development*, Winter 2004, Vol. 38, No. 4, pp. 82-108.

## Topic 7:

### What Future for Europe?

In this final session we shall discuss Europe's future. Is the current pessimism warranted or is it just a cyclical phenomenon? What will the European business landscape look like in 10 years time? What opportunities and threats are likely to be faced by firms operating in Europe?

### Essential Reading

Robert C. Shelburne. "Is Europe Sick?" *Global Economic Journal*. 2005. Volume 5, Issue 3.

European Commission. "Common Actions for Growth and Employment: The Community Lisbon Programme." 20 July. COM(2005) 330 final

## Information about the first analytical assignment:

Please complete a 1000-2000 word-long analytical paper that addresses the following question:

*In what ways, if at all, will the potential reform of Europe's "social models" affect the strategies of firms located in Western Europe and their domestic and international competitiveness? Use corporate examples from selected industries and countries to support your argument.*

In addition to the papers listed in Topics 1 and 2 above, particular attention should be given to the following paper by Professor André Sapir:

"Globalisation and the Reform of European Social Models." Bruegel working paper.

(Professor Sapir used to be the chief economic adviser to the last President of the European Commission. To say that he is "in the loop" is a serious understatement.) This short paper was presented by him to a meeting of European Council of Finance Ministers on 9 September 2005.

Four other short articles in the *Financial Times* are relevant too:

1. Financial Times, *"Europe's urgent need for reform,"* 2 January 2008.
2. Tito Boeri, *"Europe is caught mid-river in labour reforms,"* Financial Times, 16 January 2008.
3. Financial Times, *"Selective bargaining: German companies are driving a hidden revolution in labour flexibility,"* 6 January 2006, Page 9.
4. Financial Times, *"America's dilemma: as business retreats from its welfare role, who will take up the burden?"*. 13 January 2006, Page 11.

The following short policy brief from the Organisation for Economic Co-operation and Development (OECD) gives an overview of employment policies and their consequences:

OECD, *"Employment Protection: The Costs and Benefits of Greater Employment Security,"* September 2004.

As far as substance goes, I recommend that you do the following:

1. Start by reading the Sapir paper. This will give you important background information on the different "social models" in Europe. Make sure you know what the social model is and how it differs across Europe. Read the short OECD piece to reinforce your understanding of employment policies.
2. Read the Ghemawat and Barron articles on the "essential readings" for topic 1 and think through the ways in which (i) reforms to the social model affect the opportunities, threats, and circumstances that are faced by European firms and (ii) the ways in which European firms can use non-market strategies to shape the reform process to their advantage. Be sure to precisely state which government policies, and related corporate practices, would change if reforms to the European Social Models are implemented.
3. Please give considerable thought to precisely how the strategies of European firms might change and what the likely consequences are for their performance and for the rivals to these European firms. It may be easier for you to think through these matters in the context of one or two sectors, then that is fine with me.
4. Try to think of, or find, one of two corporate examples that reinforce your arguments.

In general, I have the following suggestions for how you write up this paper:

- Ask yourself have you really answered the question that I have set. Every time I teach this course there is always someone who answers a different question!

- You do not have to write this paper as if it were a memo to a senior corporate officer. So long as you answer the question directly then there is no need to assume there is an artificial audience for the paper.
- Use the paper as an opportunity to show that you understand the concepts discussed in this class and in the readings. Having said that, you are free to draw on any other frameworks or tools that you have learnt during your EMBA. I suspect that your Business/Managerial Economics class and any Corporate Strategy classes have covered ideas that could be form part of an intelligent answer to the above question. I like it when MBAs show they are making connections across their classes.
- Sometimes the arguments you want to make have caveats or disadvantages, or are relevant to certain industries or circumstances. It is OK to acknowledge this. In fact, such acknowledgements show you are not trying to over-generalise your arguments or push them too far. Sophistication in arguments is nothing to be afraid of.
- Before you begin writing (or typing), write out a paragraph-by-paragraph plan. Think of each paragraph as a big idea that you will develop. (A paper that is 1000-2000 words long contains probably 8-10 big ideas, plus an introduction and a conclusion. The introduction and conclusion typically account for 250 words, leaving up to 1750 words for you analysis. I tend to think of each big idea requiring a paragraph of 100-150 words of length of explanation. Seen this way a 2000 word paper is not so daunting. It really is only 8-10 big ideas. Your task, therefore, is to identify and understand the 8 to 10 most relevant ideas that shed light on the question posed.)
- Make sure that each big idea (paragraph) follows from the one before it. Think of ways of legitimately linking the ideas, so the reader gets to see that you really understand what you are writing about.
- Make sure your paper does not look like a list of bullet points, or like a powerpoint presentation that has been copied into Microsoft Word. Following Michael Porter's approach to devising corporate strategy, one of my goals is to get you to develop a multi-step argument. Powerpoint presentations are, when used well, only a summary of a good multi-step argument.
- Do not cut and paste out of documents on the web or elsewhere. Use proper citations (I don't care which style of citations you use.)
- Do not take my emphasis here on writing clearly to mean that I am looking for a perfectly formatted document. **I will read your document for its content only, for not how well formatted the document is.**
- Once you have drafted your paper, print it out. Then read it out loud, ideally in front of a loved one or someone you are not too embarrassed to read in front of! Almost everyone I know who is serious about writing analyses does this. Why? Because logical flaws are somehow easier to spot when spoken, and grammatical errors become clearer too. Correct the paper and re-read it before submitting it.

With respect to writing up your analytical paper, let me be crystal clear what I am looking for. My opinions on this subject have come about after years of experience reading short analyses by EMBA's, MBA's, consultants, government officials, etc. I see these short analytical papers as the best way to test if you have understood the material and can put together relevant arguments in a sequence that makes sense. I firmly believe that good writing follows from clear sequential thinking. If the text is not clear or the arguments do not follow on from one another, then I am likely to believe that you haven't thought something through well enough. In addition to a substantive answer to the question posed which demonstrates superior powers of analysis of companies' options and strategies and a sophisticated awareness of the business environment in which they operate, as far as the exposition is concerned, this is what I am looking for:

- A clear, informative introduction that guides the reader. The introduction should state what the main issue being discussed is, what your main finding is, and how the rest of the paper is organised.
- A conclusion that reminds the reader what the main issue is, why it is important, and summarises the key elements of your argument. The reader should be left in no doubt of your main points.
- A clear logical flow between paragraphs—demonstrating sequential organisation of the material.
- Precise exposition within each paragraph, showing mastery of terms, appreciation of the facts, and a critical perspective.
- Explanation of those terms necessary to understand the argument. Avoidance of irrelevant or superfluous ideas and concepts.
- Comprehensiveness of argument, given word limits.

It is important for me to say that I am not looking for any single answer to this question. Moreover, in principle the answer to this question could differ across industries and countries. Since I know that, I want you to tell me why. I am looking for a coherent answer to this question, and not an answer that I necessarily agree with.

I should tell you that many of the MBAs and EMBA's that I have taught have found this assignment to be challenging but manageable. Many saw substantial improvements in the ability to express complicated and interesting ideas over the course. So, in addition to learning a lot about making strategy in global business settings, I hope you take away this extra skill too.

### **Information about the second analytical assignment:**

Please complete a 1000-2000 word-long analytical paper that addresses the following question:

*Choose a UK industry or sector. Identify the likely implications for that industry/sector of the UK joining the euro zone in 2010. What steps should firms take in that industry/sector in anticipation of the adoption of the euro in the UK and why?*

The essential and additional readings for topic 4 of the course are the obvious place to start. You may complement the information in these readings with research on your own part.