With the support of the Erasmus+ Programme of the European Union

**ERASMUS MODULE ON EUROPEAN STUDIES IN BUSINESS, ECONOMICS AND FINANCE**

# TEACHING MANUAL

SUB-MODULE

# EUROPEAN STUDIES IN BUSINESS AND ECONOMICS

OKSANA GALAK, PhD

**2021**

With the support of the Erasmus+ Programme of the European Union

The Erasmus Module on European Studies in Business, Economics and Finance (EMESBEF) is a project supported by the Erasmus+ Program of the European Union (**599706-EPP-1-2018-1-UZ-EPPJMO-MODULE)** implemented in 2018-2021 at Tashkent State University of Economics**.**

The main aim of the project is to accumulate and disseminate the knowledge about the EU policies, best-practices and future trends in the areas of business, economics and finance.

This Teaching Manual covers the most important and relevant topics discussed in the Sub-Module European Studies in Business and Economics of the EMESBEF project.

On behalf of the EMESBEF team we would like to thank Education, Audiovisual and Culture Executive Agency for the opportunity to share the knowledge on the European Union with the students and academic personnel of the TSUE, as well as practitioners and wider circles of stakeholders in Uzbekistan.

For further information about EMESBEF please visit our web-site:
https://en.jeanmonnetmodule.uz/

Contact information:
Lyudmila Muradova, PhD
Project Coordinator
mila.muradova@gmail.com

With the support of the Erasmus+ Programme of the European Union

# TABLE OF CONTENT

# UNIT I. GLOBALIZATION, EUROPEANISATION AND INTERNATIONAL BUSINESS

Globalization can be seen as the process of expanding goods, information, and services over national borders, continents and cultures [1]. This process can bring the exchange of policies, knowledge, languages, cultural goods, relations and accessibility power. The national trade has flourished thanks to the increase of these global interactions. These exchanges and global interactions lead to a worldwide connection of countries creating a growing net. Some of the significant factors that made globalization expand have been the improvement of transportation with the inventions like the locomotive, cargo ships and planes or the communication as the internet and telecommunication. [1] [2]

In 2000 the International Monetary Fund (IMF) put together the four basic aspect of globalization.

***Trade and transactions***:

Economically developing countries have expanded their trade around the world from 19 percent to 29 percent from 1971 – 1999. Especially Asian countries have successfully progressed, while Africa all in all has fared ineffectively. This is largely impacted on what a nation can export. The export of industrial goods has increased definitely the most, compared to essential products in world fares – like food and feedstock – coming from the impoverished nations, have sunken.

***Capital and investment movement***:

Enabling the capital to flow from a developed country, where the capital is low, to a developed country, where the capital is high. Capital flows are what many people link with globalization. Private capital flows abruptly increased during the 1990s having its peak in 1996. The reason was, that many countries removed legal restrictions during the 1990s, which gave capital outflows more opportunities to diversify risk. Leading to the capability to deal better with economic and financial shocks. A potential cause of the Capital Flows of the increasing numbers can be linked to internal and external factors. The internal factor comes from the upgraded private risk-return for foreign investors, that occurred within the evolution of capital-importing countries. Investing in foreign markets became more trustworthy and brought less risks with it. The external factor can be explained with the drop of world real interest rates, resulting in investors being drawn to invest in emerging markets. [4]

***Migration and movement of people:***

People move to another country in hope of finding better work opportunities. This occurs mainly between developing countries. In the time frame 1965-90, the number of workforces that come from foreign countries have grown around one-half. Yet the movement of migrants to more evolved nations can be a method through which worldwide wages merge. This gives the chance for expertise to move back to the agricultural nations and for salaries to rise in those nations.

In the past few years the number of migration to EU Member States has been irregular going up and down. These migrations contain people looking for new jobs on a life-time basis or for a period of time. In 2013 the number of people immigrating was at 3.4 million, reaching its peak in 2015 with 4.7 million people. After this increase the numbers went down by 8% and started to slowly rise again. [3]

***Spread of knowledge (and technology):***

Data Trade is a vital yet often ignored part of globalization. It is clear, that direct foreign investment does not only consist of the development of the capital stock, but also of the exchange of information about creation strategies, administrative methods, trade markets and economic policies. This exchange of information is a significant asset for the non-industrial countries. [4]

**Differentiation between globalization and internationalization**

There are a few differences between Globalization and Internationalization. First of all, globalization focuses on economic integration and interdependency of countries worldwide. Internationalization can be achieved by companies wanting to increase their business activities above international borders.

With regards to financial matters, internationalization can be understood as a company that finds a way to grow its influence or catch a better market share over national borders by spreading out into worldwide business sectors. The growing interest of companies to internationalize has driven the world economy into globalization, leading economies to become exceptionally interconnected because of cross-border business and capital. Through these connections the companies are significantly affected by others' national activities and financial prosperity. [5]

**Different Views of Globalisation**

***Political Science***

The discipline studies the process of globalization through its effects on the political system. Globalization has been accompanied by the growth of a worldwide Political system. This trend started at the end of the 19th century with the acceleration of imperialist conquest from the part of European Powers, the advancement of the industrial revolution in Europe, US and Japan as well as the improvement of maritime trade with the construction of the Suez Canal.

These developments influenced the creation of different types of organisations. Most importantly the creation of the league of nations after the first world war. While trade increased between countries, the political structures of different nation- states were altered drastically. This is the case of Qing China, which after being forced to open its markets to western powers became a republic after the Boxer Revolution, that ended imperial rule in the country.

Up to the end of the Second World War, nation-states were seen as the main political actors in the world order. The creation of the United Nations in 1948 saw a gradual change in the way in which international actors interacted with each other. The goal of this organisation was to avoid conflict between nations, to create a legal framework in which disputes between countries could be solved through international legally binding institutions. Throughout this time some of the most important international organisations and agreements were created. Such as the General Agreement on Tariffs and Trade (1947) and the subsequent World Trade Organisation (1995), the International Bank for Reconstruction and Development and the International Monetary Fund were created in 1947.[7]

During the same time the precursor of the EU, the European Coal and Steal Community was established in 1951. Currently, there are more than a hundred governmental and non-governmental Organisations that to a different degree have and mediate  the way in which trade, international relations and economic policy are conducted. This had led to the apparent decline in importance of the nation-state, with supranational actors playing a prominent role in decision making around the globe, in part thanks to the power accumulated by private corporations thanks to transnational trade.

***Sociology***

The discipline studies the cultural impact of globalization in the society. Societies have interacted with one another for thousands of years. This process accelerated with the Industrial Revolution and growing consuming societies. A prime example of this phenomenon are sporting events, such as the Olympic Games and the FIFA Football World Cup, these congregate athletes from across the world, spectators and more recently TV-Broadcast viewership. The export of cultural goods has been concentrated in the western world mostly in the last centuries. Although invented in France, the main film industry with a global outreach is located in the United States. This dominance has diminished in the last years, thanks to the growth of markets in different regions and the emergence of on-demand streaming platforms. The music industry used to be dominated by American acts as recent as the 2010s, there has been a great shift in recent years and nowadays, South Korean K-POP Bands and Latin-American Performers dominate global charts along the usual American entries. The most important changes in cultural trends, however, have been supported by the widespread use of the internet, in particular social media, which has made the exchange of cultural goods easier and less localised. An example of this are content-sharing platforms such as SoundCloud, TikTok and YouTube.

The impacts of cultural globalization are hard to measure, however, changing trends across the globe regarding different issues, such as, climate change, human rights, consumer trends and internet consumption evidence an impact of globalization across societies.[8]

***Economics***

Globalization can be viewed from the angle of increasing interdependence of national economies. This in turn has transformed the markets for producers into cross border, "world markets". One major factor that has impacted economic integration is the production of goods across intricate manufacturing process that include different countries. This process was aided by the international standardization of goods and services that made producing goods more efficient. The main organisation in charge of setting up these standards is the International Organisation for Standardization with seat in Geneva.

Another defining factor of economic globalization is the creation of Free Trade Areas, in which at least two countries sing an agreement in which trade barriers are eased, the level of integration varies from on treaty to the other, but in general terms this treaties increase the flow of goods, services and investments between the involved countries significantly. Albeit in different forms the first agreements that can be referred as trade agreements originated in the 19th century between Britain and other partners. After a turbulent first half of the 20th century, this process accelerated. Nowadays there are around 420 active regional trade agreements in operation worldwide. Goods used to be the focus of international trade and trade agreements, in the last two decades, however, services are taking a major role in international trade networks.[9]

**History of Gloablization**

It is an ongoing discussion when globalization first occurred. On one side the origins of globalization happened in the modern era, especially the industrial revolution, the exchange of a handcrafted economy to a machine producing economy. Located in Britain the industrial revolution started in the 18th century and expanding across the world. On the other side it is seen as an ongoing event that has been happening over centuries. An example is the Silk Road that connected South Europe and Asia around 114 BCE – 1450s CE. Creating a median for economic, cultural, political and religious connections exchange of knowledge, ideas, cultures and religions in this area. [10]

During the time of the 1830s to late 1800s with its peak in 1880 the introduction of railroads and ocean transport have been a great improvement to make trade available for more locations around the world and reduce trade costs. Adding to that the growing military power through new devices helped Europe to gain more power which allows them create new markets and enlarge their territory.

From 1900 – 1930 the emerge of electricity and steel production started to impact the possibilities of globalization more and more, connecting even more regions with each other. Next to that Multinational enterprises (MNEs), businesses producing merchandise or make trade available to more than one country, begin to take over the world economy.

1947 – 1970 - The General Agreement on Tariffs and Trade (GATT) was signed by 23 countries on 30 October 1947. The GATT is a legal agreement to improve international trade by reducing or removing quotas, tariffs and subsidies to uplift the economy after World War II. [11] Another plan to help European counties back up was the Marshall Plan. In 1947 the U.S. Secretary of State George Marshall proposed the Marshall Plan by giving $ 13 Billion to European Countries, including Germany and Italy. The plan was seen as a triumph, as the funding ended in 1951, after all the European receiver beat the pre-war levels.[12] In the time of the 1980s Japanese companies experienced high growth and market share, had high credit levels and accomplished significant degrees of ventures. Concluding in a rise of MNEs from Japan. Not only Japan entered the market, the reduce of trade barriers made it possible for even more countries to enter globalization. Trade barriers are caused by different languages, the distance in between countries, taxes, import quotas, embargoes, buy-national regulations, and exchange controls. [13][14]

Alongside Global Trade names started to rise, resulting in specific companies leading the market. In 1967 one of the biggest sectors of large firms have been Oil & Gas with a market value of $55 Billion (in the view of Americas Top Companies in 1967). As an example, the

International Business Machines (IBM) was the most profitable company with a current value of around $259 billion in the tech industry, which is similar to the value of Wal-Mart today. [15]

Since the 1980s the revolution in information, communication, and transportation technologies made international transactions better to use and it only took a short amount of time. Alluding to an expansion past a country's borders of identical economic process that have worked for hundreds of years within village markets, urban industries, or monetary centers.

Emerging markets, mainly located in East and South Asia, Eastern Europe, and Latin America, started to grow more and more. Economic growth comes from the improvement of living standards, achieving a decrease in low class, that make emerging markets a potential target for exports, FDI and global sourcing. [16]

Finally, Globalization went through three waves. The first wave of globalization occurred around 1900 until World War I with its origins coming from the industrial revolution. World War I and World War II brought a globalization to a pause through high tariffs and trade barriers. Following the Post-War time, the GATT and Marshall Plan have had a great impact to boost the economy. The Global trade ratio slowly started to rise again with growing world trade, institution building, reduce of trade barriers and rise of global trade names. Coming to the last period the digital era the uprising of information, communication and transportation technologies brought the GDP rose over 50 %, being at its highest.

**Drivers of Globalization**

***Trade liberalization***

Trade policies have been used by governments throughout history in order to leverage their economic standing. These policies regulate the import and export of goods and services.

One of the key drivers of globalization has been the liberalisation of trade, by means of lifting barriers such as tariffs. An important motivation behind these actions has to do with market access, since governments tend to reciprocate the liberalisation decisions of the other.[17] A major example of this are the reforms to liberalise China's markets that started being implemented in the early 1980's. As consequence of these reforms China experiences sustained high GDP growth, and tens of millions were lifted out of poverty as a consequence.

***Cost advantage***

The cost of land, capital and labor differ greatly between countries. these differences have intensified international trade and investment, most notably by outsourcing production of goods to countries where labor costs are lower and environmental regulations are weak. The service economy has also been impacted by cost advantage, a wave of outsourcing labor in the call center industry took place in the 90s and 2000s, followed by a wave of outsourcing in IT related services. [17]The process intensifies when labor costs raise in a given country, in this case companies move their production to countries with even lower wages and regulations. This has allowed multinational companies to lower their production costs and has resulted in cheaper consuming goods.

### *Technological change*

Innovations in transportation technologies have accelerated geographical mobility. The standardisation of industries help advance an improved connectivity. Container shipping and cargo constitute today the backbone of the shipping industry. Internet connectivity has also played a major role in the improved connectivity that has allowed modern transnational corporations to control their processes more effectively. [18] This is the main driver of the outsourcing industry mentioned previously.

Measuring the depth in which countries are connected to the global economy is a complex task, different indices have been created for this purpose. One of the most well known indices is the KOF Globalization Index, this Index measures globalization using indicators from three main globalization drivers; political globalization, economic globalization and cultural globalization. Some of the indicators used are; trade as percentage of GDP, Number of Embassies, Participation in international organisations.

### *Regionalization*

Regionalisation can be defined as the creating of trading blocs between countries in a specific region with the goal of eliminating barriers to trade of goods and services. Regionalisation can be seen as a parallel process to globalization, as a consequence of it or as an opposition to globalization. Critics to regionalisation argue that regional free trade blocks hinder global free trade. In some occasions regional trade blocks are created in order to protect regions from global competition, although in orders this is not the main reason for their creation. [19]

### *Regional Trade Agreements*

Regional Trade Agreements involve two or more regional parties, in many cases these agreements set rules for the involved parties to follow as well as the trade relationship with other parties. Some of the most prominent Regional Agreements are, EFTA (European Free Trade Association, MERCOSUR; NAFTA (North America Free Trade Agreement, GCC (Gulf Cooperation Council) among others. [20

### *Market Integration*

Market Integration refers to the Integration of Decision Making, institutions and financial markets. In this process, regulations, processes and the value of products are stabilised and often fall under the control of a certain entity, that is the case of the European Central Bank, where monetary policy and regulation is controlled by a central authority, another example of this is the integration of financial markets, which boosts the free flow of capital markets. The main types of integration are: Backward vertical integration (1) This involves acquiring a business operating earlier in the supply chain ex. a retailer buys a wholesaler, a brewer buys a hop farm. Conglomerate integration (2) This involves the combination of firms that are involved in unrelated business activities. Forward vertical integration (3) This involves acquiring a business further up in the supply chain ex. a vehicle manufacturer buys a car parts distributor. Horizontal integration (4) Here, businesses in the same industry and which operate at the same stage of the production process are combined. [18] [19] [15] [20] [21] [22]

## Integration in the European Union

The European Union is an organization of 27 EU countries covering a majority of the continent to a unique economic and political union. In order to maintain and promote peace after the Second World War an economic cooperation called the European Economic Community (EEC) was created in 1958, enabling interdependent trade amongst the initial 6 member states (Belgium, Germany, France, Italy, Luxembourg, Netherlands). Since then, with the additional 22 countries the 'internal' market grew into one huge single market, focusing on "sustainable development based on balanced economic growth and price stability, a highly competitive market economy with full employment and social progress, and environmental protection" (https://europa.eu/european-union/about-eu/eu-in-brief_en). Due to the abolition of the internal borders most goods, services, money and people can move freely. The economic and monetary union with the currency of the Euro used in 19 member states enhances the economic, social and territorial cohesion and solidarity amongst the EU member states. Although the United Kingdom has formally ended its EU membership in 2020, the EU is continuously developing its core values, goals and ideas to its full potential. Starting off as a purely economic union, the EU is now considered a supranational state, a political system in its own right, covering policy areas, ranging from climate to external relations and security, justice and migration. The European Union (EU) as we know it now was established in 1993. [23]

The EU can be seen as a political system in its own right, as the EU has the ability to formulate and apply public regulations on behalf of society.

Hix and Hoyland (2011) have established four factors that constitute a political system:

1. The existence of stable and well-defined institutions for collective decision-making processes, and rules governing how these institutions relate to each other and how they are structured within the institution hence the vertical (member states) and horizontal (European Commission, European Parliament, Council of the EU) separation of powers.

2. Citizens demonstrate a willingness to assert their interests in the political process, either directly and through intermediary organisations such as political parties.

3. Collective decision-making has a major impact on economic factors and the setting of values within the whole system.

4. There is a continuous relationship between policy outputs, new demands and new decision, etc. [24]

### *Europeanization*

The term Europeanization can be understood in multiple ways. In political science it is referred to the process in which commonly known non-European subjects, such as culture, language, values, behaviour, city or nation, adapt certain European characteristics. This process is often also called "Westernization" and can be easily explained as "becoming more European like". Outside of the social sciences Europeanization is often understood as the growth of the European continental identity, which is triggered by its strong impact on national politics and policymaking. Europeanization refers to when something in the national politics system is affected by something the European policies e.g.: implementation of the case law of the European court of justice in the respective member states. The "European integration", meaning its geographical expansion of the political and economic sphere, adds to the process of Europeanization. [25]

Since the European Union started off as the European Economic Community (EEC), the economic union is continuously of utmost importance for the EU. The abolition of most internal borders combined with the economic and monetary union enables free access to most goods and services. Already having established the world's biggest single market, the next step is to expand economic cooperation beyond the borders of the EU by means of free trade agreements.

***Free Trade Agreement***

Since free trade was one of the founding principles of the EU, it is now the world's largest single market area, striving to opening up to world trade through Free Trade Agreements. The EU foreign trade is responsible for 30% of the EU's gross domestic product (GDP), doubling from 1999 to 2010. Although growth is projected to be slow nowadays, the EU remains the largest economy in the world with a GDP per head of €25 000 for its 500 million consumers today. Through collective trade policy negotiation, representing all member states as one unified voice, the EU is able to have a bigger impact in international trade negotiations than each individual member. [26][43]

Free trade agreements are bilateral agreements, that is, an agreement between two countries to simplify trade between the countries involved, thus enabling economic benefits for both countries. Simplified trade is made possible primarily through the elimination or reduction of tariffs. [26][27]

The dismantling of trade barriers thus creates easier access to markets, goods and services and likewise opens up transatlantic investment activities and the awarding of public contracts outside national borders. Capitalist competitiveness is thus the basis for the ambitions of bilateral free trade agreements, from which the participating states hope to derive clear welfare gains. [26][27]

The European Union has published all FTA's in place, in negotiation or on hold on their website. Commonly discussed FTA's are Japan's Economic Partnership Agreement (JEFTA) between the EU and Japan, as well as Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada enforced in 2017. JEFTA was put into force in 2019 mainly removing tariffs and other trad barriers between the two world's biggest economies and sending a powerful signal rejecting protectionism, especially after the rise of populist political leaders rejecting FTA's. [42][45]

In order to achieve these profit goals, such as the positive effects on economic and employment growth, for the participating states, a multitude of regulations must first be discussed and resolved. Most often leading to disagreement are the issues surrounding non-tariff barriers to trade, such as product and production standards, as well as their labor relations and related social issues. The challenge of bureaucratic barriers is to separate those that are not necessary from those that help ensure health, safety, environmental, or social standards. [26][27]

From this point of view, and from the growing media and thus social attention, FTAs are also increasingly developing the goal of improving and unifying international standards, rather than "merely" extracting economic benefits. Finding a compromise on international standards turns out to be difficult due to the mostly very different historical and cultural socio-economic backgrounds of the countries involved. [26][27]

In addition, there are diverging opinions on whether the interference with health, safety, environmental, or social standards by FTAs is permissible. Gabriel Felbermayr, director of the Ifo Center for International Economics, addresses the distributional effects of FTAs domestically, calling them the main problem of FTAs. In order to secure the benefits of globalization as well as to ensure sustainable prosperity for both participating states, he proposes a progressive tax and transfer system.[26][27]

Another controversial point of free trade agreements is the democratic legitimacy, which came up in the media and societal debate especially in the course of the negotiations of the TTIP free trade agreement between the US and the EU. The different historical and cultural socio-economic backgrounds of the countries involved also play a role in this point. [23][24][25][26][27][28][38]

***TTIP***

By actively engaging with countries or regional groupings the EU tries to negotiate mutually beneficial access to the markets of both parties in the free trade agreements. Each agreement is unique and strongly depends on the market of the party as well as the input from the public, businesses, and non-government bodies when negotiating trade agreements or rules.
The Transatlantic Trade Investment Partnership (TTIP) would be one of those free trade agreements between the United States of America and the European Union. In 2007 the Transatlantic Economic Council (TEC) was set up, aiming to guide the largest bilateral trade and investment relationship, which both profit from most integrated economic relationship in the world. The TEC enables discussions between members of the European Commission and the US Cabinet, who hold political responsibility to further strengthen the economic ties between them. In order for a smooth relationship three "advisory" groups have been set up:

- Transatlantic Legislators' Dialogue
- Transatlantic Consumer Dialogue
- Transatlantic Business Dialogue

Due to the high volume of trade between two economies of such size, trade disputes are inevitable. These disputes, that often end up in the media headlines, in fact only affect 2% of EU-US trade, are managed through the dispute settlement mechanism of the WTO. The dispute cases can be looked up in further detail here.

The TTIP negotiations were launched in 2013 and were supposed to entail 24 chapters, grouped around these 4 main points with each textual proposals and position papers:

1. Market access

2. Regulatory cooperation

3. Rules

4. Institutional

In the course of the negotiations on the TTIP free trade agreement opinions came forward from a variety of different groups: Workers' representatives, environmental organizations, agricultural associations, consumer associations, non-governmental organizations and opponents of globalization.

The outcry of these multiple voices of opposition led to a broad media and societal debate that triggered resentment and mistrust from the population, especially with regard to the democratic legitimacy and popular approval of the agreement.

As a consequence, critical voices were also partially heard among some Euro-parliamentarians. In 2016 the interruption of negotiations of TTIP was announced, partially since, in the final analysis, the Euro-parliamentarians represent the democratic legitimation of the agreement. Far greater reason for the break of discussions was the criticism of TTIP from former USA president Donald Trump during his campaign. His election in 2017 finalized this interruption until further notice, since Trumps protectionist economic approach defers from the principles of FTA's. In 2019 the Council of the EU published their decision that the negotiating directives of TTIP have become obsolete. In this paper Trumps decision to withdraw from the Paris Agreement on climate change was specifically named as a cause for the interruption. Additionally trade disputes regarding agricultural products and other sensitivities, like energy-intensive products and fisheries sectors, were named as topics of disagreement. All in all, the environmental and protectionist economic approach from Donald Trump were the reasons for the break of negotiations. Since the election of Joe Biden and the re-entry into the Paris Agreement on climate change, it is interesting to see if negotations will be resumed. [22][23][31][32][34][35][36][37]

### *EFTA*

The European Free Trade Association (EFTA) was founded by a Convention signed in 1960 with the goal to enable liberalized trade among its member states through basic regulations regarding free trade in goods and related disciplines. Mirroring the European Union’s external economic relations approach, the EFTA established an extensive network of contractual free trade relations all over the world, including the EEA Agreement (1994) with the EU, which resulted in a modernisation of their Convention, enforced in 2002, to reflect an increased level of ambition in trade liberalization and include the free movement of persons, trade in services, movement of capital and protection of intellectual property. Since the adaptation, the EFTA states enjoy the same privileged advantages regarding their relationship among themselves as they do with the EU. Due to the inclusion of trade relations to Iceland, Liechtenstein and Norway in the EEA Agreement, the Convention effectively applies to these countries, as well as Switzerland. EFTA Council regularly updates its Convention to reflect current developments. [30]

## European Union and Globalization

The European Union responds to the challenges of globalization such as effects on the environment, the poor, the culture and specifically the offshoring and flight of jobs, with various measures. The main measure is the EU trade policy with tools like trade agreements, opening up new markets and increasing trade opportunities, paired with trade regulations to protect EU producers from unfair competition and the EU membership at the World Trade Organization (WTO), which sets international trade rules.

### *Employment*

Globalization and the connected international trade create better paid job opportunities. In 2017 36 million jobs in the EU were enabled through exports beyond borders, which are on average paid 12% better than other jobs. The biggest winners of globalization are the consumers, benefitting from increased competition in international trade with lower prices for goods and services as well as a bigger variety of services and products, resulting in more choice.

Though globalization also triggers offshoring, relocations and flight of jobs, which essentially entail loss of jobs. The most vulnerable EU sectors are considered low-skilled jobs: textiles, clothing, footwear and leather, basic metals and fabricated metal products, and especially effected due to the competition of low-wage countries is the manufacturing industries. In order to tackle this issue the EU has created the European Globalization Adjustment Fund (EGF) to help workers, who have lost their jobs due to globalization, through a combination of financial aid and funded projects like education, training, careers advice, support in the job search, mentoring and business creation. Since 2009, the fund also covers job losses resulting from major structural changes triggered by the economic and financial crisis. The fund can be used when more than 500 workers have been made redundant by a single company and its suppliers, or when a large number of workers lose their jobs in a specific sector in one or more neighbouring regions. [31] [32]

This is a video explanation about the "Globalisation Fund and how it helps after redundancy".

Additionally the EU added an anti-dumping policy to its trade policy, which is also incorporated into FTA's. An anti-dumping policy is a trade defence instrument enabling the EU to ensure fair trade practices and protect EU jobs and firms. EU is an advocate for free trade, though when trading countries subsidise their products or overproduce and sell their products to a reduced prices, unfair and difficult competition conditions might occur, which could lead to closings and lay-offs at domestic firms.

A popular example is trade with China, which in the past had higher anti-dumping fees, since it was treated as non-market economy. With new regulations in place, anti-dumping fees can be imposed regardless of their market economy status, but based on criteria of state interference, ensuring fairer trade conditions. Therefore if a country is found to be dumping products in Europe, the EU can impose anti-dumping or also anti-subsidising fees on the dumped products. If dumping practises are discovered the EU has to abide to the rules of the WTO and has to go through the dispute settlement system of the WTO, previously mentioned.

This video and this page shed detailed light on the anti-dumping measures of the EU.

***Human Rights***

In order to counter endangered human rights like worker exploitation, caused by increased global competition, the EU included preferential trade deals and unilateral trade restrictions to its trade policy with non-EU countries to be able to protect and promote human rights. The Generalised System of Preferences (GPS) grants preferential trade access to the EU market to 90 developing countries. However, once systematic violations occur, the access can be withdrawn. Dialogue, monitoring and in worst cases sanctions should encourage countries to change their legislative and institutional policies to promote human rights. Unfortunately the implementation and progress has been slower than wished for.

Additional methods are unilateral trade restrictions or set due diligence obligations for importers ensuring that money from trade with the EU as well as EU goods and technologies are not used for unethical intentions or violation of human rights like execution or torture elsewhere. Regarding conflict minerals the EU has gone so far to ban all import of conflict minerals to not support funding of armed revolts. The regulation obliging importers to carry out due diligence checks on their suppliers and present a certificate of origin will be enforced in 2021. [33]

***Covid-19 and globalization***

Since the pandemic started the retreat of globalization has drastically decreased. This process was already known as "Slowbalization" after the financial crisis of 2008 and gained attention as well as societal support with the US-presidency of Donald Trump and his anti-globalization policies. The Covid pandemic is the third hit and interruption to the process of globalization in the last 12 years. The world economy relies on complex supply chains that developed through globalization, which suddenly came to a halt, resulting in job losses and a decrease of the global GDP by 4.9% to the previous year. The post-covid world will most likely be more fractured and regionalized. Experts believe the future world will be messier, containing elements of further globalization, combined with many counter trends like nationalization, regionalization and localization. The pandemic has shown how vulnerable the globalized supply chains are to unanticipated natural disruptions, leading to discussions on the level of CEOs and board members about supply chain risk, its insurance and possible solution of localization. "Slowbalization" will divide the world into a US-dominated and China-dominated world, resulting in less innovation and less opportunity for emerging countries such as India to rise to middle-income status. The US business editor of the economist Vijay Vadis Warren hopes that societies have learnt to become more resilient and sustainable, making interdependence work resiliently.[34]

---

**REFERENCES**

[1] Investopedia (2020) *Globalization.* Available at: investopedia.com/terms/g/globalization.asp (7.April.2021)
[2] International Monetary Fund (2002) *Globalization: Threat or Opportunity Available at: imf.org/external/np/exr/ib/2000/041200to.htm#II* (7.April.2021)
[3] Eurostat (2020) *Immigrating to EU Member States.* Available at: https://ec.europa.eu/eurostat/cache/digpub/eumove/bloc-1b.html?lang=en (15.June.2021)

[4] López-Mejia, A. (1999). *Large Capital Flows: A Survey of the Causes, Consequences, and Policy Responses.* IMF Institute. Available at: imf.org/external/pubs/ft/wp/1999/wp9917.pdf (7.April.2021)
[5] Investopedia (2021). *Internationalization.* Available at: investopedia.com/terms/i/internationalization.asp (7.April.2021)
[6] Lionbridge (2020) *Localization, Globalization, Internationalization: What's the Difference.* Available at: https://www.lionbridge.com/blog/translation-localization/localization-globalization-internationalization-whats-the-difference/ (29.04.2021)
[7] World Economic Forum, History of Globalization https://www.weforum.org/agenda/2019/01/how-globalization-4-0-fits-into-the-history-of-globalization/
[8] World Commission on the Social Impact of Globalisation, https://www.ilo.org/public/english/wcsdg/globali/globali.htm
[9] OECD, Riding the Tiger: The Economic Dimension of Globalisation https://www.oecd.org/development/ridingthetigertheeconomicdimensionofglobalisation.htm
[10] Unesco (2012). *About the Silk Roads.* Available at: en.unesco.org/silkroad/about-silk-roads (8.April.2021)
[11] Investopedia (2021) *General Agreement on Tariffs and Trade (GATT).* Available at: investopedia.com/terms/g/gatt.asp (9.April.2021)
[12] Investopedia (2019) *Marshall Plan.* Available at: investopedia.com/terms/m/marshall-plan.asp (9.April.2021)
[13] Buckley, P. J. (2009) The rise of the Japanese multinational enterprise: then and now, p. 310. DOI: 10.1080/13602380802667247
[14] Cavusgil, S., Knight, G., & Riesenberger, J. (2019). *International business : The new realities*, Global Edition, Pearson Education, Limited, Harlow. Available from: ProQuest Ebook Central. p. 210-214 (9.April.2021)
[15] Kauflin, J. (2017). *America's Top 50 Companies 1917-2017.* Forbes. Available at: forbes.com/sites/jeffkauflin/2017/09/19/americas-top-50-companies-1917-2017/? sh=1772bbbc1629 (9.April.2021)
[16] Cavusgil, S., Knight, G., & Riesenberger, J. (2019). *International business : The new realities*, Global Edition, Pearson Education, Limited, Harlow. Available from: ProQuest Ebook Central. p. 253 (9.April.2021)
[17] European Commission (2017). *Reflection paper on harnessing globalization.* Available on: ec.europa.eu/info/publications/reflection-paper-harnessing-globalisation_de (10.April.2021)
[18] Gygli, Savina, Florian Haelg, Niklas Potrafke and Jan-Egbert Sturm (2019): The KOF Globalisation Index – Revisited, *Review of International Organizations, 14(3), 543-574*
[19] Joshi R. M. (2009) International Business, Oxford University Press, New Delhi and New York.
[20] Keohane R. O. and Nye J. S. Jr. (2000) Introduction. In Joseph S. Nye, Jr and John D. Donahue (Eds), Governance in a Global World, pp. 1-41. Washington, D.C.: Brookings Institution Press
[21] Levitt T. (1983) The Globalization of Markets, Harvard Business Review.
[22] Robertson, Roland (1992). *Globalization: Social Theory and Global Culture* (Reprint. ed.). London: Sage. Myers, Joe (n.d.). Here's everything you need to know about the world's free trade areas.
[23]European Union (2021). *The EU in brief.* Available at: https://europa.eu/european-union/about-eu/eu-in-brief_en

[24] European Commission (2019). Statistics. Available at:
https://ec.europa.eu/trade/policy/eu-position-in-world-trade/statistics/
[25] European Commission (2020). EU-Canada. Comprehensive Economic Trade Agreement (CETA). Available at: https://ec.europa.eu/trade/policy/in-focus/ceta/
[26] European Union (2021). *Trade.* Available at: europa.eu/european-union/topics/trade_en
[27] Beck, Nils; Ohr, Renate (2014): *Das transatlantische Freihandelsabkommen – Relativierung von Chancen und Risiken.* Wirtschaftsdienst, *2014-05*, Vol.94 (5). Springer VS. Berlin Heidelberg. 344-351.
[28] Felbermayr, Gabriele (2018): *EU-Handels- und Investitionspolitik*. Wirtschaftsdienst (Hamburg), 2018-04, Vol.98 (S1). 31-40.
[29] European Commission (2020). *Negotiations and agreements*. Available at: ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/#_on-hold
[30] EFTA (2014). *Short overview of the EFTA Convention.* Available at: efta.int/legal-texts/efta-convention/detailed-overview-of-the-efta-convention
[31] European Parliament (2019). *How to manage globalisation: EU responses.* Available at: europarl.europa.eu/news/en/headlines/priorities/globalisation/20190910STO60748/how-to-manage-globalisation-eu-responses
[32] European Parliament (2019). *Globalisation's impact on employment and the EU.* Available at:
europarl.europa.eu/news/en/headlines/economy/20190712STO56968/globalisation-s-impact-on-employment-and-the-eu
[33] European Parliament (2019). *Globalisation: how the EU's trade policy helps to promote human rights.* Available at:
europarl.europa.eu/news/en/headlines/priorities/globalisation/20190612STO54309/globalisation-how-eu-trade-policy-helps-promote-human-rights
[34] The Economist (2020). *COVID-19.* Available at: youtube.com/watch?v=KJhlo6DtJIk
[35] European Commission (2021). Countries and Regions. United States. Available at: ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/
[36] European Commission (2019). EU negotiating texts in TTIP. Available at: trade.ec.europa.eu/doclib/press/index.cfm?id=1230
[37] Council of the European Union (2019). COUNCIL DECISION authorising the opening of negotiations with the United States of America for an agreement on the elimination of tariffs for industrial goods. Available at: consilium.europa.eu/media/39180/st06052-en19.pd
[38] The World Trade Organization (2021). About Us. Available at: wto.org/english/thewto_e/thewto_e.htm
[39] The World Trade Organization (2021). Introduction to the WTO dispute settlement system. Available at: wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c1s1p1_e.htm
[40] European Parliament (2018). Anti-dumping policy: how the EU fights unfair trade practices. Available at:
europarl.europa.eu/news/en/headlines/priorities/globalisation/20180601STO04822/anti-dumping-policy-how-eu-fights-unfair-trade-practices
[41] CNBC International (2016). TTIP explained. Available at: youtube.com/watch?v=CbLL7EVEaxA
[42] European Commission (2020). EU-Japan Economic Partnership Agreement. Available at: ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/
[43] European Commission (2019). EU position in world trade. Available at:
https://ec.europa.eu/trade/policy/eu-position-in-world-trade/

# UNIT II. CULTURAL ENVIRONMENT OF EUROPEAN BUSINESS

## Defining Culture

Culture is an umbrella term which can be put into different contexts and used to cover a broad range of subcategories. The literature therefore offers plenty of definitions depending on the field of study (psychology, economy, sociology …), focus of interest, methodological approach and theoretical perspective. [1] [2]

Edward B. Tyler defined culture in 1871 as

> “that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society“ [3]

G. Hofstede’s definition from the early 1980s

> “the collective programming of the mind, which distinguishes the members of one human group from another.” [4] .

A widely accepted definition of "culture" in a general sense comes from Trompenaars and Hampden-Turner and states that culture is a set of beliefs and values shared (by the majority) ***that shape structures, behaviors, and perceptions.*** [6]

In reviewing and comparing earlier definitions with contemporary literature, remarkably similar core components were found. Although the understanding of the term evolved over time, the key elements of "culture": language, religion, values, attitudes, customs, and norms of a group or society, seem to be supported by most definitions. [1] At this point, it is important to emphasize the elements of "group" and "society," both of which refer to at least two or more people. Although conducting surveys with large samples of the population may lead to average, repeating patterns, certain individualistic behavior cannot simply be attributed to cultural origins. [5]

## Establishing Culture

Culture is ***neither inherited nor innate.*** Culture is acquired and derived through the process of ***socialization*** and learning from the social environment. When people are born, they are already given various solutions to basic human problems such as language, customs, religion etc. by elders who formed those core elements and put them into practice. These said elders learned, in turn, from the generations before. Solutions and concepts are passed on and therefore adapted/enhanced by people to become a valid part of society. Since our behavior is largely learned through the interaction with other members of the society, it is at least conceivable that even our responses and manners to biological needs such as hunger or thirst are partly learned as well. [5]

Entering other cultures on the other hand, requires the process of ***acculturation***, that is, the degree of willingness to adapt to foreign cultures and their associated consequences. [1]

Beyond the already mentioned macro perspective of the national culture, there is also a ***professional culture*** which is primary determined by self-selection processes. Through socialization, people self-select themselves into different departments according to their beliefs and values. Cultural differences might subsequently occur within industries as legal, banking or business, depending on the other members and restrictions of the field. When people with similar interests come together in those departments, they reinforce their understandings of the area and in turn are able to reach a macro level perspective. Taking things one step further, the culture within the professional culture, including different institutions, can again differ. The ***Corporate Culture*** usually covers a specific Company with a specific culture, within an industry. [7]

## Cultural Models

Cultural models aim to create a better understanding of complex constructs such as culture. Therefore, there are different approaches and types of cultural models. In this section, the focus will be on two different models created by Schein and Hall. According to them, there is another area that seems to be very important for understanding culture. Their approach focuses on the unconscious/invisible aspect of culture.

### *1. Three Layers of Schein*

Edgar Schein is a former professor at the School of management. After finishing his social psychology studies, he managed to significantly contribute to the cultural research by investigating organizational culture, process consultation, research process, career dynamics and organization learning and change. [28] His publications thus cover topics from corporate culture, over consulting to leadership questions. Nevertheless, the answers to the question whether a culture can be changed are disputed. Taking a closer look at the middle level, according to Schein, values can be transformed: They turn from exposed values (exposed justifications) into shared values (when actually being shared by members of the organization) and finally in basic assumptions. Although they can be transformed, it is important to note that they hardly can be changed since they are based on former learnings and historical development. This does still not imply that changes are impossible. [8]

*ARTIFACTS | visible*
Translating this into a business context means visible ***artifacts*** being the detectable way a company acts/appears on the outside and on the inside in business or public situations. It includes present habits such as social gathering (handshaking, kissing, bowing), working hours, gift givings and many more. Schein particularly mentions the constructed environment, architecture, technology, office layout, manner of dress and visible or audible behavioral patterns. According to him all these things can be observed, but barely understood/interpreted by its “underlying logic”. [9] In other literature, the visible layer is referred to as a layer of symbols that are often used by people within the same culture. These symbols are recognizable by gestures, words, pictures, or objects. For example, layers or doctors use "simplified language" to explain various judgments or diagnoses to people unfamiliar with the subject. This layer is explicit, superficial, changeable, easily copied or modified by other groups. [30]

*VALUES | less visible*
The second layer implicates an intermediate level of consciousness and deals with values and the question "why" members practice certain behaviors. Though, because the measurement of publicly announced ***values*** through content analysis and in-depth interviews usually provides inaccurate results, this layer is perceived to be hard to decipher directly. The main cause for that appears to be social desirability – a tendency to respond/act in a manner, that is seen as socially favorable. It largely occurs at self-reporting processes and can therefore prevent or even displace genuine, latent reasonings/answers. [9] In a survey Hogan and Coote tried to capture values in an organizational context survey as follows: success, openness and flexibility, internal communication, competence and professionalism, inter-functional cooperation, responsibility of employees, appreciation of employees, and risk-taking. [31]

*ASSUMPTIONS | invisible*

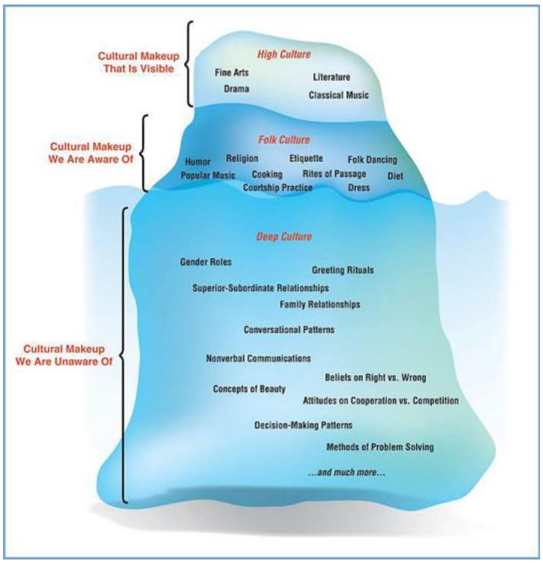
However, Schein states, that for understanding an organizational culture, it is indispensable to focus the attention on the basic layer formed by ***underlying assumptions***. Assumptions are espoused values, which at some point transformed into „non-debatable", ultimate values. As they are being established over time, they become the core of a company's culture and turn into „taken for granted values", which can hardly be changed. Behavioral traits, the climate of a group, rituals and rules, to name but a few, are fitting examples of this. Those everyday values are categorized as invisible because they are deeply embedded in the everyday life of an organization and turn out to be routine-driven behavior. [9] Mc Gregor also explains this as When people are treated consistently with respect to certain basic assumptions, they end up behaving according to those assumptions to make their world stable and predictable. [29]

*2. Halls Iceberg*
***What is it about?***
Edward T. Hall was an anthropologist who was teaching at different prestigious universities such as Harvard, Denver and others. During his lifetime carrier he developed his >>***four dimensions***<<, which are being discussed later in the text and lots of different papers. He is most famous for his anthropology of space. Though, he contributed to a different perspective of the cultural dimensions as well. [33]
Anthropologists created the iceberg metaphor to portray the different dimensions of culture, in particular the obvious and not that obvious scope. The "invisible characteristics strongly influence decision making, relationships, conflicts and other aspects of international business" [7], which is why it definitely has to be taken into consideration when discussing the cultural environment. The common analogy "tip of the iceberg" can be transferred to Edward T. Hall **"*cultural iceberg*"** as well. He declares that roughly ***10%*** of culture including external or surface culture are **visible** and the other 90% including the deep culture remain hidden below the surface. [7]

In contrast to Schein, he divides the iceberg into the tip, representing the high culture, followed by the folk culture and the deep culture, forming the bottom of the iceberg. Development of culture consists not only of the integration of manner and customs, but attitudes and values as well. While ***manners and customs*** form the visible part including superficial habits, gender roles and much more, ***values*** represent the invisible, deeply rooted judgments about what is good/bad, acceptable/unacceptable, normal/abnormal and important/unimportant. Between these two extremes barely conscious attitudes and preferences shape the second dimension. [7]

With the support of the
Erasmus+ Programme
of the European Union

If you were to translate this into a business context, it would mean seeing the tip of the iceberg when entering a new culture/market. Examples of surface culture elements would be food, costumes, traditions, all music and dances, literature, etc. The middle layer would then represent the culture below the surface, i.e.humor, eye contact, meaning of colors, fashion, politeness, etc. The deep culture layer is the most difficult to identify. This layer is about *why* people do things the way they do. For example, what views, values, and beliefs are practiced regarding friendship, family, partnership, conversations, decision making etc. [32] Despite the graphic dividing all areas into three delimited parts, it must be said that the literature does not fully agree on which concepts specifically belong to which areas. As in the real world, these concepts vary from person to person (depending on knowledge, perceptions, etc.) and therefore the boundaries are blurred.




Source: „Cultural Iceberg“ Cavusgil, Knight & Riesenberger, 2019

Relevance in International Business Field

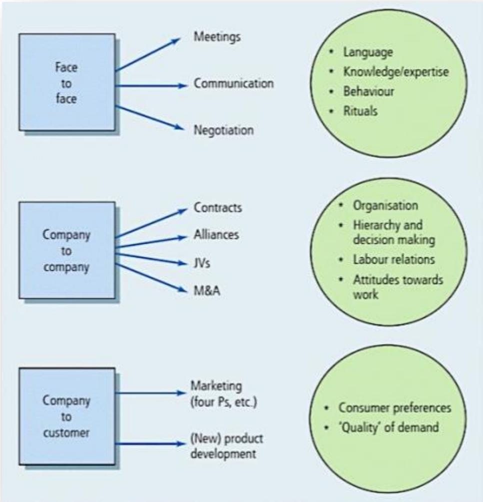
**Globalization** has completely changed the world economy after the Cold War in 1980s. To be clear, there has always been trade outside of borders, but not to the extent that we have it today. This period was driven by the idea that free market capitalism with fewer barriers will lead to a better economy. The North American Free Trade Agreement (NAFTA) and the European Union (EU) are just two of many examples that opened many new avenues and opportunities for goods and services from around the world to find their way into other cultures. People experienced new goods (which are now taken for granted: for example, local fruits that used to be seasonal were suddenly available all year round), new ways of selling, and - what goes with it - new opportunities to go abroad and expand markets. That's why culture was really essential. When entering new markets, culture starts from differences in language, social context, religion, behavior, values, communication, negotiation, and so on. Therefore, it was and still is crucial to understand and be aware of the effect of cultural differences and consider culture as an important factor of international business. [5] [35] The following examples provide an overview of some of the most important relationships to consider:

When looking at an international business level, there are three perspectives to be considered. On an ***individual level***, meaning face to face conversations like meetings, negotiations or communication with other cultures, different risks and difficulties can occur. Those refer to different ideas/practices of language (see also:  ***>>Role of Language and Religion<<*** ), knowledge/expertise, behavior or rituals depending on the cultural understandings. [1]

On the second layer, the ***company-to-company level***, firms try to succeed in containing contracts, alliances, Joint Ventures and Mergers & Acquisitions. Especially merging companies should be aware of their cultural differences and practice perfectly co-ordinated decision processes, attitudes towards work, hierarchies, decision making processes, labour relations and organizational structures with both parties. Merging companies with different hierarchical structures such as flat organizations and traditional organizations could result in difficulties within decision making processes. For example: Who is in charge and permitted to give instructions? Who, in general is involved in the decision making process? While in organizations with flat hierarchies everybody is allowed to give his or her opinion on a topic or even participate actively in decision making processes, organizations following a stricter hierarchical structure tend to have autocratic approaches, where decisions are being made in the top of the company. [36] [1]

Another very important point to consider is the basic customs, manners and gestures that are common in that culture. Behaviors that are perfectly normal for us in one culture may be unusual or possibly offensive to a customer or colleague abroad. A very simple example is the business handshake, which is the norm in European and American cultures, but in some Middle Eastern cultures such handshakes are perceived differently. For example, in some of these cultures, the handshake should only touch the right hand, as the left hand is considered less hygienic. Companies that want to operate internationally need to understand and be aware of language barriers, tone of voice and body language. Intercultural communication can become a problem if these many aspects are not taken into account, but a careful approach and preparation for all of this can help overcome misunderstandings and disagreements. [1] [34]

Finally, we have one dimension which is still pending – the ***company-to-customer perspective***. When an organization enters a new market, it also has to adapt their marketing instruments, new products, services and selling behaviors to the countries cultural environment and customer preferences. [1] Especially lost in (language) translation and differences in symbols, values and politics are causing the main cultural blunders.
There are some specific examples of failed marketing campaigns which will consequently be outlined:




Source: „Cross-Cultural Business Contexts“ Collins et. al, 2020

**Ways to avoid Cross-Cultural Mistakes** [39]

- Think global, act local
- Do not follow your institution
- Get local help
- Be ready to change your communication style
- Be careful with stereotypes
- Seek to build empathy and relationships
- It is not about knowing everything
- Learn how to apologize and change
- Learn intercultural communication

**Cultural Research**

***Hall & Halls' 4 dimensions.***

Cultural diversity can lead to inefficiencies, ambiguities and embarrassment if not properly studied. If we are not able to understand cultural differences, then we will misinterpret information received and simply not be able to understand it. People tend to make the mistake of attribution, sticking to stereotypes and ignoring the crucial role of culture in communication style. Many companies are multi-national enterprises and their increased amount of negotiations need to take place on a cross-cultural basis. When we talk about internalization, for example through FDI,it is important to consider the cultural characteristics of the other country and how they can affect the success of communication and negotiation strategies. Edward T. Hall was the first to introduce the concept of *"intercultural communication"*. In 1976, he developed a metric to measure communication differences between different cultures based on high and low context. Hall examined in detail the factors that either enhance or hinder communication between people from different cultures. It was originally created for American diplomats and businessmen to successfully conduct their business in other countries. [13] In total he identified ***>>four main dimensions<<*** of culture:

1. *High vs Low Context Communication*

*2. Spatial Orientation*
*3. Monochrome vs Polychrome Time*
*4. Information Speed*

***Hofstede's research on national culture***

Geert Hofstede founded a research department in 1965, where he conducted extensive research on the characteristics of national values and differences between countries around the world. He compared the responses of 116,000 IBM employees around the world. Based on his research, he identified 6 dimensions of the national culture. [14]

*1. Power distance*
*2. Individualism versus Collectivism*
*3. Masculinity versus Femininity*
*4. Uncertainty avoidance*
*5. Long-term versus short-term orientation*
*6. Indulgence versus restraint*


Source: https://geerthofstede.com/training-consulting/online-lectures

Learn more about ***>>Hofstede's dimensions and his research<<***

***The GLOBE Project***

While the Hofstede framework was developed in the 1960s, the GLOBE project, developed and led by Robert House in the 1990s, is a more recent attempt to understand cultural dimensions. [15] The GLOBE project involves 170 researchers from over 60 countries who have collected data from 17,000 managers in 62 countries around the world. The original goal of the GLOBE project was to develop social and organizational measures of culture and their leadership attributes that could be used across cultures. [26] Similar to Hofstede, GLOBE researchers have uncovered **nine cultural dimensions**. Based on Hofstede's culture dimensions, however, it is not surprising that five of these dimensions are similar to those uncovered by Hofstede, namely.

*1. Uncertainty avoidance*
*2. Power distance*
*3. Future orientation (degree to which society values the long term)*
*4. Assertiveness orientation (masculinity)*
*5. Gender egalitarianism (femininity)*
*6. Institutional*
*7. Societal collectivism (similar to individualism/collectivism).*

The only two cultural dimensions unique to the GLOBE project are

*8. Performance orientation* (degree to which societies emphasize performance and achievement)

*9. Humane orientation* (extent to which societies places importance on fairness, altruism, and caring). [16]

Similar to Hofstede, GLOBE researchers ***categorized countries into clusters*** with similar cultural characteristics. This categorization provides a convenient way to summarize cultural information for a larger number of countries and simplifies the task of the international manager trying to manage effectively in countries within clusters. Because clusters include societies with similar cultural profiles, similar cultural adjustments can be made. The GLOBE identified ten cultural clusters. There are namely Anglo-American, Nordic, Germanic, Latin European, Eastern European and Central Asian, Latin American, Sub-Saharan African, Confucius Asian, Southern Asian and Arabic clusters.[16]

To compare how the different clusters rate different forms of leadership, the GLOBE researchers considered ***>>six leadership profiles<<***.

**Cultural Clusters**

When we talk about each cluster separately, we mean differences in overall history, culture, economic development, and many other aspects. Each cluster contains three to four various cultural orientations and their values. These differences and orientations are diverse the clusters from each other. Summarise the differences of various countries in clusters to explore and find an effective way to understand the differences. In turn, this understanding can improve human, economic and political interaction between different clusters. However, this should be remembered and taken into account. [27]

**Cultural Dimensions: Focus on EU**

To understand the cultural base of the European Union (EU), we have to be looking at it from a wider perspective. The EU is a union of 27 member states. When it was established in 1957 the aim was to join forces in order to build a better future together. Creating a mutual understanding for so many countries can be quite challenging. Despite the unique character of each member state, they all share some common values like **"*freedom, tolerance, equality, solidarity and cultural diversity...*"** [6]. Especially the latter illustrates, that there is no such thing as an "european culture", rather it is a merger of different cultures [10].

Article 151 of the Treaty establishing European Community also supports the following fact:

"The Community shall contribute to the flowering of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore" [11] Still, there are a multitude of different initiatives supporting and contributing to the conservation of the EU culture. Sadly not all of them can be explored in depth in this work/section.

There have been many work plans concerning culture in the EU in the past decades. The current one focuses on six major points. [12]

1. Sustainability in ***cultural heritage***
2. ***Cohesion*** and well-being
3. An ecosystem ***supporting artists, cultural and creative professionals*** and European content
4. ***Gender equality***
5. International ***cultural relations***
6. Culture as a driver for ***sustainable development***

In order to see detailed information about the above mentioned, click ***>>here<<:***

*EU Achievements*

There are a lot of projects the EU supported and carried out since the incorporation. A few of them are listed in the following paragraph.
If you are interested in reading more, please visit the Publication Office of the EU and find out about 42 (!!) additional projects!

- **Emergency Call:** One specific emergency number 112 across Europe. Getting help from health services within minutes without time loss, especially when every second counts

- **Mutual Currency:** The European euro the mutual currency is valid in the vast majority of EU countries and does not have to be exchanged.

- **Paternity Leave:** As equality is a EU principle, they enabled not only paternity leave, but also parental leave, allowing parents to stay with their newborn.

- **Patent Process:** Protecting innovative concepts and ideas through patents

- **Health Insurance Card:** Since its introduction in 2004, this card helps getting medical help abroad when it is urgent.

- **Cheaper Flights:** Since competing airlines was allowed to enter air business, the prices in the EU for air travelling dropped. Meeting safety standards is priority number one

- **Open Boarders:** Being able to work, travel and live anywhere in Europe. Offering you lots of opportunities to get in touch with new cultures

- **ERASMUS:** A program which enables studies in European countries. A great way for improving language skills, broadening your horizons and experience new cultures.

***Food As Part Of The European Culture***

Another important part that goes hand in hand with culture is food and the European approach to it. Food production in the EU has high requirements for food and agriculture. They includeSafety regulations, guarantee authenticity, high quality and diverse and safe products around the world. In addition, food labeling ensures that customers can trace the origin of their preferred products. Products. [25]

**Meat & Meat Products**
Due to centuries of heritage and care, as well as the promotion of new and durable breeds, the EU has become a popular and safe market for this type of product. Since each animal must be registered, the food can be accurately traced back to its origin.

**Cheese and Dairy**
Different types of cheese require different storage and manufacturing processes. Within the EU there are over 300 varieties of cheese and dairy products. All of them are registered, which means that they meet the highest quality standards.

**Fruits, Vegetables, Nuts**
The conveniently located EU provides its citizens with 2600 different varieties of fruits, vegetables and nuts. This heterogeneity is due to the different climatic regions, which provide perfect conditions.

**Cereals**
Experienced farmers have made the EU a major supplier of oats, wheat, barley, rye and rice. Well-designed processing and harvesting combined with regular inspections result in the highest quality. "This makes EU grains an excellent source of minerals, vitamins, carbohydrates, oils, proteins and fats."

**Olive Oil**
About 70% of the world's olive oil is produced in Europe. The main players in this are France, Greece, Spain, Portugal and Italy. Therefore, each stage is monitored and tested to verify the best standards.

**Confectionery**
With a combination of quality cocoa and refined flavors, one of the leading countries, Brussels, exceeds customer expectations. By offering a wide range of varieties including special varieties for vegans, allergy sufferers, etc., the EU manages to meet different tastes and preferences.

Source: „More than Food, Great Stories to Share“, Publication Office of the EU, 2020

**Cross Cultural Management**

Cross Cultural Management is a part of International Business Studies. Unlike International Business Studies, which deals with issues at the macro-level perspective (for example, the organizations themselves), Cross Cultural Management focuses mainly on the micro-level perspective (the people in these organizations). Accordingly, topics such as organizational behavior of people from different cultures (motivation, decision making, leadership, group dynamics ...) are addressed. This includes cultural issues within an organization as well as organizations located in different countries. [17]

There are **three key areas** where cultural differences can be significant at the company level and in person: [1]

- organization
- leadership
- communication

***Organization:*** There are two styles, the first is people-oriented, the second is task-oriented. Organizations across spectrum can be very challenging to work with. Organizations that work primarily in personal are different from those, focusing on functional.

***Leadership:*** There are also two styles, the first is authoritarian (for instance United Arab Emirates) and the second is egalitarian (for instance: Norway & Ireland). Styles may differ from culture to culture, leading to confusion. What for some will be high performance, for others will be authoritarianism.

**Communication:** The language barrier is a very important problem for intercultural relations and even the use of English as the main language for doing business does not solve this problem. Since communication in one language does not give complete mutual understanding between cultures, because it does not eliminate cultural differences. [1]

***Corporate response***

Good multinational companies develop an understanding of cultural differences among their managers and employees, and also take steps to encourage personal behavior or organizational practices that adapt to the changing mix of cultures within the company. Training programs, including induction training, are the standard way for companies to do this. In addition to awareness and adaptation, the best companies strive to leverage the diversity of cultures and combine the best aspects of different ways of doing business. [1]

Here is a list of some of the strategies for managing cultural education: [1]

- Recognize diversity.
- Build diversity issues into recruitment, HRM planning, strategy, location decisions, alliances, and partnerships.
- Identify where and to what degree local divisions should be encouraged or empowered to take the lead in expressing and managing diversity.
- Encourage cross-border discussion and interaction as well as focused training.
- Aim for a cultural balance in particular areas of strategic and tactical decision making (such as brand changes for foreign markets).
- Lead from the top. Aim to match the geographic diversity of the firm’s businesses with a culturally mixed senior management group and board of directors.

*Source: „Management Dimensions of Culture“, Collinson et. al, 2020*

<u>Examples of cross-cultural relationships (success and failure)</u>

Read on for some vivid examples of how much influence culture has and how crucial it is when it comes to success when entering a foreign market. The following examples are mainly between EU and non-EU countries and illustrate either a market entry into an EU country or a market expansion into an international market.

*Wal-Mart*

Wal-Mart is one of the largest retail companies in the world based in United States. The company is actively developing and expanding internationally. However, they failed to conquer the market in Germany. One of the worst mistakes was "cultural insensitivity." Lack of intercultural competence, understanding of languages, barriers, traditions, local consumer behavior - all this is a trace of the damage to the company's image on the market in Germany. They tried to transfer their culture to a foreign country, while not taking into account global differences at all. As an example, we can cite the fact that Americans devote quite a lot of use to shopping, while in Germany visiting hours are much shorter, and on Sundays, in principle, a day off. Germans prefer bargain and independent shopping, while Americans always try to help with a very friendly smile. Another big problem was the ineffectiveness of top management, which also ignored the relevance of the local culture. Thus, due to the fact that German and American cultures are so different from each other and the fact that the company completely ignored the study of this culture, they crashed in Germany. [18]

*McDonalds entering the critical French market*

France is distinguished not only by its adherence to fashion, but also by its delicious, high-quality and “elite” gastronomy. The question arises from how the main symbol of fast food McDonald's was able to successfully gain a foothold in the local market. The marketing strategy has gone to great lengths to find exit routes and tailor their products to appeal to local consumers. Key aspects of success are: correct logo correction; adaptation to the tastes of the French, you can see a clear difference between the American hamburger and hamburgers in France, where bread is used in accordance with French standards, and the meat is made from 100% beef; the design and decor are also in line with the habits of the local population; an advertisement that is dedicated to the cultural symbols of France, an example of "Asterix and the Obelisk" which is at the heart of French traditions. [22]

*Starbuck's entry to Italian market*

Starbucks is one of the most recognized brands in the world. A huge number of stores, and specifically more than 28 thousand in no less than 78 countries around the world. It should be noted that it took the company more than a dozen years to enter the Italian market. The main reason is the coffee culture in Italy and their relationship to it. Starbucks goes to great lengths to successfully stay and work in this country. Their work with an Italian brand management company helped to better understand the market. They integrated with local consumers and, in principle, with the culture, which definitely brought them success. [19]

*Ikea entering and adapting to the Chinese market*

Ikea has become famous in the market as a company with fairly low prices and stylish design. However, when entering the Chinese market, they ran into problems and had to adapt to local requirements. Changes have been made to the products to meet the needs of Chinese consumers. There have also been changes in pricing, marketing strategy, and store locations. In Europe, people use private transport in most cases, so their shops are located on the outskirts of the city, while in China, public transport predominates, so the shops are located close to access to the metro and railways. IKEA has adapted to local subtleties and is quite successful in running its business. [20]

View on **Website**

*Zara entering the Indian Market*

Zara is a strong and popular brand, which is distinguished by its strategies, in which there are practically no ads and instead they spend money on opening new locations around the world. The company followed a joint venture strategy when entering the Indian market, but the main issue was demographics and culture. Culture is a key issue that needs to be given special attention when entering a foreign market. The beliefs and perspectives of the local population must be taken into account, as India is a country with a special focus on social security. Successful positioning and marketing strategy helped Zara to succeed. [21]

View on **Website**

*Ebay's try to enter the Chinese market*

It turned out that eBay is simply not ready to enter the Chinese market. A striking example starts with the name - ebay did not attract the attention of the local population, while the name TaoBao means "to dig for treasures", which has a strong positive effect and attracts a lot of customer attention due to this combination of words. A mistake in understanding the local culture - neither the CEO nor the CTO spoke Chinese, which complicated the working relationship at the core of the company. Ad Placement Mistake - Although eBay has spent huge amounts of money on advertising on buses, subways and taxis, it has not taken into account the Chinese people's preference for watching TV. Buyers' misunderstanding - eBay shares contain information about the sale of used goods, while the local population does not like to buy such goods, as this means "poverty". Slow and unstable service, lack of updates, and other company mistakes have made TaoBao clearly dominate China. [23]

View on **Website**

*Starbucks' entry to Chinese market*

Without a doubt, a company like Starbucks is an obvious phenomenon in the Chinese market. The company approached market penetration in a structured way, for example through free coffee in hotels in China. The result showed the demand for Starbucks products. Determination of the economic situation, competent study of the political structure and social culture. Analyzing the traditions and preferences of the local population regarding tea drinking and drawing up competent plans for introducing a coffee culture have become positive aspects for the company. Below you can read about the various strategies that the company used when entering the Chinese market. [24]

View on **Website**

---

## REFERENCES

[1] Collinson S., Narula R., Rugman A.M., Qamar A. (2020) *International Business,* 8th Edition, Pearson Education, Limited, Harlow, United Kingdom .pp. 162-165. Available from: ProQuest Ebook Central. [9 April 2021]

[2] Beugelsdijk, S., Kostova, T., & Roth, K. (2017). An overview of Hofstede-inspired country-level culture research in international business since 2006. ***Journal of International Business Studies***, ***48***(1), 30-47. DOI: 10.1057/palgrave.jibs.8400399 [8.April 2021]
[3] Saler, B. (1968). Beliefs, Disbeliefs, and Unbeliefs. *Anthropological Quarterly*, *41*(1), 29-33. DOI: 10.2307/3316891
[4] Hofstede, G. (2011). Dimensionalizing cultures: The Hofstede model in context. *Online readings in psychology and culture*, *2*(1), 2307-0919. [8.April 2021]
[5] Ferraro, G. P. (2021). *The cultural dimension of international business*. Prentice Hall. ISBN 0-13-090327-2 [8.April 2021]
[6] Leitner, C. (2000). Walking the tightrope–Cultural diversity in the context of European integration. *Eipascope*, *2000*(1), 1-5. http://aei.pitt.edu/id/eprint/823 [8.April 2021]
[7] Cavusgil, S., Knight, G., & Riesenberger, J. (2019). *International business : The new realities*, Global Edition, Pearson Education, Limited, Harlow. Available from: ProQuest Ebook Central. [8 April 2021]. p.114
[8] Baumgartner, R. J. (2009). Organizational culture and leadership: Preconditions for the development of a sustainable corporation. *Sustainable development*, *17*(2), 102-113. DOI: 10.1002/sd.405
[9]Schein, E. H. (1983). *Organizational Culture: A Dynamic Model*. Alfred P Sloan School Of Management Cambridge Ma. [8.April 2021]
[10] Sassatelli, M. (2002) 'Imagined Europe: The Shaping of a European Cultural Identity Through EU Cultural Policy', *European Journal of Social Theory*, 5(4), pp. 435–451. DOI: 10.1177/136843102760513848. [8.April 2021]
[11] Treaty establishing the European Community (Amsterdam consolidated version) - Part Three: Community policies - Title XII: Culture - Article 151 - Article 128 - EC Treaty (Maastricht consolidated version) - Article 128 - EEC Treaty. *Official Journal C 340 , 10/11/1997 P. 0245* [8.April 2021]
[12] European Comission (2021) *Culture and Creativity*. Available at: https://ec.europa.eu/culture/policies/strategic-framework-eus-cultural-policy [8.April 2021]
[13] Rogers, Everett M., Hart, William B., Miike, Yoshitaka (2002), "Edward T. Hall and the History of Intercultural Communication: The United States and Japan" vol.4 pp. 4-7 [6.April 2021]
[14] S.Tamer Cavusgli, Knight C., Reisenberger J. (2017), *International Business*, 4th edition, pp. 91-105
[15] House, R. J., Hanges, P. J., Javidan, M., Dorfman, P. W., & Gupta, V. (Eds.). (2004). *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Sage publications. ISBN: 1452208123, 9781452208121
[16] Den Hartog, D. N., House, R. J., Hanges, P. J., Ruiz-Quintanilla, S. A., Dorfman, P. W., Abdalla, I. A., & Zhou, J. (1999). Culture specific and cross-culturally generalizable implicit leadership theories: Are attributes of charismatic/transformational leadership universally endorsed?. The leadership quarterly, 10(2), 219-256. DOI: 10.1016/S1048-9843(99)00018-1
[17] Adler, N. J. (1983). Cross-cultural management: Issues to be faced. *International Studies of Management & Organization*, *13*(1-2), 7-45. DOI: 10.1080/00208825.1983.11656357
[18] MBA Knowledge Base (2021) *Case Study: Wal-Mart's Failure in Germany.* Available at: https://www.mbaknol.com/management-case-studies/case-study-on-marketing-strategy-starbucks-entry-to-china/ [10. April 2021]
[19] Forbes (2018) Wang, J. (2018, September 13) *Why It Took Starbucks 47 Years To Open A Store In Italy.* Available at: https://www.mbaknol.com/management-case-studies/case-study-on-marketing-strategy-starbucks-entry-to-china/ [10. April 2021]

[20] Business Today (2021) Chu, V., Girdharand, A., Sood, R.(2013, July 21) *Case Study: Couching Tigers Tames The Dragon.* Available at: https://www.businesstoday.in/magazine/lbs-case-study/how-ikea-adapted-its-strategies-to-expand-in-china/story/196322.html [10. April 2021]
[21] MBA Knowledge Base (2021) *Case Study: Zara's Entry into Indian Retail Fashion Market.* Available at: https://www.mbaknol.com/management-case-studies/case-study-zaras-entry-into-indian-retail-fashion-market/ [10. April 2021]
[22] Open to export (2021) *4 secrets to McDonald's success on the french Market.* Available at: https://opentoexport.com/article/4-secrets-to-mcdonalds-success-on-the-french-market/ [10. April 2021]
[23] Alex Lee (2018) Lee, A. (2018, July 13) *A Case Study on International Expansion: How eBay Failed in China.* Available at: https://medium.com/@alexlee611/a-case-study-on-international-expansion-how-ebay-failed-in-china-d762d94b9f4b [10. April 2021]
[24] MBA Knowledge Base (2021) *Case Study on Marketing Strategy: Starbuck Entry to China.* Available at: https://www.mbaknol.com/management-case-studies/case-study-on-marketing-strategy-starbucks-entry-to-china/ [10. April 2021]
[25] Publication Office Of The EU (2021) ***More than food, great stories to share***. Available at: https://op.europa.eu/en/publication-detail/-/publication/7c0982ff-69bf-11eb-aeb5-01aa75ed71a1, DOI: 10.2818/656991 [02. May 2021]
[26] Koopman, P. L., Den Hartog, D. N., & Konrad, E. (1999). National culture and leadership profiles in Europe: Some results from the GLOBE study. *European journal of work and organizational psychology*, *8*(4), 503-520.
[27] Gupta, V., Hanges, P.J., and Dorfman, P. (2002). "Cultural clusters: Methodology and findings." Journal of World Business, 37(1 ): 11-15
[28] Wikipedia, Die freie Enzyklopädie (2021). *Edgar Schein*. Available at: https://de.wikipedia.org/w/index.php?title=Edgar_Schein&oldid=208692701 [20. June 2021]
[29] Schein, E. H. (1985). Defining organizational culture. *Classics of organization theory*, *3*(1), 490-502.
[30] Zakaria, N., & Abdul-Talib, A. N. (2010). Applying Islamic market-oriented cultural model to sensitize strategies towards global customers, competitors, and environment. *Journal of Islamic Marketing*.
[31] Hogan, S. J., & Coote, L. V. (2014). Organizational culture, innovation, and performance: A test of Schein's model. *Journal of business research*, *67*(8), 1609-1621.
[32] Frank, J. (2013). Raising Cultural Awareness in the English Language Classroom. In *English teaching forum* (Vol. 51, No. 4, p. 2). US Department of State. Bureau of Educational and Cultural Affairs, Office of English Language Programs, SA-5, 2200 C Street NW 4th Floor, Washington, DC 20037.
[33] Wikipedia, Die freie Enzyklopädie (2021). *Edward T. Hall.* Available at: https://de.wikipedia.org/w/index.php?title=Edward_T._Hall&oldid=211472623 [20. June 2021]
[34] Cavusgil, S. T., Knight, G., Riesenberger, J. R., Rammal, H. G., & Rose, E. L. (2014). *International business*. Pearson Australia.
[35] The Euroculturer (2017). *What is Globalization, Global Europe explained*. Available at: https://euroculturer.eu/2017/01/23/what-is-globalisation-global-europe-explained/ [21. June 2021]
[36] Deloitte Consulting, L. L. C. (2009). *Cultural Issues in Mergers and Acquisitions*. Available at: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acqisitions/us-ma-consulting-cultural-issues-in-ma-010710.pdf [21. June 2021]
[37] Campaign US (2017). *Hall of Shame: More multicultural brand blusters*. Available

at: https://www.campaignlive.com/article/hall-shame-multicultural-brand-blunders/1423941 [21. June 2021]
[38] Kwintessential (2021). *4 Cross Cultural Marketing Flops you won't Forget in a Hurry.* Available at: https://www.kwintessential.co.uk/blog/localisation/cross-cultural-marketing-flops-you-wont-forget-in-a-hurry [21. June 2021]
[39] Eifid: European Institute for Intercultural Development (2021). *Cross-Cultural Marketing gone wrong. and the lessons we can learn.* Available at: https://eifid.com/cross-cultural-marketing/ [21. June 2021]
[40] Business News Daily (2019). *Lost in Translation: 10 International Marketing Fails*. Available at: https://www.businessnewsdaily.com/5241-international-marketing-fails.html [21. June 2021]

# UNIT III. POLITICAL ENVIRONMENT OF EUROPEAN BUSINESS

*Political Environment*

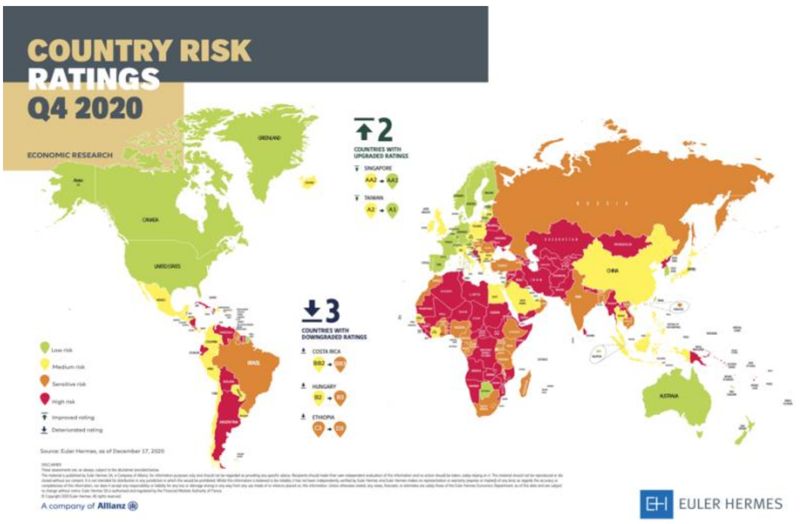
The “Political Environment” describes the set of ground rules set or actions taken by a political player, e.g. the national government of a country or the European Union (EU). Those regulations have an impact on (international-) trade, business and companies. It depends on the political system of the area where trade is made and goes hand in hand with the legal environment. [1] [2]

*Legal Environment*

What is understood as the “Legal Environment” are the laws and regulations under which companies have to operate and business is conducted. These laws ground on the legal system and differ from country to country.[2] In terms of supranational organisations such as the EU the EU treaties lay down the rules for trade, business and companies within all the EU member states the EU27 and other trading partners such as China, the United states of America and the United Kingdom.[2][3]

*Risks of Entering a Market with a Different Political or Legal Environment*

The so-called “Country Risk” describes the negative impact on or potential loss of trade, business and companies in or with countries when changes of the political or legal environment occur.[4]




Source: https://www.eulerhermes.com/en_global/economic-research/country-reports.html

*Impact of the Legal Environment on IB*

International business interests can suffer if a country doesn't have a stable legal system as well as from strict trading laws. These usually have the purpose to make it harder for international companies to expand their business or start trade. Many countries have laws which benefit the national while discriminating foreign companies.[4]

*Impact of the Political Environment on IB*

While the stability of a political system is always an issue when it comes to trade there are mechanisms governments can use to make international trade harder. Next to government intervention and other trade barriers protectionism" is a big issue. This means that a government takes action to improve the trade within its own country by putting high taxes on imported goods or limiting the amount of legal import.[4] An example for this method is former US President Trump's behaviour towards China in terms of trade starting in 2019. There are also accusations towards the EU of protecting the own producers instead of supplyers in non EU countries.

*The Political and Legal Environment of the European Union*

The EU has exclusive legislative power when it comes to trading laws and agreements. This results in the European Single Market including all 27 member states and makes it a very attractive trading partner for non member countries due to its common rules in trading.[5]

**Historical Development of the EU**

The European Union was founded after World War II (WW2) in the early 50s as an attempt to stabilise the peace in Europe by signing the European Coal and Steel Community (ECSC) treaty. This action's purpose was to re-enforce the cooperation between the founding countries and to avoid one country mobilising their troops without the others noticing. In 1957 the treaties of Rome were signed including the set up of the European Economic Community (EEC) treaty. The European Union under the name we know it today was founded in 1992 with the Maastricht Treaty – Treaty of the European Union. Until today there have been eight EU treaties signed which shaped the organisation we know today with its 27 member states. [3] [6]

**Economical Development of the EU**

When the ECSC was founded in 1951 Europe was still recovering from WW2 but the era from 1960 on became a period of economic growth. Within the union there were no custom duties charged anymore and the control over food production was centralised to make sure there was enough to eat. One of the most important agreements in terms of trade and business was the Single European Act signed in 1986 which provided the ground on which years later in 1993 the European Single Market was built. It includes not just the free movement of goods but also of services, people and money. Another novelty in 2002, which made trading, traveling and working within the union somewhat unique was the introduction of the Euro as common currency in 2002.[3] [6] [7] [8]

***Political system***

The political system is one of the state pillars. Easily said it is a system of government and politics in a given country. The main role of the political system is the regulation of attitudes and rules.[9] According to Easton (1979) "A political system can be designated as the interactions through which values are authoritatively allocated for a society."[10] Here is a good overview of different political systems. The definitions for the countries for which the specific political system present and more can be found here.

*Different political systems around the world.*

*Democracy* - People themselves have the power in this system to either decide by themselves or through their elected officials, what should be done. Such as it works in the United States, Australia, or Canada which are a good example of democracy.[11]

*"The government of the people, by the people and for the people."* (Abraham Lincoln, 1863)

**Democracy** is based on several fundamental values including: tolerance, equality, consideration of minorities, solidarity, justice, non-violence, and free community life. The interests of minorities are the main subject to be taken into account when making majority decisions. There are also some features typical for democratic countries – the elected representative stays at the head of the government only for a term that is limited, there is freedom of speech, the defensive infrastructure, and non-political bureaucracy play also an important role by protecting and ensuring the continual operation system. Last but not least, democratic states also agree on the need to have an independent judicial system, that takes mainly care of the rights and properties of individuals. [11][12]

**Communism** – typical for communism is that instead of citizens or individuals, the state owns all the assets. Besides this, the state can make all the decisions concerning products and goods and their distribution and production.[5] It is therefore primarily a matter of having only public ownership. The main representatives of this ideology include Karl Marx and Friedrich Engels, who were mainly active in the middle of the 19th century. Cuba represents this type of political system.[11][17]

*An article about how communism has impacted entrepreneurship in Europe. Even after the fall of communism, mainly in the countries of Eastern and Central Europe, the influence of the former political system is still an important factor influencing trade practices in these countries.*

*Case study: Economy in post-communist countries.*

**Socialism** – Very similar to communism, it is based on promoting equal land sharing and returning of the land production and industry among all citizens.[14] Again, the point here is for public ownership to replace private ownership. The main goal is therefore to achieve justice, equality, and solidarity. This system is based on the mutual cooperation of each individual in society. The opposite of this system is called capitalism.[18]

*Case study: How do market economies work in socialist countries. Contrary to capitalism, socialist market economies produce goods based on usage values, with collective ownership shared by the entire country.*

*Source: eecastro.com/post/130964995761/last-week-on-friday-october-2-2015-carol*

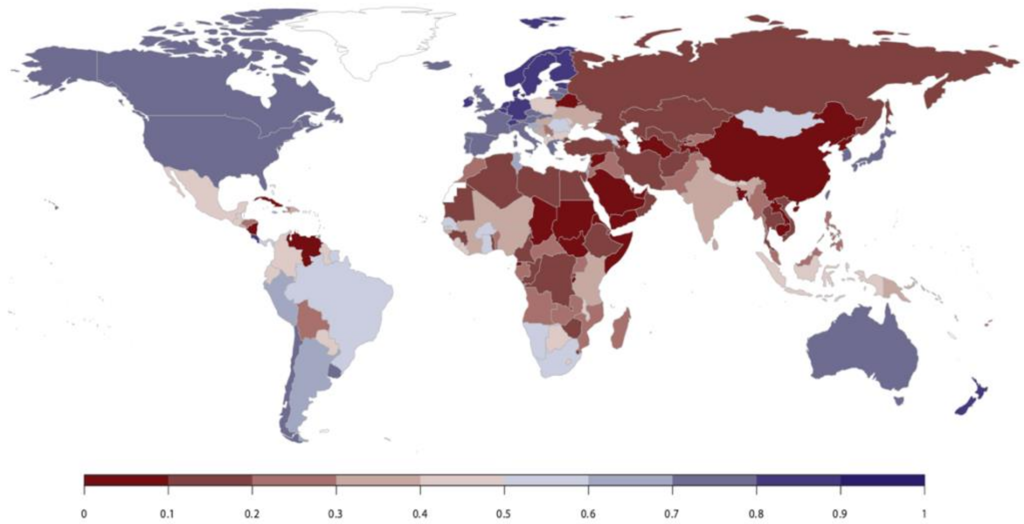
**Totalitarianism** is a form of government where one individual or an ideological group (political party) keeps up unlimited authority and either does not accept or suppresses the competition. As an example, can be mentioned Nazi Germany under Adolf Hitler, North Korea under the Kim dynasty, or the government of Stalin in the Soviet Union. Totalitarianism can be understood as a strong central rule that endeavors to control and direct an Individuum in all its life parts through intimidation and suppression.[11][19]

**Monarchy** – in this political system, the head of state is the sovereign until his death or resignation. All three powers are exercised by only one person – queen or king. Power in the state is mostly inherited. After the death of a monarch, his son or daughter will gain the title of king or queen automatically. A king or a queen sometimes also an emperor or empress unites the executive, judiciary, and legislature into one single person. By the choice of the royal family, by the higher power, to lead the country, it legitimately acquired the claim to the throne. Most of the European countries were monarchies in history. We can distinguish between constitutional monarchy and absolute monarchy. The absolute monarchy offers power without limits to the monarch. On contrary, the constitutional monarchy restricts the monarch's power under constitutional regulations.[22][23]

International business is more supported by democracy. Besides this, democracy tends to have more responsibility for circumstances and changes related to the business. Transparency, tax rules, and fair laws are the key elements in which democracy operates. Therefore, a democratic political system is considered more pro-business.[32]

Governments in totalitarianism can take control over international companies. Furthermore, there may be a highly anticipated presence of corruption, unfair trade practices, and repression of freedom of trade. Therefore doing business with countries that have totalitarian systems can be considered as high risk. Totalitarianism has an unfavorable environment with regard to IB.[33]

**FIGURE 4: THE STATE OF LIBERAL DEMOCRACY IN 2020**




Source: PanDem Project (Edgell et al. 2021).

[Source]

***Legal systems***

A legal system is a summary of all legal norms that are valid in the given period in the territory of the given state. The legal system plays a crucial role when we talk about international businesses. This is mainly because different types of legal systems can influence how attractive a country is as a marketplace or a place for a potential investment. Legal systems regulate everything connected with trade - from the regulation of business practices to the obligations within trade transactions.

All this goes hand in hand with the political system of the given country. In total, legal systems are divided into five main types: civil, common, customary, religious, and mixed law systems.[24]

Different legal systems can be one of the main indicators of a country's attractiveness, as a potential investment or marketplace. The legal systems in a country regulate the obligations and rights associated with various transactions, in addition to governing the business practices of the country. In countries that have a system of common law, contracts tend to be very detailed, which also means that this system also has a long and more costly court process. However, it has the advantage of being more flexible. On the contrary, in the civil legal system, contracts are more concise and not so specific. In general, the civil law system is more prescriptive than the common law system. All these aspects should be carefully taken into account when negotiating a country's trade with a particular legal system. If a negotiated trade is needed in countries where the legal system is not so developed, companies will likely not be sufficiently protected against misconduct (such as extortion, theft, or mafia) or, for example, against corruption which is very common in India or Mexico.[24]

**Civil law systems** – were created in continental Europe and from there spread to other continents such as Latin America, the Middle East, parts of Africa, Indonesia, and Japan. It is characterised by the fact that the main source of law is the statute, the system of law is divided into public and private law.[20]

"A body of law derived and evolved directly from Roman Law, the primary feature of which is that laws are struck in writing; codified, and not determined, as in the common law, by the opinions of judges based on historic customs."[15]

**Common law systems** – are characterized by a plurality of sources of law and wide application of court precedents. Judges in the common law system came up with the law. Common law systems were created in England and are used in almost every English-speaking country, its influence is reflected in several other countries that were economically and politically connected with England.[21]

*"Judge-declared law. Law which exists and applies to a group on the basis of customs and legal precedents developed over hundreds of years in Britain."*[16]

**Customary law systems** – it is the oldest type of law system, as the name already suggests it is based on the customs of the specific community. Mostly it is an unwritten law, it contains a set of rules that are organised and agreed upon by community members. The task of this set is to regulate social relations. For most African states, this law system was typical.[25]

**Religious legal system** – one of the most widespread law systems in the world is Islamic law or known also as Sharia law – in all of Africa, South Asia, and Central Asia (Kazachstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). This type of legal system is built on different religious faiths or texts.[25]

**Mixed legal systems** – contain either all three legal systems mentioned above or only two of them.

According to the map on the right, it is possible to imagine where and which legal systems and legal cultures in today's world are applied and in which areas they intersect.

***Economic systems***

In this context, we divide: a market-driven economy, centrally planned economy, and mixed economies.

The market-driven economy is based on demand and supply. If customers prefer more of some goods or services, these products will be offered for sale. On the contrary, if there is no longer a demand for specific goods or services, they will be withdrawn from sale. It is built on a simple principle – customer demand. An example of countries that have this type of economic system can be mentioned the USA and the countries of the EU.

The centrally planned economy does not take into account customer demand. There is given an exact plan. The committee decides what and in what quantity will be offered. Customers in this economic system, therefore, do not have freedom of choice but must buy only what the government decides that will be on offer. One good example of a country with this system was Cuba.

The main difference between the two systems is private ownership which is typical for the market-driven economy and public ownership which is typical for the centrally determined economy. Private ownership means that the product is produced by private companies. The market-driven economy also allows competition between different companies – the goal is to offer the highest quality services and goods at prices that are competitive. Public ownership means that the production is driven by the state. It is also typical that for each organization there exist so-called production quotas, which determine how much and what the organization can produce.

Mixed economies, as the name already suggests it is and mix of market-driven economic and centrally planned economic systems. It is important to keep in mind that this system is the most common among the nations. Mixed economies include both – private and government commercial establishments. When it comes to infrastructure and public services, such as airlines, railways, healthcare, social systems, petroleum extraction, and others, all of them are state-owned.[11]

***The EU Organisations***

In the context of the political system of democracy, it is also necessary to mention the EU. The EU is credited with the expansion of the democratic systems within Europe. In 2012 the EU was also awarded the Nobel Peace Prize for these merits. All countries that are members of the EU can approve voluntarily and above all democratically the acts of the EU. [36]

As laid down in Article 2 of the Treaty on the European Union (TEU): „The EU is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law, and respect for human rights, including the rights of persons belonging to minorities." [37]

The EU is made up of several institutions. All these institutions of the EU strive to fulfill all the pillars on which the EU is based. All the institutions of the EU will now be introduced.

**European Council** – is the supreme political body representing the institutional structure of the EU, standing at the apex of the EU legal system. The European Council is made up of the highest representatives of the Member states of the EU - heads of state, prime ministers, and the highest representatives of the executive, especially foreign ministers. The European Council meets four times a year, and, if necessary, leaders may meet in extraordinary sessions. The main task of the European Council is to seek consensus on the interests and positions of all member states in relation to European integration and strategies for the further development of the Union. The European Council is the body responsible for deciding and resolving political issues and problems. [36]

**The Council of the European Union** – can be considered the EU's main policy institution. This organisation is liable for all definitive decisions of the EU, aside from the financial plan. Ministers from all 27 member states form this organisation.[11]

**European Commission** – this institution is responsible for preparing the proposals. The European Commission's main tasks include proposing new laws, managing EU policies, allocating funds from the EU budget, enforcing EU law, and representing the EU abroad.[11]

**European Parliament** – which forms part of the "institutional triangle" with the Council of the EU and the European Commission, is the body that represents the citizens of the Member States through directly elected representatives. Parliament, as in the case of the Commission, represents the supranational concept of the Union, and its position and functions in the EU are constantly evolving.[36] Its main task is to control the EU expenditures, it has the right to commissioners' appointment, to veto different kinds of matters concerning the budget of the EU. It can be said that the European Parliament has three main functions: supervisory, legislative, and budgetary.[11]

**Court of Auditors** – is responsible for ensuring the legal implementation of revenues and expenditures in line with the budget. [11]

**Court of Justice** – the main role is to interpret the EU law, consisting of judges from each EU member state. Among other things, the court of justice does belongs also a settlement of legal disputes between individual states and institutions of the EU and ensure if the EU law is applied in the same way in every member state.

***How are the decisions made in the EU? (legal process)***

The European Union has three main institutions: the Commission, which has the sole right to draft laws, the Parliament, which has the right to amend draft laws, and the Council, which decides on laws together with Parliament.

The European Commission is the only institution that has the official power to make a proposal. However, other institutions such as the Council of the EU, the European Court of Justice, and others can ask the European Commission to propose.

Next, the proposal goes to the European Parliament. The European Parliament either accepts the proposal as it is or submits an amendment. Such an amendment can only be tabled twice.

Either the Council of the EU agrees with the European Parliament on the proposal, and it is adopted, or the Council of the EU also submits an amendment.

If the European Parliament accepts and processes the Council of the EU amendment, the proposal is adopted. Alternatively, the second option for the European Parliament is to table an amendment again.

The proposal then goes back to the EU Council, where it is either adopted, or the EU Council disagrees with the EU Parliament's amendment and a Conciliation Committee has to be convened to come up with a solution. The Conciliation Committee is made up of representatives of the EU Council and the European Parliament.

The Conciliation Committee has two options. The first is that it adopts the new version of the legal act, and the proposal is therefore adopted. The second option is that they do not agree on a new version anyway, and the proposal is not adopted, and the whole legislative process ends.[3]

**Government Intervention in IB**

Free trade is an agreement between two or more nations to reduce any trade restrictions such as taxes, tariffs, subsidies or quotas.[26] However, governments intervene in trade or investment activities for variety of reasons – political, economic and security. Those three go often hand in hand.[27] Government intervention is an "action carried out by the government or public entity that affects the market economy with the direct objective of having an impact in the economy."[28] The governments' objectives are often the satisfaction of specific interest groups, such as local companies, industries, labor unions or to ensure jobs. By intervening they can create trade barriers that benefit such groups.[11] Another reason for such interventions and restrictions may be national security concerns – some governments may not want advanced technological information and crucial military technology to be sold to foreign, sometimes hostile, countries.[27]

<u>Oil ownership around the world</u>: For example government-owned companies control most of the world oil reserves. National or multinational companies account only for 10% of the world's oil and gas reserve. State-owned companies such as Gazprom, Saudi Aramco, National Iranian Oil, etc. control more than 75% of all oil reserves.

Free Trade Agreements of the EU (source: frantescu.eu/2016/09/19/who-is-for-and-against-free-trade-in-the-european-parliament/)

Left to their own devices, however, markets will not necessarily deliver the best outcomes for consumers, companies or government. In order to address this, government sets legal and institutional frameworks for markets and companies to operate in. That is, it puts in place rules and regulations that determine appropriate conduct of firms and individuals, and the institutions necessary for enforcing them. Markets thus do not exist independently of government, which has a legitimate role in intervening in and shaping them.

Government can affect markets either through direct participation (as a market maker or as a buyer or supplier of goods and services), or through indirect participation in private markets (for example, through regulation, taxation, subsidy or other influence). Government usually intervenes indirectly where private markets exist but produce side-effects that have an impact, either positive or negative, on social welfare.

US Government and free trade: In tech industry (under the Trump admiration) the US is taking a page from their Asian rivals and it is moving away from the free-market doctrine that defined their economic thinking for decades. Instead, it is embracing greater state control of business activity. Mainly to help the US semi-conductor industry to keep its edge over China. Signalising a major shift away from market consensus which has been dominant in the West for decades – which emphasizes less the state support for companies and government interventions.

**The Ways Governments Intervene in Trade**

***Protectionism***

Protectionism is a policy that aims to protect national industries and businesses from foreign competition, mostly with the intention of protecting local jobs. It occurs when some countries impose restrictions on imports into the country. Such protectionism often leads to a decline in trade unfair practices and higher prices on both sides. It comes in many forms, such as *tariffs, subsidies, customs or non-tariff trade barrier*.[11]

***Tariffs*** – are custom taxes that governments impose on imported goods, effectively leading to an increase in prices of foreign goods. These tariffs give an advantage to local products and goods. Some argue that tariffs hurt relationships with other countries.[34] Another way to intervene is to **subsidize** local companies and industries to help them compete on the global market. To encourage exports, governments grant the companies monetary or other resources. Subsidies come in many forms, such as direct payments, tax credits, material inputs or services. Countries relying on exports can find this method very effective. [11] **Imposing quotas** on goods is another method to movements use to protect its market.[11] Quotas prevent a country's home market from becoming overflowed with foreign goods which are usually cheaper due to lower cost production.[35]

Restriction implemented worldwide since the start of the global financial crisis (source: globaltradealert.org/)

Import tariffs are one of the top tools a government uses when seeking to enact protectionist policies. There are three main import tariff concepts that can be used for protective measures. In general, all forms of import tariffs are charged to the importing country and documented at government customs. Import tariffs raise the price of imports for a country. An attempt to pressure a rival country by using tariffs can devolve into an unproductive cycle of retaliation, commonly known as a **trade war**.

Case study: US tariffs - EU response and fears of a trade war.

Case study: EU to Impose Tariffs on $4 Billion in U.S. Goods

A **trade war** happens when one country retaliates against another by raising import tariffs or placing other restrictions on the other country's imports. Trade wars can commence if one country perceives that a competitor nation has unfair trading practices. Domestic trade unions or industry lobbyists can pressure politicians to make imported goods less attractive to consumers, pushing international policy toward a trade war. Also, trade wars are often a result of a misunderstanding of the widespread benefits of free trade.

Case study: EU keeps its shield up in the US trade war.

Case study: Europe's position in the US-China trade conflict

**Embargoes**

An embargo is a government order that restricts commerce with a specified country or the exchange of specific goods. An embargo is usually created as a result of unfavourable political or economic circumstances between nations. It is designed to isolate a country and create difficulties for its governing body, forcing it to act on the issue that led to the embargo.[11]

**Importing Quotas**

Import quotas are non-tariff barriers (a way to restrict trade using trade barriers in a form other than a tariff – quotas, embargoes, sanction) that are put in place to limit the number of products that can be imported over a set period of time. The purpose of quotas is to limit the supply of specified products provided by an exporter to an importer. This is typically a less drastic action that has a marginal effect on prices and leads to higher demand for domestic businesses to cover the shortfall.[11]

**Sanctions**

A sanction is a penalty levied on another country, or on individual citizens of another country. It is an instrument of foreign policy and economic pressure that can be described as a sort of carrot-and-stick approach to dealing with international trade and politics.

Restrictive measures (sanctions) are an essential tool in the EU's common foreign and security policy (CFSP), through which the EU can intervene where necessary to prevent conflict or respond to emerging or current crises. In spite of their colloquial name 'sanctions', EU restrictive measures are not punitive. They are intended to bring about a change in policy or activity by targeting non-EU countries, as well as entities and individuals, responsible for the malign behaviour at stake.

**Product Standards**

Product safety and high volumes of low-quality products or materials are typically top concerns when enacting product standards. Product standard protectionism can be a barrier that limits imports based on a country's internal controls.

**Government Subsidies**

A subsidy is a benefit given to an individual, business, or institution, usually by the government. It is usually in the form of a cash payment or a tax reduction. The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interest of the public, given to promote a social good or an economic policy.

*Government Takeover of Corporate Assets*

Political entities can create a challenge for some international firms. Some governments' laws directed against some companies can take drastic measures. The seizure of companies comes in various forms – **confiscation, nationalisation, expropriation and its form - creeping expropriation**. These drastic measures and aggressive seizures are less common these days, thanks to international constitutions.

**Confiscation**

Confiscation means the complete takeover of a company by the government, without any compensation to the company. Meaning the companies receive no funds from the government for such takeover. There are certain industries that have been targeted in the past and that are very vulnerable to confiscation. Those industries include mining, energy or banking.[11]

**Expropriation**

Expropriation is a type of seizure of foreign assets by the government with some compensation. Expropriation is also involuntary and a compensation to the owners is often very low.

Creeping Expropriation is a type of expropriation. It means that the government imposes restriction such as taxation and legislative regulations step by steps, gradually making it impossible for the company to conduct business in the host country. [29] For example, the government official in Russia often raid offices of international companies und use these confiscations for the local interest.[11]

**Nationalization**

Nationalisation is a process of taking privately-owned companies or whole industries and putting them under the control of the government, without any compensation to the private owners.

---

**REFERENCES**

[1] BOREK, A., et. al. (2014). Total Information Risk Management : Maximizing the Value of Data and Information Assets. Amsterdam, Morgan Kaufmann. Chapter 6. p.186
[3] EU, Top Traiding Partners 2020. Online source: https://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf [last access: 18. June 2021].
[4] CAVUSGIL, S. T., KNIGHT, G., & RIESENBERGER, J. R. (2017). International business: The new realities. Harlow, Pearson Education Limited. Chapter 6.

[5] EUR-Lex (2021), External Trade (2019). Online source: https://eur-lex.europa.eu/summary/chapter/external_trade.html?root_default=SUM_1_CODED%3D07&locale=en [last access: 8. April 2021].
[6] European Union (2021), The history of the European Union (2020). Online source: https://europa.eu/european-union/about-eu/history_en [last access: 8. April 2021].
[7] Trade (2021). Online source: https://europa.eu/european-union/topics/trade_en [last access: 8. April 2021].
[8] The euro (2021). Online source: https://europa.eu/european-union/about-eu/euro_en [last access: 8. April 2021].
[9] Political and Legal Factors That Impact International Trade. Saylor Academy. (2012) Online source: https://saylordotorg.github.io/text_international-business/s06-02-political-and-legal-factors-th.html [last access: 8.April 2021]
[10] Easton, David. (1971). *The political system : an inquiry into the state of political science*.
[11] COLLINSON, S., NARULA, R., RUGMAN, A.M., QAMAR, A. International Business, 8th Edition, Pearson Education Canada, 2020. ProQuest Ebook Central
[12] Becker, P. & Dr.Jean Aimé Raveloson.(2008). What is democracy? Online source: http://library.fes.de/pdf-files/bueros/madagaskar/05860.pdf [last access: 7.April 2021]
[13] Duhaime's Law Dictionary, Definition of Communism. Online source: http://www.duhaime.org/LegalDictionary/C/Communism.aspx [last access: 6.April 2021].
[14] Definition of Socialism. Online source: http://www.duhaime.org/LegalDictionary/S/Socialism.aspx [last access: 6.April 2021]
[15] Definition of Civil Law. Online source: http://www.duhaime.org/LegalDictionary/C/CivilLaw.aspx [last access: 5. April 2021]
[16] Definition of Common Law. Online source: http://www.duhaime.org/LegalDictionary/C/CommonLaw.aspx [last access: 5. April 2021]
[17] Ball, T. and Dagger, . Richard (2019, November 13). Communism. Encyclopedia Britannica. https://www.britannica.com/topic/communism [Last Access 9 April 2021]
[18] Dagger, R. and Ball, Terence (2021, March 1). Socialism. Encyclopedia Britannica. https://www.britannica.com/topic/socialism [last access: 6.April 2021]
[19] Britannica, T. Editors of Encyclopaedia (2019, December 16). Totalitarianism. Encyclopedia Britannica. https://www.britannica.com/topic/totalitarianism [last access: 7 . April 2021]
[20] Carozza, P. , Glendon, . Mary Ann and Rheinstein, . Max (2019, October 16). Civil law. Encyclopedia Britannica. https://www.britannica.com/topic/civil-law-Romano-Germanic [last access: 7.April 2021]
[21] Lewis, A. D.E. , Glendon, . Mary Ann and Kiralfy, . Albert Roland (2020, October 30). Common law. Encyclopedia Britannica. https://www.britannica.com/topic/common-law [last access: 5. April 2021]
[22] Regierungsformen: Monarchie, Diktatur & Demokrati. Online source: http://politischebildung.ch/fuer-jugendliche/einfuehrung-die-politische-bildung/regierungsformen-monarchie-diktatur-demokratie [last access: 6.April 2021]
[23] Reperes: Polical systems and regimes. Online source: http://www.centre-robert-schuman.org/userfiles/files/REPERES%20-%20module%204-0%20-%20explanatory%20notes%20-%20Political%20systems%20and%20regimes%20-EN%20.pdf [last access: 7 . April 2021]
[24] Jagdish Hiray. (2007). International business and legal system. Online source: https://businessmanagement.wordpress.com/2007/08/17/international-business-and-legal-system/ [last access: 7 . April 2021]

[25] Cantwell & Goldman Pa. (2021). International Business: Legal systems of the world Online source https://www.hmtlaw.com/international-business/legal-systems-of-the-world/ [last access: 5. April 2021]
[26] Investopedia (2020), *Free Trade Agreement (FTA).* Online source: https://www.investopedia.com/terms/f/free-trade.asp, [last access: 1. April 2021].
[27] "Liberty and Justice for Some," Economist (2007). Online source: http://www.economist.com/node/8908438, [last access: 1. April 2021].
[28] Policonomics (2017), *Government intervention*. Online source: https://policonomics.com/government-intervention/, [last access: 1. April 2021].
[29] Scheuer, Christoph (2005), *The Concept of Expropriation under the ETC and other Investment Protection Treaties*, 14-19.
[30] Ian Bremmer, "The Long Shadow of the Visible Hand," *Wall Street Journal*, May 22, 2010. Online source:https://www.wsj.com/articles/SB10001424052748704852004575258541875590852, [last access: 8. April 2021].
[31] Jason Dean, Andrew Browne, and Shai Oster, "China's 'State Capitalism' Sparks Global Backlash," Wall Street Journal, November 16, 2010. Online source: https://www.wsj.com/articles/SB10001424052748703514904575602731006315198, [last access: 8. April 2021].
[32] Carl Standford, „How does government types affect my business – Dictatorship, democracy, monarchy etc – it can make a big difference" Online source: https://fleximize.com/articles/000604/how-government-type-affects-business [last access: 30.April 2021]
[33] Establish the Business in Totalitarian or Democratic System. Online source: https://www.bartleby.com/essay/Establish-the-Business-in-Totalitarian-or-Democratic-F3XG2CEK6ZYA [last access: 30. April 2021]
[34] How Suppy Restrictions Can Protect Domestic Industries. Online source: https://corporatefinanceinstitute.com/resources/knowledge/economics/import-quotas/ [last access: 19.June 2021]
[35] Objectives of Import Quotas. Online sources: https://www.wallstreetmojo.com/import-quotas/ [last access: 19. June 2021]
[36] The European Union – What it is and what it does (2020). Online source: https://op.europa.eu/webpub/com/eu-what-it-is/en/#chapter0 [last access: 18.June 2021]
[37] Official Journal of the European Union. Online source: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12012M002&from=EN [last access: 1. June 2021]

# UNIT IV. INTERNATIONALIZATION AS A BUSINESS STRATEGY OF EU FIRMS

***What is Internationalization?***

Internationalization is the process of developing networks of business relationships through (1) establishing networks in the international market (i.e., international expansion); (2) increasing resource commitments in those networks (i.e., market penetration); and (3) increasing coordination between companies' positions in different national networks (i.e., international integration)". [2][4][28]

***Why should a company internationalize***

The current international economic setting has become more dynamic and global hence leading many companies to internationalize. Internationalization has become one of the key strategies of a good functioning firm as it prepares it for a more globalized future. For a company to be competitive at a local level, it is crucial for it to be recognized on an international level.[11] However, internationalization seems to make companies appear as if they have no competition within the borders of their own country. In addition, companies enter international markets to generate more revenue, compete for new sales, investment opportunities, diversification, increase brand awareness, reduced cost, and recruitment of new talents.[4][14][26] [28]

*Source: InternationalHub (2017). International Strategy*

***How can a company internationalize?***

Finally, internationalization is very important for companies in an ever more developing and globalizing world. However, the question for these companies is how they can internationalize most effectively. In the following part we will present an array of strategies that companies use to internationalize in different circumstances.

**Low-control strategies**

The low control strategies are Exporting and Global Sourcing. Here the term "low control" means that the company using the given strategy, has little control over the entry into the foreign market, with these strategies. Low control may sound negative. However, this is not necessarily the case. Low control gives the company less control for entering another market, but this may also be an advantage for them as it means that they less responsibilities. Low control means that the company must invest fewer resources meaning lower resource commitment. The lower commitment of resources lets the company be more flexible to change plans and also less commitment means less risk of losses. Thereby, low risk, but also an equivalent low reward.

Exporting is an internationalization strategy. Exporting means to sell goods or services, produced in one country, in another country. The seller here is the exporter and the international buyer of the exporter's product is the importer. Exporting being a low-risk strategy makes it a popular choice for a company that wants to sell their excess products or increase sales to reduce per-unit costs, without having to use resources on researching the foreign markets. It leaves the exporter with a lot of flexibility as they can quickly change plans and withdraw from foreign markets with minimal expense.[1]

It also lets the exporter diversify the customer base, allowing them to be more independent, should their sales drop in one of their markets. However, exporting may also include a lot of taxes, tariffs, and other extra expenses, which drive down the profit margin for the exporter. Lower margins also mean that it can be more difficult for the exporter to stay competitive in the market it exports to.[5][6][18][21]

Global sourcing is the counterpart to exporting and is essentially the practice of sourcing goods/services from another foreign market to import and sell them in your own market or use them for your own products and services. Many of the basics of exporting as well as the pros/cons also apply here. Sourcing is low-risk and maybe an easy opportunity to sell goods that come from foreign markets, especially the products that are new to the market and thereby have low competition locally, making it easier to sell them at higher margins.

*Source: CAVUSGIL, S. T., KNIGHT, G., & RIESENBERGER, J. R. (2014). International business: The new realities. Harlow, Pearson Education Limited.*

**Moderate-control strategies**

Moderate-control strategies leave a company less flexible than the lower-control ones. However, companies gain a higher level of control, which may benefit them in the long run. Some of these moderate-control strategies are contractual strategies like Franchising and Licensing. With a Licensing-agreement a foreign company is allowed to manufacture a given company's product, in return some forms of royalties or other compensations are paid back to the licensor for using their intellectual property (product). This is good for the licensor as it is an easy way to earn extra money for their IP/idea/know-how and a cheap way to expand internationally. It does however bring in lower incomes than if they would have gone with a higher-control strategy. It can also leave the licensor vulnerable to having their reputation damaged by their licensee if they do not live up to the expectations of their trademark. [5][21]

Franchising is different as instead of just licensing some intellectual property, a whole business system is used by the franchisee and in return, they also pay some form of royalties back to the franchisor. A franchising agreement gives the company/franchisor a lot of control of the business but leaves it up to the franchisee to run it themselves. Therefore the franchisor needs to invest a lot of resources in monitoring all the different franchisees to make sure everything lives up to the standard of their trademark which the franchisee bears. A good example of this is McDonald's, which is a worldwide franchise. The menu may differ from country to country but the basics of the brand and what they offer stays the same.[5] [23]

A project-based, non-equity collaborative venture is a partnership in which the associates work together to establish a project with a reasonably limited focus and a well-defined timeline, without forming a separate legal organization. Multiple companies collaborate on a project-based, non-equity partnership to conduct activities that are outside the capability of the individual participants. Such collaboration is on a contractual basis and can help them in catching up with competitors in technological growth. [2]

**High-control strategies**

High-control strategies include minority-owned equity joint venture, majority-owned equity joint venture, and wholly-owned subsidiary (Foreign Direct Investment), which involve the highest level of risk and control.

A joint venture is a corporate enterprise formed by two or more parties that allow businesses to share the challenges and resources associated with entering foreign markets. It provides an organization with a level of stability not available when going it alone by direct investment. Ownership, length of the agreement, control, pricing, technological transfer, local company expertise, and capital, and political intentions are all important factors to consider in a joint venture. [5]

In an equity joint venture (EJV), the partners form a joint subsidiary, which is a legally separate third-party organization, often in the form of a firm. This excludes individual partners' unlimited financial responsibility. Each partner contributes with resources to the joint venture; thus, they share managerial responsibilities and assume the financial responsibility of the investment or project at hand. The key benefits of a joint venture are that it strengthens the business's negotiating position and spreads risks among many individuals. Not every participant must be a specialist in every field; instead, funds, skills, and other resources are combined to support both parties. The partners complement each other's strengths and compensate for each other's shortcomings.

When the capital shares are divided evenly, it is considered to be an equal joint venture. If one of the partners has more control, the company is referred to as a majority-owned equity joint venture (or minority-owned equity joint venture).

This choice is often preferred to simplify decision-making processes or to limit one-sided information sharing to the detriment of the majority shareholder. As a result, sufficient co-decision privileges must be created.[17]

Foreign Direct Investment (FDI) entails direct control of facilities in the target nation and, as a result, the movement of services such as capital, technology, and staff.

A good example would be German and Japanese manufacturers, such as Mercedes, BMW, and Toyota, which have made significant contributions to the US market: the majority of the cars and trucks are built in the South and Midwest to be sold in the US.

A wholly-owned subsidiary has a high level of control over processes as well as the ability to better understand customers and the business market. However, it demands a significant amount of resource commitment. It is usually the most expensive engagement a company can make to an overseas market, and it is usually motivated by the dimension and appeal of the target market. [5][18]

One of the most popular kinds of FDI is the foreign subsidiary: an individual entity owned by a foreign corporation (called the parent). This approach to internationalization not only provides the parent a corporation with direct access to local markets but also exempts it from any rules or legislation that could impede foreign firms' operations. The parent company has close oversight of a subsidiary's activities, but although senior management from the parent company also, direct operations, numerous managers, and staff are residents of the host country. [17][21]

Additionally, firms may want a direct operational presence in a foreign country that is entirely under their influence. To do this, the corporation may either create a new, wholly-owned subsidiary from scratch or buy an existing company in that region. Some firms buy their resellers or early partners, while others buy a nearby retailer for direct supply access.

**The Integration-responsiveness Framework**

Source: Dörrenbäcker, Ch. & Geppert, M. (2016). The Integration-Responsiveness Framework: A Review and Application of the Concept. Working Paper No.1. Berlin Insitute for International Business Studies (BIIBS)

The Integration-Responsiveness Framework ( I-R) was previously known to be the Global Integration-Local Responsiveness Framework. This was to assist supervisors in building a profound understanding of the trade between global integration and local responsiveness. As indicated by Geppert and Doerrenbaecher (2016, P.8) integration-responsiveness system is tied in with depicting the qualities of a business and getting doable methodologies from these experiences. [3] Thusly, giving business administrators an understanding of items and assignments of the market and the various viewpoints and procedures to follow. Notwithstanding, business attributes are comprised of monetary, political, and hierarchical goals that shape decision-making. [18][29]

***Global environment***

In the global environment, there is a low pressure of responsiveness but high pressure for global integration. Here there is little responsiveness to localize the products but very high need to be efficient to have high global integration. And the key feature of such Multinationals is that they are very much focused on economies of scale, standardization of products. Example: SONY and Pfizer. Pfizer is one of the world's largest drug companies. They have a global drug range of products which are produced around the world, but essentially it is the same product and brand.[3] [9][29]

***Transnational environment***

The transnational environment is considered to be complicated because it has both high pressure of global integration and high pressures to take count of local market needs. Here the aim is to try to be as close as possible to the local market needs but also to gain benefits from global integration by sharing expertise such as technology, staff, etc. Therefore, Unilever, IKEA, Zara, and Starbucks coffee are good examples of this model which tries to achieve the benefits of economies scale but does not centralize all its decision-making and power in one headquarters. Subsequently, a transnational strategy has happened as the last option for firms that are working together abroad. [3] [18] [29]

### *International environment*

The international environment has both low pressure for local responsiveness and global integration. This means that these businesses conducted are internationally operated largely from the center and that's how they exert control and influence over international locations. Examples of companies having such features are Mcdonald's, Bosch Gmbh, and UPS. The firm in this situation wants to obtain competencies or transfer its competitive advantages abroad. [3] [9] [29]

### *Multinational environment*

In a multinational environment, there is very high pressure for local responsiveness but low pressure for global integration. The high pressure for local responsiveness, in this case, is the need to meet the needs of local customers in order to be competitive, and also you need to decentralize the decision-making by separating business strategies for each country. An example is Nestle which has surely set up a highly decentralized business unit around the world, each of which adopts a very specific strategy for each country. Another example can be of a Chinese electronic company called Haier wanting to expand its business to the US market. This can be seen in how they brand the name of their packaging in order to meet the local market needs.[3] [9] [29]

## Methods and strategies of analyzing for internationalization

### *SWOT: Strengths, Weaknesses, Opportunities, and Threats*

The SWOT analysis is a structure whose intention is to assess an organization's cutthroat situation just as to create vital arranging. It assesses similarly as inner and outer as current and future potential. In fact, this method is there to evaluate the exhibition, rivalry, hazard, and capability of a business, alongside the piece of a business, for example, a product offering or division, an industry. With the utilization of outer and inside information, a methodology can be defined in which the business will be more inclined to be fruitful. Additionally, it guides financial backers or contenders on the qualities and shortcomings of an organization. To finish up the strategy examinations and recognizes openings and potential difficulties a business can confront. [20][21]

There are four components regular to the SWOT investigations. These incorporate the accompanying: Strengths (the qualities), Weaknesses (shortcomings), Opportunities (openings), and Threats (dangers). Internal factors include strengths and Weaknesses which result from organizational decisions. However, it is not decisive for the SWOT analysis's success, yet it useful to anticipate and evaluate how much control you have over either a problem or an opportunity. Conversely, external factors focus on Opportunities and Threats. [20][21]

*Source: Lynch, W. (2020). Strategic Planning to Actionable Items: From SWOT to TOWS Analysis. [16]*

*Internal*

To examine the internal environment of the SWOT analysis, you need to take a gander at the strengths and weaknesses in a need to look closely at the microenvironment.

The initial step is to distinguish the assets and capacities of an association to arrive at its center capabilities. The center abilities will at that point create what is designated "practical upper hand".

In the internal element, you find for example monetary and HR, substantial and immaterial resources alongside operational efficiencies. To show them, it is imperative to consider possible inquires. Identified with the qualities, the organization can ask itself "What are we progressing in nicely?" or "What are our most grounded resources?" and for the shortcomings "What are our shortcomings" or "What are our most reduced performing product offerings?". To conclude, with the positive characteristics generated by the strengths, an organization can reach its strategic performance objectives while the weaknesses' characteristics can restrain organizational performance.[21]

*External*

This time in a macro environment, the external environment focuses on opportunities and threats. External elements of an association are pretty much as significant as the accomplished of its internal elements. However, it sets up chances of the market and dangers while noticing the assets of its rivals just as seeing the fundamental turns of the events and future ramifications. Potential inquires could be the accomplishing: for promising circumstances, "what are the primary patterns in the commercial center?" or " Would it be advisable for us to target different socio-economics? and for the dangers, "what number of contenders do we have?" or "what is their piece of the pie?"

The opportunities and threats of the external analysis are classified into three central areas that introduce the organization's strategic plan as well as its vision. The first one is the competitor environment analysis. This one examines their rivals' organizational resources and analyzes the conditions that may affect market share, revenues, and forthcoming profits. The next one is the industry environment analysis, which is based on Porter's framework of factors influencing the productivity and structure of an industry. The last one is the general environment analysis. It introduces political, economic, social, and technological (PEST) factors and their derivatives into the framework.

To conclude, opportunities are valuable to upgrade the essential goals of an organization. Alternately, dangers may keep the association from accomplishing the reason in the external environment.[21]

Advantages:

- Affordable
- Focus on possible factors that could affect a business
- Give a better understanding of your business
- Solve weaknesses
- Prevent future threats
- Benefit from opportunities and strengths
- Achieve business goals and strategies by developing them [25]

Disadvantages:

- 
- One stage planning process
- Uncertain or two-sided factors are hardly taken into the process
- Issues not prioritized

- Neither solutions nor alternative outcomes are provided
- Provide a company with too general ideas that don't determine which one is the best suited
- Offer substantial information not always useful [25]

*Key points of ZARA's SWOT Analysis*

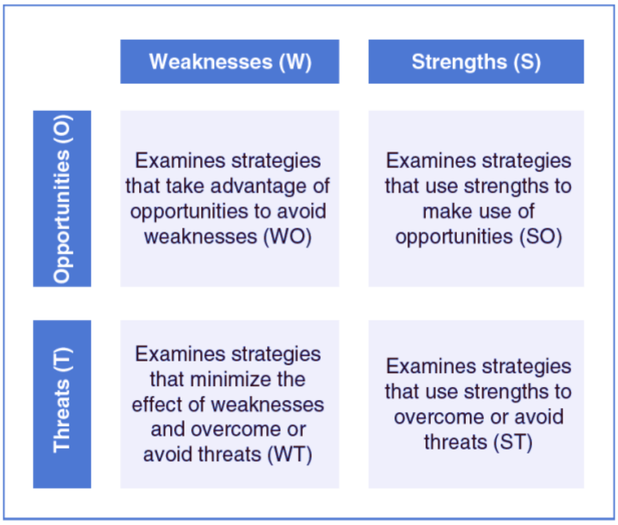
ZARA, the Spanish apparel brand, well known worldwide is still managing to make millions of benefits each year. To face competition, ZARA has to often improve its marketing strategy. Therefore, is the SWOT analysis tool very convenient?

The organization's/ company's two fundamental qualities are first its picture since it is grounded, the promoting works "verbal" and have the unwaveringly of its clients. At that point, delivering quick style garments, it empowers a wide scope of offered item and exertion is placed in remarkable plans. In any case, it can likewise be viewed as a shortcoming since quick style, which centers around mass-delivering, has a major ecological effect. This affects the quality that turned out to be low and where the amount leads over quality. Another shortcoming is the absence of advertising and correspondence. The ethic of the world realized brand is additionally regularly addressed with awful working conditions in Asia for instance. Regarding openings, ZARA has adjusted its items to a market of supportable apparel to react to these days individuals' needs. Nowadays, the online market is considerably more significant so redesign the site, accomplishing more Web-based business, and build up internet advertising is fundamental. As to dangers, the Coronavirus is a solid one. Nonetheless, the garments brand has various and solid contenders, for example, Zalando, H&M over even Asos that propose the approximately similar scope of the item at cutthroat (threats are) costs. Along these lines, it is significant for a brand to challenge and adjust to a quickly evolving market.

Nonetheless, the SWOT Analysis is one of many other methods of analyzing a strategy of an organization.

**TOWS Matrix: Adaptation of the SWOT Analysis**

In the continuation of the SWOT Analysis, you have the TOWS Matrix which is an extension of the SWOT Analysis framework created by Heinz Weihrich. Unlike the SWOT Analysis which provides ideas and a general analysis of a business, the purpose of the TOWS Matrix is, with the help of four strategies, to find the best one. Indeed, the organization needs to boost its opportunities and reduce its threats along with using its strengths wisely and overcome the weaknesses. The four strategies are the following:



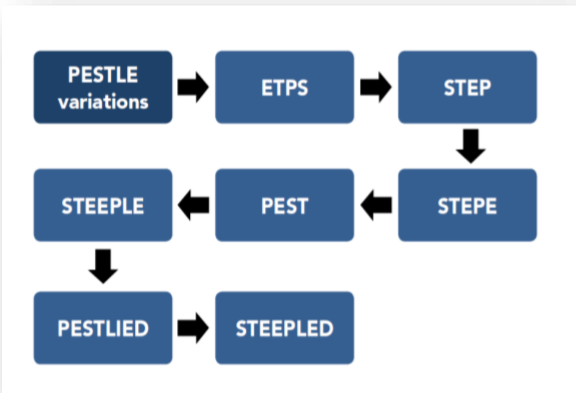

Weihrich, H. and Cannice, M.V. (2010) *Management*, Tata McGraw-Hill Education, India.

These strategies need to be discussed by the team members of the organization and choose which one will suit the company and meet the company's best expectations and goals. [27]

***PESTEL***

The PESTEL analysis analyzes the external environment but more specifically the macro-environmental factors. Its acronym stands
for Political, Economic, Social, Technological, Environmental, and Legal factors. However, the four main factors, which are political, economic, social, and technological issues, can be compared with the SWOT analysis since it analyzes the same external factors. Thus, it follows the PEST analysis. This analysis can be useful when planning to launch a new product or service, opening its horizon to foreign markets, and selling abroad in a new country. [7][21]

Different versions of the PESTEL analysis exist, yet they are the same and achieve the same goals to analyze the external environment.



*Source: Free Management EBooks (FME) (2013) The PESTLE analysis: strategy skills*

**PESTEL variations**

STEP (Strategic Trend Evaluation Process)

STEPE (Social, Technological, Economic, Political, and Ecological

PEST (Political, Economic, Social, and Technological)

STEEPLE (Social, Technological, Economic, Ethical, Political, Legal, and Environmental)

PESTLIED (Political, Economic, Social, Technological, Legal, International, Environmental, and Demographic)

STEEPLED (Social, Technological, Economic, Environmental, Political, Legal, Educational, and Demographic)

*Advantages*

- Gives an easy and simple framework for an analysis
- Cross-functional skills, as well as expertise, are involved
- In need, it lowers the impact and effects of threats
- Boost the strategic thinking within an organization
- Creates a mechanism that identifies and utilizes new opportunities
- At a national and global level, it evaluates the implications of entering new markets [7]

*Disadvantages*

- Oversimplification of information that helps to make decisions
- No sufficient investment is regularly doing this process to be effective
- The main goal is to identify issues to take actions is sometimes forgot when a large amount of information is gathered which explains the 'paralysis by analysis
- Restraining implications due to time and cost is limiting the efficiency of this tool
- Cost problems also reduce the access of users to quality external information
- Assumptions make every decision subjective since it forms the base of almost every date used [7]

**Timing strategies**

Timing strategies or marketing strategies are referred to the entry timing of the markets and the phases involved. A few studies have investigated whether or not a firm ought to enter all of its business sectors at the same time. Some empirical research found that sequential market entry is more common than simultaneous entry into multiple markets. Simultaneous entry into multiple markets occurs in the mature product life stage, with smaller markets, and when uncertainties are reduced. There are three market entry strategies, namely: Waterfall, Sprinkler, and Wave strategy.

The waterfall strategy- relies on the team following a sequence of steps without moving forward until the previous stage is completed. Like any other methodology, this one focuses on a clear and well-defined set of steps. [15]

The waterfall methodology is said to have merged from industries such as manufacturing and construction which were considered to have a high structure approach. However, later after Dr. Winston.W. Royce described this methodology also used in software development systems in his paper "Managing the Development of Large Software Systems". [15] [19]

Therefore, the waterfall methodology of software development is described as the progression phase of various activities such as requirement, analysis, design, coding, testing, and operation. Such alignment provides an organization or company a more clear scope, a clear cut of requirements, and a budget set.

This strategy involves the entry into the international market sequentially with the view to eventually spread across different countries, regions within a specific period. [13]

"Once the product identity has settled in the new market, the learning from the same is utilized to expand into another new market, relatively with a similar structure, consecutively. Therefore, learning is an operative process that involves the formulation strategy and has a less risky process of expansion of business". [13]


Advantages of waterfall strategy- It permits the renewal of products in the development stage and draws out the life-cycle while keeping a steady situation inside the market and limits risks. [30]

additionally, it has a clear and logical structure that is easy to manage, transfers information, and determines the end goal early especially for small projects which are provided a clear timeline. [15] [19]

*Disadvantages of waterfall strategy*

The methodology is challenging for both the user and the employees. The user finds it difficult expensive to maintain, and use and for the employees, it takes a long to research and customize for the in the foreign market. Another disadvantage is the lack of flexibility of going back to the previous steps. [19]

Source: Sameer, Muthur (2015). How Can Company Evaluate And Select Specific Foreign Markets to Enter? Evaluate And Select Specific  Foreign Markets. Indian Institute of Management, Lucknow.

**Sprinkler strategy**

Here the markets are entered at one and the same time in different regions and countries. It is most appropriate for technology companies that produce products with a short life cycle or whose products are in the presentation or development stage.[12]

Typically the sprinkler system is enhanced by the value skimming strategy when the underlying cost is fairly high and is brought down within time. This permits producing however many benefits as it could be expected in a generally brief timeframe, contemplating benefits from every one of the territorial branches. [12] [30]

Source: Muthur, Sameer. (2015). How Can Company Evaluate And Select Specific Foreign Markets to Enter? Evaluate And Select Specific  Foreign Markets. Indian Institute of Management, Lucknow.

**Advantages of sprinkler strategy-** the market entry in this procedure is a successful technique for beating rivalry and using the main mover or innovative benefit.  Some businesses that utilize the sprinkler market entry system have more opportunities to investigate the market and adapt. An early concurrent passage likewise implies more opportunities for enrolling protected innovation, which ruins the later development of contenders (competitors) much more. [30]

**Disadvantages of sprinkler strategy**- this strategy depends on a major number of business sectors entering at the same time, which then requires a lot of beginning ventures. There is a high danger of entering various business sectors at the same time due to the risk of losing out and leading to the misfortune of business expansions. [30]

When the market is set up with the 5/3 wave count in place, one begins to look for the market to turn back in the direction of the main trend. If this happens, it adds a significant weight of confidence to our wave count. Then one can say that they have reached the  "confirming price action" which indicates the leeway to now enter the trade scale.

---

**REFERENCES**

[1] Cavusgil, S. Tamer, Knight, Gary, and Riesenberger, John. International Business: The New Realities, EBook, Global Edition. Harlow: Pearson Education, Limited, 2019. Accessed May 19, 2021. ProQuest Ebook Central.
[2] Course Hero, Inc. (2021). A Projected based non-equity venture is a collaboration. Uploaded by Prateekamadad  (2019). IESEG School of Management France. Retrieved from,  https://www.coursehero.com/file/p63dpeu4/Project-based-non-equity-venture-is-a-collaboration-in-which-the-partners/
[3] Dörrenbächer, C. & Geppert, M. (2016). The Integration Responsiveness Framework: A Review and Application of the Concept. [ed] Polk Andreas, Schönbohm Avo,  Walther

Ursula & Michael Wortmann. Berlin Institute for International Business Studies at the Berlin School of Economics and Law (HWR Berlin), Berlin.
[4] Ebner, H. (2001). Reasons for the Internationalization Process of Companies, Munich, GRIN Verlag. Accessed May 19, 2021. https://www.grin.com/document/102543
[ 5] Edwards, J. ( 2014). Mastering Strategic Management-1st Canadian Edition. licensed under a Creative Commons Attribution-NonCommercial-ShareAlike. Retrieved from,https://opentextbc.ca/strategicmanagement/chapter/options-for-competing-in-international-markets/
[6] European Union (2021). Business and Industry. Retrieved from
[7] Free Management E--Books (FME) (2013) The PESTLE analysis: strategy skills, [Summary of Newton, P. and Bristol, H. PESTLE analysis, s.l., Free Management E--Books (FME)].
[8] Ghemawat, P. (2015). Global Strategies. Retrieved from https://2012books.lardbucket.org/books/global-strategy/s05-01-ghemawat-s-aaa-global-strategy.html
[9] Ghoshal, S., and Nohria, N. (1993), Horses for Courses: Organizational Forms for Multinational Corporations, MIT Sloan Management Review, 34, 2, pp. 23–39.
[10] Globaledgemarket. (2021). Market Entry & Expansion. Retrieved from https://globaledgemarkets.com/market-entry-expansion/
[11] Johanson, J., & Vahlne, J. (1990). The Mechanism of Internationalism. International Marketing Review, 7, (4), 11.
[12] Kar. (2011). Market Entry Strategy for International Business. Retrieved from https://www.business-fundas.com/2011/market-entry-strategy-for-international-business/
[13]Kolog, Emmanuel (2018). Internationalising a Multi-disciplinary Ph.D. program offered by the University of Eastern Finland: Strategies and Approaches.
[14] Kokemuller, N. (2020). Why Do Companies Go International?. Accessed May 19, 2021.https://bizfluent.com/facts-5256365-do-companies-go-international.html
[15] Lucid Content Team. (2021). Pros and Cons of Waterfall Methodology. Retrieved from https://www.lucidchart.com/blog/pros-and-cons-of-waterfall-methodology
[16] Lynch, W. (2020). Strategic Planning to Actionable Items: From SWOT to TOWS Analysis. Retrieved from, https://warren2lynch.medium.com/from-swot-to-tows-analysis-55ac394064b7
[17] Mariadoss, J. B. (2019). International Entry Modes. Retrieved from https://opentext.wsu.edu/cpim/chapter/7-1-international-entry-modes/
[18] Morschett, D.,Schramm-Klein, H. & Zentes, J. (2015). Strategic International Management. Texts and Cases. 3rd (ed). Springer Fachmedien Wiesbade. Morschett, et al, 2015_IR Framework. retrieved from https://www.academia.edu/28381478/Strategic_International_Management
[19] Oxagile. (2014). Waterfall Software Development Model. Accessed June 14, 2021.https://www.oxagile.com/article/the-waterfall-model/
[20] Sammut-Bonnic, T. (2015). SWOT ANALYSIS. Sammut-Bonnici, 2015_SWOT.pdf
[21] Saylor Academy. (2012). Fundamentals of Global Strategy. Retrieved from, https://saylordotorg.github.io/text_fundamentals-of-global-strategy/index.html
[22] Shewan, D. (2021). How to Do a SWOT Analysis for Your Small Business (with Examples). https://www.wordstream.com/blog/ws/2017/12/20/swot-analysis.
[23] Singal, A. (2019). How does Licensing differ from Brand Extension & Franchising? Retrieved from, https://www.entrepreneur.com/article/333623

[24] The Case Solutions. (n.d). Introduction to AAA framework Harvard Case Solution & Analysis.  Retrieved from,https://www.thecasesolutions.com/introduction-to-aaa-framework-146667
[25] The State of Queensland 1995/2021. (2017).Benefits and limitations of SWOT analysis. retrieved from, https://www.business.qld.gov.au/starting-business/planning/market-customer-research/swot-analysis/benefits-limitations
[26] Uglobally. (2019). Why Companies Expand into International Markets. Accessed May 19, 2021. https://www.uglobally.com/blog/why-companies-expand-into-international-markets
[27] upBOARD. (n.d). TOWS Matrix – Online Best Practices Tools & Templates from upBOARD. Retrieved from, https://upboard.io/tows-matrix-online-tools-templates/
[28] United Nations University CRIS (2019). What is Internationalization?. Institute on Comparative Regional Integration Studies. Accessed May 19, 2021. Cris.unu.edu.
[29] Uyen-Minh Le & Tung-Shan Liao. (2017). A Dynamic View of Global Integration and Local Responsiveness Framework. International Journal of Emerging Research in Management &Technology.  (Volume-6, Issue-8)
[30]Zelmenis, A. (n.d).  Market Entry Strategy. Retrieved from,https://www.baltic-legal.com/market-entry-strategy-eng.htm

# UNIT V. CORPORATE SOCIAL RESPONSIBILITY AND ITS ROLE FOR THE EUROPEAN FIRMS

**Definition**

Corporate Social Responsibility describes the companies managerial effort to **integrate social and environmental aims in their corporate performance** and interaction with all stakeholders. CSR can be described as the integration of economic, environmental and social efforts ("Triple-Bottom-Line-Approach"), into the companies objectives while simultaneously complying these with the shareholders and stakeholders expectations. It is important to distinguish between CSR as a**strategic business management concept** and social operations in terms of **charity, sponsorships or philanthropy.** To locate CSR within that spectrum one can state that CSR goes beyond traditional contribution to social welfare and aims to strengthen a company's brand and reputation. [1]

Definition and Introduction to the topic of CSR (HSG Uni St Gallen, 2012)

Davis (1973) refers to corporate social responsibility as a companies **awareness for issues beyond economic, technical and legal interests**. In his eyes it is a company´s duty to evaluate the effects their operations have on the ecological and social environment. Beside economic profit a company should aim to accomplish social welfare and unify this goals. [2]

Bureana et al. (2015) describe CSR as obvious and subtle aims a company undertakes to **increase social welfare** and protect the environment and the communities their operations are taking place in. [3]

In the EU, the published CSR Communication of October 2011 manifested the individual responsibility of every company to monitor their social and environmental impact. In this publication, corporate social responsibility is depicted in the following ways:

- as societal goals,
- as a voluntary and highly contextual topic,
- as depending on political, institutional and cultural, environments,
- as a topic which goes beyond compliance,
- as an area which is still subject to debate whether it is allowed to be profitable or not. [4]

What are certain topics that all kind of businesses have to consider when committing to CSR?

Other key concerns of CSR are sustainability, as companies should be aware of their ecological footprint and their enforcement of Human Rights by for example Tackling the Issue of Child Labor at all corporate ventures, to just name a few examples. [5]

**History**

CSR became more important over the last decades, as it was subject of **several debates** evolving in response to a **loss of trust** in major corporations. [4]

CSR evolved as a product of public debate between nongovernmental organisations, politics and the public opinion at a time when globalisation increasingly influenced economies worldwide. Today, CSR can definitely be described as a strategy being used to compete against other businesses. [3] But was CSR first established to increase profit and advantage or did it arise out of a philanthropic approach?

**CSR first came up in the late 19th century** with a classical concept introduced in Andrew Carnegie´s 1899 published book "The Gospel of Wealth"**.** He based this classical interpretation on two principals:

1. the Charity Principle, stating that the richest people should share their prosperity with less fortunate ones [33]

2. the Leading Principle (today referred to as guiding principles)

These principles shaped the relationship between a companies owner on the one and the employees and clients on the other hand. [3]

However, this business responsibility approach was not further implemented in corporate strategies due to the outbreak of World War I & II. CSR experienced a second boost of development from **1949** on. At that time, the United States pioneered in this topic as **Bernard Dempsey** published an article in the Harvard Business Review where he emphasised the advantages of implementing business responsibility. He transferred numerous philosophical arguments he derived from the concept of justice into the topic of business responsibility. Namely: trade justice, distributive justice, general justice and social justice. [3]

Frank Abram argued in the **1950s** that companies should not only have their profit in mind but also their employees' wellbeing. In the **1960s** the companies performance was first associated with public interests as it was understood that CSR can´t be pursued out of a profit-oriented perspective. Therefore economy and social obligations were separated. [3]

In general, debates between **1950 and 1990** focused more on the rivalry between capitalism and communism, but also the free market economy in the USA and the more social and protective economies in Europe, Latin America and Asia. In the last 20 years this debate shifted from a political-ideological perspective to a more social one, with society as a main contributor to social developments. This participation of society is reflected in the **greater involvement of NGO´s** contributing to the debates on CSR. Rising pressure on businesses evoked an appropriate response to the addressed issues:

- **Political answer:** in response to critical voices, new rules on transparency, human rights, trade, corruption and corporate governance were enacted.

- **Public Opinion:** Again, the growing number of NGO´s raised public awareness as well as certain commercial rules, codes on social responsibility and sustainability did. The closer relationship between reputation and community involvement of firms also strongly contributed to the public interest in the topic of CSR. However, we still observe a vast majority acting inconsequent as they ask for responsible goods on the one hand but look out for the lowest prices on the other.

o **Globalization:** includes many new options but creates a need to deal simultaneously with the surrounding of new markets. What are the legislative differences? How does the host country behave in human right questions and what are the environmental standards? [3]

Finally, Globalisation as a Main Driver can be identified, underlining the importance of this topic in several ways.

How scandals shaped CSR: Developments in the 2000s - present day

What is a practical example for a debate, which created a compulsion to move in terms of corporate CSR politics? More current scandals are for e.g. the Enron accounting scandal, where a major US energy company deceived regulators with fake-holdings and ended up being on of the biggest bankruptcy in US corporate history. As well highly popular is surely the 2008 financial crisis, sparking a public outcry as reaction to a real estate bubble bursting and triggering a global cascade. Companies had to react in terms of compliance and higher regulation measures. During that time, business ethics replaced corporate responsibility as "new hot topic". [3]

Furthermore, extensive layoffs and expenditure cuts, effecting primarily employees were major negative outcomes of the financial crisis. However, multiple CSR topics were pushed forward and gained new popularity, especially **corporate governance**, meeting public demands for greater monitoring of business transactions. [34]

Triple Bottom Line Approach


Source: Contribute to a better world = Be a successfull company (Avramenko, 2018)

John Elkington coined an interconnection between social performance, environmental performance and financial performance in 1994. It is also known as the Triple Bottom Line (TBL) and can be seen as one way to evaluate CSR.

The idea of this concept is that companies should become more aware about their social and moral responsibilities to the future life of people and the planet. In order to aim all these positive things, the social, environmental and financial performance of the corporation has to be measured for a period of time. A corporation, that produces a TBL shoulders all costs and risks involved in doing business.

Thereby, three different bottom lines can be picked out:

- *Profit:* profit and loss account (economic value: deducting costs of all inputs and the capital)
- *People*: social responsibility of an organization (fair labour practices, the community itself and the work region)
- *Planet*: sustainable environmental practices [28]

Difficulties

- Measuring the social and environmental bottom lines (Profitability is easier to measure): For example: How can you put a dollar value on an oil spill (or on preventing one)?
- Switching gears between priorities which are antithetical: For example: Good for society and financial returns
- Balancing deploying money and other resources: For example: deploying human capital to all three bottom lines without favoring one line
- Ignoring the TBL Framework: For example: destruction of the rainforest, damage to the ozone layer, exploitation of labor [29]

In the following, the three bottom lines will be illustrated against a practical background of CSR implementation.

**Profit**

Of course, out of a business perspective acting profit-oriented is inherent in corporate culture. In recent time however, acting in order to maintain the highest possible monetary outcome moved into the spotlight of debates concerning corporate responsibility.

When MNE´s started to shift supply chains to developing countries in the 1980s and 1990s, they did not care much about the working conditions at production places. Back then, low prices were the only criteria. Now, that public awareness has been raised, it is important to find a solution.

One could think that banning all production locations in developing countries is the most apparent solution to fight inhumane working conditions and enhance social sustainability. However, the truth is more complex. Although MNEs often promote the retention of poor working places in less developed countries, closing such ventures or not providing them any further contracts is no solution either. It has to be kept in mind that the general living conditions are poor anyways and worsen for anyone who is unemployed. Therefore, pulling away from inhumane production locations would be as detrimental as expanding to them first was. Now that they are involved, companies have to promote standards while ensuring the safety and monetary assurance of their employees in less developed countries. [5]

Again, considering the voices of trade unions in developed countries to increase wages, local companies rant about such behaviours as they experience a lack of employees due to unequal incentives. To boost economy in developing countries with fair market strategies MNEs have to adapt to local conditions instead of just pushing through their own norms, which are inspired from their home countries market standards. [5]

This example illustrates what issues appear when profit maximisation is pursued and corporate responsibility is neglected. To not ruin the local market by just adapting unrealistic standards while ensuring humane working conditions, which build upon human rights would be one possible way to solve the above introduced issue. [5] This already entangles profit with another area of the triple bottom line we are taking a closer look at in the following: people.

**People**

To act socially sustainable companies have to ask themselves the question about their social impacts. How can they manage them? Their influence might be both positive or negative. Mostly, a companies main goal is to retain good relationship with their stakeholders as there is a direct effect on employees, local communities and many other participants in the supply chain. Another interest ist the maintenance of their Social License to Operate. [5]

The **UN Global Compact** is a worldwide agreement founded by the United Nations, which aims to push globalisation in a more social and ecological direction. Thereby it includes aims, which are already manifested in the triple bottom line: people and planet.

The First six UN Global Compact's Principles determine several social dimensions which should be respected in order to practice CSR. Human Rights draw the fundamental stone to this principles. Furthermore, the rights of specific groups are being encouraged:

- gender equality, especially the empowerment of women
- people of all sexual orientation
- children
- indigenous peoples
- people with disabilities

- as well as a people-centred approach to alleviate poverty is being emphasised. [9]

To perform a decent socially sustainable behaviour companies should determine:

- minimum wages,
- maximum of working hours,
- minimum age of workers,
- health and safety at all corporate ventures. [5]

How does a descent execution of social sustainability looks like?

1. Creating valuable job positions with bearable working conditions.
2. Providing employees with basic needs, goods and services.
3. Creating a more inclusive value chain.
4. Financing social investments and promote public policies.
5. Sharing ones impact with business partners to raise awareness and create a pooling strength. [13]

**Planet**

Since **industrialisation took off around 200 years ago**, it brought immense wealth and new technologies on the one hand and causes **rapidly growing ecological damage** on the other. Global warming, rising sea levels and shrinking biodiversity are just a few of many **man-made catastrophes** we are currently experiencing. [14]

Principle 7; 8 and 9 of the UN Global Compact focus on environmental issues and how companies should face them.

As MNE´s are running the largest industrial organisations they can be considered therefore as biggest polluters. Whereas developed countries enact strong regulations and rise higher environmental standards, companies are tempted to transfer productions high in pollution to different countries, so called polluters haven, which are in most cases developing countries with lower environmental standards.[5] The relocation itself or the threat to do so affects local politicians again as they might rethink rising environmental standards to lower companies transmigration. This again only results in a race to the bottom, where developing countries react by lowering environmental standards until they undercut other countries to attract foreign investors. [5]

What motivates companies to push through Ecologically Sustainable Behaviour?

Supervision of stakeholders in **home and host country** would be beneficial as they are interested in good conditions for both sides. Problematic here is that we are already experiencing discrepant effects of global warming between different countries . Because developing countries are already more affected from for e.g. rising sea levels, they might have other interests than stakeholders in more developed and still unconcerned countries. This has to be considered when weighing the different stakeholders concerns. Furthermore, investing in new technologies which is promising a long-term advantage should be pursued. It is obvious that not acting and retaining old methods might seem like a more easy and affordable solution for now, but investing in sustainable strategies will pay of on a long term scale. Most important, it is evident that ecological unconcerned behaviour triggers a cascade, resulting in catastrophic events which should be avoided under all circumstances. [5]

How does ecological sustainability look like in practice?

1. Protection of air, water, land and biodiversity.

2. Reducing the use of toxic substances, emissions and waste.
3. Protecting natural resources by applying renewable energy and drastically reducing the use of raw materials and enhance recyclability.
4. Actively fighting the climate crisis and raise awareness for global warming. [4]

**Efficiency of CSR: Case Study of Adidas´ Sustainability**

Adidas´ goal in performing social and environmental responsibility is clearly stated in their since 2000 annually published sustainability report: They aim to monitor their ecological footprint while increasing their businesses value. One of their CSR undertakings was to ban the use of certain chemicals in their textile production. With a high emphasis on ecological sustainability Adidas practices a long-term-oriented viewpoint. Therefore Adidas pursues three courses of action, aiming for water savings, innovation in materials and processes and energy conservation. This plan is executed by due to people empowerment, health improvement and lastly inspiring actions, which refers to Adidas´ encouragement of employees to participate in volunteering programs which build up on Adidas´ cooperation with NGO´s like Parley of the Oceans. To increase transparency, a regulating monitoring mechanism, namely an external corporation surveys Adidas sustainability performance. This implementation shows how CSR is put from a theoretical subject into practical actions, increasing authenticity perceived by stakeholders as CSR actions seem to be in line with corporate strategies. [35] However, it remains subject of debate and viewpoint to which extent useful sustainability strategies and not only Green washing is being practiced at Adidas.

***Other Focus Areas***

Corruption

**Principle ten** of the UN Global Compact states the effort businesses should undertake to fight all forms of corruption.

Not only are companies responsible to **fight bribery and extortion** but are also supposed to release policies controlling internal corruption on every step of the supply chain. Engagement in the UN and civil societies as well as a close cooperation with the government enhances transparency.

It should be in any companies interest to avoid corruption not only for legal reasons but also to maintain a high **reputation**, avoid **financial risks** and most importantly to remain a **credible and authentic business partner.**

Corruption is defined as *"the abuse of entrusted power for private gain"*. [15]

How to fight corruption:

Anti-corruption policies can be implemented within the company. Unification with both partners and competitors forms a strong force in anti-corruption efforts and creates a fair competition. Furthermore, companies can sign the Anti-Corruption Call to Action which is an invocation from businesses to government to tackle the issue of corruption and enhance a fair and inclusive international economy. [9]

**Community Development**

Initiatives implemented by communities in cooperation with external corporations or organisations which aim to **enhance a local community** and its individuals is referred to as community development (CD).

Admired goals in such projects are removing barriers and increasing sustainability, social justice and engagement in political commitments.. Building up on fundamental values of **fairness, equality and reciprocity** CD aims to to provide people with a voice to state their opinions and provide them with an opportunity to take part in future developments. [16]

What is the role of CSR in CD?

Developing a closer tie between corporations and communities to support a perception of not being an employer but also stating interest in issues going beyond economic concerns. Reciprocity can be found in the companies interest to build and retain talents by supporting local communities in terms of education, innovation and social development. [16]

Models of CSR

Now we want to introduce you to three models designed to categorize CSR and that should give you a better understanding of what this field actually consists of.

***Four Level Pyramid (Carrol)***

Archie B. Carroll established this model so it includes all the responsibilities a corporation could have and puts them into categories ranked in a pyramid shaped order. Carroll believes that it is important to consider each category separately but also keep in mind that the fundamental (economic) responsibilities must be fulfilled for the company to be able to focus on the other three categories which each are conditions for their subsequent category/ies. The four categories are explained below but for a better understanding look at the figure to the right.

- **Economic responsibilities**: The first and foremost responsibility of every company is to produce and provide products or services that the market demands and make a profit out of selling them. In addition the value of „maximising the profit“ has increased over the past years. Being profitable is the fundament of Carroll's Pyramid because without that all the other responsibilities become debatable.

- **Legal responsibilities**: Like economic responsibilities following legal obligations can also be seen as fundamental criteria for a free enterprise system and therefore must be fulfilled for the following categories to even be considered. Companies are expected to make profits and operate within the guidelines of the government and other institutions (federal, state, local institutions) that pass laws and regulations. These are „codified ethics“ and regulate certain corporate practices like fair operations.

- **Ethical responsibilities**: Economic and legal responsibilities already include some ethical norms like fairness and justice, but ethical responsibility differs from that by referring to practices that are expected or prohibited by society. The difference is that no one is obligated by law to implement them. Ethical responsibilities are all the standards and norms the community, shareholders and stakeholders perceive as correct, fair and just. With changing societal values the law might change too (e.g. laws to protect the environment result out of changes in ethical values of society) and as a result of that ethical responsibilities are also including upcoming values that are not put into legislation yet and might even demand higher standards of practices from businesses than are currently set by law. Such ethical norms are rarely well-defined and their legitimacy is debatable which makes them very hard to deal with for companies and corporations. Additionally, there are the great ethical principles of moral philosophy like justice, rights and utilitarianism which also set the tone for a correct ethical performance of businesses.

- **Philanthropic responsibilities**: Those describe actions that businesses take to meet the image of good corporate citizens the community wants them to be. It means actively participating in programs promoting human welfare. For example: a business gives financial or executive resources to arts, education or community. The difference to ethical responsibilities is that the company is very welcome to and appreciated for contributing resources but they are not being regarded as unethical if they do not. So the expectation is there but the pressure from society to actively in engage in such projects is lower than when it comes to following ethical norms. It is important for Carroll to point out that even though most companies regard the philanthropic responsibilities as the main body of CSR it is rather the cherry on top and less important than the other categories. In order for this last category to make sense all the others have to be provided. [30]

To summarize the pyramid in Carroll's own words the "**CSR** firm should strive to **make a profit**, **obey the law**, **be ethical**, and be a **good corporate citizen**". (Carroll, 1991)

Source: Carroll, A. (1991). *The Pyramid of corporate social responsibility: toward the moral management of organizational stakeholders*. Business Horizons, 34(4), p. 42

### *The Two-Dimensional Model (Quazi and O'Brien)*

The Australian professors Quazi and O'Brien designed the model you can see on the right to measure the level of CSR a certain company executes. The model consists of two axes separating the field into four quadrants which each stand for different aspects of CSR. Quazi and O'Brien designed it so that via evaluating questionnaires filled out by company members this company can afterwards be located in one of the four quadrants and thereby measure their level of CSR.

- The **horizontal axis** has two extremities: "Narrow responsibility" on the right which represents a conventional business outlook and means that the firm is very profit orientated and focuses on that in the short-term. And "wide responsibility" on the left which stands for a wider social outlook. This means that the company does not just obey the law and participates where it is obligated to but also voluntarily engages in community development, protecting the environment and other things.

- The two dimensions of the **vertical axis** are "benefits from CSR action" and "costs from CSR action". Whether a company is located above or below the horizontal line depends on their focus on long- or short-term outcomes. A corporation focussing on short-term results will be more concerned about the costs of CSR and therefore be located more towards the lower end. If it focuses more on long-term effects expecting the benefits to exceed the costs it will gravitate more towards the upper end.

The four quadrants can be described as followed

- **Classical view**: In this view CSR is only seen as a factor generating net cost without any real benefits for the company. The focus here is very strong on profit maximation and there is no motivation to go beyond this narrow view.

- **Socioeconomic view**: Like the classical view this one is also kept very narrow with the exception that it accepts a certain degree of social responsibility to be beneficial in the long run and may even avoid unnecessary costs, e.g. resulting out of expensive and embarrassing regulations or help contributing to the company's profits by building good customer relationships. Such eventual benefits justify CSR even a manager has a very narrow view. This view allows companies to simultaneously work on profit maximation and serving social requirements.

- **Modern view**: This view of CSR is very modern and includes the view of the stakeholders. It means that businesses keep good relationships with a big part of society by implementing socially responsible actions that are profitable in the long as well as the short run.

- **Philanthropic view**: This view is the broadest of the matrix and means that businesses engage in charitable activities that might also only be perceived as a net cost. The reasons for that are altruistic and ethical and not profit orientated but rather focussing on what can be done to help society.

To decide where a company should be located O'Brien and Quazi designed a structured closed questionnaire including 25 statements on major issues of CSR. [31]

Ultimately it can be said that the **Two-Dimensional Model** consists of four quadrants which are divided by two axes. **Via questioning** members of a corporation it's **level of CSR is assesed** and can afterwards be **located on the graph** in the suitable quadrant.

Source: Filgueiras, J., De Oliveira, M., Neto, F., Da Silva Filho, J. (2012). *Analysis of CSR in Midsize Retail: Application of the Quazi Aand O'brien Model*. JOSCM. Journal of Operations and Supply Chain Management, 5(2), p. 59

***The Three-Domain Model of CSR (Carroll and Schwartz)***

This model designed by Archie B. Carroll and Mark S. Schwartz is very consistent to Carroll's pyramid model discussed above. It is not the same though since the categories are divided into three main domains of CSR and then further split up into seven total categories which result from overlapping the three main categories. This is also a major feature of this model since it clearly shows that the categories cannot really be seen as totally separate but often overlap.

First, we will explain the three domains of the model and afterwards what happens when they overlap, for a better understanding see the figure below.

- **Economic Domain**: This domain embodies all the activities a corporation conducts with a direct (e.g. actions that increase sales) or indirect (e.g. activities improving the corporate's public image) positive economic impact on said corporation. The two main indicators for an economic benefit here are (1) profit and/or (2) share value maximation. Naturally most corporate actions are expected to be of economic nature. Not part of this domain would be actions that are (1) not conducted to maximise profits/share value when a profitable alternative exists or (2) when economical outcomes are not even considered. In return not all actions resulting in declined profits/share value are automatically not part of the economic domain since that might also happen because of poor business decisions.

- **Legal Domain**: This category refers to legal expectations and demands from society in form of federal, state and local jurisdictions or legal principles from case law. In this context legality can be divided into (1) compliance, (2) avoidance of civil litigation and (3) anticipation of the law. Not part of the legal domain are actions that are either (1) known to be against or not compliant with the law and still taken, (2) to result in actual or potential civil negligence or (3) are only in passive compliance with the law.

- **Ethical Domain**: This category covers all the ethical responsibilities the general population and relevant stakeholders expect from a business. It includes responding to domestic and global imperatives. It can be divided into three ethical standards: (1) conventional, (2) consequentialist and (3) deontological. Not part of the ethical domain are actions that are (1) amoral, (2) taken even though they obviously conflict with moral principles or (3) only have the purpose to benefit the corporation, not the affected stakeholders.

Now we are moving on to the overlapping categories. Of course, the ideal overlap is the centre where a company would fulfil all its ethical, economical and legal responsibilities.

- To be **purely economic** an action must be directly or indirectly economically benefitting the company, be illegal or only passively complying with the law and be unethical. For example, a company risks harming its employees disregarding statutory precautions even though they are warned about possible risks. They only focus on their benefits and in the process, workers get harmed and/or die.

- **Purely legal** means actions that are unethical and without any economic benefit. Examples of such activities are very hard to find because often what is legal is also ethical and required by the law in order to be able to make an economic benefit. There was a company though that might fall into this category: Napster allowed users to download music for free by finding a legal loophole. They technically acted according to the law and did not have any economic benefit since they gave it away for free but they disregarded artists' copyright entitlements which seems amoral.

- **Purely ethical** actions are not leading to economic benefits and are not required by law. Examples are corporate philanthropic activities and only a few others. It is hard to find examples because many ethical actions also eventually lead to long term economic benefits. For example, a company that choses to retire its pollution credits even though the consequence is financial loss and there is no law pressuring it to do so.

- **Economic & ethical** actions must not be based on legal requirements (but almost always complies with the law) and must go beyond egoistic concerns as well as meeting at least one of the ethical standards describe above**.** Many actions fall into this category, e.g. being in the environmental sector or selling only green products like The Body Shop does.

- **Economic & legal** actions are hard to find since they are almost always ethical too. The exception are companies trying to find legal loopholes so they can make more profits while technically obeying the law but acting unethical. As an example think of companies operating in developing countries because there they have lower environmental, worker- or product safety standards (e.g. eco-dumping, social dumping).

- For an activity to be **legal & ethical** a corporation must only act upon legal and ethical requirements without economic benefits. Those are not found often because such actions almost always come with direct or indirect economic benefits. Nevertheless, installing an anti-pollution system which is mandated by law and of course can be seen as ethical is a good example for this category because of its lack of economic benefits.

- Finally, we are moving on to **economic, legal & ethical** activities, the category into which all corporate actions ideally should fall. This category matches with Carroll's idea of a moral management that means that a management always wants to be profitable while simultaneously meeting legal requirements and ethical standards. As an example Procter & Gamble can be named: they withdrew their Rely tampons from selling when there was raised awareness that it might cause toxic shock syndrome. Doing so might have been motivated by all three CSR domains.

We hope this outline gives you a better understanding of what the Three-Domain model is and how it categorises certain actions. If you want to read more about it click here. [32]

The **Three-Domain Model** does not only look at seperate categories but also **aknowledges the fact that they eventually overlap**. It consists of **seven categories** which result from letting the three main categories (domains) overlap.

Figure 10: Schwartz, M., Carroll, A. (2003). *Corporate Social Responsibility: A Three-Domain Approach*. Business Ethics Quarterly, 13 (4), p. 509

Outlook

***Business Perspective***

Based on Risk management, CSR can lower risks which cause unwanted attention from regulators, governments, courts and the media. That is because CSR-programs induce the public that companies are concerned with health, environment, safety and diversity. In other words, a frim cannot account for the full cost of doing business without looking at people and the planet and additionally, companies are less likely to be closely monitored. [27]

***Consumer View***

In order to make visible progress, a Eurobarometer survey "How Companies Influence Our Society" was published in 2013. This survey provided valuables views of European citizens about the share of CSR in companies. And additionally, the differentiation to citizens in key third-world countries. Thereby, companies have a Public Consultation on Corporate Social Responsibility.

Also, events like the "The EU's Multi-Stakeholder Forum on on Corporate Social Responsibility" were organized, in which European multinationals, public authorities and civil societies can take part and improve Companie's social responsibility worldwide.

The aim is a future orientated coming together of the costumer, companies and the planet. Of course, it lays in the comanie's hands to make the best of it but in the end, the costumer decides, if the company can be succesfull in a globalized economy. [26]

Definition of term

***CSR Europe***

CSR Europe was shaped by different organizations across the continent:

First, the European commission and the European Parliament released position papers of CSR, second, principles for multinational companies were formulated by the OECD and third, UNO developed non-committal behavior rules for companies.

Organizations which shaped CSR Europe:

- UN Global Compact
- Global Reporting Initiative (GRI) for sustainability reporting
- OECD Leading principles for multinational companies [23]

In order to raise awareness, build authority and support the development for CSR, national partners of CSR Europe work with stakeholders and companies across all over Europe. With around 27 national partner organizations in 23 European countries and around 70 multinational member companies, CSR organizations try to make these developments come true. [24]

***CSR International***

Global Strategies for sustainability and corporate responsibility are the key to the global economy. Institutions like the OECD (Economic Cooperation and Development) support this position and try to make the interaction between business and society in Europa as efficacious as possible.

Ban Ki-moon, UNO-secretary general, is convinced that the economy and UNO definitely need each other and he gave the following reasons:

While ESG (Environment, Social, Governance) is often used as a synonym for CSR, SDGs (Sustainable Development Goals) are the centerpieces of the UNO-sustainability strategy and contain environmental, social and economical aims. To combat hunger and poverty, bad working and health conditions but also fight for climate production, equality and sustainable consumption is the key. Therefore, the 17 global sustainability aims also have concrete impact on companies and the economy can have a crucial effect on achieving those aims.

Globalization implies the global networking of flows of goods, capital, and jobs. And it can be said that experiences and findings of CSR have led to economic globalization and increasingly global coherent answers and collaborations that try to handle worldly challenges like climate change, health, and poverty. [25]

Current projects

Many big companies are doing big projects in regards to using CSR for the better of the world. One of such famous examples that I would like to mention is **Patagonia**. As a leading pioneer in the field of environmentally friendly clothing, the company puts much emphasis on the development and improvement of traditional clothes. The supply chain is also created in a way to eliminate the carbon footprint as much as possible. The company mission in itself is well received by the consumers which are very loyal to the organization and their way of thinking.

Some other examples of such companies include **Combat Pest Control** in Australia, **Outfyt-** Singapore, and **East Balicashews -** Indonesia. What is important to understand is that every company in any given industry can make a big change by small implementations or changes in their workflow systems, because of that it is of crucial importance to read about the current pioneers in the field and help them expand the message. [18]

Critics

Just like in any aspect of new development or changes in the company there are pros and cons to everything even due to the fact that CSR can be very beneficial to consumers, employees, and the environment. To still make it well off for the company and for it to be implemented and sustainable for the long run we need to look at some of the points that the critics might give when they are approached about the question of whether or not they should implement the CSR in their organization.

The first such critic is the question about the money that it costs to implement and sustain such a development. For example, if the company named Toms gives out a shoe pair for each pair that they sell the obvious benefit is the well-doing for the people that cannot afford the shoes and benefit from this generosity. However, the company still needs to look at some of the important aspects like the cost of giving away the additional pair of shoes, how to find the right target group of people that would get the best usage of this free item and will not exploit the nature of giving. All of this needs to be closely monitored and controlled over a long period by people which is another cost to the firm. The company, therefore, needs to calculate all of the costs before they do this kind of offerings as they can lead to problems in the business plan which they originally operated under.

Another big problem that comes from the critic is the question of how to define CSR well-doing and how to remove greenwashing. This is frequently being done by labels on the food, for example how to define the bioproduct and where is the line between the bioproduct and normal product. A similar problem also occurred in the label named MSC which should cover the sustainable fishing practice, however, the big problem is that the company itself is non-profit but gets a lot of its funds from fishing companies that need these labels. The company also does a very poor job in deciding whether or not the fishing boat on the sea does what it says it does. Over the years many of the documentaries and records were collected in a manner that completely opposed the very foundation towards the **MSC** logo should stand. The consumer therefore might think that they are doing good for the environment by buying the product with this label but if the government does not step in and heavily fine the wrongdoers that even the individuals that want to do good for the environment are cut from that possibility. [19], [20], [21]

---

**REFERENCES**

[1] UNIDO (2021). What is CSR?.
[2] Keith Davis. (1973). The Case for and against Business Assumption of Social Responsibilities. *Academy of Management journal*, *16*, 322. https://doi.org/10.2307/255331
[3] Nicoleta Farcane & Eusebiu Bureana. (2015). HISTORY OF „CORPORATE SOCIAL RESPONSIBILITY" CONCEPT. *Annales Universitatis Apulensis : Series Oeconomica*, *17*
[4] Martinuzzi, A., Krumay, B., & Pisano, U. (2011). *Focus CSR: The New Communication of the EU Commission on CSR and National CSR Strategies and Action Plans* (Nr. 23; Quarterly Reports, S. 104). European Sustainable Development Network (ESDN).
[5] Peng, M. W., & Meyer, K. (2011). *International business*. Cengage Learning EMEA. https://ubdata.univie.ac.at/AC08536264
[6] Palley, T. I. (2002). The child labor problem and the need for international laborstandards. *Journal of economic issues*, *XXXVI*, 616.
[7] United Nations (2014). *Human Rights*. Available at: https://unglobalcompact.org/what-is-gc/our-work/social/human-rights (27.04.2021)
[8] Human Rights Watch (2021). *About Us*. Available at: https://www.hrw.org/about/about-us (27.04.2021)
[9] United Nations (2000). *The Ten Principles of the UN Global Compact.* Available at: https://www.unglobalcompact.org/what-is-gc/mission/principles (27.04.2021)
[10] ISO (2019). *ISO 26000 and OECD Guidelines.* Available at: https://www.iso.org/publication/PUB100418.html (26.04.2021)
[11] Premaratne, Yashodha Sammani (2018). *Managing the Triple Bottom Line; Path to a Sustainable Future.* Available at: https://medium.com/@sammani.premaratne/managing-the-triple-bottom-line-path-to-a-sustainable-future-3308e577b959 (27.04.2021)
[12] Kenton, Will (2021). *Social License to Operate (SLO).* Available at: https://www.investopedia.com/terms/s/social-license-slo.asp (26.04.2021)
[13] UN (2021). *Social Sustainability.* Available at: https://www.unglobalcompact.org/what-is-gc/our-work/social (23.04.2021)
[14] Paul Shrivastava. (1995). The Role of Corporations in Achieving Ecological Sustainability. *The Academy of Management review*, *20*, 960. https://doi.org/10.2307/258961
[15] Transparency International (2021). *What is Corruption?.* Available at: https://www.transparency.org/en/what-is-corruption# (29.04.2021)

[16] Ismail, M. (2009). Corporate Social Responsibility and Its Role in Community Development: An International Perspective. *The journal of international social research, 2*, 209.
[17] Chen, James (2020). *BP Oil Spill.* Available at: https://www.investopedia.com/terms/b/bp-oil-spill.asp (30.04.2021)
[18] The Ultimate Guide to Corporate Social Responsibility (CSR). (2021). Retrieved 3 May 2021, from https://www.b1g1.com/csr-guide?gclid=Cj0KCQjwvr6EBhDOARIsAPpqUPE-IW1pGMdv65zOJsRfAHzQb6qof8eVnP4IVFbYYC2cY-BKBL2g07waAiZqEALw_wcB#Part-4
[19] Is MSC Certified Fish Really Sustainable? – ETHICAL UNICORN. (2021). Retrieved 3 May 2021, from https://ethicalunicorn.com/2019/02/22/is-msc-certified-fish-really-sustainable/
[20] Pros & Cons of Corporate Social Responsibility. (2021). Retrieved 3 May 2021, from https://smallbusiness.chron.com/pros-cons-corporate-social-responsibility-56247.html
[21] 16 Brands Doing Corporate Social Responsibility Successfully | DMI. (2021). Retrieved 29 April 2021, from https://digitalmarketinginstitute.com/blog/corporate-16-brands-doing-corporate-social-responsibility-successfully
[23] Sozialministerium Österreich (2020). CSR/Business & Human Rights. Available at: https://www.sozialministerium.at/Themen/Soziales/Soziale-Themen/CSR-Business---Human-Rights.html (20.4.2021)
[24] CSR Europe (2010). A Guide to CSR in Europe. Country insights by CSR Europe's National Partner Organisations.
[25] Bundesministerium Deutschland. CSR auf globaler Ebene. Available at: https://www.csr-in-deutschland.de/DE/Politik/CSR-international/CSR-in-der-Welt/csr-in-der-welt-artikel.html (20.4.2021)
[26] European Comission (2019). Corporate Social Responsibility, Responsible Business Conduct, and Business & Human Rights. Overview of Progress, 57.
[27] Eisingerich, A., & Bhardwaj, G. (2011). Does Social Responsibility help protect a company's reputation. Available at: https://sloanreview.mit.edu/article/does-social-responsibility-help-protect-a-companys-reputation/ (6.5.2021)
[28] The Economist (2009). Triple Bottom Line. Available at: https://www.economist.com/news/2009/11/17/triple-bottom-line (6.5.2021)
[29] Kenton, W. (2021). What is the Triple Bottom Line. Available at: https://www.investopedia.com/terms/t/triple-bottom-line.asp (7.5.2021)
[30] Carroll, A. (1991). *The Pyramid of corporate social responsibility: toward the moral management of organizational stakeholders*. Business Horizons, 34(4), p. 39-48. https://doi.org/10.1016/0007-6813(91)90005-G
[31] Filgueiras, J., De Oliveira, M., Neto, F., Da Silva Filho, J. (2012). *Analysis of CSR in Midsize Retail: Application of the Quazi Aand O'brien Model*. JOSCM. Journal of Operations and Supply Chain Management, 5(2), p. 54-68. https://doi.org/10.12660/joscmv5n2p54-68
[32] Schwartz, M., Carroll, A. (2003). *Corporate Social Responsibility: A Three-Domain Approach*. Business Ethics Quarterly, 13 (4), p. 503-530. https://doi.org/10.5840/beq200313435
[33] TAN, Gilbert Yip Wei and KOMARAN, Rajah Vellan. Perceptions of Corporate Social Responsibility: An Empirical Study in Singapore; Strategic Management Policy. (2006). International Conference on Advances in Management, Lisbon, 19-22 July 2006. 1-14. Research Collection Lee Kong Chian School Of Business. Available at: https://ink.library.smu.edu.sg/lkcsb_research/2846

[34] Jacob, C. K. (2012). The Impact of Financial Crisis on Corporate Social Responsibility and Its Implications for Reputation Risk Management. *Journal of Management and Sustainability*, *2*. https://doi.org/10.5539/jms.v2n2p259
[35] Bosch Badia, M. T., Montllor Serrats, J., & Tarrazón Rodón, Ma. A. (2017). Efficiency and sustainability of CSR projects. *Sustainability (Basel, Switzerland)*, *9*. https://doi.org/10.3390/su9101714

# UNIT VI. EXPORTING IN THE EU: MICRO AND MACRO PERSPECTIVE

*Definition of Exporting*

Exporting is a strategy of producing not only products but also services in one country and selling or distributing them to customers who are located in other countries [1].

Another definition of exporting states that it is used by businesses which need to sell their products not only in the country where they are produced, hence, there is a need for shipment or export of the produced goods as a tool of market expansion [43].

A great number of companies benefit from exporting as a market strategy due to the fact that it requires lower risk, fewer expenses and knowledge of foreign markets and transitions [1].

Exporting as a foreign market entry strategy is in charge of the extensive inflows and outflows that serve as a constituent part of global trade [1]. This strategy is rather advantageous for so-called “beginners” or new companies entering foreign markets. Indeed, export is considered to be less risky and less expensive and is more suitable for small companies due to the reduced level of risk and investment. In addition, companies can participate in export without difficulties [44]. True, exporting strategy is rather common among firms and enterprises that are engaged in a great number of international operations. Exporting strategy is considered to be rather flexible. In addition, the exporter can be given an option to not only freely enter but also withdraw from markets with a minimum of risks and expenses [1].

*Types of International Strategies - With emphasis on Export strategy*

**Export strategy**

Export strategy functions in situations where the pressure of global integration and local responsiveness are reduced. However, this approach has a disadvantage. Export strategy restricts a country's centralized home position on the business, including the risks of local competitors in leading positions [6]. An excellent example of this strategy is the European winery Aranaleón which could easily enter the Canadian market after the CETA trade deal since it is more sought after there (especially in Quebec) than in Spain. "95% of Aranleón’s wine is produced for exportation and a quarter of this total is sold in Canada". [54] For this reason, it is vital to know the local taste before entering into unknown markets due to other aggressive competitors in the local country [54]

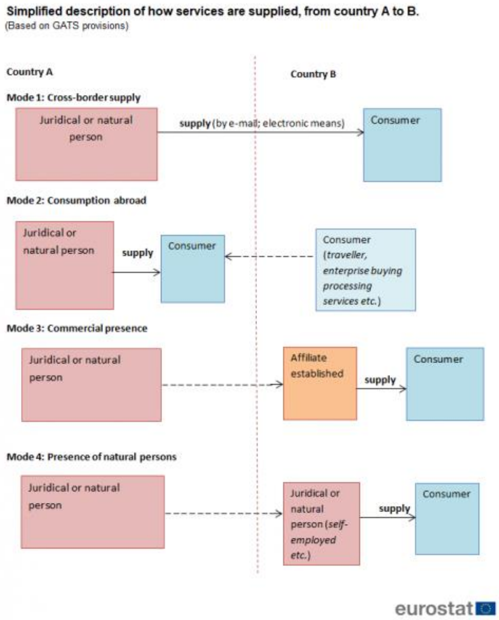
*Alternative Organisational Arrangements for Exporting*

| | |
|---|---|
| **Direct export** | it means that the product is exported directly to the customer who is interested in the purchase. Importantly, the direct exporter takes responsibility for “managing the market research,foreign distribution, logistics and shipment, and invoicing” [48]. |
| **Indirect export** | this kind of export is achieved through contracting with intermediaries which are located in the company’s home market. This kind of exporting is beneficial for small and new businesses. It requires less risk and complexity, and, in addition, costs are lower in comparison to direct export [1]. |
| **Company-owned foreign subsidiary** | is a foreign subsidiary which is a firm/ company that manages abroad and is also a part of a bigger corporation. Usually, a corporation’s headquarters are not located in the same country with subsidiaries. In addition, such a subsidiary is also known as a parent or a holding company [7]. |

*Difference between export of goods and services*

Here we first provide the definitions for goods and services and explain the differences between the two. "Goods are physical, tangible things we produce. We can touch or handle them. People buy or sell and eventually consume them. We can store and transport goods"[9]. Goods can be, e.g., TVs, smartphones, furniture, etc. On the other hand, services are non-physical, immaterial components of the world's economy. They also make part of the international trade and also help to boost the economy in many ways. There are numerous services in the global market, such as finance, insurance, transport, logistics, medical health care, and so forth. [8][9]

In the EU, services contribute to a large share of the economic wealth and are estimated for more than 50% of GDP in each EU Member States. However, the trade of goods is generally two to three times higher than that of services. Services are traded less than goods because of the "immediacy of the relationship between supplier and consumer"[8]. In this sense, there are, for example, non-transportable services. Therefore, either the consumer goes to the service provider or vice versa. An example of non-transportable services in the EU would be when non-Europeans studying at European universities. [10]




source: [10]

*Advantages and disadvantages of Exporting*

Advantages

***Increased competitiveness:*** Exporting could expose companies to new ideas, new management practices, and marketing techniques. Companies can also gain new insights into competing with each other, which can help them improve their position and increase competitiveness within the domestic and overseas markets.

***Market expansion:*** If an multinational significantly expands its operations, it lessens its dependence on a single market, especially on the domestic market, which makes it less vulnerable to market fluctuations. Focusing on export was a key strategy, for example, of South Korea's, Japan's, and China's economic development. The domestic market was neither solid nor profitable enough. Therefore, exporting had a considerable impact on their economic development.

***Better scale and margins:*** Generally speaking, larger markets are more likely to place larger orders than a local buyer. Some rare products, such as certain specialty foods, may also command a higher price in an overseas market than at the domestic one. In addition, the consumer is often willing to pay a higher price for a premium/specialty product at foreign markets. Indeed, all these factors can positively affect a firm's profit margins; therefore, more export can lead to larger economies of scale and better margins.

***Increased sales:*** One way to increase sales is through exporting. Smaller countries have the chance to ship their products beyond the scope of a limited and increasingly saturated domestic market. For instance, a producer in Austria has access to a market of just over 8 million people. However, exporting to Germany, for example, expands that producer’s potential market to close to 83 million people. Therefore, with the help of an expanded market, exporting increases sales and recognitions in other countries.

***Lower costs:*** By expanding internationally beyond the domestic market, sales will increase and, therefore, production levels will also increase. As production levels rise, the cost per unit are typically reduced depending, however, on the manufacturing process.

***Reduced vulnerability:*** When exporting, a company is no longer solely dependent on sales within the domestic market. Therefore, if economic conditions become unfavorable domestically, the impact on operations might not be as huge. However, the situation differs if the company was able to expand its business to foreign markets. In addition, it is also advisable not to become too dependent on a single export market.

***Following customers:*** International migration from Europe is also favorable for export. This can lead to creating a sizeable European diaspora abroad characterized by European "taste" and a desire for authentically European products. Companies can take advantage of this situation by targeting the diaspora market to drive export sales.

Disadvantages

***Competition*:** In order to be competitive, there is a need to understand other companies' competitive advantages to stay ahead of the competition. However, to get a leading position in the market, a company must carry out intensive and resourceful research on foreign markets

***Extra costs:*** Developing an export market takes time. It can also be costly to develop new materials such as new packaging. But also assigning new personnel to travel and undertake other administrative and operational tasks is expensive. These factors can place severe strain on the financial resources of firms, especially smaller firms. Administrative costs of export regulations when trading outside the European Union can also rise significantly.

***Modification of products:*** In order to meet the safety, security, and other requirements of foreign export markets, products may have to be modified. Some firms may not have the technical know-how. These modifications might, for example, involve hiring expensive experts. Having to modify products for the export market can also stretch the firm's human and other operational resources. New markets might require different strategies, as different customers have their reasons for buying products. Research and Development to suit a new market; therefore, exporting can be resource-demanding.

***Financial risks and Payment:*** Economic or government restrictions in the export market could harm business. Additionally, exchange rate fluctuations could also prove to be problematic. Although apart from the risk of non-payment, the complicated processes involved in the collection of payments using the various methods (consignment, letter of credit etc) can be time-consuming. Therefore, firms with limited cash flow need to fully understand the financial pitfalls associated with exporting.

***Transportation risks:*** During the process of exporting products, there is the risk of damage, loss, or theft.

***Commitment and relationships:*** Without a high level of commitment, it is doubtful that the export venture would succeed in the long term. Maintaining a sustained presence in the export market requires time, willingness, and substantial resources. In addition, it can also take months or even years before exporting bears fruit, and also managing remote relationships as well as cultural barriers while trading can be challenging.

***Cultural differences:*** Language and business practices and other customs in foreign markets may be different from one's domestic market. To achieve greater success in the exporting market, there is a need to become familiar with the cultural situation in new export markets and adjust the approach to suit if required.

***Market information:*** Finding information on some markets can be extremely difficult. Lack of knowledge of the local country could mean that a company does not have sufficient information on its competitors and the trends related to specific products and similar products. This can negatively affect a companies ability to do well in the new target market.

Sources: [4] [5]

*What do companies need to consider before exporting?*
What does a company need to know or what does it have to consider before exporting goods and/or services? The most basic things to consider before entering a new market are

- Is exporting part of my business strategy? Am I doing this just as last resort?
- Can I produce enough goods to fulfill the local demand as well as the demand abroad?
- Do I have to adapt my product/my marketing strategy to the foreign market's culture?

But let's go deeper into this topic with a 10-point-checklist of things a company, no matter its size, has to consider:

1. Expectations
2. Human Resources
3. Financial and Legal Resources
4. Competitiveness
5. Marketing
6. Product
7. Transportation
8. Representation
9. Suppliers
10. Capacity

Sources: [20] [21] [22]

*Preparation in advance for exporting*

In order to access a market abroad, a significant number of companies follow a systematic approach to exporting. This approach includes four stages or steps.

First step: Access global market opportunity

In order to access the global market, managers of firms regard all the opportunities available on the global market. They also have responsibility for analyzing the firm's status concerning preparedness for the firm to enter the global market and perform exporting. Indeed, the manager's research and look for the most suitable export markets; determine which intermediaries or foreign business partners are ideal for the company; and try to value the potential of the industry market and the company [1].

Second step: Organize for exporting

At this stage, managers have to decide on the amount of financial and managerial resources used to organize the exporting. Another essential factor that managers have to consider is intermediaries; to be more exact, the company needs to define which intermediaries, foreign or domestic, will be responsible for exporting. At this stage, the managers need to decide what kind of export will be used: direct or indirect [49].

Third step: Acquire needed skills and competences

Several operations in the field of exporting need a particular set of skills and competencies in the following areas:

Product development and distribution, logistics and contract law, finance, and currency management. In addition, communicative skills are also of great importance. It is crucial to consider cultural differences, and there are certain firms called facilitators that can provide assistance and cooperation if a company trying to enter global export requires help in certain communicational cases. Facilitators are represented by banks, freight forwarders, and international trade consultants [1]. In other words, the firm needs to improve and acquire a certain set of skills and techniques and invest in staff training or engage in exporting with extra help from facilitators [49].

Fourth step: implement exporting strategy

During the final phase, the firm starts the process of exporting according to the chosen exporting strategy. This stage requires a product to adapt to the market and its conditions (product adaptation). It also implies that a product has to be made suitable for the customers' needs and tastes. For example, when Apple provides software for South Korea, it should be in the Korean language [1].

**Documentation** is a significant part of exporting.

**Documentation** includes official forms and other documents needed for export procedures such as shipping and customs operations [1].

The first document is required by every exporter: a **quotation or pro forma invoice** but only upon the customer's (buyer's) request. A customer may require this document for arranging financing or applying for an export license [50].

Another document is called a **commercial invoice** and includes information on the exporting items [50]. It will include information such as product classification and country of origin. in addition, the exporter has to include the proper value of the exporting items and the destination of the exporting goods [51].

Exporting usually implies the transportation of goods. The exported goods can be distributed by ocean or air means of transportation. In this regard, every exporter needs the bill of lading, a contract between exporting and shipping companies. The bill of lading gives a shipping company permission to transport the goods [1]. In addition, this document can also be used as a receipt by the shipping company (carrier) after the shipment starts [52]. This procedure also needs another document called the certificate of origin or a birth certificate of the transported products. This certificate contains information about the product, and that is the country of origin [1].

Furthermore, exporters are also obliged to provide detailed descriptions of the exported products in the shipper's export declaration. This information is used by government authorities to control the shipment and exports and collect information on the entering and leaving goods for statistics [1]. Moreover, insurance certificate: Exporters need to purchase this document to assure that the exported goods are securely shipped. It can be seen as insurance for the goods against any damage, loss, theft, or shipping delay [1].

Criteria for evaluating export intermediaries

Exporters need to find suitable intermediaries in the target country. One way of finding an appropriate intermediary is the attendance of trade fairs. These fairs are beneficial for exporters and also provide an overview of the local industry and target market. To make exporting successful, any company entering the global export market needs to find a distributor who is independent and foreign-based. In order to find a beneficial intermediary, an exporter has to take into considerations many factors evaluating the chosen intermediary [1]:

Organizational strength includes the evaluation of financial abilities for sales and market growth. It also requires an intermediary to be able to provide financing to customers. An exporter needs to consider criteria such as quality of team management and reputation of working with customers. It is advantageous for any exporter if the regarded intermediary has connections with influential people in various spheres in the market. [1].

Product-related factors. In this case, an exporter provides detailed information about the exported products. This criterion includes the evaluation of products and their quality while being handled by the intermediary. In addition, an exporter has to research the intermediary's ability to provide the exporter's intellectual property security and handle products of competing lines. [1].

Marketing capabilities help to evaluate the intermediary and its experience with other lines' products and expertise with customers. In addition, of course, exporters need to consider the scale of geographic coverage provided by intermediaries in the target market. In addition, it is also significant to evaluate the quality and quantity of the sales force and the ability of the chosen intermediary to formulate and implement marketing plans [1].

Organizational commitment shows an intermediary's commitment towards the exporter's sales targets. It also provides information about the number of single suppliers in the intermediary's business. This category helps an exporter to evaluate the intermediary's willingness to maintain inventory on a sufficient level in order to serve the market fully [1].

*INCOTERMS*

Shipping products includes export fees or transactions from the exporter's factory until the end consumer. Before the product reaches the customer, it departs from an airport or a seaport crossing many borders and sometimes oceans until landing in a foreign port. Some of the shipments are also transported overland by rail or truck.

There were previously many debates on whether the foreign buyer or the exporter should pay the bill and insurance in international transactions. To clarify these sorts of issues, the International Chamber of Commerce (ICC) elaborated on a system of universal, standard terms of sale and delivery called Incoterms (that stands for "International Commerce Terms"). These terms are generally used in international sales contracts and price lists to indicate how the purchaser and the vendor share cargo and insurance expenses. So, all in all, the buyer takes title to the products. [1]

There are different types of Incoterms. Nevertheless this section is going to focus on the following three Incoterms:

**EXW (Ex works (place))**

- Definition: The delivery of the products happens at the vendor's premises or another named place. For example stockroom, factory.
- Key points: EXW shows to have minimal obligation for the exporter because the buyer carries all fees and risks involved in claiming the goods from the vendor's premises.
- Shipping arrangement: The buyer organizes the whole shipping. [1]


Source: [36]

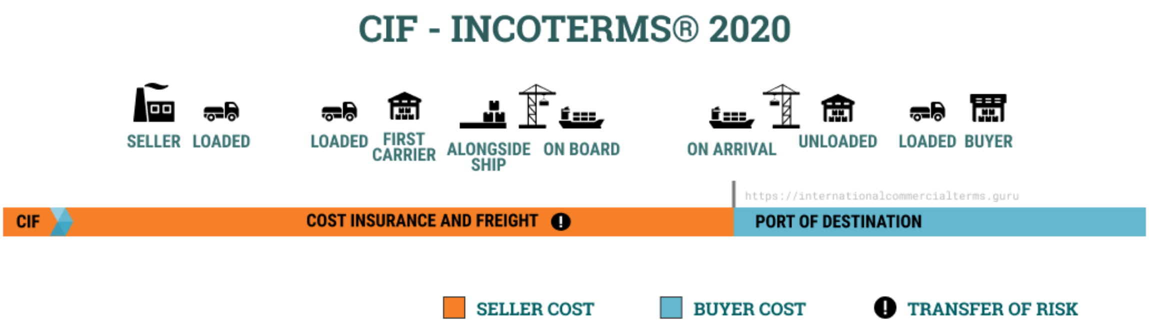
**FOB (Free on board (named port of shipment)**

- Definition: The delivery takes place when the merchandise gets loaded on a cargo ship for export, e.i., the port of origin in the country where the product was produced.
- Key points: The buyer is in charge of the costs and risks of shipping from the point of delivery.
- Shipping arrangement: The buyer organizes the shipping from the port of shipment. [1]


Source: [37]

**CIF (Cost, insurance and freight (named port of destination)**

- Definition: The delivery takes place when the goods pass the ship's rail in the port of destination
- Key points: The seller is in charge of the delivery and freight insurance. Once the goods arrive at the port of destination the buyer takes responsibility for customs clearance and other costs and risks.
- Shipping arrangement: Seller arranges shipping and insurance. [1]



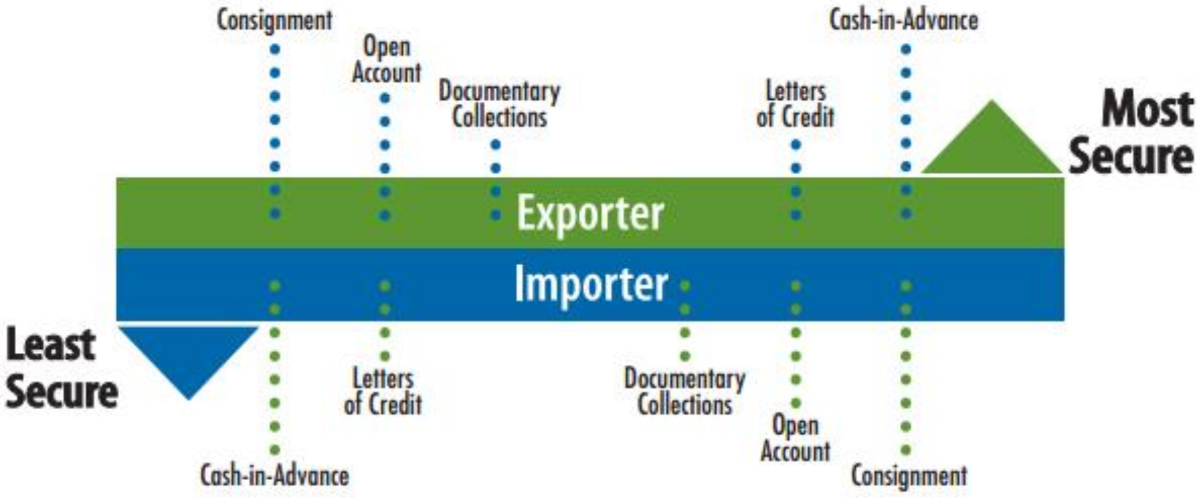

Source:[38]

The eleven Incoterms can be seen in the following video: [41]

*Methods of payment*

There are essentially six types of payment in export and import trading, all with their risks and benefits. Paying for goods and services in international businesses might be complicated since different countries have different currencies and laws of monetary transactions.

*Figure 1: Payment Risk Diagram*




As can be seen in the graph, there is no payment method that does not constitute a risk either for the exporter or the importer.[11] [12] [13]

**Cash-in-Advance**

Receiving cash in advance is the safest method of payment for the exporting company. The payment is collected before the goods are sent to the importer (or customer) and the exporter, therefore, doesn't take the risk of not being paid after the good is delivered.

As it is the safest method of payment for the exporter, it is the least secure for the importer. Customers usually avoid this method out of fear of not receiving the goods they paid for, especially when large and important shipments are involved.

**Letter of Credit**

Letters of credit are the most used method of payment since it's the one that represents the least risks for botch importers and exporters.

Put into words, letters of credit are agreements between the banks of the buyer and the seller. They help to build instant trust and are always work because all banks around the world are already virtually in contact.

The downside of this method is that the two parties must follow a strict protocol and it can be very time-consuming as well as bureaucratic.

**Documentary Collections**

In Documentary Collections, the Exporter contacts its bank to release the documents of payment to the importer. This method involves using a draft that specifies the amount that has to be paid and when the importer has to pay, either at sight (document against payment) or on a specific date (document against acceptance).

Although this method costs far less than letters of credit, it is less secure for the exporter since the bank does not offer any verification process.

**Open Account**

With an open account, the importer pays the exporter at some time after the receipt of the goods. Exporters tend to use this method of payment just with long-standing and trusted customers since it is rather risky for them. Although there is the possibility that the importer fails to pay for the goods, exporters are often faced with concurrence pressure. They could lose a sale to a competing company if they don't accept the term of payment.

A variation of this method is the Consignment. Here the exporter is paid only after the goods have been sold to the customer through foreign distributor. Even if it helps the Exporter to become more competitive on the international base, the method is risky as well because the Exporter has to ship the goods to a foreign distributor first and does not have the guarantee that goods will actually be sold. [11] [14]

Countertrade

Countertrade is the term used to describe the payment of a good or service not (just) with cash but through other goods and services. It is a method of payment used when the "traditional" cash flow can not be granted by the foreign buyer and importer due to several reasons as the lack of physical cash in developing countries. It is a method often used when dealing directly with the governments of said countries. Typically, they offer commodities like minerals and manufactured goods as repay methods. For instance, in the late 80s and 90s, Pepsi-Cola International agreed with the then soviet Russian government to double its soft-drink sale there, as well as opening new bottling plants and launch Pizza Hut in the country, and in return, they would receive vodka to resell in the United States and Soviet-built ships to sell or lease. Although the Vodka sales amounted to more than $3 billion and the ship sales were probably worth at least $300 million, the agreement got declined with the crumbling of the Soviet Union itself.

There are essentially five types of countertrade:

**Offset**

The offset is the most used type of countertrade. In such an agreement, the Exporter assists in the marketing of products manufactured in the importing country or allows part of the assembly of the exported goods to be carried out in the importing country.

Offset agreements are often stipulated in the military as well as in the civilian aircraft industry. Countries usually have different policies and regulations for this type of countertrade.

**Counter purchase**

In the second most used type, the Exporter sells goods to the Importer, agreeing in an arrangement to purchase goods from the Importer within a specified time frame. In this case, the goods will be resold and not be used by the companies themselves.

Example: Pepsi Cola sold concentrates in the USSR and got paid in Rubles, which according to the agreement with Russia, these Rubles were spent for purchase of Russian products like Vodka and soviet boats to resell or lease.

**Buyback**

The exporter agrees to supply technology, equipment, or know-how to build a facility and receive payment for the goods the facility produces.

Example: The National Textiles Corporation of India signed a 200 million Indian Rupee buyback agreement with the Soviet Union to buy 200 looms. The buyback ratio was 75% textile produce from these looms, and the rest was in cash.

**Barter**

The barter is the oldest type of countertrade. Here the goods and services are directly exchanged without any payment in cash whatsoever.

Example: Minerals and Metals Trading Corporation of India (MMTC) imported 50,000 tons of rails in a value of about $38 million from a Yugoslavian company and received iron ore concentrates and pellets of the same value as payment.

**Compensation deals**

**The payment of goods in this case is both in cash and goods.**

Example: General Motors Corporation, sold $ 12 million worth of locomotive and diesel engines to Yugoslavia and took cash and $4 million as well in Yugoslavian manufactured cutting tools as payment. [15] [16] [17] [18] [19]

Pros and Cons of Countertrade

| Pros | Cons |
|---|---|
| Helps less developed countries enter the international trading sphere | Actual value of the traded goods may be uncertain and volatile, particularly if the exchanged goods are minerals or oil |
| One of the best strategies to enter new and challenging markets | Policy differences between countries might be a barrier for the trade of goods and services, especially in Offset strategies. |
| Helps sales of surplus and outdated goods | Uncertain in long-term, like in the case of Pepsi Cola – Soviet Union |

[19]

With the support of the
Erasmus+ Programme
of the European Union

*The World's Trade (Export and Import)*

World's biggest players in trade

The EU, China, and the USA are considered the three biggest global players in international trade (see Figure 1). They have been in this constellation since 2004 since China has passed Japan. The total exports and imports in 2019 for the EU were 4 071 billion Euro, excluding Intra-EU trade. However, the Intra-EU trade registered a total of 23 billion Euro, however still lower than the result of China and the massive 208 billion Euro recorded for the USA. With a total of 1 274 billion euros, Japan had the fourth highest trade in goods internationally.[31]

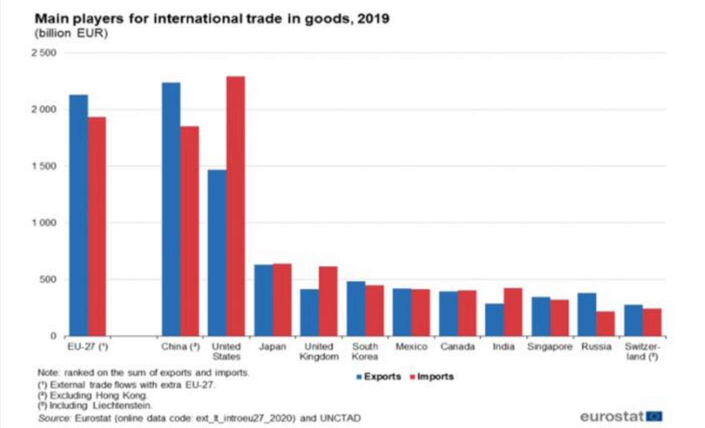



Figure 1: Main players for international trade in goods, 2019

(billion EUR)

*Source:* Eurostat (ext_lt_introeu27_2020) and UNCTAD

In 2019 the EU had the second largest share of global exports and imports of goods (see Figures 4 and 5). The EU’s export of goods was 15.4 % of the world. Only China, with 16.2 % had a higher share. The United States followed at some distance with 10.6 %. [31]

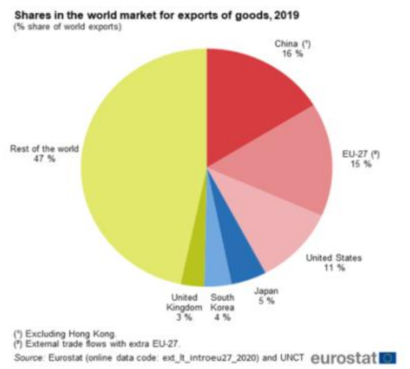



Figure 4: Shares in the world market for exports of goods, 2019

(% share of world exports)

*Source:* Eurostat (ext_lt_introeu27_2020) and UNCTAD

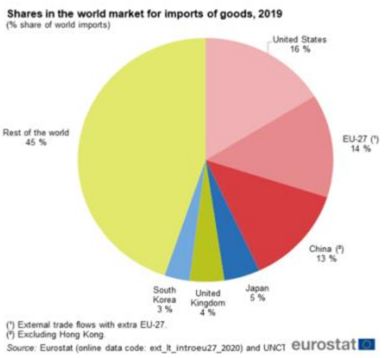



Figure 5: Shares in the world market for imports of goods, 2019

(% share of world imports)

*Source:* Eurostat (ext_lt_introeu27_2020) and UNCTAD

COVID Pandemic and World Trade

In addition to generating new jobs, the process of globalization has also increased the spread of the Coronavirus which led to a detrimental decrease in world trade. Covid-19 has reduced trade by about 27%, even worse than the financial crisis of 2007-2008. [34]

At the sectoral level, the virus had a higher impact on some sectors than others. Textiles and apparel had a decrease of 12%, while office machinery and automotive sectors decreased by about 8%. On the other hand, the agri-food sector increased surprisingly by about 2%. [34]

In April 2020 the automotive sector and energy products declined about -40% and -50% in values. A decrease in the trade of chemicals, machinery, and precision instruments can also be observed by about 10%. [34]

2021 might show another picture of trade volume. World merchandise is expected to increase by 8% after falling 5.3%. Trade growth will probably ease back to 4% in 2022 which means less than the global trade volume previous to the pandemic. Also, the GDP is expected to increase by 5.1% in 2021 and 3.8% in 2022, after shrinking by 3.8% in 2020. Services had a higher impact due to the pandemic; commercial services exports fell by 20% in comparison to goods trade by 7%. [34]

The biggest trade players like China, the US, and Germany experienced a fall during February 2020. However, China recovered quickly. The US and Germany on the other hand didn't recover as fast. [35]

Source: [35]

**Click here to take a look at the monthly exports of last year.**

You will have the opportunity to enter the country and product of your wish.

*The EU trade policy*

The EU trade policy also referred to as The Common Commercial Policy of the EU (CCP), is a tool used by the European Union to respond to the challenges presented by globalization and to communicate with one voice on trade policy issues. The latter means that, rather than individual national governments of member countries, the EU institutions take responsibility for trade in goods and services, commercial aspects of intellectual property, e.g., patents, public procurement, and foreign direct investment [27]. All this allows better bilateral negotiations and cooperation with other multinational bodies such as the World Trade Organisation (WTO), "the cornerstone of the global multilateral trading system and the ultimate rule setter for international commerce. Without it, businesses cannot rely on fair, predictable, and equal trading conditions."[26]

**If you want to know more about bi- and multilateral trade agreements of the EU, click here**

The main goal of the EU trade policy is to eliminate trade barriers to make trade agreements feaseable between European companies and non-European partners to have a better exchange of products and services while also considering fair trade conditions. In this manner, trade policy is used to support human rights, social and safety standards, respect for the environment, and sustainable development. [27]

The following chart shows various countries that have more trade barriers than other countries. The more red they become, the more barriers the country will have.

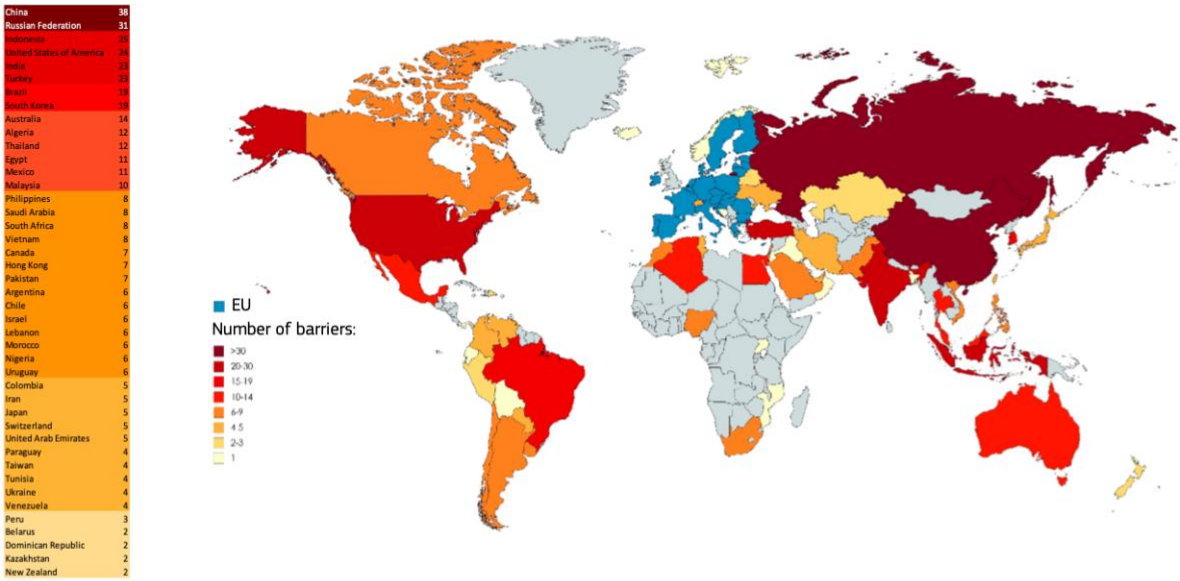



***Figure1[6]: Geographical breakdown of trade and investment barriers in the MADB***

*Trade and Investment Barriers (2017)*. [28]

The EU benefits from trade agreement as it affects labor growth. Nowadays, approximately 36 million jobs in the EU depend on trade with other partners, and other 16 million jobs depend on foreign investment into the EU. Particular attention is paid to small and medium-sized enterprises (SMEs) as it is more complicated for them to overcome trade barriers than larger enterprises. For this reason, the EU trade is in charge of managing labeling requirements, customs procedures, and recognition of professional qualifications [28].

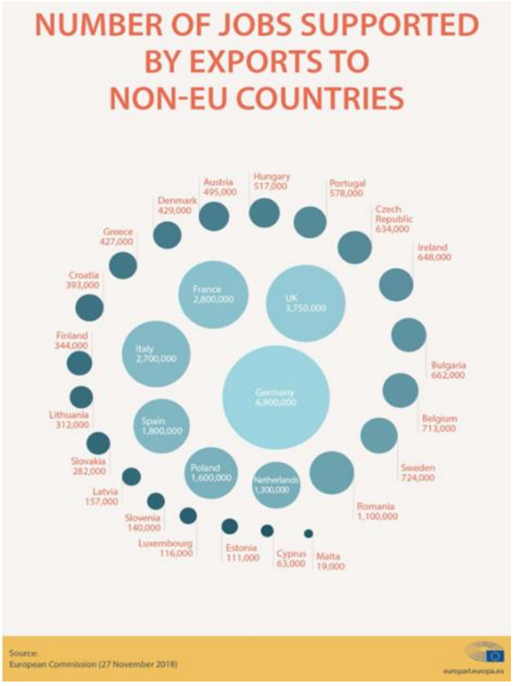
**History of the EU trade policy**

With the support of the Erasmus+ Programme of the European Union

It all began with the establishment of the European Economic Community (EEC) when the six original Member States signed the Treaty of Rome in 1957. The EEC created a common market and customs union that tried to eliminate most trade barriers to promote the flow of goods, capital, services, and labor. Due to the rapid expansion of globalization, the European common market had to be in tune with the market of third countries. Therefore, after 1969, Member States had to adjust their trade relations with non-Community countries. The latter led the EEC to arrange the common commercial policy to have effective international trade agreements. [30].

Later on, with the creation of the European Union in 1993, the EEC joined it and was renamed as "European Community (EC)." With the Treaty of Lisbon in 2009, the EC was dissolved and consequently incorporated into the EU's framework. [31].

**How the EU negotiates trade deals?**




There are many players in the EU involved like the European Parliament, the Council of the EU, the European Commission, civil society and businesses. All together proceed to discuss and make agreements on trades with third parties. The following video presents the process of trade dealing [40]

**Trade Defence Instruments**

The EU considers unfair trade practices as impermissible. The biggest players of the EU promote sustainable development along with fairness in trade. To maintain a balance between foreign and domestic producers the EU uses trade defense instruments (TDIs) to fight against unfairness in trade.  [32]

Source: [29]

Some of the instruments are e.g. :

Anti-dumping: when a non-EU company sells goods in Europe below the sales price of the domestic market or below the cost of production.

Anti-subsidy : when a non-EU government gives financial support to European companies to produce or export goods.

Safeguards: The EU restricts for a temporary time imports that increase excessively to protect the domestic market that produces a similar or competitive product.[33]

Intra- and Extra-EU trade

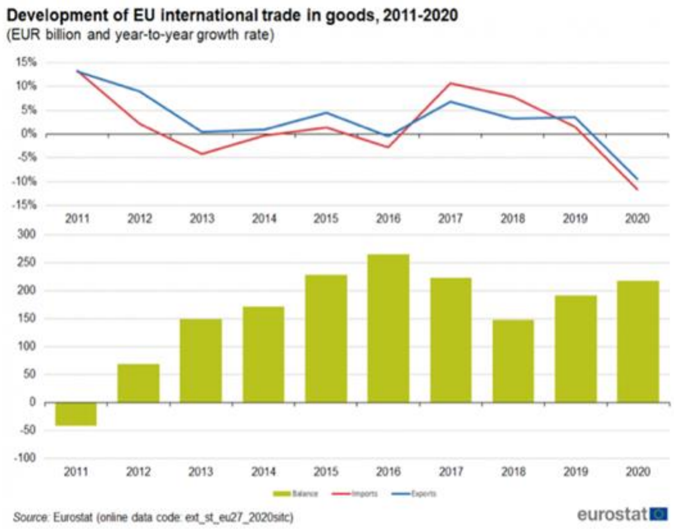



Figure 6: Development of international trade in goods, EU, 2011–2020 (billion EUR and year to year growth rate)

*Source:* Eurostat (ext_st_eu27_2020sitc)

In 2020 Germany had by far the highest share of extra EU trade in 2020, contributing 30 % of the EU’s exports of goods to non-member countries and accounting for more than one fifth, 22 %, of the EU’s imports (see Figure 8). The other three largest exporters, Italy, with a total share of 11 %, the Netherlands and France with each 10 % were the only other EU Member States accounted for a double-digit share of EU exports. The Netherlands, with 18 %, France with 10 % and Italy with 9 % followed Germany as the largest importers of goods from non-member countries in 2019. The 18 %, a relatively high share by the Netherlands can be explained by the amount of goods that flow into the EU through Rotterdam, which is the EU’s leading sea port. (see Figure 8) [23]

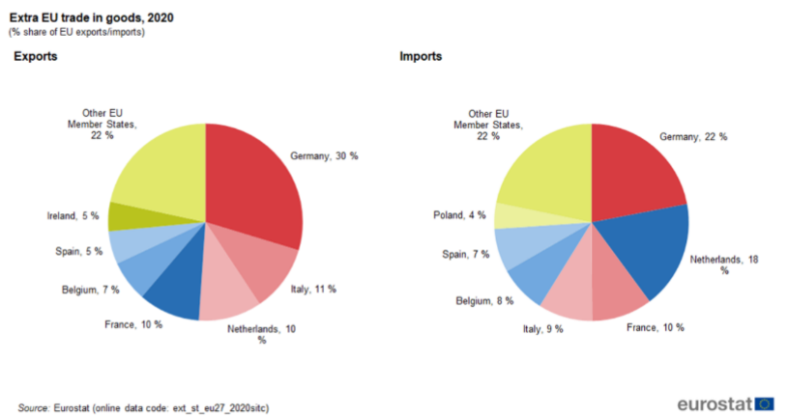



Figure 8: Extra EU trade in goods, 2020

(% share of EU exports/imports)

*Source:* Eurostat (ext_st_eu27_2020sitc)

The largest extra EU trade surplus in goods, valued at EUR 195.0 billion in 2020, was recorded by Germany. Followed with a distance by Italy with 57.2 billion Euro, Ireland with 39.8 billion Euro and France with 25.1 billion Euro. [23]

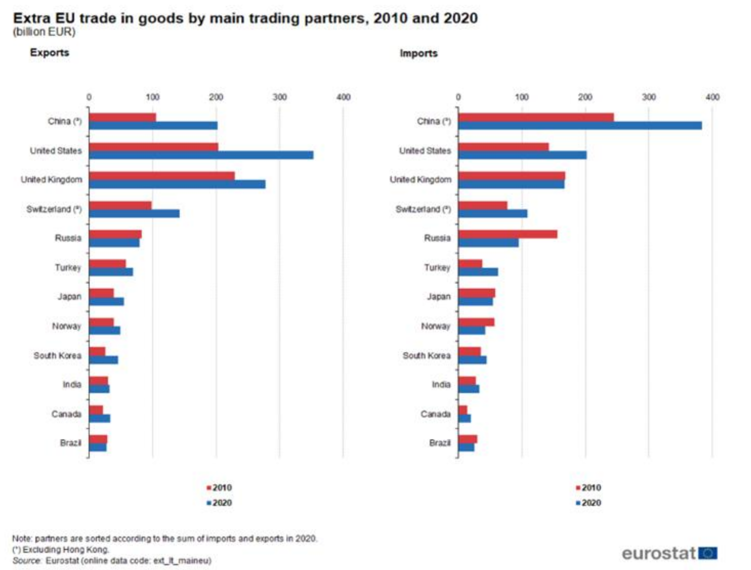



Figure 11: Extra EU trade in goods by main trading partners, 2010 and 2020

(billion EUR)

*Source:* Eurostat (ext_lt_maineu)

The most common destination for Goods exported from the EU in 2020 is the USA. With a share of 18.3% (see Figure 12). The United Kingdom was the second largest destination for EU exports with 14.4 % of the EU total, followed by China with 10.5 %. The seven largest destination markets for EU exports of goods are the USA, the UK, China, Switzerland, Russia, Turkey and Japan, accounting for more than three fifths, 61.0 %, of all EU exports of goods. [23]

Not only are the seven largest destination markets for the EU the USA, the UK, China, Switzerland, Russia, Turkey and Japan, but also the seven largest suppliers of EU imports of goods. However, their order was slightly different (see Figures 12 and 13). These seven countries accounted for a larger share of the EU's imports of goods than their share of EU exports of goods: just over three fifths, 62.7 % of all imports of goods into the EU came from these seven countries. With over one fifth, 22.4 % of all imports, China was the largest supplier of goods into the EU in 2020. The United States and the United Kingdom followed at some distance.[23]

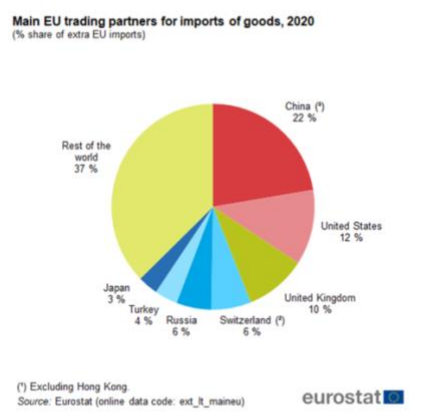



Figure 13: Main trading partners for imports of goods, EU, 2020

(% share of extra EU imports)

*Source:* Eurostat (ext_lt_maineu)

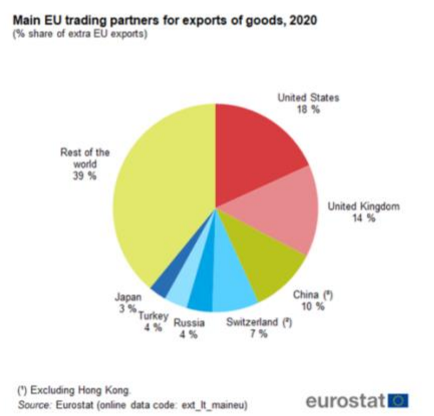



Figure 12: Main trading partners for exports of goods, EU, 2020

(% share of extra EU exports)

*Source:* Eurostat (ext_lt_maineu)

Sources: [23]

EU and Silk Road

The New Silk Road (NSR) initiative allows China to increasingly invest in building and modernizing overland and maritime infrastructures in Europe to enhance the overall connectivity between China and Europe. The NSR runs through several Eurasian markets and extends out to Southeastern Europe. The Chinese invest in the modernisation of ports and high-speed rails and roads to speed up the transport of goods between China and Europe (e.g., Port of Piraeus, rail connection to Budapest). The NRS is considered to stimulate Southeastern Europe's economic expansion. It may even contribute to overcoming its traditional peripheral position and present differences compared to Western Europe. Hopefully, the NRS will deepen the China-EU economic relations, e.g. by facilitating European exports to China. This would significantly boost exporting from Europe. These developments might also influence the EU's political and economic positioning on a global scale in the long run. [24]

The Belt and Road Initiative (BRI) is primarily through China's engagement with individual EU-States via bilateral discussions. Not through EU institutions. A coordinated and pan-European approach is only slowly emerging. Critical areas of EU-China cooperation concern are reciprocity and the creation of more trade and investment. As well as equal market access, the Promotion of jointly-agreed international standards, coordinated infrastructure investments and transport services. [24]

From 2010 till 2020, EU's imports of goods by major trading partners varied immensely. Among the main trading partners, the highest average annual growth rate was recorded for imports from Turkey and China, (see Figure 11). However, imports decreased from Russia and Norway. Both of them are large importers of oil and gas. [23]

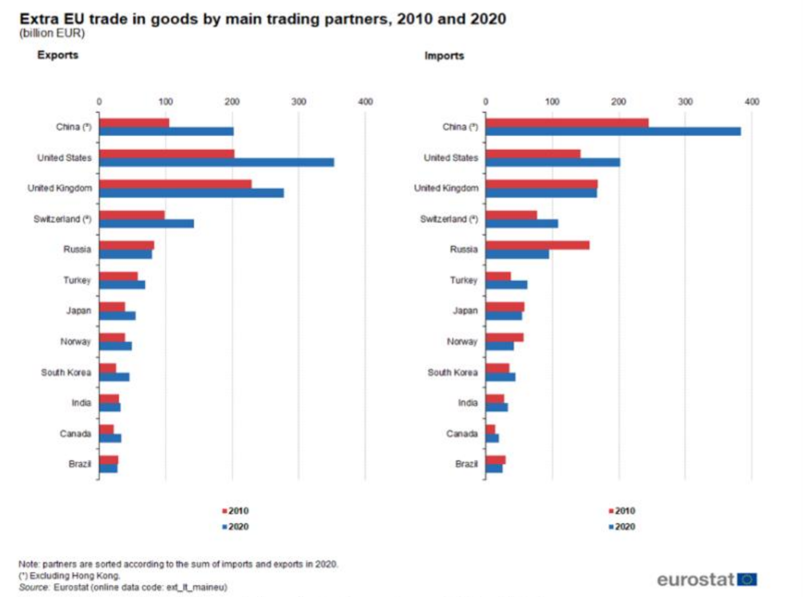



Figure 11: Extra EU trade in goods by main trading partners, 2010 and 2020

(billion EUR)

*Source:* Eurostat (ext_lt_maineu)

On the export side, between 2010 and 2020 imports of goods from China, South Korea and the USA had the highest average annual growth rate. Among the top partners, decreases in imports were only seen for Russia and Brazil.[23]

Rotterdam effect

The Rotterdam effect (also known as the Rotterdam-Antwerp effect) refers to errors in the way trade is calculated when trade flows through ports on their way to final destinations outside of the country or trading block. [25]

Sources: [39]

**REFERENCES**


1. Cavusgil, S. T., Knight, G., and Riesenberger, J. (2019). *International business: The new realities, global edition.* Harlow: Pearson Education Limited
2. Methods of Payment, United States of America – Department of Commerce. https://www.trade.gov/methods-payment - https://youtu.be/4yN8BV-GuZ4
3. Noah, D. (2020). 10 Terms you need to know to get paid for your exports. Shipping Solutions, https://www.shippingsolutions.com/blog/10-terms-you-need-to-know-to-help-you-get-paid-for-exports
4. The Pros and Cons of Exporting | CE Intelligence. Available at: https://www.ceintelligence.com/content_manager/contentPages/view/the-pros-and-cons-of-exporting (Accessed: 9 May 2021).
5. Advantages and disadvantages of exporting | nibusinessinfo.co.uk. Available at: https://www.nibusinessinfo.co.uk/content/advantages-and-disadvantages-exporting (Accessed: 9 May 2021).
6. Conaty, A, 2019. *International Export Strategies and Tips* [online]. Available from: https://www.goodada.com/blog/international-export-strategies-and-tips/ (Accessed 7 May 2021).
7. Safeguard Global, 2020. *Foreign subsidiary and global expansion: What to consider?* Available from: https://www.safeguardglobal.com/resources/blog/foreign-subsidiary [Accessed 6 May 2021].
8. *World trade in services*. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=World_trade_in_services (Accessed: 9 May 2021).
9. 'What are services? Definition and meaning'. *Market Business News*. Available at: https://marketbusinessnews.com/financial-glossary/services/ (Accessed: 9 May 2021).
10. *File: Simplified description of how services are supplied, from country A to B (Based on GATS provisions).png*(no date). Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Simplified_description_of_how_services_are_supplied,_from_country_A_to_B_(Based_on_GATS_provisions).png (Accessed: 9 May 2021).
11. Cavusgil, S. T., Knight, G., & Riesenberger, J. (2019). International business: The new realities, global edition
12. International Trade Administration | Trade.gov. 2021. *Methods of Payment*. [online] Available at: https://www.trade.gov/methods-payment [Accessed 8 May 2021].
13. Youtube. 2021. *Methods of Payment | Exporting Basics Episode 14*. [online] Available at: https://youtu.be/4yN8BV-GuZ4 [Accessed 8 May 2021].
14. Noah, D., 2021. *10 Terms You Need to Know to Get Paid for Your Exports*. [online] Shippingsolutions.com. Available at: https://www.shippingsolutions.com/blog/10-terms-you-need-to-know-to-help-you-get-paid-for-exports [Accessed 8 May 2021].
15. McGraw, I., 2021. *Rutgers University - Camden*. [online] Crab.rutgers.edu. Available at: http://crab.rutgers.edu/~sambhary/International%20Bussiness%20Environment/notes/Syllabus.htm [Accessed 8 May 2021].

16. Delaney, L., 2021. *What Is Countertrade?*. The Balance Small Business. Available at: https://www.thebalancesmb.com/countertrade-the-pros-and-cons-1953402 [Accessed 8 May 2021].
17. Parks, M., 2021. *Doing Business: Bloc-Buster Deal*. [online] Los Angeles Times. Available at: https://www.latimes.com/archives/la-xpm-1992-07-21-wr-4376-story.html [Accessed 8 May 2021].
18. Kenton, W., 2021. *How Countertrade Works*. [online] Investopedia. Available at: https://www.investopedia.com/terms/c/countertrade.asp [Accessed 8 May 2021].
19. Farooq, U., 2021. *Countertrade*. [online] Allaboutcountertrade.blogspot.com. Available at: http://allaboutcountertrade.blogspot.com/ [Accessed 8 May 2021].
20. Icontainers.com. 2021. *10 things to consider when exporting*. [online] Available at: https://www.icontainers.com/us/2014/09/25/10-things-consider-exporting/ [Accessed 8 May 2021].
21. Infoentrepreneurs.org. 2021. *Points to consider before exporting*. [online] Available at: https://www.infoentrepreneurs.org/en/points-to-consider-before-exporting/ [Accessed 8 May 2021].
22. Youtube.com. 2021. *Things to consider before exporting*. [online] Available at: https://www.youtube.com/watch?v=6P-Y1yO_6YA [Accessed 8 May 2021]
23. International trade in goods - Statistics Explained (2021). Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods&oldid=502739#The_three_largest_global_players_for_international_trade:_EU.2C_China_and_the_USA (Accessed: 8 May 2021).
24. Steer Davies Gleave, 2018, Research for TRAN Committee: The new Silk Route – opportunities and challenges for EU transport, European Parliament, Policy Department for Structural and Cohesion Policies, Brussels. Available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2018/585907/IPOL_STU(2018)585907_EN.pdf (Accessed: 9 May 2021).
25. The Rotterdam Effect | Economics Online | Economics Online. Available at: https://www.economicsonline.co.uk/Global_economics/The_Rotterdam_effect.html (Accessed: 9 May 2021).
26. *Creating Opportunities, Standing Europe's Up for Values And Interests. EU Trade Policy Work* - European Commission (2019). Available at: https://trade.ec.europa.eu/doclib/docs/2019/october/tradoc_158400.pdf (Accessed: 9 May 2021)
27. *Making the most of globalisation: EU trade policy explained* | News | European Parliament (2019). Available at: https://www.europarl.europa.eu/news/en/headlines/economy/20190528STO53303/making-the-most-of-globalisation-eu-trade-policy-explained (Accessed: 9 May 2021).
28. *Report from the Commission to the Parliament and the Council on Trade and Investment Barriers* - European Commission (2019). Available at: https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158789.pdf (Accessed: 9 May 2021).
29. *The EU's position in world trade in figures (infographic)* | News | European Parliament (2018). Available at: https://www.europarl.europa.eu/news/en/headlines/economy/20180703STO07132/the-eu-s-position-in-world-trade-in-figures-infographic (Accessed: 9 May 2021).

30. *Official Journal C 202/2016*. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:C:2016:202:FULL&from=DE (Accessed: 9 May 2021).
31. *European Community | European economic association* Encyclopedia Britannica. Available at: https://www.britannica.com/topic/European-Community-European-economic-association (Accessed: 9 May 2021).
32. *Trade defence - Trade - European Commission*. Available at: https://ec.europa.eu/trade/policy/accessing-markets/trade-defence/ (Accessed: 9 May 2021).
33. *Introduction to trade defence policy* - European Commission. Available at: https://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151014.pdf (Accessed: 9 May 2021)
34. *Global Trade Update - UNCTAD (2020)*. Available at: https://unctad.org/system/files/official-document/ditcmisc2020d2_en.pdf (Accessed: 9 May 2021)
35. *Latest Trends Explorer | OEC - The Observatory of Economic Complexity*. Available at: https://oec.world/en/trend-explorer (Accessed: 9 May 2021).
36. *EXW - Ex Work (Place of Delivery) - Incoterms 2020.* Available at: https://internationalcommercialterms.guru/incoterms-exw/ (Accessed: 9 May 2021).
37. *FBO - Free on Board (Port of shipment) - Incoterms 2020*. Available at:https://internationalcommercialterms.guru/incoterms-fob/ (Accessed: 9 May 2021).
38. *CIF - Cost, Insurance and Freight paid to (Port of Destination) - Incoterms 2020*. Available at: https://internationalcommercialterms.guru/incoterms-cif/ (Accessed: 9 May 2021).
39. *Rotterdam: The Largest Freight Port in the EU*. https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200402-2. (Accessed 23 May 2021).
40. *How the EU Negotiates Trade Deals*. *www.youtube.com*, https://www.youtube.com/watch?v=S6DJAa_ha0w. Accessed 23 May 2021.
41. *Incoterms® 2020 Explained for Import Export Global Trade*. *www.youtube.com*, https://www.youtube.com/watch?v=7g7IC4IzjDM. Accessed 23 May 2021
42. Johnson, Gerry, et al. *Exploring Strategy: Text and Cases*. 11th edition, Pearson, 2017.
43. Business encyclopedia. 2021. *Exporting. What is Exporting?*. Available at: https://www.shopify.com/encyclopedia/exporting (Accessed 21 May 2021).
44. Babu, John., 2021. *Exporting*. Available at: https://opentext.wsu.edu/cpim/chapter/7-2-exporting/ (Accessed 21 May 2021).
45. My Accounting course. 2021. *What is a Multidomestic Strategy?*. Available at: https://www.myaccountingcourse.com/accounting-dictionary/multidomestic-strategy (Accessed 21 May 2021).
46. Global Negotiator. 2021. *Global Strategy*. Available at: https://www.globalnegotiator.com/international-trade/dictionary/global-strategy/ (Accessed 21 May 2021).
47. My accounting course. 2021. *Transnational strategy*. Available at:https://www.myaccountingcourse.com/accounting-dictionary/transnational-strategy (Accessed 21 May 2021).
48. Delaney, L. July 2019. *Direct Exporting Advantages and Disadvantages. Developing a Foregn Market Entry Strategy*. Available at:

https://www.thebalancesmb.com/direct-exporting-advantages-and-disadvantages-1953310 (Accessed 22 May 2021).
49. Shipping Solutions. 2021. *Export Procedures and Documentation: An In-Depth Guide*. Available at: https://www.shippingsolutions.com/export-documentation-procedure (Accessed 22 May 2021).
50. Noah, D. March 2017. *Export Invoice vs. Accounting Invoice: What's the Difference?.* Available at: https://www.shippingsolutions.com/blog/export-invoice-vs.-accounting-invoice-whats-the-difference (Accessed 22 May 2021).
51. Bertolo, T. April 2017. *10 Common Export Documents You Should Know About.* Accessed at: https://grow.exim.gov/blog/ten-common-export-documents-you-should-know-about (Accessed 22 May 2021).
52. *What is the Belt and Road initiative?* https://www.youtube-nocookie.com/embed/ACbbz0rOv6A. Accessed 25 May 2021.
53. *Spain, wine exporter and Canada's supplier.* Available at: https://trade.ec.europa.eu/doclib/docs/2016/july/tradoc_154738.pdf. (Accessed 11 June 2021).

# UNIT VII. INTERNATIONAL SOURCING: GLOBAL AND EUROPEAN TRENDS

International sourcing is relocating some business functions abroad to the third foreign party or to the company-owned subsidiary[1].

Business process outsourcing (BPO) is the practice of contracting a specific work process or processes to an external service provider.

Companies, which think globally and want to extend their production worldwide, increasingly decide for international sourcing, breaking up the value chain (set of activities needed to create a real product or service from an idea) into many small parts located in different parts of the world. International sourcing is one of the ways to globalize the production process.

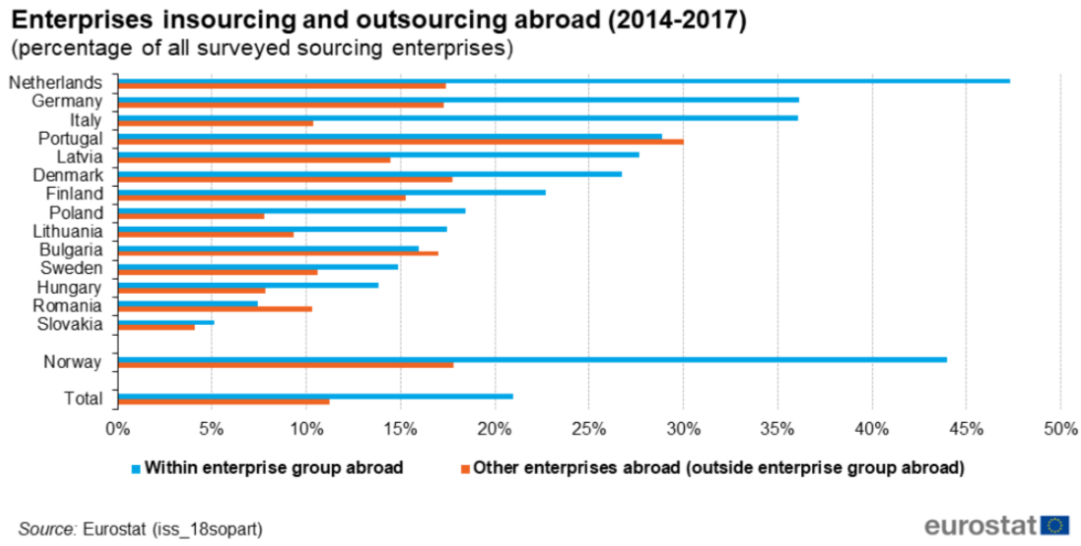
***Contract manufacturing***

is a form of outsourcing[3], when a company hires another firm with more qualification, experience and better equipped facilities to produce some product. Decision to contract a manufacturer helps companies at the stage, when they don't have capital to build their own facilities. This strategy allows to reduce costs but makes the firm very dependent on the manufacturer. The hiring company provides the manufacturer with design and the expected qualities of the product and focuses on sales and marketing.


Source[6]

Multinational companies are the drivers of globalization because they have the resources to create and try new ways of extending their business. There are two kinds of sourcing activities a company can choose[4]: 1) insourcing, which means sourcing to a foreign affiliate or a daughter company within the same enterprise group, and 2) outsourcing, which means that a company decides to pass some responsibilities to external providers.

Insourcing activities are more popular than outsourcing, on the graph we can see that 21% of enterprises carry out insourcing activities and 11% outsource they business functions[2]. Insourcing activities are less risky because they are performed by the subsidiary of the company abroad, which allows the headquarters control every step of the process. If company decides for outsourcing, it has to fully rely on another company.



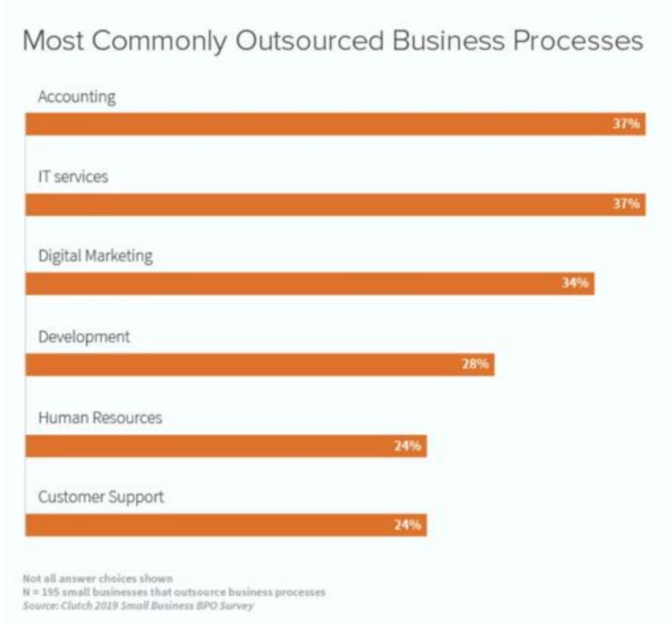

Source[2]

***Outsourcing***

is a business strategy in which an organization employs the non-affiliated (external supplier) company located domestically or abroad to complete projects, manage processes, or provide services on its behalf. This is a cost-cutting strategy used by businesses to reduce labour costs, such as employee wages, supplies and technology. Companies often use outsourcing to concentrate on the main aspects of the business process, while outsourcing the less important activities to outside organizations. On the downside, communicating with outside suppliers can be difficult, and security risks can arise.

According to Clutch's 2019 Small Business BPO Survey[5] the main reason for small businesses to decide for outsourcing is to increase efficiency, for instance to scale or to improve their services and offerings. 24% of respondents said that outsourcing allowed them to fulfill many projects and to maintain clarity at the same time. Cost reduction was a priority only for 12% of small businesses.

According to Clutch's 2019 Small Business BPO Survey, the most commonly outsourced services are accounting (37%), IT services (37%) and digital marketing (34%)[5].




Source[5]

**A brief history of outsourcing**

Outsourcing[6] was firstly introduced in the 1950s, but it wasn't until the 1980s that it became popular as a commercial strategy. The “focus on core competency” strategy created in the 1970s was largely responsible for the expansion of outsourcing in the 1980s. Since then, outsourcing has had a substantial and positive impact on businesses, allowing them to compete more successfully in most circumstances.

Outsourcing's development and evolution have opened up new avenues of opportunity, allowing diverse businesses to rethink and restructure their operations. Outsourcing is increasingly a key element in strategy development, and it has the potential to profoundly alter how a company competes and structures itself. The necessity to compete effectively is the primary motivator for outsourcing, and a company will typically outsource when:

- External sourcing is more effective and efficient.
- The emphasis is on fundamental competency.
- It is looking for ways to save costs.

In a very short period of time, outsourcing has evolved tremendously and this evolution can be separated into three stages. Transformational outsourcing, unlike standard outsourcing, aims to shift the paradigm and introduce a new business model.

Transformational outsourcing is also used to help firms convert into more agile organizational structures that can boost earnings, market share, and shareholder value. The true value of transformational outsourcing comes from its capacity to re-engineer company processes and transform people, processes, operations, and systems from a business standpoint.

Businesses adopted ‘traditional outsourcing' of non-core activities to save costs in the first stage, which lasted from the early 1980s through the late 1980s. When a company outsources an operation that was previously handled internally, it is known as traditional outsourcing. This early outsourcing strategy was based on the transaction cost approach, which focused on sourcing items or services from external sources only if doing so was cost effective. The major goal of outsourcing in this method is to save costs and increase profits.

The term "strategic outsourcing" developed in the second stage, which lasted from the early 1990s through the early 2000s. Outsourcing strategic business processes is the foundation of strategic outsourcing. These are actions that directly affect a company's performance and competitiveness. In general, strategic outsourcing can completely transform a company's operations. The goal of strategic outsourcing is not only to reduce costs, but also to get access to foreign expertise that may be used to supplement current and future capabilities. The basic goal of ‘strategic outsourcing,' from a business strategy standpoint, is to obtain a competitive edge by using external resources, increasing internal capabilities, and streamlining processes.

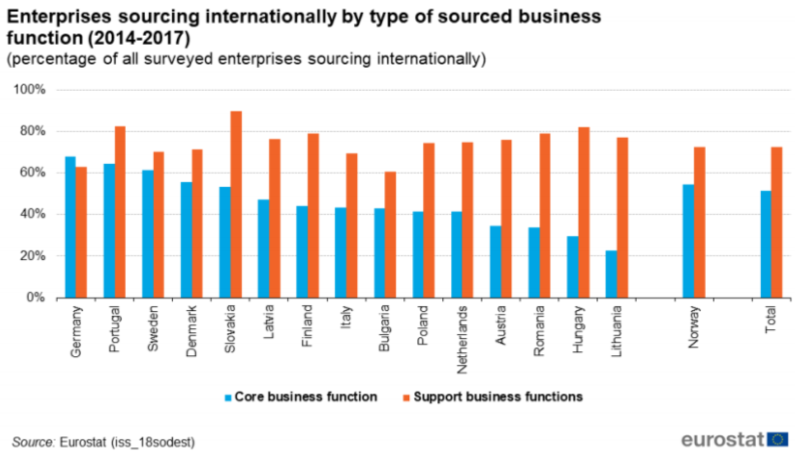
In the third stage, beginning in the early 2000s, ‘strategic outsourcing' evolved into ‘transformational outsourcing,' which allows businesses to adapt to new technological breakthroughs and fast changing business needs. The service provider is viewed as an expanded enterprise capable of delivering innovation and improved operational benefits in this approach.

**Core and support business functions**

The purpose of outsourcing is to be released from some business functions in order to concentrate more on others, which are more important. Business functions are divided into 1) core business functions and 2) support business functions. Core business functions include all activities, which are necessary to produce the final product or service, which will be consumed by the customers, and therefore these are the activities that bring income. Support business functions are the ones that facilitate and support the core functions, their output is not intended for the direct consumption of the client. Supporting functions of an enterprise are distribution and logistics, marketing and sales, administration and management, research and development, engineering.

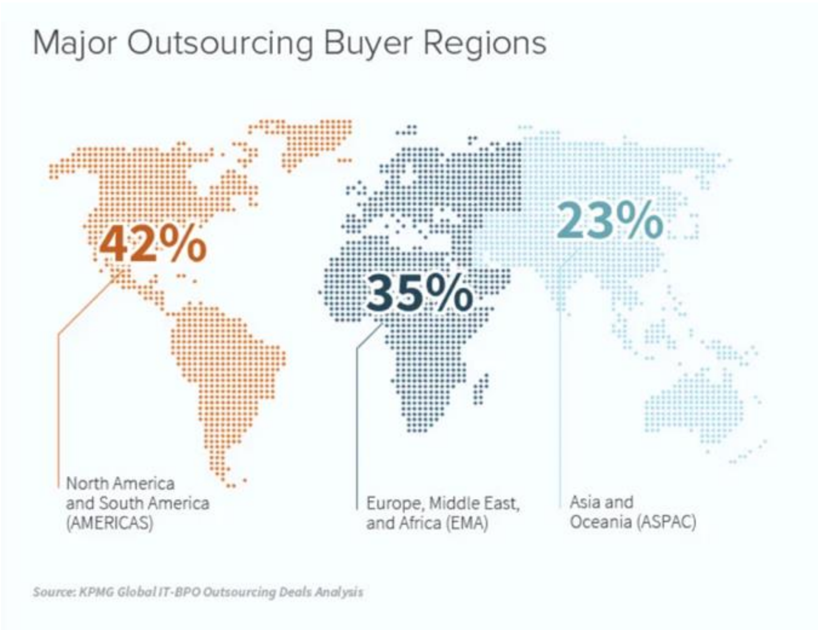
In the graph we can see, which business functions companies prefer to source internationally. About 73% of enterprises said they had sourced support functions, compared to 51% that sourced core functions[2]. So the statistics show that enterprises in Europe outsource support functions more often. Only in Germany the core functions were sourced more frequently.

With the support of the Erasmus+ Programme of the European Union




Source[2]

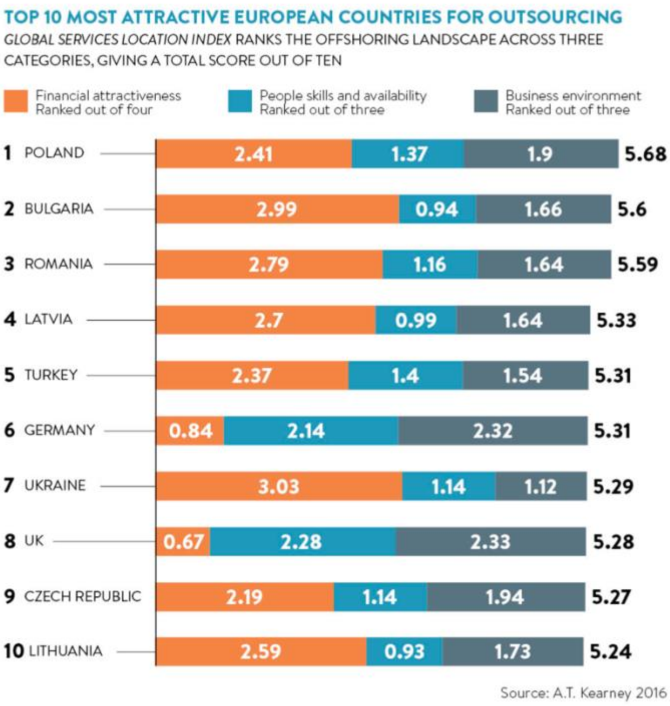
The USA is the number one outsourcing region. KPMG[7] analyzed in 2017 total numbers of closed outsourcing deals around the world and found out that the USA contributed 42% of the total value. Europe, Middle East and Africa aren't far behind with 35%, Asia and Oceania constitute 23%.




Source[7]

***Nearshoring***

For European countries it's extremely profitable and convenient to outsource to other countries inside of the EU. In Eastern Europe the labour costs are much lower than in more developed economies, and the level of education is much higher than in India for example. So for such countries as the UK it's very attractive to outsource services like IT to Poland, Romania or Bulgaria. That strategy is known as nearshoring. **Nearshoring**[8] is the relocation of business activities to a country nearby. It can be understood as a special form of offshoring and the opposite of farshoring. For Germany, Austria and Switzerland, for example, Ukraine, Poland and Serbia are considered near-shoring destinations. It's getting more popular because it gives the company more control over the process, although global sourcing in general is qualified as a low-control strategy.



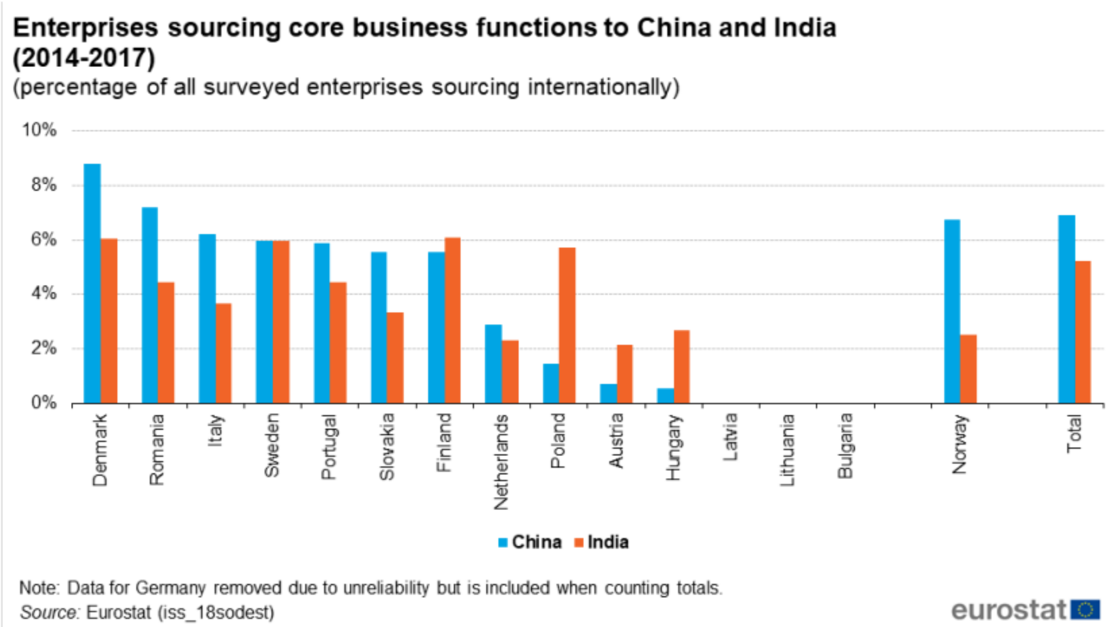

Source[9]

To attract the IT companies from more developed countries to invest in their economies, countries like Poland and Romania implemented tax incentives, and the fact that these countries also belong to the jurisdiction of the EU gives the companies the certainty and safety they need.

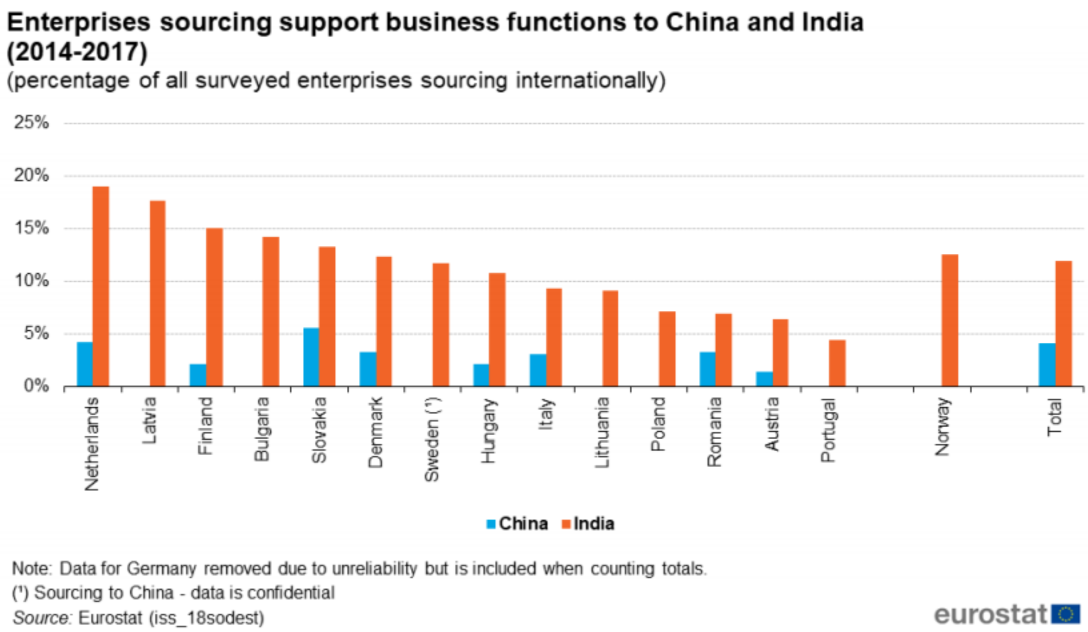
Other important advantages of nearshoring are the same time zone and cultural similarity. Now in the age of technologies, people from different countries work together on one project, that's why it's important that in their countries the time is more or less the same, which is the case all over Europe. Also culturally it's much more convenient to source to close European countries because you can be sure that there will be no global misunderstandings due to the similarity of cultures, unlike India or China.

That's why despite the rising globalization the majority of sourcing still stays inside the EU, even though there are countries with emerging economies like India and China, which become more attractive sourcing destinations.

China and India are both important locations for business functions sourced from the EU. They attract different types of business functions. China is even strong in attracting core business functions (7%), generally in manufacturing. And India is more attractive for outsourcing supportive functions (12%)[9].

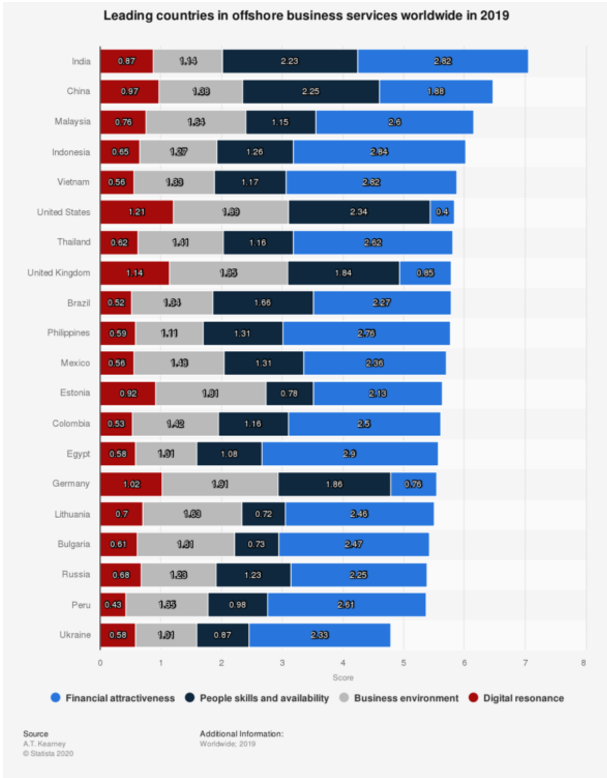



Source[10]




Source[10]

### *Offshoring*




**Offshoring**[11] means the relocation of the entire business process or of the manufacturing facility to another country at lower costs, unlike outsourcing, when a company contracts out work to a third party. The reason for offshoring is that goods are expensive in the West because the people who make and sell them are expensive. Large, low-cost labour pools, on the other hand, provide a simple backbone for a low-cost economy in the developing world. Offshoring takes advantage of these price differences by relocating factories from expensive countries to cheaper markets in order to resell the products at a lower price in the West and profit from it. Consumer products such as clothes and appliances have become more affordable thanks to decades of productive offshoring.

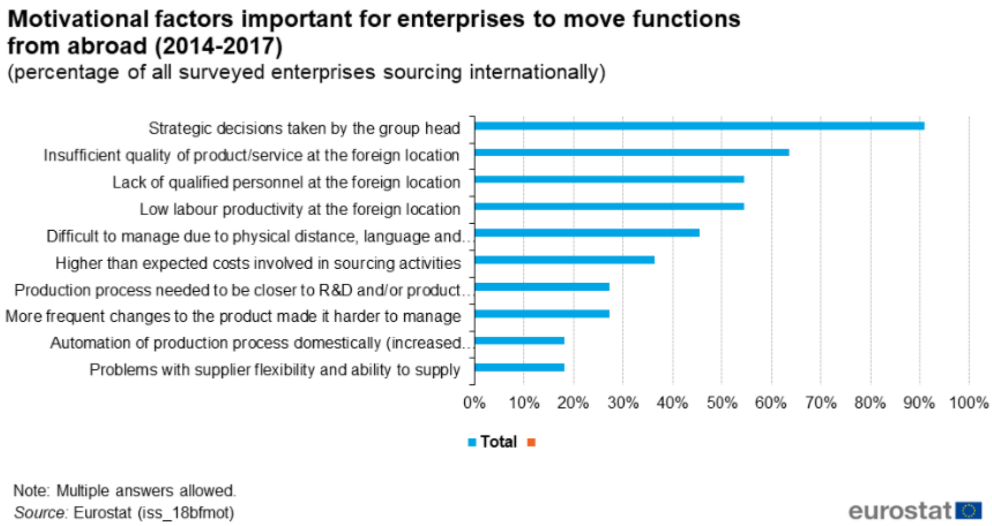
Source[12]

China, India and Malaysia are the most attractive countries for offshoring according to the statistics of 2019[12]. But today the Philippines are becoming more and more convenient for offshoring.

In spite of lower labour costs, there are also relevant reasons for companies to decide to move the functions from abroad back to the home country: insufficient quality of produced goods or services, low qualified personnel, low productivity, and of course difficulty to control all the processes.

### *Back-sourcing*

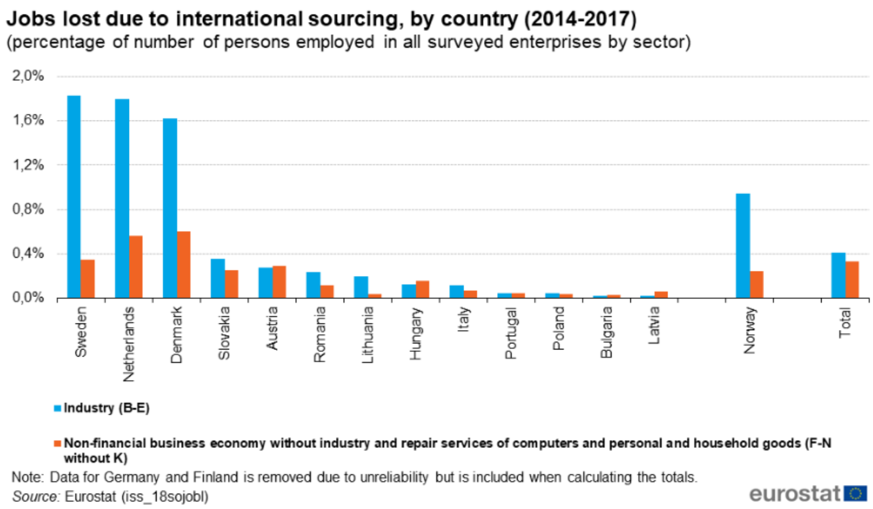
**Back-sourcing** is the practice of having previously outsourced tasks, manufacturing, or functions back in-house to be completed by the company's own employees[13]. Human resources, corporate management, regulatory, vendor relationships, and technology are often involved. If there are contract issues with the outsourcing partner, cost misunderstandings with the outsourcing partner, internal organizational changes, and external organizational changes, back-sourcing is a popular practice.




Source[14]

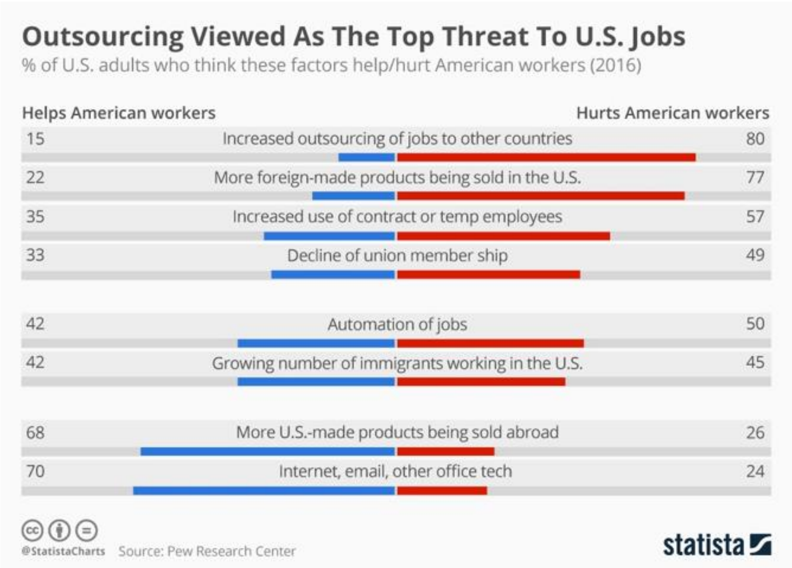
Influence on the domestic employment

International sourcing influences employment in the domestic market because making the decision to outsource some business functions, the company relocates the workplaces from the home market to another country.




Source[2]

According to the statistics the level of job losses in the EU is relatively low[2]. Most of the job losses were reported in Nordic countries especially in the industry sector, and they reached maximum in Sweden (1,8%). In the USA the situation is more serious, people feel more that the outsourcing trend affects their work life. A relevant part of American people think that they lose jobs because the companies prefer to outsource to other countries to cut the costs. Also, the fact that a lot of foreign-made products are sold in the USA hurts the American workers in their opinion. And as we mentioned above, the USA is the first outsourcing country in the world, so the reason for such discontent of American workers is clear[9].




Source[9]

**EU's trade in bicycles with China and Vietnam[15]**

This example allows to see different perspectives on outsourcing activities and understand the dependence of companies on the political decisions. In this case we analyze bicycle production in the EU. The manufacturers in this market are divided into import-competing and import-depending firms.

Almost all import-competing firms are the ones that assemble the bicycles in the EU but still produce or buy the bicycle's parts in Asian countries[15]. So, when it comes to the parts, they aren't against the import. In case of whole bikes, these European companies are suppressed by Asian competition, because Asian manufacturers are able to import much cheaper bikes to the European market. As the market experienced an influx of Chinese and Vietnamese bikes, the European Bicycle Manufacturing Association (EBMA) filed the request to the European Commission in 2004 to implement anti-dumping measures.

Import-dependent firms are mostly sport goods retail chains, supermarkets and Independent Bicycle Dealers (IBD). IBDs are members of big associations, which act like a wholesaler for its members. It means that this association buys huge amounts of bicycles, and IBDs can buy from it the needed number of bikes for cheaper prices and with more flexibility.

The companies of this group have different interests concerning anti-dumping regulations of import. Retailers buy Chinese bikes, but they can easily change to a different supplier because many Asian producers offer the same bikes for the same price. The situation is different with IBDs because they depend a lot on Vietnamese bicycles. Vietnamese firms are the only ones able to produce the specific type of bikes the European dealers demand. Both local and foreign substitutes can offer either lower quality or higher price. So, the IBDs were obviously against such anti-dumping measures against Vietnamese bicycles.

The final decision of the European Commission was to impose anti-dumping duties on imports of bikes from China (48,5%) and from Vietnam (34,5%)[15]. The lobby of import-competing companies in this case was more active to push this decision, while the import-dependent firms weren't consolidated and motivated enough to fight against these restrictions. This decision hurt the most IBDs, which were very dependent on Vietnamese bicycle imports, so for them now the change of strategy is crucial. This case illustrates how much the decision to outsource is influenced by political activities.

If the government follows the protectionism policy, it's certainly better to place the production inside the country not to risk the possible problems with import. In case the government supports the import, it's a good strategy to cut the costs and outsource.

**Example of Apple**

Outsourcing seems like a really good way for a company to raise profitability because in case of outsourcing the production the company doesn't build fundamental facilities that can take years to pay off. Fast reduction of costs makes the margins higher, and of course for companies it seems like the best solution. But the problem is that once a firm decides for an outsourcing program, it's very hard to go back after the company already set up the whole supply chain.

Nowadays many successful companies created their most dangerous competitors through outsourcing strategy, one of them is Apple. From the beginning Apple positioned as a design company, which was able to create a unique brand with outstanding design[16]. So, for them it was a logical decision to outsource the production and assembly of their phones and laptops. Manufacturing of Apple parts was outsourced to Samsung Electronics in South Korea and assembly to Foxconn in Taiwan. With time these companies realized the gaps in their business, namely brand and design, and decided to work on them becoming after that Apple's biggest competitors.

If a company outsources big and important parts of its business process, the only business part it can control after that is the brand, that's why outsourcing is a controversial strategy, which brings fast profits but can end up being very detrimental for the company in the long term.

**Pre-pandemic vs post-pandemic situation and trends**

The global COVID-19 pandemic has drastically changed the perspective of global sourcing. Some trends and objectives have shifted, and companies are now embracing new concepts of disruptive outsourcing.

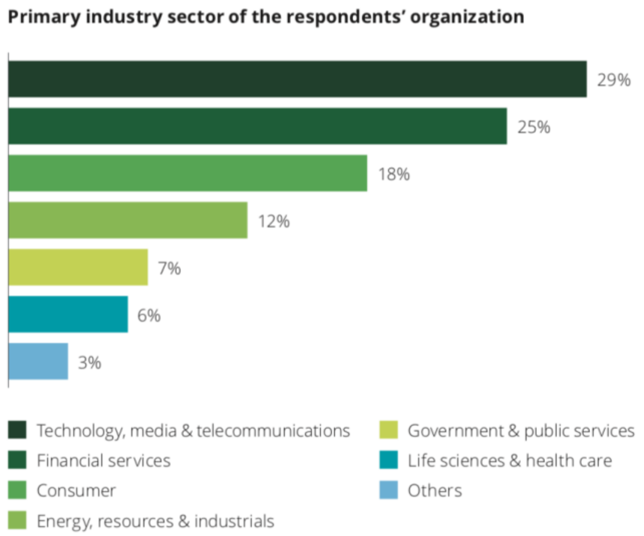
In this section, 2020s trends, goals, and objectives are compared to those that have been indicated before the case of global COVID-19 pandemic. All the data presented here are based on Deloitte's statistics and survey for 2018[18] and 2020[19] state.

Deloitte[17] is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit & assurance, consulting, risk and financial advisory, risk management, tax, and related services to select clients.

***2018 statistics and trends***

In the past, organizations typically used outsourcing to improve back-office operations through cost reduction and performance improvement. Today, disruptive outsourcing solutions are enabling competitive advantage by accelerating changes within those organizations that have the audacity and skill to leap over the technology chasm.

Deloitte's 2018 survey of more than 500 executives from leading organizations indicates and studies new outsourcing solutions led by cloud and automation, which fundamentally transform traditional outsourcing. The survey included 521 leaders from organizations of all sizes, and with operational footprints in America, Europe, and Asia. These executives represented more than 25 different sectors across six industries.



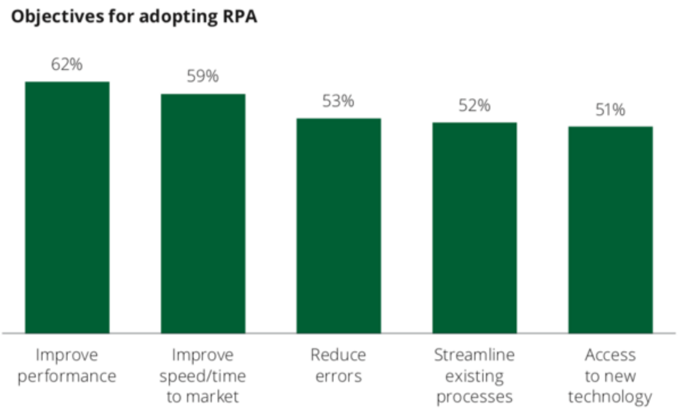

Source[18]

**Cost reduction**

One of the key findings reported by Deloitte was that cost reduction remained one of the most expected objectives for global outsourcing. Many organizations expect to invest some of those savings, increasing budgets within a particular function, to more broadly advance the business, particularly when doing so can eradicate costs elsewhere in the enterprise.

**Cloud and robotic process automation (RPA)**

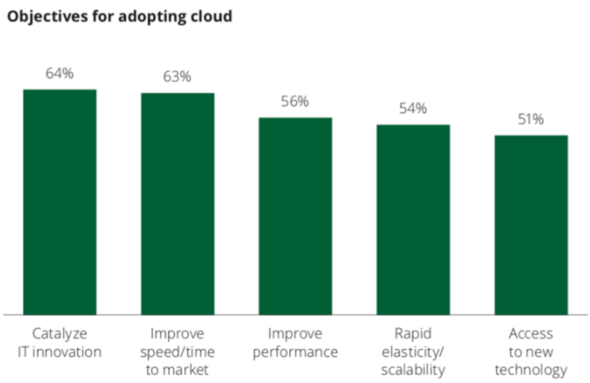
The vast majority of organizations — 93 percent — were considering or adopting cloud solutions and 72 percent were performing and focusing on RPA (robotic process automation) solutions. Still, there were hesitations towards applying and performing RPA methods due to organizational resistance, highly fragmented processes, and regulatory restraints are common challenges related to RPA adoption.




Source[18]

Deloitte’s survey shows that RPA is gaining widespread acceptance across industries and functional areas: most organizations (72 percent) are considering or adopting RPA

In 2018, there was a significant trend towards embracing cloud services that were believed to create capability and overall market performance. Cloud was rapidly disrupting the outsourcing landscape.

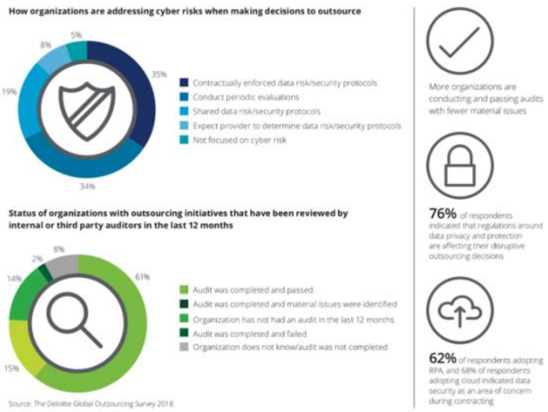



Source[18]

**Threats and risks in 2018**

Almost 50 percent of the respondents raised the issues and concerns about cloud performance.

According to Deloitte’s 2016[18] observations approximately two-thirds of respondents were either modifying processes or had processes in place to address cyber risks. The 2018 survey tracks and builds on their earlier observation. Nearly all respondents (95 percent) had cyber risk measures in place. In 2018, organizations have recognized the importance of proactive monitoring of cyber risk, and being proactive in its management.




Source[18]

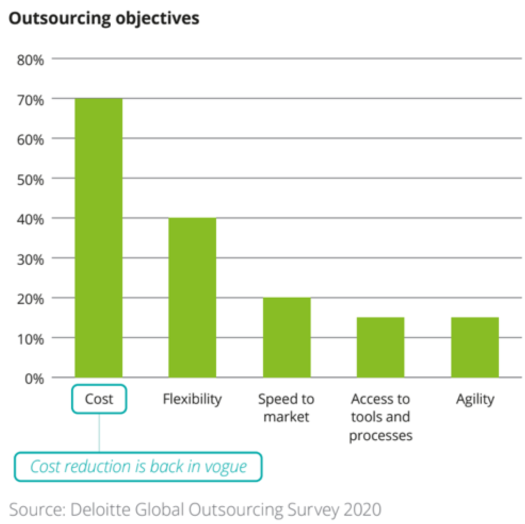
***2020's statistics and trends***

Deloitte's 2020 report[19] provides insight into how the latest trends in outsourcing are dramatically reshaping the industry. In addition to the direct takeaways from the 2020 interviews, Deloitte also followed up on the 2018 survey to understand whether the trends predicted two years ago have actually emerged.

COVID-19 has been one of the most disruptive events in a generation; and the impact is still being felt, not only across the global economy but also across the huge amount of outsourcing relationships in place. Deloitte interviewed 40 executives across clients, service providers, and lawyers globally to bring a more complete perspective to our findings. The interviewees were spread across America, Africa, Europe, Asia, and Australia, giving us a global view of the outsourcing ecosystem. The interviews were conducted both before and after the start of the COVID-19 pandemic, enabling researchers to identify how the industry has responded.

**Cost reduction is back on top**

In the recent past, many people in the industry have stated that cost reduction is a secondary benefit behind other objectives, such as increasing agility or improving the quality of service. This year's survey shows a sharp increase in the number of organizations giving priority to cost reduction, and in the face of a likely pandemic-induced global recession, this number will get higher. As in 2018, the trends for cost reductions are remaining similarly the same.




Source[19]

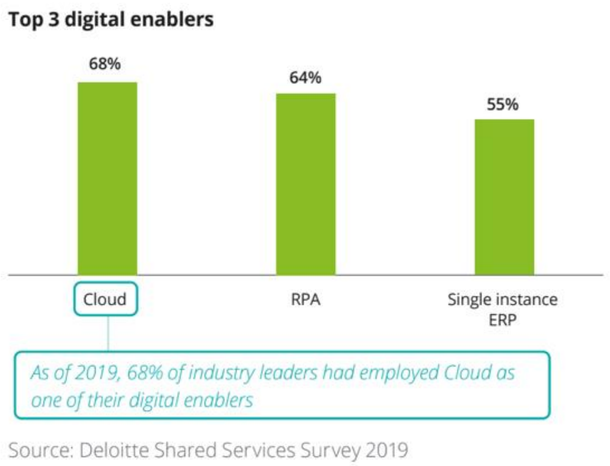
In 2018 the key objectives of outsourcing were moving away from reducing operating costs to enabling speed to market, scaling faster, enhancing user experience, and achieving competitive advantage. Now, cost reduction is becoming increasingly critical again. Now, cost reduction is the main reason to outsource. While MNEs (multinational enterprises) recognize their clients talk about scalability, agility, technology enablement, and innovation, they recognize that, ultimately, clients focus on cost.

**Cloud and RPA**

It is no surprise to see cloud and RPA solutions as being core to most new outsourcing transactions. In fact, as they become more proven and familiar, they are less of a driver than two years ago and considered “table stakes” for all transformations. Organizations are looking for the next major technology catalyst to power their business transformation efforts.

RPA continues to be a major driving force in outsourcing solutions, but today's challenges are more detailed. Over 75 percent of interviewed clients are actively considering or pursuing RPA in their sourcing arrangements. In 2018, Deloitte predicted that the adoption of RPA would continue to grow, with companies implementing automation solutions through third party providers. Their 2020 survey results show a clear progression in the adoption of RPA through outsourcing. The interviewees are now focused on solving the tactical challenges of RPA adoption, such as developing and maintaining a positive business case, defining provider responsibilities, and assigning data ownership. This contrasts with the 2018 survey, when organizational resistance, process fragmentation, and regulatory constraints were the biggest roadblocks to the adoption of RPA.

Again, reducing costs is a key driver as back in 2018. The primary motivation seems to have shifted with most 2020 interviewees (two thirds) citing cost savings as the major driver for RPA adoption, whereas two years ago it was never “in top 5”. Around 90 percent of this year’s client participants saw cloud as one of their primary enablers in their outsourcing journey. For now, as organizations has maintained their experience with cloud performance they are no longer treat cloud services as their "threat" but try to adopt different online storage services to optimize their performance.




Source[19]

**Threats and risks in 2020**

**Data security** is still the most cited concern relating to cloud services. Worries on compliance and regulation risk have displaced those relating to performance over the past two years. None of Deloitte's interviewees in 2020 mentioned concerns about performance, whereas almost 50 percent of the respondents raised this issue in 2018[18].


Source[19]

***Deloitte's findings regarding post-pandemic global outsourcing***

According to Deloitte's forecast decisions will play a significantly more strategic role in short-term resilience and long-term growth. From their interviews, the researches have picked up three major changes that will supposedly reshape the whole image of the outsourcing industry.

**Building resilience**

Business Continuity (BC) is now becoming a critical issue, and few contracts will contain adequate provisions for another global lockdown. BC planning is crucial for preparing businesses and organizations to cover future global pandemic scenarios, and will include testing of service providers' ability to deliver from home offices and maintain their own supply chains, while delivering desired data security and work productivity.

**Advancing cloud adoption**

Organizations that have transferred their functions and processes to the cloud will be in a better position to scale their technology resources with the changing demand, not only to pay what they need, but also to provide technology resources required to meet new challenges. Increasingly, organizations are experiencing, first-hand, the flexibility that the cloud offers, and are likely to accelerate their journey to more cloud enablement.

**Outsourcing increase**

COVID-19 has drastically changed the idea that physical co-location of resources is necessary to develop a trusting relationship in the workplace. As the crisis imposes a remote working model on firms, the nature of workplace relationships as we know them today is changing drastically. Organizations are becoming increasingly comfortable with hiring through virtual interview meetings, signing new contracts online, and replacing onsite workshops with zoom sessions. In addition, a remote work culture is being ingrained gradually within companies, and this will help them access global talent from the most cost-effective locations.

---

## REFERENCES


1. Khan, M., "What is International sourcing? What are reasons for & challenges on International sourcing?", *Bayt* [website], [ https://specialties.bayt.com/en/specialties/q/295498/what-is-international-sourcing-what-are-reasons-for-amp-challenges-on-international-sourcing/ ], accessed 17 April 2021.
2. Sunjka N., "International sourcing and relocation of business functions", *Eurostat Statistics Explained* [website], 2020, [ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_sourcing_and_relocation_of_business_functions ], accessed 22 April, 2021.
3. Delaney L., "What is Contract Manufacturing?", *The Balance Small Business* [website], 2020, [ https://www.thebalancesmb.com/the-ins-and-outs-to-contract-manufacturing-1953308 ], accessed 3 May 2021.
4. Beers B., "Outsourcing vs. Insourcing: What's the Difference?", *Investopedia* [website], 2020, [ https://www.investopedia.com/ask/answers/032715/whats-difference-between-outsourcing-and-insourcing.asp ], accessed 28 April 2021.
5. Daniel Usifoh, "History and evolution of outsourcing," [website], 2020 , [ https://gatewayprocurement.co.uk/outsourcing-a-brief-history/ ], accessed 18 June, 2021.
6. Menadiona, "Contract Manufacturing" [website], 2020, [ https://www.menadiona.com/contract-manufacturing/ ], accessed 15 April 2021.

7. KMPG, "Global IT-BPO Outscourcing Deals Analysis", *Annual analysis for 2017*, 2017, [ https://assets.kpmg/content/dam/kpmg/in/pdf/2018/05/KPMG-Deal-Tracker-2017.pdf ], accessed 1 April 2021.
8. Bendel O., "Nearshoring", *Springler Gabler* [website], [ https://wirtschaftslexikon.gabler.de/definition/nearshoring-54118 ], accessed 22 April, 2021.
9. McCarthy, N., "Outsourcing Viewed As The Top Threat To U.S. Jobs", *Statista* [website], 2016, [https://www-statista-com.uaccess.univie.ac.at/chart/6140/outsourcing-viewed-as-the-top-threat-to-us-jobs/], accessed 1 May, 2021.
10. Rodrigo A., "The most attractive European countries for outsourcing", *Racounteur* [website], 2016, [ https://www.raconteur.net/the-most-attractive-european-countries-for-outsourcing/ ], accessed 20 April 2021.
11. Allnutt C., "The Ultimate List of Outsourcing Statistics", *Micro Sourcing* [website], 2021, [ https://www.microsourcing.com/learn/blog/the-ultimate-list-of-outsourcing-statistics/ ], accessed 18 April, 2021.
12. Statista Research Department, "Leading countries in offshore business services worldwide in 2019", *Statista* [website], 2020, [ https://www-statista-com.uaccess.univie.ac.at/statistics/329766/leading-countries-in-offshore-business-services-worldwide/ ], accessed 20 April, 2021.
13. KDCI, "Glossary", *KDCI* [website], 2020, [ https://www.kdci.co/glossary/backsourcing/ ], accessed 22 April, 2021.
14. Eurostat, "Motivational factors important for enterprises to move functions from abroad", *Eurostat Statistics Explained* [website], [ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:16-Motivational_factors_important_for_enterprises_to_move_functions_from_abroad_(2014-2017).png ], accessed 3 May 2021.
15. Eckhardt J., "The politics of global sourcing: a case study of EU's trade in bicycles with China and Vietnam", *CAS Discussion paper No 79*, 2011, pp. 4-21, [ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2005732 ], accessed 3 May, 2021.
16. Griffin M., "How Apple's outsourcing strategy created two giant competitors", *CIO* [website], 2015, [ https://www.cio.com/article/2926435/how-apples-outsourcing-strategy-created-two-giant-competitors.html ], accessed 1 May, 2021.
17. Deloitte, *Deloitte* [website], [ https://www2.deloitte.com/an/en/footerlinks/about-ddc.html ], accessed 1 May, 2021.
18. Plotkin D., "Traditional outsourcing is dead. Long live disruptive outsourcing", *The Deloitte Global Outsourcing Survey 2018*, 2018, pp. 3-12, [ https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-cons-global-outsourcing-survey.pdf], accessed 3 May, 2021.
19. Stoler M. and Underwood M., "How much disruption?", *The Deloitte Global Outsourcing Survey 2020*, 2020, pp. 4-16, [https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Process-and-Operations/gx-2020-global-outsourcing-survey-how-much-disruption.pdf], accessed 5 May, 2021.

# UNIT VIII. FDI IN EUROPE: MICRO AND MACRO PERSPECTIVES

FDI - foreign direct investment (investment in acquiring shares in enterprises' equity, performed by residents of this country abroad or non-residents in this country).

Foreign direct investment refers to direct investment made in enterprises in any sector of the economy, but not in the investor's country, the purpose of which is to make a lasting profit. The investor's objective is also to obtain a substantial say in the management of the foreign company.

An investor is assumed to substantially impact managing an enterprise located in another country if he owns at least 10% of the voting shares.

**How foreign direct investment works**

Foreign direct investment is usually in countries with open economies that offer the investor a skilled workforce and above-average growth prospects instead of a heavily regulated economy. Foreign direct investment often includes more than just capital investment. It may also include management or technology provisions. Foreign direct investment is a key feature of effective or significant influence over foreign business decision-making.

*Types of foreign direct investment*
Foreign direct investment is usually divided into horizontal, vertical, or conglomerate investments.

**Horizontal direct investment** refers to an investor opening the same type of business operations in a foreign country as in his home country.

**Vertical investments are investments** *in* which a business activity other than the investor's core business is started or acquired in another country, such as when a manufacturing company acquires a stake in a foreign company that supplies parts or raw materials necessary for the manufacturing company.

**A conglomerate type of foreign direct investment** is an investment in which a company or individual makes foreign investments unrelated to an existing business in its home country. It often takes a joint venture with a foreign company already operating in the industry. [1]

***Pros and Cons of FDI***
Pros Explained

- **Diversified investor portfolios:** Investors have to perform more comprehensive portfolio profitability (return per unit of risk) as FDI diversifies their holdings outside of a particular country, industry, or political system. Generally, a wider base of investments will depress overall portfolio volatility and provide for stronger long-term results.

- **Gives technology to growing countries:** Recipient businesses get "best practices" management, accounting, or proper guidance from their investors. They can incorporate the latest technology, operational practices, and financing tools. By adopting these practices, they improve their employees' lifestyles. That increases the standard of living for more people in the receiver country. FDI rewards the best companies in any country. It decreases the influence of local governments over them.

**Provides financing to growing countries:** As the recipient company benefits from the investment, it can pay higher taxes. Some countries offset this benefit by giving tax incentives to attract FDI.

- **Promotes stable, long-term lending:** Another advantage of FDI is that it offsets the volatility created by "hot money." That's when short-term lenders and currency traders create an asset bubble. They invest lots of money all at once, then sell their investments just as fast. That can create a boom-bust cycle that ruins economies and quits political regimes. Foreign direct investment takes longer to set up and has a more permanent footprint in a country.

Cons Explained

- **Not proper for strategically important industries:** Countries should not allow foreign ownership of companies in strategically relevant industries. That could decrease the comparative advantage of the nation.

- **Investors have less moral attachment:** Foreign investors might divest the business of its value without adding any. They could sell unprofitable portions of the company to local, less involved investors.

- **Unethical access to local markets:** They can use the company's collateral to get low-cost, local loans. Instead of reinvesting them, they give the funds back to the parent company. [2]

International portfolio investment: definition and its comparison with FDI[Bearbeiten]

***Portfolio investments***

Portfolio investments - an investment of capital in foreign securities, which do not give the investor the right to real control over the investment object.

Portfolio investments - an investment of funds in securities of the most profitable enterprises and securities issued by the state and local authorities to maximize income on invested funds. A foreign investor does not actively participate in the management of an enterprise, takes the position of an "outside observer" regarding the company - the object of investment and, as a rule, does not interfere in its management, being content with receiving dividends. The goal of the portfolio investor is to obtain a high rate of return and reduce risk by hedging. Thus, there is no creation of new assets in this type of investment. However, portfolio investments do increase the amount of capital raised in the enterprise.

Such investments are mostly based on private entrepreneurial capital, although states often purchase foreign securities.

International portfolio investments are classified as they are reflected in the balance of payments. [3]

**They are subdivided into investments.**

- equity securities, a marketable, monetary document that certifies ownership of the document's owner by the person who issued the document;

- debt securities - a negotiable monetary document certifying the document holder's relationship to the person who issued the document.

***FPI vs. foreign direct investment (FDI)***

With FPI - as with portfolio investments in general - the investor does not actively manage the investments or the companies that issue them. They have no direct control over the assets or business.

In contrast, foreign direct investment (FDI) allows the investor to acquire direct business interests in a foreign country. For example, suppose a New York investor buys a warehouse in Berlin to lease it to a German company that needs space to expand its operations. The investor's goal is to create a long-term revenue stream by helping the company increase profits.

This FDI investor controls cash investment and often actively manages the company in which invests. The investor helps build the business and waits to see the return on investment (ROI). However, because the investor's money is tied up in the company, they have less liquidity and more risk when selling that stake. The investor also faces currency risk, which can reduce the investment value when the country's currency is converted to the national currency or U.S. dollars. An additional risk relates to political risk, which could shake the foreign economy and investment.

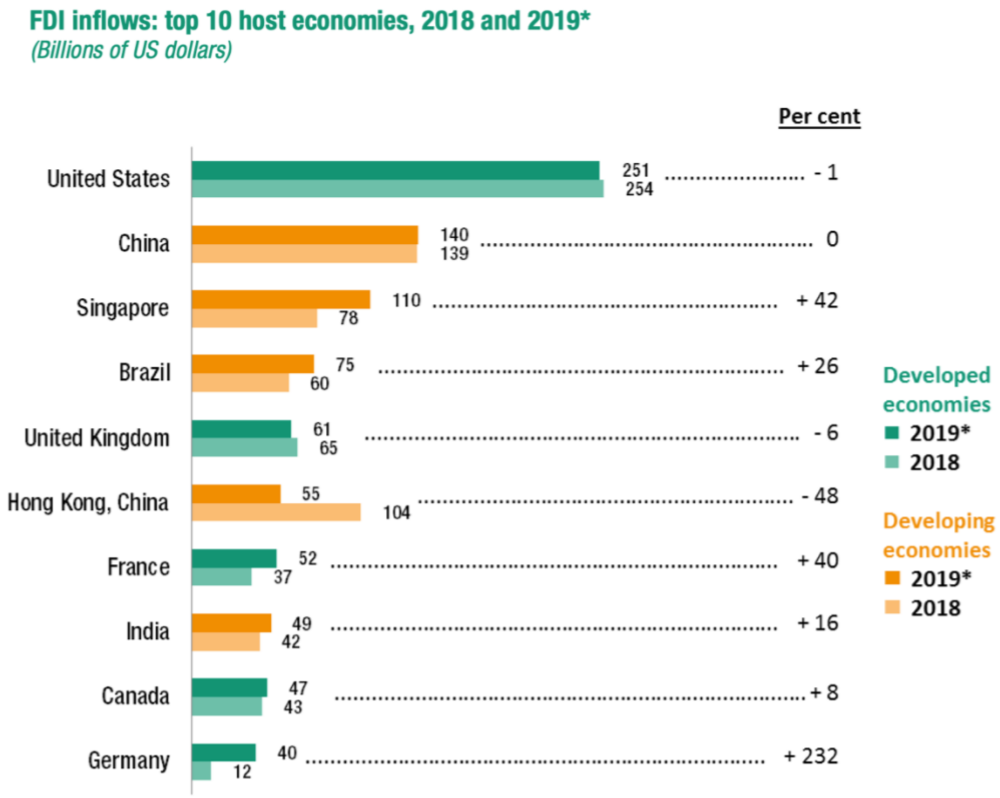
These securities can be either equity securities, certifying the property right of their owner, or debt securities, certifying the loan relationship. The main reason for portfolio investments is an aspiration to place the capital in that country and such securities. It will bring the maximum profit at an admissible level of risk. More than 90% of portfolio foreign investments are made between the developed countries and grow at a rate much faster than direct investments.

While FDI and FPI can be sources of much-needed capital for the economy, FPI is much more volatile, which can exacerbate economic problems in uncertain times. Because this volatility can significantly negatively impact their investment portfolios, retail investors should familiarize themselves with the differences between these two key sources of foreign investment.

- Foreign Portfolio Investments (FPIs) include ownership of financial assets from a country not owned by one's own investor.
- FPI holdings may include stocks, ADRs, GDRs, bonds, mutual funds, and exchange-traded funds.
- Along with foreign direct investment (FDI), FPIs are common ways investors participate in foreign economies, especially retail investors.
- Unlike foreign direct investment, FDI consists of passive ownership; investors have no control over businesses or direct property ownership or stakes in companies.

Inflows/ Outflows

**Net inflow** of FDI is the value of direct investment made by non-resident investors in the reporting economy.
**Net outflow** of FDI is the value of direct investments made by residents of the reporting economy to foreign countries.
[4]



With the support of the
Erasmus+ Programme
of the European Union

Sources:
https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf
https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1_en.pdf

**Motives for FDI and collaborative ventures (definition of the collaborative ventures)**
There are various motives for collaborative ventures as well as for Foreign Direct Investment. S. Tamer Cavusgil defines **collaborative ventures** as essential partnerships between two or more firms, which help the companies involved to overcome together the substantial risks and costs involved in achieving international projects that might exceed capabilities of any firm operating alone. [6] Whilst collaborative venture is a cross-border business alliance, FDI is foremost a strategy.

According to John H. Dunning, there are **four groups of motives for FDI** to distinguish. These are: **resource seeking, market seeking, efficiency seeking and strategic asset seeking.** [7]

**Market-seeking motives** aim to gain access to new markets or opportunities, as well as to follow key customers and compete with key-rivals in their own markets. (Example: Telecommunications - Vodafone) **Resource- seeking motives** (Example: Petroleum - British Petroleum, Royal Dutch Shell) aim to access raw materials, gain access to knowledge or other assets. **Strategic asset-seeking motives** (which is extremely relevant for Chinese emerging market multinational enterprises) is defined by investors interest in acquiring strategic assets such as brands, human capital, distribution networks and others like access to technological and managerial know-how available in a key market, that will enable a firm to compete in a given market. The strategic asset seeking motives are usually meant for the firms which engage in FDI to promote their strategic objectives - usually that of sustaining or enhancing their international competitiveness, the strategic asset seekers aim to capitalise on the advantages of the common ownership of a network of activities and capabilities in diverse environments. **Efficiency-seeking motives** (Example: Motor vehicles - Ford Motor, General Motors) aim to reduce sourcing and production costs, locate production near customers, take advantage of government incentives and avoid trade barriers. [8]

Daniels J. D. [2011] names **various motives for collaborative ventures** such as: spreading and reducing costs, specialising in competencies, avoiding or countering competition, securing vertical and horizontal links, gaining knowledge, gaining location-specific assets and minimising exposure in risky environments. [9][10]

Industries, which are most active in FDI
According to the information collected by UNCTAD based on the data from companies' reporting for the financial year from the 1st of April 2019 to the 31st of March 2020, we can see a clear dynamics in the industries, which are most active in FDI. **Petroleum, Motor Vehicles and Telecommunications prevail.**

If we compare this data with the earlier data from the years 2006 and 2016 we see, that something has changed: if in 2006 first 10 places in the ranking were dedicated to Petroleum, Motor Vehicles and Telecommunications industries, in 2016 Food&Beverages (Anheuser&Busch InBev NV) took the 5th place. In 2019 Anheuser&Busch InBev NV stayed but we also see British American Tobacco PLC on a surprisingly high 8th place.[11][12]

Greenfield Investement vs. Merger&Acquisition

**A green-field (also "greenfield") investment** is a type of foreign direct investment (FDI) in which a parent company creates a subsidiary in a different country, building its operations from the ground up. In addition to the construction of new production facilities, these projects can also include the building of new distribution hubs, offices, and living quarters. [13]

There are various pros and cons regarding greenfield investment type. If we talk about the **advantages** of this type of investment, they are the following:

- High level of control over business operations
- High level of quality control over the manufacturing and sale of products and/or services
- High control over brand image and staffing
- Economies of scale and economies of scope can be achieved in terms of marketing, research and development, and production
- Bypassing trade restrictions
- Creating jobs for the economy where the greenfield investment is taking place

**The disadvantages would be:**

- An extremely high-risk investment – a greenfield investment is the riskiest form of foreign direct investment
- Potentially high market entry cost (barriers to entry)
- Government regulations that may hamper foreign direct investments
- High fixed costs involved in establishing a greenfield location [14]

A **merger** is an agreement that unites two existing companies into one new company. There are several types of mergers and also several reasons why companies complete mergers. Mergers and acquisitions are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to increase shareholder value. Often, during a merger, companies have a no-shop clause to prevent purchases or mergers by additional companies. [15]

There are three basic **types of merger:** vertical integration, horizontal integration and conglomeration. [16]

There is also a **reverse merger** to be mentioned which is a merger in which a private company becomes a public company by acquiring a public company. It saves a private company from the complicated process and expensive compliance of becoming a public company. Instead, a private company acquires a public company as an investment and converts itself into a public company. [18]

An **acquisition** is when one company purchases most or all of another company's shares to gain control of that company. Purchasing more than 50% of a target firm's stock and other assets allows the acquirer to make decisions about the newly acquired assets without the approval of the company's other shareholders. Acquisitions, which are very common in business, may occur with the target company's approval, or in spite of its disapproval. With approval, there is often a no-shop clause during the process. [19] [20]

**Acquisition advantages are:**

- Speed
- Market power
- New resources and competencies
- Meeting stakeholder expectations
- Financial gain
- Reduced entry barriers

**Acquisition disadvantages are:**

- Financial fallout
- Hefty costs
- Integration issues
- Unrelated diversification
- Poorly matched partner
- Distraction from operations

**Ventures**

**Business venture** is any possible new business that is usually accompanied by some risks and aims to fill a gap in a particular market and make profit. Business venture can be anything from a smaller business operation to a larger international enterprise [21] [22].

Classical business venture is usually organised in a different way, comparing to a startup, and even though both of them refer to a new company, startups are the ones that are expected to show much faster speed when it comes to growth. According to the statistics presented online, startups are supposed to grow by 5-7 percent at their earlier stages. That means that startup is more of a growth-based project. Whereas a classical business venture is supposed to grow rather slowly and show more gradual development, aiming to provide its founders with a steady income and stability. Traditional business ventures, as well as startups, usually can choose if they prefer to remain private of go public at some stage of the business growth [22].

Joint Venture

When two or more different business ventures decide to work together and form a separate firm, one is speaking of a **Joint Venture (JV)**. Typically, JVs are created for production or for research, as well as for a common continuous goal**,** with both parties not possessing all of the assets needed to exploit an available opportunity and therefore perfectly complementing one another. Sometimes JVs might combine large and small companies, in order to take over one or many bigger or smaller projects and agreements together. In a JV all the parties are always responsible for making profit and keeping costs under control. Here, however, venture always needs to be considered separately from the participants' other business activities. So, this businesses remain separate in all legal terms [23].

Reasons to form Joint Ventures

- **Leverage Resources**

A JV takes advantage of the combined resources of all parties to reach the initial goal of the venture. For example, one firm can already be strong in manufacturing, while the other one occurs to have very well-established distribution channels.

- **Cost Savings**

When using economies of scale, all parties of the JV "can leverage their production at a lower per-unit cost than they would separately" [23]. It is usually very useful with new and innovative technologies that are often quite pricey to implement, as well as when sharing marketing or labor expenses.

- **Combined Expertise**

The firms that form a JV can all benefit from each party's expertise, unique knowledge, skillset and background within their own firm. [23]

Examples of Joint Ventures

- Vodafone & Telefónica – made an agreement to share their mobile network
- BMW & Toyota – decided to collaborate on research "into hydrogen fuel cells and ultra-lightweight material" [24]
- GSK & Sanofi – made a mutual research on a vaccine against Covid-19 [24]

**International Joint Venture**
An **International Joint Venture (IJV)** is a JV where at least one of the partners is based outside the JV's location of operation [25]. In such a case, partners usually have mutual interest in collaborating, because both parties usually have a very unique offer of various skills and knowledge which another side does not have.

**Foreign partner usually offers**:

- capital
- technology
- management
- expertise
- training
- some type of product

**Local partner usually offers**:

- use of its factory or other real estate
- knowledge of language and culture
- market navigation know-how
- useful connections
- lower-cost production factors such as labor

Such a partnership allows foreign companies to have access to key market knowledge, a distribution system and customers, and also gives them greater control over local operations.

**International collaborative ventures**

**International collaborative venture** is a cross-border business alliance where partnering companies pool their resources and share costs and risks of the venture. This collaboration helps to overcome the risk and high costs of international business and makes the achievement of projects that exceed the capabilities of the individual firm possible [28].

It includes:

- equity joint ventures
- non-equity joint ventures
- project-based ventures

***Equity Joint Venture***

**Equity JV** is a type of JV where two or more partners create a separate legal firm that helps to carry out a particular project with its own objectives: advertisement, logistics, production, research etc. This new firm should also usually be located in the country, where one of the parties is already located, and should benefit foreign, as well as local group of interests [28] [24].

Equity JV is known to be one of the oldest and less flexible one among other JVs. Legally it must operate as a Limited Liability Company, and that means that the personal wealth and property of all the responsible parties are protected from any possible corporate loss. In EJV, profits are usually allocated in accordance with the ration of the capital contributions made by both sides. Which means, in one partner has 60% of the capital investment, his or her profit will also be 60% of the total profits. Equity JV is not usually created for some short period of time and is expected to never stop existing and being profitable [27].

Equity JVs usually have two (sometimes more) partners – one with the capital and one receiving this capital, which means such JVs can lead to some risks of financial losses in case of failure, especially when the venture is opened in a less developed country. There is also a risk of some particular industries being nationalised by the foreign government in order to protect their domestic interests and goals [28].

***Non-equity Joint Venture***

**Non-equity JV** is a type of JV where two or more partners look for various technical, service arrangements, “franchise and brand use agreements, management contracts or rental agreements, or one-time contracts, e.g., for construction projects.” Non-equity JVs are usually used to simply provide “access for the participants into foreign markets” [28].

There are several factors that influence the choice between equity JVs and non-equity JVs: “firm size, activities of the value-chain concerned by the agreement, industrial sector, host country institutional characteristics and cultural distance.” Various studies have shown that the bigger the cultural difference between the foreign and home country is, the higher are the chances that the parties will choose to create a non-equity JV, rather than an equity JV. On the other hand, higher political risks make firms decide for equity JVs when entering a foreign market [31].

***Project-based Joint Venture***

**Project-based JV** is a collaboration in which partners create a project with a relatively narrow scope (development of new technologies, products, or share other expertise) and a well-defined timetable, without creating a new legal entity. Project-based JVs allow their participants to combine project-needed assets for a short period of time without any “substantial investment”. Important to mention is that a survey research that was held for the US architecture/engineering/construction (A/E/C) firms showed that smaller partners in such a type of a JV are usually more successful and are more likely to grow faster. Also, companies with a strong client trust are more likely to increase in their short-term income and will probably suffer some long-term market losses in comparison to their partners that are less legitimised. This survey also pointed out that cultural match among the collaborating parties plays a very important role in ensuring profitable joint venture returns [29].

Benefits of Project-based JV:

- **No separate entity**

There is no legal entity created in this type of JV, and local firms work on some contractual agreements instead.

- **Fixed tasks**

Local companies contribute to the project by sharing their financial resources, expertise and human resources to perform tasks that benefit both parties. This also includes marketing and R&D. Parent companies do such activities in order to get advantages and do not spend too much on creating a new firm. Parents companies' interest in such JV is also to take advantage of the "strengths of the partners and share the immense fixed costs involved in research and development projects" [32].

- **Fixed timeline**

Such JVs usually have a clear definition of a time they will be functioning, a final day and also a fixed timetable that helps the parties to finish the project by this particular moment. After the project is successful or when it is no more valuable for the firms to collaborate - the partners of such JVs separate.

- **Development of new technology**

Project-based JVs are usually based on quite a narrow scope, e.g.: manufacturing, delivery, sourcing, research etc. Partners usually create such ventures with a goal to share some knowledge on different technologies or some know-how in order to be more successful among their competitors [32].

***Advantages and Disadvantages of Non-Equity Joint Ventures***

**Advantages:**

- Expertise and Unique Viewpoints

Each party of a JV can have a different expertise and unique points of view and combining them with each other, one can come up with an outstanding results and create something even more efficient, costs-saving and succesfull.

- Greater Resources

Combined resources usually lead to greater results and higher efficiency.

- Temporary relationship

They are created just for a rather short period of time (usually no longer than 3 contractual periods).

- Profits & Risks are shared

JV parties are always responsible for all the profits, losses and risks together.

- Ability to exit a JV

Partners can exit the JV anytime with accordance to the rules and conditions they agreed on.

- Assets can be sold

When partners form the JV they always declare who is going to claim what assets. If one partner needs to purchase assets they will usually belong to the party that purchased the assets and invested the capital into those assets, and as soon as the contract is no longer valid, these assets can be sold by the party that bought them.

**Disadvantages:**

- Unclear Objectives

If JV partners have no clear objectives they might get lost along the way and that is what frequently happens with many firms.

- Not Much Flexibility

Partners always need to consult with each other and depend on each others' decisions and are involved in the decision making process, even though one of them might have more control over the JV than the others.

- Each Party is not Equally Involved

Throughout the JV process, one party might sometimes be more involved in the processes and contribute better than the others.

- Unbalanced Expertise, Assets & Investments

When a firm is planning a JV, it is usually going after someone that has much more expertise in a particular area, a lot more assets and sometimes even more investments. As a result, the parties have assets that are not equally balanced and that makes the whole collaboration more complicated.

- Culture Battles of JV Partners

Partners need to find a balance between their companies' cultures and choose the most appropriate way how to mesh them together in a JV.

- Restricted Outside Activities

JV partners sometimes are not allowed to seek for any other opportunities and business activities, as long as they are involved in the JV relationship.

- Lack of Proper Research and Planning

Quite often the parties are in quite a hurry to join the JV that they do not do proper planning and research that needs to be done to make this JV successful [33].

**Retailers**
Foreign direct investment and company's location decisions in Europe have attracted much attention from competitors, consumers, academics and governments.

During the last decade retailing has rapidly become more and more internationalised and retailing firms are creating high levels of value-added by means of domestic job-creation and local purchasing. Successful retail expansion involves the development of a set of network contacts with different actors and interest groups on that market, as well as good relationships with suppliers and other business partners.

American and European firms are leading actors in this development. Wal-Mart is by far the biggest retailer in the world. Their total retail sales were US$191 billion in the year 2000, compared to the second biggest company, French retailer Carrefour, with an annual sale of US$60 billion the same year.

In Europe, however, there is still a very strong dominance of European retailing companies. For instance, in the food sector Wal-Mart is the 14th biggest and the only non-European company among the twenty largest retailers. Wal-Mart, as well as other American retailers, are trying to invest in Europe, however, they have faced substantial difficulties on some of the national markets, further demonstrating that FDI in European retailing is challenging both for managers as well as host markets.

When companies start operations in foreign markets they face greater uncertainty, as the environment is very dissimilar to the home market. These dissimilarities in the economic, political and legal environment, and the level of technology and culture, create obstacles to successful entry [34]. This is especially problematic in retailing, because companies have to invest large sums from the start in building or taking over stores, in developing logistical systems and relationships to suppliers. These activities usually also make it necessary for retailers to interact with actors on a societal level, in acquiring permissions for land in order to build stores, making sure that there are appropriate road accesses and parking spaces for the store, public communications, import licenses and approvals for products from other countries that are to be featured in the stores.

Retailers such as, IKEA and H&M do not produce anything themselves. Instead, they rely on the most efficient manufactures. In all, since the building and management of relationships is such a critical factor, a matching approach is very relevant in order to understand FDI decisions, successes and failures of retailers. This view on internationalisation is, in turn, very different from a traditional one [35]. One key success factor in international retailing, which helps to critically enhance retail manager's evaluation of a country markets´ location attractiveness, is the ability to understand consumers as well as competitors on these different host-markets. This makes the retailer's degree of market orientation (MO) likely to influence its performance on new markets [36]. A high degree of MO when entering a new market will increase the retailer's ability to interpret the specific consumer needs and the cultural differences on that market and to develop corresponding retail concepts, to develop a competitive position versus the competitors on that market, etc. Critical factors for retailers during their process of internationalisation are, for example, to understand how a certain format has to be adapted in order to fit culturally different markets [37], how to manage distributions and logistics and how to advertise and persuade consumers. Thus, there is a need for an approach that better recognises these specific challenges when retailers enter new markets.

*Networking and the role of 'matching'*

Studies undertaken under the *network* approach [38] have presented a model with three main elements; actors, resources and activities. These three factors interact with each other and help a firm to enter and establish a position in a new market. A number of studies have reported that long lasting relationships between different actors in a market have been the main marketing and competitive tools [39]. Furthermore, a discussion on relationships can be carried out in three steps [40]: The first refers to the function of the relationship from the perspective of the parties involved. The second to the fact that parties involved in one particular relationship may also be involved in other relationships and their counterparts in these other relationships may also be involved in the particular relationship. The third step explains how, based on the above, a particular market setting has a structure and how business units (actors) within this structure have a web of relationships with each other.

*'FDI-Location Attractiveness' model for retailing companies*

The model comprises of two levels of perspectives, corporate and host market-perspectives, which ultimately drive FDI location attractiveness. The FDI location attractiveness dimension is seen as a perceptional measure of executive retail managers in their decision making process. What follows is an analysis of two cases using Wal-Mart's and Toys 'R' Us's attempts to enter European market to verify the applicability of model. [42]

**Two cases on FDI into EU - Toys'R'Us and Wal-Mart in Europe**

For Toys'R'Us we focus on its difficulties on the Swedish market, but will also refer to activities on other international markets. The discussion of Wal-Mart is based mostly on its entry in the UK and Germany. The purpose is to illustrate the model presented above and to point out the specific challenges for foreign companies that invest in EU countries.

*Significant firm characteristics*

Both Toys'R'Us and Wal-Mart are usually characterised as having a very customer oriented organizational culture, in the sense that the employees are encouraged always to put the customer in focus, to look upon the customer as king, etc. At the same time, this culture appears to be very close to the "American" way of looking at customers and employees. It is also implemented in and standardized way that may be more suitable for US that for Europe. For instance, Wal-Mart employees have a morning cheer that greets customer as the king that works well in the US but is far from the kind of company culture that is considered normal in many European countries. Wal-Mart has also used the strategy of putting Americans on the top positions within the acquired companies on the German markets, which may be one explanation to why it failed to understand the specific characteristics of that market.

An example from Toys'R'Us is that the handbook that is handed out to every employee has usually just been translated to the native language when entering a foreign market. In Sweden, an external law firm was given the assignment to simply translate the book into Swedish without any further considerations about Swedish working life. Toys'R'Us's lack of flexibility and interest in local conditions also made it more difficult to succeed in macro level matching with politicians, local government and union representatives.

The low level of understanding of the conditions specific to the different new markets can also be regarded as a sign of a limited commitment to the host markets. This may also explain why both retailers have been more successful on the UK market that is more similar to the US, while Wal-Mart had substantial difficulties in Germany, and Toys' R'Us has struggled in Sweden and the Netherlands. Both firms also have cost efficiency and low prices as a significant part of their strategies. In order to accomplish this they work with standardized low cost solutions in relationships with manufacturers and other partners. These solutions have also been more or less replicated when entering the European markets. Wal-Mart and Toys'R'Us appear to base their relationships to different stakeholders more on the power that their market size gives them than on long term trust building, and none of the firms appear to have the kind of matching and networking competencies that other retailers, such as IKEA, use while entering foreign markets [41].

*Matching on different levels*

There is little evidence that any of the retailers have spent much effort on global level matching in order to facilitate the entry to the specific foreign market. Instead, they rely on their own internal competences and resources, and the size and impact that they expect to have on any new foreign market. For instance, Wal-Mart is probably big enough to manage without any financial matching on a global, or macro level. The lack of interest in global level matching may, however, also explain some of the difficulties that the firms have had in Europe. Matching may have helped the companies to understand the conditions in different European countries and the regulatory frameworks concerning consumer marketing as well as the employee relationships that exists in the EU. For example, in the 1990s an EU directive was developed stating that all multinational companies should have a sectoral advisory committee for labour issues installed at the corporate level. This also emphasises the fact that labour unions have the possibility of global and international networking, an aspect neglected by Toys‘R’Us when deciding to go into conflict with the Swedish labour union. As a result of the conflict between Toys‘R’Us and the Swedish labour union, labour unions took global initiatives to co-ordinate efforts and to put pressure on Toys‘R’Us. A worldwide campaign was started in order to organise labour within Toys‘R’Us and to improve the employee conditions.

*Macro level matching* refers to activities on an overall level within a certain market. In spite of the aspiration within the EU to develop a common legal and structural framework, retailers are still very dependent on the conditions of the individual markets that they want to enter. It is rarely possible to apply a single strategy for the European market. The legal part is one important aspect here. Most European countries have different laws and regulations relevant to retailers that concern social issues as well as external shopping centres, allowed shopping hours, etc. To begin with, the restrictive German rules concerning opening hours made it difficult for both these retailers to fully implement their strategies. Wal-Mart faced additional difficulties due to the strict German rules concerning city planning and social issues. These problems could have been anticipated at an earlier stage if the retailer had built a stronger macro-level network in Germany.

As retailing involves establishing stores on different local markets, relationships to local authorities is also very important. In Sweden, for instance, the local government and the locally developed plans for where retailing is to be allowed, the allowed size for store units, etc., can be a non-negotiable restriction. Domestic retailers have adapted to this and often have well developed macro level network relationships. Toys‘R’Us appeared not to be able to build such relationships, either at the local or national level. If the firm had done so it may have had better initial knowledge about the labour market conditions. In fact, Toys‘R’Us’s initial attempt to enter the Swedish market more or less collapsed due to an insufficient understanding of the political conditions. At an early stage, Toys‘R’Us decided to implement their American rules for employees and employee relationships. This meant that the company encouraged their employees not to join labour unions, refused to sign any general agreements with labour unions concerning salaries, working conditions, etc. It also meant that the company tried to implement regulations concerning working hours for employees that were less favourable than the norms of the country. There were massive protests from the labour unions but Toys‘R’Us persisted in following the American policies. In doing so, the retailer obviously underestimated the power of the labour union and the workers’ determination, as well as the differences in culture between Sweden and the US. It also failed to understand that relationships with unions are closely related to other macro level relationships with government authorities, politicians, media, etc.

Initially, the labour union for retail employees started a strike at the Toys‘R’Us stores. As the conflict escalated other sectors and labour unions were also mobilised in sympathy. For example, labour unions managed to stop Toys‘R’Us’s advertisements in the press while the workers had a big advertising campaign, the transport workers stopped any deliveries to Toys‘R’Us’s stores and refused to handle shipments of products from Toys‘R’Us’s central European warehouses in the UK, employees in local banks refused to handle transactions involving Toys‘R’Us money, etc. Additionally, the Swedish blue and white-collar labour unions encouraged all their 2,5 million members not to shop at Toys‘R’Us. Toys‘R’Us more or less refused to talk to the media during the conflict. This was a central company policy that further undermined the firm’s position. In all, the conflict with the labour unions had considerable negative consequences on financial and market performance as well as on public image and customer relationships in Sweden. After almost 6 months Toys‘R’Us had to give up and sign an agreement that was adapted to Swedish labour market conditions. By then, however, relationships to employees, customers and other stakeholders were severely damaged. Toys‘R’Us had a bad image as an actor on the Swedish market, a weak net of relationships to strategic actors and activities and no matching efforts. The firm tried to address this problem by an aggressive marketing campaign, but it did not turn out very well. Finally, the problem was solved by forming an alliance with the Danish company Top Toy, that already had an efficient distribution network, a good knowledge on the Scandinavian market, higher credibility among employees and good relationship with government. Top toy was given the right to operate the Toys‘R’Us stores in Sweden on a franchise basis.

*Matching at micro level* refers to activities that create an efficient business network on the market. It emphasises relationships to partners such as suppliers and middlemen. This is another area that stresses that the European market consists of a number of national markets with very different characteristics concerning critical resources, how activities are organized in the networks and what actors that are responsible for them. At least for a start, both retailers appeared to pay very little respect to national differences. This caused several conflicts. For instance, both companies had problems with the German market. Wal-Mart tried to implement its US strategy concerning logistics and centralised distribution. Suppliers were thus asked to deliver to distribution centres instead of directly to the stores. This worked out well in the UK, but it was very different from the German system that was based on direct store deliveries. German national suppliers would not and could not adapt to the new system introduced by Wal-Mart. This made deliveries fail to arrive on time and out-of-stock rates increase to up to 20 per cent. Again, it appears that Wal-Mart tried to base relationships to local actors more on power and size than on mutual adaptations and trust. In Germany this failed partly because Wal-Mart did not have the size required for such an approach. Toys‘R’Us also had problems with their supplier relationships in Germany. The warehouse and low price approach was regarded negatively by German manufacturers. The latter even started a propaganda campaign that stated that Toys‘R’Us would threaten consumer safety and the quality of the toys offered. In this case, however, problems were overcome as Toys‘R’Us grew and became more and more profitable.

In the two cases, there was little evidence of state subsidies or any other “unfair” competitive strategies to attract FDI. It seems the location decision was based on the market potential and size. Moreover, an entry into European market as a whole was the main purpose. Wal-Mart particularly focused on the two bigger markets in the EU, with an intention to expand successively. Toys‘R’Us on the other hand entered several European markets at the same time, most probably to ease access to distribution channels, augment distribution rates etc.

One reason why the government did not provide any incentives for Wal-Mart in the UK and Germany, may have been the entry mode, i.e. acquisition of existing companies. As in this case the government could not see any new job opportunities or other benefits related to inward FDI. It appears greenfield investments are more likely to compete successfully for benefits in the race for FDI. The global matching activities are mostly carried out on a corporate level. These are likely to generate resources and relationships that support a retailer’s positioning on the host market. Furthermore, retailers are likely to have developed different skills concerning networking based on previous experiences and activities. Different firms are also likely to represent different views on the relevance of market inputs and on how much resources and efforts that should be dedicated to the particular host market. These factors will determine the degree of support given to the establishment process on that market.

As far as the role of the government is concerned, this study suggests that for the retailing industry, the governments need to consider the following: Governments need to become more active in facilitating the adaptation process to new markets for retailers. They can take more initiatives to macro level matching, build supportive networks, and act as “brokers” between the entering retailer and key organizations on the host market.

Governments are often more concerned with FDI by manufacturing firms, as these are expected to bring in good job opportunities and represent an easily ‘marketable’ communication success for policy makers. However, what appears to be forgotten quite often is that retailing firms bring in even more job opportunities than a single production unit. Both Wal-Mart and Toys‘R’Us appear to have tried to get partners on new markets that were well suited for implementing the existing retail proposition, based mostly on experiences from the American market. Perhaps an entry would be more successful if the retailers had also looked for partners who could provide them with the best knowledge about the characteristics of the new market.

It seems reasonable to argue that retailers should spend relatively less effort on global level matching and considerably more on macro and micro level matching. Most retailers do not have to make the same huge and concentrated global investments as manufacturers do when they go international – thus perhaps a lesser need for global level matching. It is also more difficult for retailers to apply a universal marketing strategy for its global enterprises, because retailing demands even larger adaptations to each host market than manufacturing do. Through macro and micro level matching with the local government, retailers might even be able to attract certain location benefits.

---

**References**

[1] By Angel Broking | Published on 31st August 2020.
[2] Kimberly Amadeo Reviewed By Thomas J. Brock
[3] https://www.oecd.org/investment/investmentfordevelopment/1959815.pdf
[4] https://unctad.org/fr/node/31924
[5] WORLD INVESTMENT REPORT 2018
UNCTAD, worldinvestmentreport.unctad.org/world-investment-report
[6] Cavusgil S T, Knight G and Risenberg J R (2011) Interantional Business: The New Realities, Upper Saddle River (NJ): Pearson.
[7] Dunning, J.H. (1993): Multinational Enterprises and the Global Economy. Harlow, Essex: Addison-Wesley Publication Company.
[8] Dunning, J.H. (1998): Location and the Multinational Enterprise: A Neglected Factor? in: Journal of International Business Studies, 29, 1, 45-66.
[9] Daniels J D, Radebaugh L H, Sullivan D P (2011), chapter 14, Direct Investment and Collaborative Strategies in International Business.

[10] Collaborative Ventures. (2016, Mar 21). Retrieved from http://studymoose.com/collaborative-ventures-essay [last access: 29. May 2021]
[11] Online Source: http://topforeignstocks.com/2017/03/17/the-worlds-top-100-nonfinancial-tncs-ranked-by-foreign-assets-2015/ [last access: 28. May 2021]
[12] Online Source: unctad.org [last access: 28. May 2021]
[13] Online Source: https://www.investopedia.com/terms/g/greenfield.asp [last access: 28. May 2021]
[14] Online Source: https://corporatefinanceinstitute.com/resources/knowledge/strategy/greenfield-investment/ (examples of the greenfield investments), [last access: 27. May 2021]
[15] Online Source: https://www.investopedia.com/terms/m/merger.asp, [last access: 28. May 2021]
[16] Abraham Moskovicz in: The International Journal of Business and Management, Mergers and Acquisitions: A Complete and Updated Overview, https://www.researchgate.net/publication/328557738_Mergers_and_Acquisitions_A_Complete_and_Updated_Overview, [last access: 28. May 2021]
[17] Online Source: https://www.economicshelp.org/blog/5009/economics/pros-and-cons-of-mergers/, [last access: 28. May 2021]
[18] Online Source: https://efinancemanagement.com/mergers-and-acquisitions/reverse-merger, [last access: 27. May 2021]
[19] Online Source: https://www.investopedia.com/terms/a/acquisition.asp, [last access: 27. May 2021]
[20] Online Source: https://investmentbank.com/pros-and-cons/, [last access: 28. May 2021]
[21] Kelsey McKeon. (2020, 3 December). Business Ventures: 5 Examples of New Business Ideas That Worked. Online Source: https://themanifest.com/business-consulting/business-ventures-examples-new-business-ideas#:~:text=A%20business%20venture%20is%20any,to%20large%20silicon%20valley%20enterprises [last access: 29. May 2021]
[22] Andra Picuncu. (2018, 24 September). Business Ventures: Definition, Types, & Starting Your Own. Online Source: https://bizfluent.com/13715021/what-is-a-business-venture [last access: 29. May 2021]
[23] Marshall Hargrave. (2021, 17 March). Joint Venture (JV). Online Source: https://www.investopedia.com/terms/j/jointventure.asp [last access: 28. May 2021]
[24] Equity joint venture (EJV). Online Source: https://www.globalnegotiator.com/international-trade/dictionary/equity-joint-venture-ejv/#:~:text=A%20type%20of%20joint%20venture,for%20carrying%20out%20the%20project [last access: 29. May 2021]
[25] Collaboration in International Joint Ventures. Online Source: https://www.ukessays.com/essays/management/collaboration-in-international-joint-ventures-management-essay.php [last access: 30. May 2021]
[26] Tutor2U. (2020, 15 October). Joint Ventures I A Level and IB Economics. Online Source: https://www.youtube.com/watch?v=tGQveH0148s [last access: 30. May 2021]
[27] LehmanBrown - International Accountants. What is an Equity Joint Venture? Online Source: https://www.lehmanbrown.com/faq/what-is-an-equity-joint-venture/ [last access: 30. May 2021]
[28] Arthur G. Sharp. Joint Ventures. Online Source: https://www.referenceforbusiness.com/encyclopedia/Int-Jun/Joint-Ventures.html#ixzz6vmRtfPnd [last access: 28. May 2021]

[29] David N. Sillars, Roozbeh Kangari. (2004, 15 July). Predicting Organizational Success within a Project-Based Joint Venture Alliance. Online Source: https://ascelibrary.org/doi/abs/10.1061/%28ASCE%290733-9364%282004%29130%3A4%28500%29#:~:text=Project%2Dbased%20joint%20ventures%20(a,term%20basis%20without%20substantial%20investment [last access: 28. May 2021]
[30] The New York Times. (1988, 7 January). Nestle Unit Under Watch. Online Source: https://www.nytimes.com/1988/01/07/business/nestle-unit-under-watch.html [last access: 30. May 2021]
[31] Antonio Majocchi and Ulrike Mayrhofer. (January 2010). The choice between joint ventures and non equity-alliances: evidence from Italian firms. Online Source: https://www.researchgate.net/publication/254418988_The_choice_between_joint_ventures_and_non_equity-alliances_evidence_from_Italian_firms [last access: 30. May 2021]
[32] Vakilsearch. Project-based joint venture. Online Source: https://vakilsearch.com/project-based-joint-venture [last access: 30. May 2021]
[33] Nancy Byerly. (2020, 21 February). 12 Advantages & Disadvantages of Joint Ventures// Federal Contracts Made Easy. Online Source:[last access: 29. May 2021]
[34] Buckley, Peter J. and Pervez N. Ghauri Eds. (1999), The Internationalization of the Firm: A Reader (2nd ed.). London: International Thompson Business Press.
[35] Axelsson, Björn and Jan Johanson (1992), "Foreign Market Entry: The Textbook Vs. The Network View," in Industrial Networks: A New View of Reality, Björn
[36] Jaworski, Bernard J. and Ajay K. Kohli (1993), "Market Orientation: Antecedents and Consequences," Journal of Marketing, 57 (3), 53-70.
[37] Burt, Steve L. and Jose Carralero-Encinas (2000), "The Role of Store Image in Retail Internationalisation," International Marketing Review, 17 (4), 433-453.
[38] Blankenberg, Désirée and Jan Johanson (1992), "Managing Network Connections in International Business," Scandinavian International Business Review, 1 (1), 5- 19.
[39] Arndt, Johan (1979), "Toward a Concept of Domesticated Markets," Journal of Marketing, 43 (4), 69-75.
[40] Anderson, James C., Hakan Hakansson, and Jan Johanson (1994), "Dyadic Business Relationships Withing a Business Network Context," Journal of Marketing, 58 (4), 1-15.
[41] Larsson, Rikard, Kenneth Brousseau, Michael Driver, Mikael Holmqvist, and Veronika Tarnovskaya (2003), "International Growth Trough Cooperative Strategies. Brand-Driven Straetgies, Leadership and Career Development in Sweden," The Academy of Management Executive, in print.
[42] Ghauri, Pervez N. and Karin Holstius (1996), "The Role of Matching in the Foreign Market Entry Process in the Baltic States," European Journal of Marketing, 30 (2), 75-88.

With the support of the Erasmus+ Programme of the European Union

# UNITS IX AND X. LICENSING AND FRANCHISING: PERSEPCITVE FOR THE EU

***Licensing***

**“Licensing is an agreement by which the owner of the intellectual property grants another firm the right to use that property for a specific time period in exchange for royalties or other compensation.” [3]**

In more simple terms, licensing is an agreement between the company that owns a technology or knowledge - licensor - and the company that would like to use this technology or knowledge - licensee. Via the licensing agreement, the licensor grants the right to use the intellectual property rights associated with its innovations, works of art, trademarks, service marks, know-how, etc. Therefore, licensing agreements do not involve only legal, but also business and technical considerations. Most importantly, many parts of the licensing agreement, such as the duration, scope or payment process, can be easily changed to find what works best for both parties, so the “hallmark” of licensing agreements is flexibility [16]. Flexibility in this sense refers to the type of negotiations in which both, licensor and license strive to achieve a “win-win” situation by understanding risks and benefits for both parties [20]. More on this in section 3.6.

Licensing goes back to the Middle Ages when tax collectors acquired the right to be associated with the church by paying “royalties” to the Vatican. In 18th century England, two ladies of noble birth licensed their name to the cosmetic companies in return for the percentage of the products’ revenue. [30]

***Intellectual property and royalties***

*Intellectual property* has many definitions but most of them include intangibles which range from ideas, discoveries and inventions, artistic, musical, and literary works, to phrases, symbols, and designs, all of which can be created both by individuals and by firms.

In the arena of international laws and international trade, defining intellectual property is closely linked to the protection of rights and the reduction of trade impediments. Hence, the Agreement on Trade-Related Aspects of Intellectual Property Rights – the treaty signed by the members of the WTO – defines intellectual properties as copyright and related rights, trademarks, geographic indications, industrial designs, patents, layout designs of integrated circuits and undisclosed information [16]

EU legislators define intellectual property rights as those which include “industrial property rights, in particular patents and trademarks, copyright and neighbouring rights.” [21]

The infographic on the right-hand side captures the essence and distinction among copyright, trademark and patent.

International protection of IP is a vital driver for the developmental and technological advancement of businesses and societies. The minimal standard of international protection is based on the principle of "national treatment." According to this principle, each country is expected to provide the same and not less favorable treatment to authors and inventors from other countries as they provide for their own. Strong IP protection is not only favored by the IP owners, but also by the sellers of goods which are IP in its essence, like computer software or films. However, developing countries view strong IP rights protection as an impediment to their technological development. [22]

Royalty is compensation that is regularly paid by the licensee to the licensor for the temporary use of its intellectual property. [3] Royalty is usually based on a percentage of the gross sales generated by the licensee's use of the asset [16] and percentages range from 2 to 5% of gross revenue in sales of the licensed property. [3] Royalty payments can also be calculated using the per-unit rate or other criteria, such as quantity generated by comparison to weight or duration.[16]

Are royalties the only means of compensation for the use of the licensed property?

No. The licensee pays the fixed lump sum to the licensor PLUS royalties. The lump sum paid upfront to the licensors covers its initial expenditures such as transferring the license to the licensee, consultation fees, training, etc. In some cases, for example, in know-how agreements between companies from the same or similar industry, a licensee may provide other means of compensation to the licensor, for example, cross-licensing, payment in products, know-how, etc. [3]

Even in the heights of the Great Depression, General Foods paid one million dollars to Disney in 1934 for the rights to include the cut-out of Mickey Mouse on the cereal boxes. [30] Hasbro, an American toy company, paid an initial fee of 100 million dollars for a licence from Marvel Comics. [3] In 2017, LEGO made $94 million as licensor on inbound licences (Lego Movie, Legoland parks, etc.) and paid almost $400 million as a licensee in outbound license agreements with various Hollywood companies. [3]

***Licensing as an entry strategy***

In the world of international business, licensing is the market entry strategy of choice in many industry segments. Many companies, especially in the high-tech industry, choose to license rather than investing in their own R&D due to intense competitive pressure and fear of lagging behind in the field of technological innovations. When comparing three different strategies, reliance on internal R&D, collaboration and strategic alliances with external partners, and licensing, Moreira et el. reached an interesting conclusion that licensing was the best option to retain competitive advantage when companies' investments were at stake. [27]

The reasons why licensing may work better than other market entry strategies are many. However, three characteristics were most prominent in explaining why licensing works so well: 1) licensing is all about direct commercial transaction of IP and know-how between firms and, unlike in strategic alliances, the need for business coordination between them is minimal; 2) licensee can pinpoint its own technological deficiencies and focus only on what they need to close that gap if they plan to respond to their competitor's advantage, 3) licensing entails the fast application of IP solutions by skipping the time needed for their in house development. [27]

Even though licensing seems to be one of the customary strategies in high-tech and biotech industries [3], a closer look at the statistics on retail shares of licensed merchandise by the types of the industry from 2018 reveals an interesting picture. Almost half, or to be more specific, 43.8% of the revenues generated belong to entertainment and various characters from the entertainment industry. This is followed by 21% of revenues generated by corporate brands, 11.5% generated by the fashion industry and 9.9% in sports. Surprisingly, only 1.7% belongs to revenues generated by licensing in the celebrity category and 1.7% in the music industry. [28]

In 1930, one of the pioneers of modern licensing, Stephen Slesinger, turned Winnie the Pooh into a $50 USD business within a year. [30] Winnie the Pooh, the beloved children's books character from 1926, thus became the second highest earning licensed property of all times after Mickey Mouse, and was acquired by Disney in 1961.[3]

If you wish to learn which companies were among top 150 licensors in 2020 click HERE

## Types of licensing

There are several types of licensing agreements that will be covered in this section: copyright, trademark, know-how and patent licensing.

### *Copyright licensing*

*Copyright*, as a concept of exclusive legal rights, was invented with the invention of the printing press when authors of literary works finally gained legal recognition. In the very beginning of the printing press revolution, the rights were granted to printers, who were also publishers, via a special grant. [16]

There is an extensive list of works that can be "copyrighted" internationally: literary works (novels, poems, articles, etc.), computer programs and software, music, choreographies, visual arts (films, paintings, drawings, photographs, sketches), even flyers, user manuals, slogans, websites and advertisements. However, ideas cannot be copyrighted [17] because "copyright protects the 'expression of idea rather than idea itself'." [16]

The owner of copyrighted work has international exclusive rights to reproduce, publicly perform and distribute his/her work, but copyright protection is unfortunately not equally or adequately enforced in all countries, hence consulting local copyright laws is advisable. [3] Each EU member state has its own copyright law, so EU and international copyright laws are also not fully congruent, even though efforts were made in that direction through various EU directives. [17]

One of the main advantages of copyright in comparison to other IP rights is that it provides lengthy protection, which usually spans from the creation of work to the end of the author's life, plus 50 to 70 years after his/her death. [16] A special symbol © customarily informs the audience that the work is protected by copyright law or that all rights are reserved. However, copyrighted works are often used without the owner's permission in which case the owner of the copyright can take legal action against the party that committed copyright infringement. [17]

In order to obtain legal permission to use copyrighted work, the licensee signs a licensing agreement with the copyright owner or licensor. Copyright licenses may impose certain requirements and limits to the licensee, such as geographic and time limits, manner of use, etc. Therefore, it is important that the staff from the licensee's company is well acquainted with these. [17]

***Trademark licensing***

*Trademark* is a sign, or several signs combined, designed with a specific purpose - to distinctly differentiate the product or service of one company from another company's products and services. Such signs can contain personal names, a combination of elements or colors, and are subjects of trademark protection. [16] Trademarks can be found on a wide spectrum of merchandise: from clothing, beverages, toys, food, novelties, etc. [3]

What comes to your mind when you think about Apple Inc. is probably their iconic apple trademark. When you hear McDonald's, you probably associate the name, which is the trademark in itself, with red and yellow colors and their iconic golden arches, that are both, the company's logo and the trademark.

It is a common practice for companies to register their trademarks in the markets where they operate in order to protect their assets. [3] However, a trademark is not the only sign that distinguishes goods and services on the market, geographical indication (GI) has the same function. For that reason, it is not possible to register a sign that only consists of a geographic name as a trademark, but also, it is not possible to register geographic names unless they have earned their distinctive rights through use. [38]

For example, Lipton™ is the trademark that belongs to Conopco, Inc. and Darjeeling tea is a GI. Another example is Jack Daniel's Old No. One Brand Tennessee Whiskey™ is the trademark of Jack Daniel's Properties, Inc. and Scotch Whiskey is a GI.

In comparison to other commercial agreements, trademark licenses last for a fixed time period, typically five to ten years, or even longer [16] and in many countries, companies obtain trademark rights via initial and continuous use of a particular trademark. [3]

***Know-how licensing***

"*Know-how* is a contract in which the focal firm provides technological and management knowledge about how to design, manufacture, or deliver a product or a service to a licensee in exchange for a royalty" that may be paid in the form of a lump-sum, running royalty, or both. [3]

Know-hows can also be a byproduct of the continuous work by the licensor and the licensee on the improvement of the licensed technology. Therefore, it is important that both parties acknowledge such possibility in the licensing agreement and mutually grant each other rights on future improvements. [20]

Know-how falls in the category of confidential business information which may be essential for a company's competitive advantage on the market. It may also be said that know-how, or any other commercially valuable information such as technical knowledge, business plans, recipes, is a trade secret. [39] If the licensed technology is a trade secret, that may certainly impact the royalty rate. [16]

Trade secrets have certain benefits in comparison to other types of IP. First, Unlike patents, trade secrets do not require special registration, because trade secret holders do not have exclusive rights on them. However, since specific measures are taken to keep them secret, such as signing non-disclosure agreements (NDA), disclosing trade secrets represents a breach of contract. [39] NDAs are often used in know-how licensing.

Moreover, trade secrets cover a wide variety of information, they are less expensive to maintain due to no registration costs, and their protection has no time limits. However, formulas, recipes and other trade secrets can be reverse engineered, their protection under IP laws is low and NDAa can be breached.

Trade secrets are usually protected by being kept within a selected group of company's employees, such has been the case with the protection of Coca-Cola's formula for over a century. Another notable example is WD-40, world-renowned rust-prevention product and the only product sold by WD-40 Company. [16] Other notable examples of well-kept trade secrets would be the recipes for Big Mac Sauce and KFC Chicken, and Google search algorithm.

In order to protect its IP, the licensor needs to make sure that trade secret is properly identified and that the employee's are informed about the claims of confidentiality. The company may even establish trade secret protection training programs for its employees. A proposal of such a program was presented by an intellectual property attorney in the graph below. [26]

*A patent license* agreement usually gives a licensee the exclusive right to produce, sell, and use a patented invention under certain conditions.[16] Patents are generally considered as the most valuable IP, not only because patent holders can exclude other parties from commercial exploitation of his/her patented IP for the period of 20 years from registration [39] but also because they boost the development of the country where they are made and stimulate people to invent. [25]

Patent protection is a complex and expensive process that can be steered via national, regional and international routes. On a national level, patents can be registered in IP offices in each country separately. On a regional level, European patents can be acquired at the European Patent Office, and on an international level, World Intellectual Organisation, through the PCT system, enables simultaneous patent registration and protection in 150 territories. [39]

***The structure of licensing agreement***

ABC's of the licensing agreement:

A) all parties and their reasons for entering into the agreement must be clearly defined

B) common terms must be defined and they include: confidential information, net sales, technical definitions of licensed property (e.g. patents, trademark, industrial design, software, know-how), territory and field of use

C) grant of rights needs to establish the scope of the license. This includes the type of license: exclusive or non-exclusive. The exclusive license can: a) grant exclusivity to the licensee and exclude the licensor from the use or licensing, b) sole license in which licensor retains the right to use its IP, but is not allowed to grant further licenses. In non-exclusive deals, both parties can use the licensed IP and the licensor can make further deals with other licensees.

D) Additionally, the licensee's right to sublicense needs to be agreed upon, the geographical scope needs to be defined to define territory on which license can be exploited, a field of use may limit licensee to exploit the IP rights only in a specifically defined field while allowing the licensor to use or license the same IP in a different field. Upon establishing the value of IP by both parties, all details of compensation are specified: how, when and in what currency will payments be made. [20]

At the peak of its popularity, comic strip Charlie Brown, Snoopy and Friends was published in over 2,500 newspapers, in 75 different countries, on 21 different languages, with readership of 355 million people, earning its licensor, cartoonist Charles Schulz, more than one billion dollars in the span of 50 years. [30]

***Things to consider before signing licensing agreement***

Licensing usually requires little to no capital investment on the part of the licensor, as it primarily relies on the licensee to make the necessary investment. Licensor also relies on the licensee's knowledge of the target market and local regulations, as well as its production, distribution, and marketing capabilities.[16]

●What should the licensor consider?

Beyond the financial incentive, the licensor should take into account a variety of other primary factors while negotiating a license, some of which are:

A) Anti-competition restrictions - limiting competition by restricting the licensee's entry to the licensor's home market

B) Non-exclusivity and retention of the right to grant licenses to other parties - licensor may decide to test the capabilities of many prospective licensees instead of one in the hope to obtain more generous returns in royalties

C) Confidentiality - the decision on access to confidential information should be reached and defined in the agreement between licensor and licensee, but the licensee is usually responsible for non-exploitation agreements with parties that have access to confidential information

D) Unauthorized use of licensed property - licensor may consider limiting licensee's field of use in order to avoid the misuse of licensed IP, and impose non-competitive and confidentiality clause to licensee

E) Quality control - in order to void the harm which poor quality of the licensee's products may do, licensor expects from licensee to perform quality control and send sample products per licensor's request

F) Right to improvement and new products - licensor secures the rights to new goods which may be developed as the result of licensee's use of licensed IP [16]

- What should the licensee consider?

Besides the obvious need to obtain warranties and grant for the licensor's IP, the licensee must consider other important points during negotiations:

A) Support services - any additional services add value to the agreement because they may secure increased sales, maintain the production quality, assist in the improvement and an overall image of the licensed IP

B) Exclusivity - it is usually in the licensee's the highest interest to obtain exclusive rights to IP in order to remain free from direct competition in the territory agreed upon; exclusivity is also desired because the licensee wants to protect its investment and avoid freeriding from newcomers entering its territory.

C) Rights to improvements and new products - licensee may insist on gaining rights to sell new products which are the result of IP's improvements and to grant rights on these new and improved IP to other parties besides the licensor

D) Royalty Payments - licensor will, naturally, insist on higher royalties, while the licensee will try to secure a lower rate. Both parties usually bring valid arguments to the table. Licensor wants the return on time and resources invested in creating IP, while licensee wants to minimize the risk on its investment in manufacturing, marketing and selling of products made using the licensed IP. [16]

***Advantages and disadvantages***

Licensing has significant advantages and disadvantages in comparison to other market entry strategies for both, licensors and licensees:

Advantages:

1. In contrast to other market entry strategies, licensing does not require the focal company, i.e. **licensor**, to be physically present on the market. This means that the licensor is not directly involved in the foreign market, but also, that it does not have to make considerable investments, which is the case in FDI. [3]
2. Signing the licensing agreement is beneficial for the **licensor** because it brings additional income and enables an entry into the new market, especially if the licensor is not able to exploit its technology directly. [20]
3. Licensing provides an opportunity for **licensees** to get quick access to innovative technology, solutions and other licensable IPs at a lower cost than if they would develop it themselves. [3] This means that by signing the licensing agreement, the licensee rips the benefits of fast entry to the market and fairly easy access to new

technologies and expertise with the potential of building a competitive advantage on the market. [20]

4. Licensing is a good market entry strategy for **licensors** in countries and industries which are otherwise difficult to enter either due to high-security levels or high trade barriers, tariffs and complex bureaucratic procedures. [3] The example of Netflix vs. Chinese protectionism, which was mentioned above, also falls into this category.
5. Licensing may be a useful tool for the **licensor** to test and learn about foreign markets. Relationship with the local licensee provides invaluable information for a successful and long-lasting presence in the foreign market. [3] In addition, licensing agreements potentially prevent infringement situations. [20]
6. Licensing may also be successfully utilized by **licensors** that plan to establish their brand in the foreign markets and enter them before their competitors. [3]

Disadvantages:

1. Licensing is the strategy in which market entry for **licensors** is passive, however, licensors must play an active role in enforcing the licensing agreement. This means that the licensor needs to be proactive about receiving royalty payments and the protection of their IP from violations [3]
2. The **licensor** takes the risk of losing control over valuable information; an expert **licensee** may become a competitor and an inexpert licensee may negatively affect the flow of the licensor's income. [20]
3. In comparison to FDI and exporting, licensing brings fewer profits and does not always provide a secure foundation for future expansion.[3]
4. Continuous technological advancement presents a challenge for the **licensee** because IP-based technology may easily become outdated. Additionally, some licensors demand steep royalties for their innovative IP. [20]
5. **Licensors**' royalties fully rely on how successful the **licensee** is in generating profits. [3]
6. **Licensor** has usually very limited control over how licensee utilized its IP. This means that a **licensee** that manufactures products of low quality may potentially damage the licensor's reputation. Such risks are generally avoided by setting minimum quality and performance standards in the licensing agreements. [3]
7. Successful licensing business on the **licensee's** part may potentially trigger **licensor's** regrets for not choosing a more profitable market entry strategy. [3]

Franchising

***The definition***

"Franchising is a partnership-based distribution system that allows new entrepreneurs to use an established business concept for a fee." [1]

"The term franchise describes a cooperative sales system between an existing company - the franchisor - and one or more company founders - the franchisees." [1] Franchising is established as a winning concept for building inter-company relations for rapid expansion in the domestic and international markets of certain goods and services. From a marketing point of view, it is a market-oriented method of selling business services to independent, usually small companies that have capital but do not have enough business experience. It is also a channel for realization. „The franchise system consists of an experienced franchisor who passes on his business idea to several franchisees for a fixed fee. This type of trading system is by definition a partnership and offers both parties certain advantages: the founder of the company can geographically spread his successful business concept through the franchise system." [2]

Franchising is a win-win deal:[34] Franchising is considered an activity that benefits both parties. With lower investment through franchising, the business is growing and globalizing. On the part of the franchisees, there is a point of view for obtaining ready and developed business equipment, as well as a brand, name, logo recognizable for the interested parties. Lower risk of losses and a higher chance of winning is at the heart of the franchise idea.

Did you know that a new franchise opens every 8 minutes of each business day?

FOR HISTORY OF FRANCHISING visit:

**https://franchiseguardian.com/facts/franchising-history/**

**What is franchising?** [35] Franchise Direct. (2020). 11 Key Steps in Opening a Franchise: An Overview of the Major Franchise Buying Stages | FranchiseDirect.com.

- **Steps when launching a franchise** [34]
- ***Advertising*** - through advertising campaigns the promotion of the franchise system is carried out faster.
- ***Selection of franchises*** - franchisees are selected through certain criteria that are created by the franchisors. There is a special selection system and criteria that must be strictly observed
- ***Franchise disclosure document*** - while negotiations are underway to negotiate the franchise system with the help of this document reveals everything the franchisee needs to know (e.g. detailed information about the franchisor, franchising system, related IP, etc).
- ***Due diligence*** - franchisees are expected to carry out a rigorous inspection of the franchise they are interested in and to pass on the risks of it. Investing money in such a business must be refuted by recouping the amount and success of getting a good profit each month.

The first step in starting a franchise business is **self-evaluation** and readiness for deprivation of free time. The decision to choose a franchise can be made with the help of a **franchise consultant** to give his judgment. With a clear judgment, the franchisee can weight risks and benefits. **Research** is a key step in choosing a franchisor and answering questions such as: what kind of business model is in question? Is it sustainable? What is its reputation? What is the demand? Next, **"Discovery day"** is considered to be the day on which the franchisor and the recipient meet and the franchise project is presented. The franchisee has the right to **talk to the other franchise** owners of this company and to discuss the advantages and disadvantages of the company. Such approach enables the franchisee to **find a suitable location** that meets the requirements of the company and is aimed at stakeholders. After the research is done, follows the big decision, namely in which franchise system should the prospective franchisee invest in. A certain sum of **money** will be needed to start such a project to cover the initial talks. There are several types of **contracts** that are signed when deciding to take on a particular franchise (see the section on legal issues below). Each industry has its own **requirements for permits and insurance**, and the regulations on the of state, city, county levels may also vary. Depends on how big is the company, the number of staff that needs to be hired is estimated. The **training and courses** for the staff are organized to ensure better work and quality.

The last step after completing all these points is to **open your own franchise business.** Some prefer to do a '*soft opening' before the 'grand opening'*. Before the project is opened on the big market, a trial opening is made to see how the idea for the company will be perceived.

***The franchisor's perspective***

The franchisor grants its cooperation partners the right to use the business concept it has developed on the basis of a franchise agreement. The franchisor determines the period in which the franchise system is operated between the partners. [2]

For this period, the franchisee may use the name, design and business idea to sell goods or distribute services. The business idea has always been successfully tested and further developed by the franchisor. The franchisor specifies how the whole system should be presented on the market. Operating procedures such as management, personnel policy, marketing, sales and control are largely determined by the company's founder. Therefore, standardization of the business processes in the franchise system is necessary to ensure the uniformity of the brand and thus to achieve a high value of recognition among customers. To this end, the business model must be independent of one person and regional environmental conditions, so that it can be easily multiplied - nationally or even internationally. [1] [2]

**Advantages and Disadvantages of Franchising to the Franchisor**
**Advantages of Franchising for the Franchisor**

One of the most important advantages of franchising is the reduction of risk, given that no capital is invested. Franchising is a well-known method because it is possible to enter into a contract with a large and well-known company whose name is recognizable and therefore the demand from consumers would be high.

Highly motivated management is inherent in franchising. Franchising can provide a company with highly motivated management and ensure good management of individual areas. Internationalization will happen faster and easier, with more trust and recognition. [3]

**Disadvantages of Franchising for the Franchisor**

As for the disadvantages, there are a few. One  disadvantage of franchising for the franchisor includes not only lack of control but also risk of damaged reputation. It may be challenging to maintain good reputation in the foreign markets.

The rules for the products are strictly distributed and standardised. But changes made on the part of franchisee may lead to a conflict with the franchisor. Hence, frequent monitoring and providing assistance to franchisees is a must. Moreover, a successful franchisee may develop from being a business partner to becoming  the competitor. [3]

| Advantages | Disadvantages |
|---|---|
| • Entry into numerous foreign markets can be accomplished quickly and cost-effectively<br>• No need to invest substantial capital<br>• Established brand name encourages early and ongoing sales potential abroad<br>• The firm can leverage franchisees' knowl-edge to efficiently navigate and develop local markets | • Maintaining control over franchisee may be difficult<br>• Conflicts with franchisee are likely, including legal disputes<br>• Preserving franchisor's image in the foreign market may be challenging<br>• Requires monitoring and evaluating performance of franchisees and providing ongoing assistance<br>• Franchisees may take advantage of acquired knowledge and become competitors in the future |

Source [3]

***The franchisee's perspective***

"When creating a business, the franchisee adopts an already functioning business model. In return, the franchisee must pay fees - so-called entry or franchise fees - to the franchisor to purchase licenses and usage rights." [2]

In many cases, the franchisee also transfers part of the generated profit to the creator of the business idea. The franchisee has an obligation to adhere to and comply with the quality standards of the services provided by the franchisor, to follow its marketing policy, to keep trade secrets and not to compete. An exclusivity clause may be agreed upon. This means that franchisee undertakes to offer only the goods and services of the franchisor and not those owned by other competing companies. Franchisees find it easier to start their own business because they are allowed to adopt a tried and tested business idea - yet remain legally independent. This also reduces the risk of financing your own self-employment. [2]

**Advantages and Disadvantages of Franchising for the Franchisee**

**Advantages of Franchising for the Franchisee**

One advantage of franchising for the franchisee is that the business can be successful if the model is proven. Franchisees do not have to build a brand to run a business because it already exists. Moreover, training, processes, procedural and management support are ongoing. When running a business under an existing brand, reputation is created and the profit can be achieved more easily.[3]

**Turnkey system**: franchisees acquires a everything needed they to join the network of an established business, from know-how, trademark, logo, products, system, marketing, etc. For those who are better business operators and managers than innovators, this can be very attractive. [8]

**Low failure rate**: The business model has been tried and tested, which reduces the uncertainties of starting a business. The success of the franchises has a much better chance than independent start-up businesses. [8]

**Support and training**: Franchisees are offered training in all methods of the business model, plus mentorship and support from franchise owners so they never feel alone. Besides the franchisor, they can contact other franchisees in the system to ask a question or exchange ideas. Training methods can be created and provided, for example, as cooking-style and cooking methods in a fast-food franchise. [8]

**Disadvantages of Franchising for the Franchisee**

One of the greatest disadvantages of franchising for the franchisee is that the initial investment and royalties are often high. Also, franchisees are usually allowed to change or adapt new products to their brand without permission and cannot afford arbitrariness, and they have to purchase the equipment and products solely from the franchisor. The relationship between the franchisee and other businesses they would like to work with may be limited under the franchise agreement, which may potentially hinder growth. Furthermore, a successful franchise can expand fast and create fierce competition among franchisees on the local market. [3]

**Rules and guidelines**: franchisees must conform to the rules and guidelines of the franchisor. [8]

**Costs:** there are three types of costs. Entry fee (one-time fee to join the franchise system), ongoing franchise fees (usually paid on monthly basis), advertising fees (franchisor uses these ongoing fees for central advertising purposes) and hidden fees. [8]

**Ongoing costs**: royalties owed to the parent company which is usually paid annually to renew the license, and they can be steep. [8]

**Negative PR**: In case of negative press about the products or services offered by the franchise, the franchisee's business may be affected. [8]

| Advantages | Disadvantages |
|---|---|
| • Gain a well-known, recognizable brand name<br>• Acquire training and know-how; receive ongoing support from the franchisor<br>• Operate an independent business<br>• Increase likelihood of business success<br>• Become part of an established international network | • Initial investment or royalty payments may be substantial<br>• Franchisee is required to purchase supplies, equipment, and products from the franchisor only<br>• The franchisor holds much power, including superior bargaining power<br>• Franchisor's outlets may proliferate in the region, creating competition for the franchisee<br>• Franchisor may impose inappropriate technical or managerial systems on the franchisee |

Image source [3]

***Franchising as a market entry strategy***

Franchising is a foreign market entry strategy where a semi-independent business owner (the franchisee) pays fees and royalties to the franchiser to use a company's trademark and sell its products and/or services. [4] The terms and conditions of a franchise package vary depending on the contract, however, it generally includes equipment, operations and management manual, staff training, and location approval. [5] Franchising is continually chosen as a foreign market entry mode as franchisors believe that the rewards outweigh the risks.

3 of the most profitable franchises in 2021 [45]

1. **McDonald's**
McDonald's is the most reliable franchise system that brings the most profit from its ownership. No matter the location, consumption and demand of the company is guaranteed.
Initial franchise fee: $45,000
Estimated initial investment: $1 million to $2.2 million

2. **Dunkin'**
In second place in a lucrative franchise is Dunkin' donuts. The brand is recognizable all over the world, but the purchase of this franchise is there requires a serious upfront investment. At a minimum, candidates must have at least $250,000 in liquid assets and $500,000 minimum net worth per unit.
Initial franchise fee: $40,000 to $90,000
Estimated initial investment: $95,700 to $1.5 million

3. **The UPS Store**
For the past three years, UPS has been No. 5 on Entrepreneur Magazine's Franchise 500 list. Thanks to the high class of training and the support system, the brand recognition and the good franchising programs. as a start they will be needed at least $60,000 in liquid assets.
Initial franchise fee: $9,950 to $29,950
Estimated initial investment: $138,433 to $470,031

### *The European dimension of franchising*

Flourishing economies across the EU markets offer great potentials for franchising as a market entry strategy. However, since franchising in Europe is not regulated on the EU level, but on the level of each country's national law, the selection of the most favorable market within the EU entails an informed selection process.[40] Even though the EU has a single market, in franchising business in Europe, the businesses are met with over 5,000 different national regulations related to the delivery of services. [41]

Pre-contractual disclosures are generally mandatory across EU countries and they reflect different nuances and values that vary from country to country. [40]

For example, In **France**, pre-contractual information must reflect transparency and genuine negotiations between both parties. In **Germany**, standardized template agreements are valued in order to cut down unnecessary details and the risk of false information. Additionally, great importance is placed on compliance with the EU data protection law. [40]

Another interesting factor related to Germany is that "local brands beat international ones by a huge margin." Conversely, in other EU countries such as **Croatia** and **Slovenia**, foreign franchises and brands take up to 70 percent of the market. Moreover, opening a business in Germany is more challenging than in other European countries (Germany ranks as low as

114th on a global scale in contrast to, for example, Ireland or Armenia which are among the top ten) [41]

In **Italy**, the emphasis is placed on the commercial value of proven market-tested formula and there are no specific regulations for foreign business. In **Spain**, national regulations tend to protect local franchisee via “pre-formulated agreements” and pre-contractual disclosure must be delivered 20 days before signing the agreement to allow a “cooling-off period.” [40]

**Hungary** provides favorable incentives for franchisors, from a cheap work force to lofty tax deductions. Non-EU franchisors that want to enter the **Polish** market must open a branch or subsidiary there and are subjects to certain property ownership restrictions.

In **Belgium**, pre-contractual disclosure must be provided one month before the signing of the agreement. Additionally, considerable legal protection is provided to franchisees with potentially burdensome exclusive distribution agreements. In the **Netherlands**, the new Dutch Franchise Act (established on January 1, 2021) provides a strong and whole-rounded legal protection for franchisees because this bill has the power to override other laws. [40]

Even though there are no specific regulations for franchising in **Denmark** and **Finland**, the national courts can modify the contracts if the franchisee is seen as “a weaker party” seeking protection on the basis of unfair or unreasonable terms of the agreement. In **Sweden**, franchising is regulated under the Swedish Franchise Disclosure act and the emphasis is placed on fairness, clarity and transparency of the information that the franchisor is legally obliged to provide to the franchisee. [40]

Among top 10 franchises in Europe, eight originate from the USA (**7-Eleven**, **Subway** and **McDonald’s** are top 3). Japanese education franchise **Kumon** is on the 4th and Dutch store front retail **Spar** is on the 9th place. As the largest food retail chain in the world, Spar operates in 42 countries, with 11,407 units across European and 1,705 units all the way to Nigeria, China, India and Japan. Spar takes a great pride in corporate responsibility projects ranging from Spar Nutrition Zone (with focus on healthy lifestyle), recycling partnership project in Italy, to sustainable seafood policy implemented through Spar South Africa. Austrian franchise **Swarowski** is on the 50th place. [44]

***Franchising in Germany during the Covid-19 period***

It is worth mentioning the fact that Covid-19 definitely impacted the franchising segment. **The German Franchise Association** evaluated the franchise industry’s climate and provided an overview of its situation during the pandemic period.[43]

For a depicting of the FCI's (Franchise Climate Index) progress from 2018 to 2020


Image source [46]

According to this article, in July 2020 the Corona situation had a detrimental influence on 56 percent of the systems established in **the Franchise Association**. In comparison with other industries, gastronomy was affected the most severely: it had 73 percent of the negative experience. The franchisors and the franchisee faced the biggest challenges due to the crisis including *the financing*, *following the new regulations (the distance and hygiene measures)*, *lack of customers and guests*, *limited work-time*, *digitalization of the whole work process*, and so on. Because of the collapsed economical situation, a large number of the companies went bankrupt. More than half of the German franchise centers and franchisees were supported by *Corona aid packages*, *KfW (Kreditanstalt Fur Wirtschaft) loans*, *emergency aid from the federal and state governments*. Torben Leif Brodersen pointed out that, notwithstanding the support from another side, the process of recovering from the crisis could take even years in some industries.[46]

However, by the end of the year, **The Association** has reported that, generally, the situation progressively began to improve: e.g. in Germany, 930 franchise systems with a number of 138,748 partners were engaged and there was an increase of 4 percent over the preceding year. Moreover, the 56 percent of respondents who had seen unfavorable affects in July reduced to 37 percent. As a result, these positive changes demonstrate that, nowadays, the franchising segment in Germany is strong enough to address these problems and to recover from the crisis under such economical unpredictable and difficult circumstances. Last but not least, the statistics show that 96 percent of interviewed rated franchising as a relatively crisis-resistant business strategy during the pandemic period and eventually could be used as a reliable market strategy mode.[43]

***Three types of franchise systems***

**Production franchising: Production / sales know-how is left to the customer**

The first type is production franchise in which the franchisee has the right to produce only the goods, after the franchisee has been given experience, know-how, brand, etc. In practice, this is the most common form, which is most often present in the relationships between participants in many sectors of the economy. Product franchising is most often used in the sale of cars, household appliances, in the production of beverages, etc. Increasingly, the services provided by large hotels, companies such as Holiday Inn, fast food companies such as McDonald's and Kentucky Fried Chicken are offered as a franchise. The application of this business option in consulting services, purchase and sale and management of the real estate and many other areas of business is yet to come. [11]

**Sales franchising: Sales of goods are in the foreground**

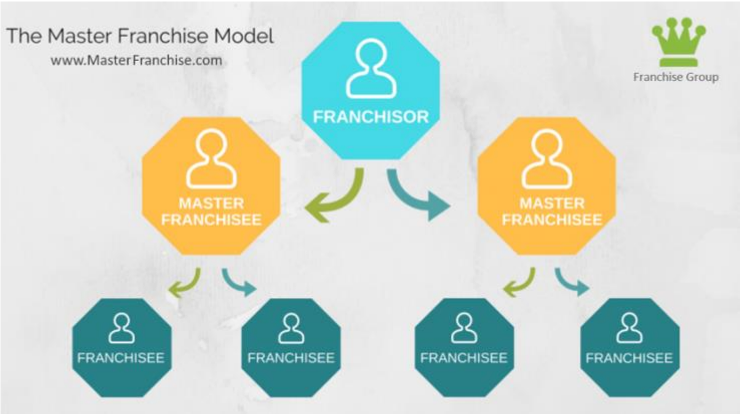
A sales franchise is possible when it has the right only to distribute the goods and services produced or used by the franchisor. [11]

**Service franchising: Know-how**

Service franchising entails the right to provide services which the franchisor offers as a franchise packaged service business model. Equipment, technology, rights to sell services and customer service are transferred in cooperation. The owner constantly monitors all aspects of the business. Generally speaking, it is a synthesis of several types of franchises, the essence of which is to provide rights to conduct activities under a specific brand. For example:

One of the most popular options is the McDonald's system, which uses its internal standards, the exterior design of the premises, the corporate identity of the organization and customer service together with cooking technologies and a world-famous brand. [11]

***The master franchise model***




**A master franchise agreement** is an agreement executed by and between a franchisor and a master franchisee, whereby the franchisor grants the master franchisee rights to the franchise and license to: (i) exploit and use intellectual property rights, including without limitation, the trademarks, manuals and ‘know-how’ (franchise system) to develop, establish and operate franchise units in a specific territory; and (ii) grant sub-franchises and sublicense the trademarks and the franchise system to operate franchise units in such territory.[12]

Master franchisee rights can apply to any area from a single city to an entire country, so business owners with an intention to expand into a specific country could employ a master franchisee to manage this expansion. They have the right not only to open objects but also to assign franchise rights to other franchisees. Typically, the recipient of the Master Franchise provides the training and other services provided by the franchisor and shares the fees received with him.

Within this relationship, the franchisor grants franchise rights to the selected "master franchisee", on the basis of which the latter has the right and obligation to develop the franchise concept in the territory provided by the franchisor, selling franchise rights to single franchisees. Usually, the master franchisee does not realize the franchise concept himself. It is a business level in the structure of the franchise chain, which ensures its development through the sale of franchises to single franchisees. For example, for the territory of Bulgaria there may be a master franchisee of a well-known international chain, and he, in turn, can provide franchisees for the larger cities in the country.

The development of the relationship between the partners reaches a level of maximum trust. This is evidenced by the fact that the franchisor gives the master franchisee the opportunity to develop the business in a larger territory (country or region of several neighboring countries, e.g. the Balkan Peninsula). The latter has the right to decide whether to manage sites independently, to provide sub-franchising or a combination of the two options (which is the more common option). On the principle of master, franchising operate franchise systems such as: McDonalds', Pepsi, Sosa Cola, Shell, OMV.

**4 pillars of a Master Franchising**

**1 -** “The first pillar of a master franchise relationship is the **size of the territory** that the prospect will be granted and the corresponding development schedule.”[13] Clients must be realistic about the territory, and there will always be more interest in a larger territorial area. Larger area usually means a higher fee for the main franchise and, in terms of potential capital, larger territory means a larger pool of future sub-franchisees and more areas. Larger area provides greater capacity for jobs and an expanding business environment.

**2 -** “The second pillar of a strong master franchise structure are **the marks** that are being licensed by the franchisor.”[13] The potential master wants assurances that the mark in question is available and registered for use in the territory before paying the franchisor. Meanwhile, the franchisor is often reluctant to spend the money to register such marks until he realizes that the potential captain has signed a major franchise agreement or has otherwise committed to move forward. if the parties decide to proceed, they shall share the costs associated with obtaining the marks registered in the jurisdictions covering the territory. Irrespective of the manner in which the parties agree to protect the marks, the franchisor must rightfully own the marks and all registrations licensed as part of the main franchise

**3 -** “The third pillar is effectively dealing with **distribution and sourcing**, especially in retail or restaurant concepts that involve the sale and distribution of proprietary or branded items.”[13]

4 - “The final pillar necessary for a master franchise relationship to thrive is **compliance with any pre-sale disclosure**, and **registration laws** of the territory being granted to the potential master.” In most jurisdictions that require the franchisor to provide pre-sale disclosure or to

register, or their franchise offer, with a government agency to sell a major franchise, the same requirements and provisions will apply to the master when dealing with his potential sub franchise -franchisees.[13]

**Advantages and disadvantages of master franchise**

Advantages

- **Growth and expansion**

"Master franchising can be an excellent way to grow and expand an existing franchise network especially in regions in which the franchisor does not have a presence."[14]

- **Increased focus on territories**

"Appointing a sub-franchisor for a particular territory can also mean that the master franchisee will have local experience or knowledge about that territory"[14]

- **Increased profitability**

"Master franchising provides franchisors with an ability to earn extra revenue. Master franchise fees have the capacity to add significant amounts of additional income to the franchisor, notwithstanding reductions in other income (as the master franchisee will take a portion of each collected fee)"[14]

Disadvantages

- ***Loss of control -*** The franchisor ultimately has less control over the franchise after the appointment of a master franchisee. This transfer of responsibility has the potential to dilute brand standards and must be tightly controlled and monitored. This is why the selection of the master franchisee is key to the success of the franchise [14]

For those interested in learning more about how to find the right person for a master franchise and what are the costs, we recommend the following short interview:

***Legal issues of franchising***

For the success of the franchisor and the franchisee, it is of utmost importance to establish a good relationship. As franchising has established business relationships for years, the foundations need to be built carefully. The franchise program must be clearly understood. The advice given by the experts is to seek the help of a legal lawyer in case of problems in order to avoid fines for large sums.

There are two types of legal documents:

**FDD**

A **Franchise Disclosure Document**, also known as an FDD, is a legal document that provides prospective franchisees with information about the franchisor and the franchise system. The FDD itself is the hub that really melds together with your franchise regulation obligations and your franchise activities. FDD aims to give you the necessary information about franchising in an investment decision. The receipt of FDD is regulated by the rule for 14 days. Franchisors give franchisees a 14-day period to decide whether to accept their offer and whether to sign a contract. [15]

**Examples of information included in a Franchise Disclosure document:**

- the Franchisor's name and other corporate information;
- copies of the Franchisor's previous accounts;
- details on the intellectual property to be licensed, namely evidence regarding the rights over the trade marks and description of know-how;
- the franchise system;
- information on Franchisees;
- financial information to allow the evaluation of the Franchisee's total investment required.

[35] Fact Sheet Commercialising Intellectual Property: Franchising, 2015

**The Franchise Agreement:**

The **franchise agreement** is a legal, binding contract between the franchisor and the franchisee. In the United States, franchise agreements are implemented at the state level. Each franchise is governed by these terms and conditions, which are usually described in a written agreement between the two parties. The franchise agreement will govern everything about the way the franchisee manages the new business and will set out what they can expect from the franchisor.[15]

[15] West, T. S. K. (2010). Introduction to Franchising-IFA

**The franchise agreement includes information about:**

- the franchise system, such as use of trademarks and products
- territory
- rights and obligations of the parties: standards, procedures, training, assistance, advertising, etc.
- term (duration) of the franchise
- payments made by the franchisee to the franchisor
- termination and/or the right to transfer the franchise

---

**REFERENCES**

[1] D’Costa, R. (2021, 15. März). Franchising. [Online] Available from https://www.bizlawuk.co.uk/what-is-franchising/?cn-reloaded=1.
[2] E.V., D. F. (2020). Definition, Besonderheiten und Merkmale von Franchise Systemen. [Online] Available from https://www.franchiseverband.com/wissen/franchisesysteme.
[3] Cavusgil, S. Tamer, Knight, Gary, and John Riesenberger. International Business: the New Realities, EBook, Global Edition, Ch. 15, pp. 458-485. Pearson Education, 2019. ProQuest Ebook Central, https://ebookcentral-proquest-com.uaccess.univie.ac.at/lib/univie/detail.action?docID=5834012. Accessed 11 Mar. 2021.
[4] Kotler, P., Armstrong, G. (2012). Principles of Marketing. Australia: Pearson
[5] Alon, I. (2014). Global Franchising Operations Management: Cases in Franchise, International, and Emerging Markets Operations. Australia. Angus & Robertson.
[6] Subway. (2014). Facts and History. [Online] Available from http://www.subway.co.uk/business/franchise/facts_and_history.aspx [Accessed 3rd July 2014].
[7] Lapitskiy, I. (2020, 27. November). McDonald’s vs Subway: Which Has the Bigger Restaurant Chain? [Online] Available from https://knoema.com/infographics/yhawhcb/mcdonald-s-vs-subway-which-has-the-bigger-restaurant-chain.
[8] NI Business Info. (2020). Advantages and disadvantages of franchising | nibusinessinfo.co.uk. ? [Online] Available from https://www.nibusinessinfo.co.uk/content/advantages-and-disadvantages-franchising.
[9] Was kostet Franchise: Kosten und Franchisegebühren auf einen Blick. (2020, 14. September). [Online] Available from https://selbststaendigkeit.de/existenzgruendung/orientierung/wahl-gruendungsart/franchise/franchisegebuehren.
[10] Diskriminierungsfreie Sprache - DJV - Deutscher Journalisten-Verband. (2020, 3. April). Online] Available from https://www.djv.de/en/startseite/info/themen-wissen/chancengleichheit-diversity/diskriminierungsfreie-sprache.html.
[11] Franchise-Formen. (2020). Abgerufen von https://www.wko.at/service/gruendung-uebergabe/Franchise-Formen.html.
[12] Sub-franchising, Master Franchising and Development Agents. (2019, 26. Juni). Available from https://www.lexology.com/library/detail.aspx?g=d2b7970e-17ee-4eb4-9d26-09262e922864.
[13] 4 Pillars of a Master Franchise Agreement. (2017). Available from https://www.globalfranchisemagazine.com/advice/4-pillars-of-a-master-franchise-agreement.
[14] Stowe, S. (2019, 8. März). Master franchising: is this the right growth strategy for your business? Available from https://www.franchisebusiness.com.au/master-franchising-is-this-the-right-growth-strat/.
[15] West, T. S. K. (2010). Introduction to Franchising-IFA. Available from https://de.slideshare.net/TerenceKWestSFCRet/introduction-to-franchisingifa-61510353?fbclid=IwAR1mPAacxyLhjP04_I1ixvTvYYDKXwKuWmMP8pUHsVJk0_UAhIPiedjWSCg.
[16] Meisselles, Michala and Hugo Wharton.”International Licensing Agreements: IP, Technology Transfer and Competition Law,” Kluwer Law International: Alphen aan den Rijk, The Netherlands, 2018.
[17] “Copyright Essentials.” European IPR Helpdesk. European Union, 2017.
[18] “Trade secrets: an efficient tool for competitiveness.” European IPR Helpdesk. European Union, 2017.

[19] McDermott, D. Peter. “Intellectual Property Strategy: Licensing.” *YouTube*, uploaded by Kauffman Founders School, 12 Nov. 2013, youtube.com/watch?v=q5uDRlH_eFo.
[20] “Commercialising Intellectual Property: License Agreements.” European IPR Helpdesk. European Union, 2015.
[21] Commission Regulation (EU) No. 316/2014, TTBER, article 1h
[22] “International IP Law: Crash Course Intellectual Property #6.” YouTube, uploaded by CrashCourse, 4 Jun. 2015. youtube.com/watch?v=0pgEPKAKrtQ
[23] Thakur, Madhuri. “Licensing vs. Franchising.” WallStreetMojo. https://www.wallstreetmojo.com/licensing-vs-franchising/. Accessed on 15 May 2021.
[24] “Difference between licensing and franchising.” Key Differences. 2017. https://keydifferences.com/difference-between-licensing-and-franchising.html. Accessed on 15 May 2021.
[25] “IPR in India: Difference Between Copyright, Patent and Trademark.” LegalWiz. https://www.legalwiz.in/blog/difference-between-trademark-copyright-patent-ipr-in-india. Accessed 25 May 2021.
[26] http://kelleykeller.com/trade-secret-protection-requires-specific-descriptions/.
[27] Moreira, Solon, Klueter, T. Maximillian and Stefano Tasselli. “When licensing new technology is better than building it in house.” Harvard Business Review. 30 Jun. 2020. https://hbr.org/2020/06/when-licensing-new-tech-is-better-than-building-it-in-house. Accessed on 25 Jun. 2021.
[28] "Retail share of licensed merchandise and services worldwide in 2018 by property type." Statista. https://www.statista.com/statistics/1034492/retail-sales-share-of-licensed-merchandise-by-property-type-worldwide/ Accessed 13 June 2021.
[30] “Chapter 1: The History of Licensing.” Uploaded by Grimes LLC Intellectual Property Attorneys. http://www.gandb.com/wp-content/uploads/2017/03/Chapter-1-Licensing-101-The-History-of-Merchandising-and-Licensing.pdf
[31] “Most valuable brands worldwide in 2021.” Statista. https://www.statista.com/statistics/264875/brand-value-of-the-25-most-valuable-brands/. Accessed on 25 May 2021.
[32] “The Top 300 Patent Owners.” Harrity and Harrity, LLP. Accessed 25 May 2021. https://harrityllp.com/patent300/.
[33] “Netflix Signs Licensing Deal With China’s iQiyi.” The Hollywood Reporter. https://www.hollywoodreporter.com/tv/tv-news/netflix-signs-licensing-deal-chinas-iqiyi-997071/. Accessed on 25 May 2021.
[34] “Your Guide to IP Commercialisation” European IPR Helpdesk. European Union, 2015.
[35] “Fact Sheet Commercialising Intellectual Property: Franchising” European IPR Helpdesk. European Union, 2015.
[36] Franchise Direct. (2020). 11 Key Steps in Opening a Franchise: An Overview of the Major Franchise Buying Stages | FranchiseDirect.com. https://www.franchisedirect.com/ultimate-guide-to-franchising/11-key-steps-opening-franchise/
[37] Nair, Praseeda. “6 Famous Copyright Cases.” Real Business. 2020. https://realbusiness.co.uk/6-famous-copyright-cases/. Accessed 25 May 2021.
[38] “The Value Of Geographical Indications For Business.” European IPR Helpdesk. European Union, 2016.
[39] “Your Guide To IP in Europe.” The European IP Helpdesk. European Union, 2019.
[40] "Need to-know legal and regulatory rules for franchising in Europe." Global Franchise, 20 Aug 2020. https://www.globalfranchisemagazine.com/advice/need-to-know-legal-and-regulatory-rules-for-franchising-in-europe. Accessed 13 Jun 2021.

[41] "Franchising in Europe in 2020: what you need to know." Global Franchise, 25 Feb 2020. https://www.globalfranchisemagazine.com/advice/franchising-in-europe-in-2020-what-you-need-to-know. Accessed 13 Jun 2021.
[42] Image taken from franchising.eu/my-business/30/franchise-regulations-in-the-eu-and-other-european-countries/
[43] "German franchising remains resilient in the face of COVID-19." Global Franchise, 27 Jan 2021. www.globalfranchisemagazine.com/news/german-franchising-remains-resilient-in-the-face-of-covid-19. Accessed 15 Jun 2021.
[44] "Franchising in Europe - Introduction of the top 500." Franchise Direct. https://www.franchisedirect.co.uk/top500/. Accessed 10 Jun 2021.
[45] Lauckner, S. (2021, 25. Mai). Want a Profitable Franchise? Consider These 10 Companies. www.nerdwallet.com/article/small-business/most-profitable-franchises. Accessed 10 Jun 2021.
[46] "FKI: Positiver Blick in die Zukunft - trotz Corona-Blessuren." Deutscher Franchiserverband. 1 Jul 2020. https://www.franchiseverband.com/blog/2020/07/01/fki-positiver-blick-in-die-zukunft-trotz-corona-blessuren/. Accessed 15 Jun 2021.

With the support of the Erasmus+ Programme of the European Union

# *TOPICS FOR ADVANCED DISCUSSION*

## ROLE OF EUROPEAN INTEGRATION FOR BUSINESS

**Different forms of economic integration. State of the EU integration. Progress in integration from 1957 (Treaty of Rome), specifically the progress achieved in terms of the "four freedoms" ensured through the process of European integration.**

The world is nowadays highly globalized and integrated. However, this was not always the case. Particularly within the EU, there have been significant changes over time. Essay number two thus focuses on the integration of the EU with a special focus on economic integration. In addition to positive and negative integration, it is possible to distinguish four different stations of economic integration. These are free trade areas, the Customs Union, the Single Market and the Economic and Monetary Union (Johnson & Turner, 2016; Rasure, 2020).

First of all, a free trade area is based on a mutually signed free trade agreement. It is furthermore characterized by little to no trade barriers like tariffs or quotas between members of the agreement and thus can be classified as a negative integration. This in turn increases trade and specialization among the members. Furthermore, sovereignty remains largely with the individual members and tariffs with non-members of the free trade area continue to apply. In addition, free trade agreements generate benefits as well as negative effects which arise from increasing economic integration. On the one hand, free trade agreements result in goods from third countries being imported into the free trade block via the countries with the lowest tariffs. Moreover, the block opens up more competition in the market and leads to a loss of jobs because businesses locate their operations where the circumstances are most favorable. On the other hand, free trade agreements generally embolden economic development and living standards and result in a broader variety of potential customers and suppliers (Johnson & Turner, 2016; Rasure, 2020).

As an example for a free trade agreement, EFTA (European Free Trade Association) can be named (EFTA, n.d.). Moreover, within the Treaty of Rome (1957/1958) a free trade area was created which quickly evolved into a Customs Union, a more advanced stage of economic integration (Suder & Lindeque, 2018). A Customs Union is represented by a shared set of rules, the Union Customs Code and a mutual dealing of import, export and transit of goods. More specifically, in contrast to free trade agreements, there are uniform tariffs for the import of goods which are imposed at the first border entry into the Customs Union. In addition, there exist no custom duties between the members and within the single trading area, the national customs services collaborate, which leads to more commitment and eventually to some positive integration. Custom Unions furthermore eliminate the obstacles of differing customs tariffs for imports from third countries. This also eliminates the obstacles of differing customs tariffs for imports from third countries. Meanwhile, the EU Customs Union was established more than

50 years ago (Johnson & Turner, 2016). On step further in the economic integration, the European Single Market can be named. It is characterized by more positive integration meaning there is a common market with a common policy framework. At the core of the Single Market stand the four freedoms, which guarantee the free flow of people, goods, services and capital within the Single Market. This constitutes an enhanced level of integration in contrast to the Customs Union. Moreover, further competition and regional policies were established. Today, the European Single Market has not only positioned the EU as the world's largest trader, but has also enormously stimulated the economy, and created more than 3.5 million jobs. In addition, as part of the digital and technological revolution, the Single Market will be expanded to an EU digital Single Market to be positioned for future scenarios (Johnson & Turner, 2016; Suder & Lindeque, 2018; European Council, 2018). Finally, the Economic and Monetary Union can be considered the most positive integration form. Apart from a high degree of coordination and transfer between the members, it includes further harmonization measures. Moreover, the common currency, the euro, becomes more stable due to fixed exchange rates and thus more powerful in international trade. Economic and Monetary Union is represented by a strong link to central supranational power, which implies a significant limitation of autonomous actions of the member states (Johnson & Turner, 2016). However, it should be mentioned, that there exist additional stages of economic integration, such as Preferential Trade Areas. Today, the EU presents a complete economic integration. This becomes evident by the fact that the EU has not only a single economic market with a single currency and a common trade and monetary policy, but also a single fiscal policy with harmonized tax rates. Nevertheless, this high level of integration has often been scrutinized in recent years. In addition to European elections and new constitutional frameworks, European integration has been affected by crises such as the migration crisis, the financial crisis, the conflict with Ukraine and the very recent Covid-19 crisis (Kenton, 2021).

Naturally, EU integration also has and had an impact on microeconomic levels. Thus, the ever-increasing integration and at the same time ever-decreasing economic barriers influenced the 'four freedoms' which were broadly written down in the Treaty of Rome. For instance, the degree of free movement of people has expanded over time. Whereas the Treaty of Rome included only the "economically active part of society", this has been extended in the course of EU integration to include family members (College Accounting Coach, 2008; EU3dom, 2017). Moreover, for individuals, this implies that they can work or study within the EU without any barriers. For companies, on the other hand, this entails that employees can be relocated within the EU and thus creating more employment opportunities. Ultimately, this leads to higher specialization. In addition, the free movement of goods has removed trade barriers within the EU and harmonized them for third countries. As a result, consumers have a wider choice of products, which ultimately leads to more competition and lower prices on the market.

The greater choice of products is also linked to the fact that products produced and sold in one EU member state can also be sold in all other member states (principle of equivalence). The third pillar of the four freedoms is based on the free movement of services. Since 70% of the EU working class can be located in the service sector, this aspect is becoming increasingly important in the EU. The free movement of services as the free movement of goods increases competition due to wider selection. In addition, service providers are allowed to offer their services in other EU member states without applying the country's administrative rules. In addition, SMEs, in particular, benefit significantly from the internal market and thus from EU economic integration. Finally, the free movement of capital and payments constitutes the broadest of the four freedoms. Initially, the Treaty of Rome only set the necessary measures for a common market. It was not until Council Directive 88/361/EEC that the free movement of capital as we know it today came into force. This freedom in particular has major implications for companies. Finally, in addition to the elimination of transaction costs, the free movement of capital also provides the opportunity to invest in or take over other companies, to establish subsidiaries in other member states with better conditions, and thus to expand their operations (College Accounting Coach, 2008; EU3dom, 2017).

**Single European Market (SEM) as an influential and important concept within the discussion of European integration. Role of Jacques Delors in promoting the idea of SEM. Role of SEM for business.**

The goal of creating the Single European Market can be followed back to the 1956 Speak Report and the 1957 Treaty of Rome and as such it is not a new idea. Yet it is still one of the most important and most successful forms of European Integration. Precisely the Single European Market is a form of economic integration of the EU *(Egan 2019).*

The Essence of the Single Market is that it is a single European territory without any internal borders or possible obstacles for free movement of goods and services. As such, the single market stimulates competition and trade, promotes efficiency and quality and is helping to cut prices *(European Commission 2021).* The single market affects the everyday lives of every European and is consid-ered to be one of Europe's greatest achievements. In a way it helped bring Europe closer together, most importantly in an economic way *(Ibid.).*

But how and by whom was this idea of a highly integrated market promoted and implemented? To experts concerned with integration and politics of the European Union (EU), Jaques Delors was the most successful President of the European Commission who held office among all present and past Presidents. When he led the European Commission (EC) from 1985 to 1995, a decade of essential decisions and actions, envisioned to further integrate and at the same time extend the EU was significantly shaped by Delors. Other than the Single European Market (SEM) and the Single European Act (SEA) which promoted the idea of the SEM, he also contributed to form the Economic and Monetary Union. Delors could be seen as the "founding father" of the SEM, as he negotiated and ultimately assured that EU member states engaged in a process to create a single market by 1992. (c.f. Salm/Lehmann, 2020) As the SEA was introduced in 1986 as a major overhaul of the Treaty of Rome (1957), in which the qualified majority voting system was introduced to 4 key policy areas for the SEM and in addition to that, new crucial policy areas were added. Most importantly in the SEM context were "internal market" as well as "social and economic cohesion" . (c.f. European Commission, 2018)

Indeed, the creation of the Single Market did not happen overnight, it was rather a lengthy process, that was highly influenced by Jacques Delors *(Egan 2019).* Namely, in 1985 newly appointed commissioner president Delors, together with the internal market commissioner Lord Cockfield, created a number of proposals that would ensure the creation of the Single Market by 1992 *(Ibid.).* Delors firmly be-lieved in the idea of the Single Market, as he also believed that the creation of the European Monetary Union is a necessity to the creation of the Single Market. The initially issued 300 proposals were reduces to 283 proposals and became commonly known as the Commissions White Paper titled Completing the Internal Market, or "1992 Programme" as the public was calling it *(Ibid.).* The new proposal aimed at fighting the remaining trade obstacles, as for example technical and fiscal ones. Furthermore, does Delores` report suggest that the EU would largely profit of the Single Market, since it had yet to achieve its full potential *(Ibid.)*.

Delors' view and support of the Single Market is best explained in his own words "Europe stands at the crossroads. We either go ahead –with resolution and determination –or we drop back into mediocracy. We can now either resolve to complete the integration of the economies of Europe; or, through a lack of political will to face the immense problems involved, we can simply allow Europe to develop into no more than a free trade area". *(European Commission, 1985)*

We can clearly see here how he promoted the ides of the Single Market and that the personally very much believed in it. His White Paper, furthermore, lays down the main objectives and strategic ways needed to overcome the obstacles of European Economy *(Ibid.)*. Delores is also often described as the architect of modern Europe *(European Parliament 2020)*.

The Single Market naturally offers some advantages to businesses. Most importantly, it allows busi-ness to have a larger customer base, as they are able to reach a lot more people. The single market also allows business to use economies of scale and exploit them *(Revision world 2021)*. Another advantage is also the wider worker base, since the free movement of people ensures that people can work in different EU countries. The free movement of good and services also enables the busi-ness to reduce cost in terms of borders regulations and formalities. Furthermore, are the businesses able to move their place of business across Europe without major difficulties and barriers.

The single market promotes competition, and the competition influences the business as well, since they are in a market that is highly competitive *(European Commission 2021)*.

In contrast to the these beforenamed advantages of the single market, critics claim that there are still barriers for businesses that differ from industry to industry *(Erixon, Georgieva 2016)*. Furthermore, critics claim that there is in fact no European Single Market, and that the concept of the Single Mar-ket in the EU is an illusion *(Ibid.)*. A well-functioning single market is in the interest of ever European. The EU is aware of that, and that is why they have for the first time ever announced a financial programme to boost the single market *(ECCP News 2021)*. The Covid-19 pandemic, as well as rising global competition have led to this decision by the European Commission. Some of the main goals of the new coherent programme are to improve the competitiveness of businesses in the Single Market, especially focusing on SME. Furthermore the EU wants to improve surveillance and focus on problem-solving support for citizens and business, like SOLVIT and the Your Europe Portal. Standardization, as well as high levels of customer protection are also some of the main objectives of the new programme *(Ibid.)*. I believe that this will in the next few years further strengthen the Single Market in Europe and help overcome any obstacles for businesses and citizens.

As a generation born after 1990, most students today will not remember a time without the four essential freedoms of the European Union, Freedom of movement of people, goods, services, and money. The process of creating a Single European Market (SEM) where this free movement can happen daily has come a long way since initial visions in the 1980's but still has a journey ahead. The vision of creating an internal market with virtually no barriers or borders for trade of goods and services (tariff and non-tariff) across the territory of all member states is a highly comprehensive form of economic integration (c.f. Learn Europe, 2021) and is perceived as one of the most successful achievements of the European Union. When looking into a course room of a European university, there are students from across all member states, studying and living in a foreign city without having to overcome more obstacles than domestic students. Workers can choose where to live and move freely to get a job and for the biggest part, citizens of EU member states can buy products from across the whole Union, knowing that equal standards ensure quality and safety, and they are not charged more than domestic customers (besides shipping costs). These freedoms, also including the movement of the payments for products and services or financial capital of workers or students across borders are at the heart of the SEM. (European Commission, 2021)

Considering the opportunity that with an integrated EU single market, businesses across all member states were given the chance to not just serve their domestic market but to market their products or services to roughly 720 million (1990) potential customers without barriers to trade, one cannot underestimate the role of the SEM for businesses. Not just for multinational enterprises, but especially for SME's which had not the resources needed to export or expand internationally prior to this integration and with the SEM even have the opportunity to participate in public procurement across member states. Particularly in border regions, this created a chance to enable daily cross-border transactions without any obstacles for local businesses.

This is of course also valuable when looking to the other end of the value chain and consider the chance to diversify the supply chain of a company, while still sourcing approved quality-products mutually recognized in all member states. Companies can now choose suppliers with different attributes in terms of quality, price or shorter lead times which can boost cost efficiency or quality of products and may produce competitive advantages for the company. The same concept is valid not just for supply of products but also for labor supply. Because of the free movement of people, European businesses may search for talent across all member states without further regulatory obstacles also creating possible advantages either for cost-efficiency reasons or know-how and quality of work.

Although in a lot of perspectives, the EU single market is well established, it is not a fully functioning SEM. As the Single Market Scoreboard 2020, published by the EC, shows, that member states lack in fully implementing legislation by the EC in policy areas like mobility of professionals and mutual recognition of professional recognition. According to this tool on the EC website, a majority of member states fail to fully open their markets and provide effective market governance tools to contribute towards a fully functioning SEM. In addition to uneven markets rules enforcement across member states, one can even see a slight decline of the overall performance regarding proper functioning of the European SEM. (c.f. European Commission, 2020)

**Effects of the Treaty on the European Union, Treaty of Amsterdam and Lisbon Treaty on business.**

The Treaty of the European Union established one market that allowed to align political and social standards while improving cooperation between the member states. Additionally, the level achieved by the integration of the European countries enabled the capability to act on joint monetary activities, including the conduct of monetary coordination. The main effect of the international integration is cost efficiencies it leads to. The eurozone and its single currency will increase the credibility and power once the euro has increased in demand. This also leads to the elimination transaction cost since there are no more border patrols, customs procedures, red tape and currency losses within the eurozone. Since it is one market, companies have access to lower interest rates and could save money by tapping into the new resources and possibilities. Businesses now have a better overview regarding prices and can easily compare prices. The cost transparency on the EU market enables competitiveness among the companies, leading to higher efficiencies and triggering the effects of economies of scale.

Overall, the Treaty of Amsterdam was considered politically weak and not ambitious enough. However, it made a difference for European businesses and citizens. The treaty promoted opportunities for employment and labour, which granted businesses a larger pool of human resources. Businesses also had to comply with consumer protection regulations and being a ‘responsible business’ which included a sustainable development and taking the protection of the environment into consideration. Due to the shifted business requirements in the European market, companies had to adapt to the changed realities and follow compliance pressure. This also enabled market leadership through technological innovation in the following sectors: waste management, industrial compliance, as well as personnel and vocational education. Innovation enabled businesses to move towards more environmentally friendly technologies, while adapting their corporate growth strategy and linking it to their quality management. The treaty contributed to homogenising the product needs and expectations of citizens which made it easer for firms to cater to Europeans as one instead of a very diversified market.

The Treaty of Lisbon main aim was to establish an environment, businesses can strive in which leads to the creation of wealth and employment opportunities. Moreover, the single market should be strengthened to function better and enabling a more secure environment for businesses to operate in which attracts more business. This increased the transparency of decision making and also greater possibilities for organisations to participate in lobbying and promoting one own’s political and corporate interests. The clarification of the exit clause is relevant for businesses once a country decides to leave the European Union, which than impacts the businesses from that country but also the European Union. The European Union also strengthened its efforts to peace-keeping and peace-making activities by supporting operations with financial means. This enables a more stable and predictable environment for businesses.

The connection between the treaties that they all build upon each other to strengthen and improve the European Union’s values for its citizens and businesses.

The Treaty of Amsterdam revises and builds its policies on to the Treaty of the European Union to achieve a greater transparency of what has already been established and the decision-making process. It implements reforms to include future member countries. The aim of the Treaty of Lisbon is to increase democracy in the European Union and become more efficient within its processes to be in the position to handle issues such as the climate crisis as one unity, the European Unions. This is only possible because the preceding treaties laid the basis and ground work for it. The treaties enable organisations to do business in one single marketplace. There is a combination of business and social benefactors that enable linkages and maximise the benefits for both businesses and citizen by gaining from each other and the environment the treaties established.

However, one can argue that the Treaty of Lisbon breaks the cycle of strengthening the values of the EU because it clarifies the exit option, enabling countries to leave the European Union

With the support of the Erasmus+ Programme of the European Union

and potentially weakening it. At the same time, it highlights its democratic values by allowing countries to leave if they cannot or do not want to comply by the EU's values and regulations

# COMPETITION POLICY

**The essence of Competition Policy in the EU. Increasing decentralization as a key trend in the Competition Policy: the latest developments in this process and their relevance for the European businesses.**

Regulation 1/2003 (Regulation 2003) came into force on 1 May 2004, and it led to milestone reforms of the public enforcement and application of the EU competition policy. Before the enforcement of Regulation 2003, the European Commission (the Commission) was the only regulator and executant of the EU competition policy. Regulation 2003 decentralised the EU anti-trust law. First, Regulation 2003 empowered national competition authorities (NACs) and national courts of the EU member states, together with the Commission, to apply Article 101 and 102 in their entirety. Namely, NACs and national courts can enforce these two articles to conduct investigation, developed remedies, imposing sanctions on the company which conducted anti-competitive practices or abuse their market dominance (Brook and Cseres, 2018). Second, Regulation 2003 introduced private enforcement which enables private individuals (consumers, private enterprises and public authorities) to claim for compensation if the anti-trust behaviours of an enterprise caused damage or harm to them.

The decentralised enforcement of the EU competition policy led to the multi-governance enforcement regime, and it involves more communication and cooperation among various parties. To promote the communication between the Commission and the national enforcers, Regulation 2003 introduced mechanisms such as the European Competition Network (ECN) (Directorate-General Competition, 2004), aiming at enhancing the cooperation between NCAs and the Commission's DG Competition. Besides, the decentralisation significantly increases the power of NACs in the EU competitive context and the review of the EU Competition Policy. Brook (2019) revealed that, the investigations of infringements of Articles 101 and 102 TFEU carried out by NCAs took up nearly 90% of the total investigation.

During the coronavirus crisis, the enforcers and regulators of the EU competition policy dedicate themselves to maintaining the healthy and safe economic operation and fair competition within the EU single market. The Commission and NCAs, through the ECN, together secured the supply chain and distribution channel of scarce products and services politically among the member states. The ECN have issued several joint statements regarding the application of antitrust rules during the covid-19 pandemic, to support the EU companies' steady operation (Antitrust rules and coronavirus, 2021). Besides, Directorate-General for Competition also provides guidelines for companies to review the compatibility of their business arrangements with EU competition law. What is more, the Commission launched the Temporary Framework Communication on 8 April 2020, providing the enforcers of Article 101 and 102 with criteria of assessing the cooperative projects of supplying essential and scarce products and services during the coronavirus outbreak.

Private enforcement changed the role of the private individuals from a recipient into a stakeholder and supervisor of the competition to some extent. The Directive 2014/104/EU - EUR-Lex (Directive 2014) was enacted in 2014, to enable the consumers and companies to claim damage as a result of infringements of the EU competition law. During the corona crisis, the Commission posts the channel for submitting an antitrust complaint and Commission's whistle-blower tool on its Webpage and explains how consumers or businesses claim the antitrust violations, such as companies deliberate conduct price pushing of medical care products (masks, gloves, disinfections, etc.), or convey misleading information about the efficiency of a protection equipment. Besides, the Commission maintains the leniency procedure under the Article 101 to encourage businesses to report their own anti-trust practices, and in return they will be granted a reduction of the fine (Antitrust rules and coronavirus, 2021)

In parallel with encouraging private enforcement, the Commission also supports the national courts in maintaining a balance between the protection and disclosures of confidential information. Directive 2014 requires the member states to allow their national courts to disclose the confidential information of the claimant, in order to guarantee an effective investigation and judgement of infringements. To protect the confidentiality of the private individuals, in 2019, the Commission developed a draft communication for assisting national courts to deal with disclosure of confidential information and collected comments from the public (Antitrust: Commission consults stakeholders on guidance for national courts when handling disclosure information, 2019).

The decentralised enforcement of the EU competition policy enables various parties to participate in developing a recovery plan led by the Commission. The recovery plan aims at reviving the EU's economy and society resulting from the pandemic, and meanwhile proceeding the twin-transition toward climate neutrality and digital leadership. Margrethe Vestager, Executive Vice President of the Commission, emphasised that the collective efforts of individuals, public authorities, and competition enforcers are of great importance in this recovery and transit (Competition policy contributing to the EU Green Deal, 2021). The Commission applies the EU competition policy to the EU Green Deal, to build an efficient and competitive market of scarce resources and energy-efficient technologies. To make better use of the policies, the Commission invited all stake-holders in Europe to share their expertise and opinions, by launching an activity called "call for contributions" in 2020 and "Student challenge" in 2021 (Competition Policy and the Green deal Conference, 4 February 2021 Student challenge – The voters have spoken, 2021).

Some researchers warned that the decentralised enforcement system in the EU would lead to the renationalisation of EU competition law and policy (Brook and Cseres, 2018). The multi-level governance framework enables the NCAs to implement of their own national competition policies, and member states can apply these policies for excluding or limiting the EU competition law, in order to protect their national interests. Brook (2019) illustrated an example that happened in Hungary in 2012, the Watermelon case.

Several parties in the Hungarian watermelon market agreed with the fixed price of the locally grown watermelons and no distribution of the imported watermelons within a specific period of time, to protect the incomes of Hungarian farmers and the fair deal among consumers. However, this clear anti-competitive practices received the approval from the Hungarian Minister for Agriculture and Rural Development. Furthermore, the Hungarian Parliament amended the Act on Inter-branch Organisations, which granted such practices (otherwise restrictive agreements) an exemption from the prohibition of anti-competitive agreements under Hungarian competition law (Brook 2019).

Brook (2019) pointed out that incorporating national interests to the enforcement of EU competition law damaged the law enforcement and led to fragmentation among the member states. This indicates the necessity of the regular review and adjustment of competition policy.

Facing the challenges posed by the coronavirus crisis, significant transit toward climate neutrality and digitalisation in the EU, and the risk of fragmentation among the member states, the new Commission, which took up its duties in December 2019, is preparing for a comprehensive review of the EU competition policy (Fact Sheets on the European Union, 2021).

**Competition Policy of the EU includes international (extraterritorial) dimension. Actions covered by this dimension; role of the multilateral and bilateral initiatives in achievement of the Policy goals.**

Today, the globalized world is characterized by the integration and growing interdependence of countries worldwide. In addition to decreasing trade barriers, globalization also leads to increasingly liberalized and open markets which in turn leads to greater competition in these markets (Gurría, 2008; Johnson & Turner, 2016). To remain competitive in this environment, companies resort to competitive strategies that also affect the macroeconomic sphere. Low wages, outsourcing, but also shorter life cycles of products are the consequences. Nevertheless, increased competition does have positive impacts such as broader product variety and lower prices for consumers and higher innovation (Johnson & Turner, 2016). Moreover, Competition Policy plays an important role in the coordinated activities of the European Union. In this context of Competition Policy, John-Claude Juncker (2019), former President of the European Commission, takes the position that competition within the Single Market is acceptable as long as it is fair for companies and, above all, for customers. The Competition Policy is moreover mainly based on the rules of antitrust, merger control, state aid and public undertakings and services (Cavusgil et al., 2017; Parenti, 2020; Suder & Lindeque, 2018; Wall et al., 2015). Furthermore, significant EU restrictions of competition are set out in Articles 101 and 102 TFEU and are mainly enforced by the European Commission and the competition authorities of EU member states (Johnson & Turner, 2016; Parenti, 2020).

In combining EU Competition Policy and globalization, the increased interdependence of markets which results in negotiations and relationships existing and taking place between EU-based companies and non-EU companies is noticeable. Ultimately, this means that the EU's scope of action becomes increasingly blurred. With respect to different international principles as well as competition laws, this presents a major challenge for the EU. In addition, this extraterritorial dimension of the EU Competition Policy should take into account that the accession of EU companies to markets located outside the EU is ensured and not affected by distortions of competition. Furthermore, actions such as international cartels outside of the EU, which distort competition within the Single European Market, should not be tolerated (Johnson & Turner, 2016). Within the framework of the extraterritorial dimension of EU Competition Policy, various measures have therefore been introduced (OECD, 2017). In this context, non-cooperative (unilateral) or cooperative actions (bilateral and multilateral) can be implemented. While unilateral actions describe the one-sided action and the ability of the EU to take legal measures against non-EU companies that could jeopardize the EU's competitive balance, cooperative actions are initiated by two or more parties.

Concerning unilateral actions, the single economic entity doctrine (1972), the implementation criterion (1988) as well as the effects doctrine (1999) can be mentioned (Johnson & Turner, 2016). Furthermore, to elaborate on the cooperative actions, it can be noted that the EU Commission is in active interaction with many non-EU countries. These interactions and agreements can refer either to dedicated agreements that focus exclusively on the competition dimension or to more general agreements such as free trade agreements. Agreements like free trade agreements incorporate the competition component as one part of the larger agreement. For instance, Japan maintains both dedicated agreements with the EU Commission and the more general EU-Japan Economic Partnership Agreement (2019) (European Commission, n.d.). Concerning multilateral initiatives, the initiatives of the OECD (e.g. Global Competition Forum, Competition Committee), UNCTAD (e.g. The set of multilaterally agreed equity principles and rules for the control of restrictive business practices), the abortive WTO initiative (e.g. Doha Round) and the voluntary forum ICN are particularly relevant (Johnson & Turner, 2016; European Commission, 2012). Concerning bilateral actions, agreements exist either between the EU and prospective and potential member states such as Serbia (e.g. Stabilisation and Association agreements) or between the EU and other important trading partners such as the United States or Switzerland (Johnson & Turner, 2016; European Commission, 2015).

However, both multilateral and bilateral cooperation’s are intended to enable competition beyond Europe's borders and thus, for example, promote innovation. To this end, the International Competition Framework offers the opportunity for a dialogue to achieve consensus and convergence in international Competition Policy. In contrast, bilateral agreements with potential member states of the EU aim above all towards aligning country regulations on competition with the aforementioned Articles 101 and 102 TFEU concerning market agreements and monopolies. This applies to rules that influence trade between the aspiring member state and the EU. Bilateral cooperation’s with other partners like Switzerland, for their part, focus primarily on the exchange of information with regard to competition rules, cooperation between the competition authorities of both sides, consideration of mutual interests in terms of subject matter (traditional comity procedure) and/or the positive comity method. The latter specifies the procedure under which one party takes action at the request of the other party to check the activities under the jurisdiction of one party with the interests of the other party. Ultimately, WTO initiatives should contribute to increasing transparency and fairness, reduce discrimination in the market and establish them in the WTO member states (Johnson & Turner, 2016).

Ultimately returning to a microeconomic level, it becomes obvious that these initiatives have a crucial impact on companies within the EU. As one example within the context of GATS (General Agreement on Trade in Services), and more specifically in the Annex on telecommunications, a telecommunications agreement was signed which stipulates that telecommunication sector has to provide access to their telecommunications networks for other service providers of other member states. Moreover, this liberalization of previously closed markets should be appropriate and non-discriminatory. In this respect, access to and use of communications infrastructure should be guaranteed for all service providers participating in the market (Shelton, 1999). Higher competition on the market and a greater choice for consumers are the consequences. Another example is the EU Commission's extraterritorial intervention in the operations of Google (USA). Specifically, this case states that Google giving itself a preferential status in advertising services and thus distorting competition within the EU. Other search engines such as Ecosia (Germany) within the EU are therefore supposed to be deprived of advertising customers, which in turn led to a loss of data and user behavior information.

However, this is not the only case filed against Google. In total, Google has already been fined approximately 7 billion euros. Among other things, this was due to the Android operating system for smartphones and the Google Shopping search (Kokkoris, 2017). Furthermore, another very topical issue concerns the antitrust case between Teva and Cephalon. It involves the agreement between the two pharmaceutical companies to prolongate the market launch of a lower-priced generic for sleep disorders of Cephalon. Thereby, competition within the EU was restricted by a patent settlement and the deliberate relinquishment of market shares. In the end, this is to the detriment of other companies operating in the EU pharmaceutical market and, above all, to the disadvantage of consumers. The EU Commission under Vice President Margrethe Vestager therefore declared this patent settlement to be illegal and imposed a fine of 60.5 million euros (European Commission, 2020). Ultimately, the Wood Pulp case can be referred to as an unilateral example. In one of the first rulings on the extraterritorial application of EU competition law, it was stated that more than 40 non-EU producers of bleached sulfate wood pulp had engaged in price-fixing. According to the EU Commission, these operations violated Article 101 of TFEU and thus endangered competition within the EU. For buyers, this resulted in increased prices for pulp (Daujotas, 2011).

Finally, the intervention of the EU in the competitive market has an impact on the operations of companies. However, as already mentioned in the beginning, this is mainly to increase fairness for other companies operating in the EU as well as for consumers. Due to increasing interdependence, international monopolies, price agreements or mergers that influence the market balance in and outside of the EU will therefore continue to be monitored closely by the EU in the future.

---

# INDUSTRIAL POLICY AND DIGITALISATION

**Essence of the EU Industrial Policy. The biggest challenges facing the European industry. Main messages of the Industrial Policy and their relevance for businesses.**

The Industrial Policy of the EU is horizontally oriented thus, its essence, or better said its main objectives is securing framework conditions that enable industrial competitiveness. The Industrial Policy of the EU is generally focused on making the Industry in the EU more competitive, therefore making sure that it keeps its role as the driver of sustainability growth and employment in Europe *(European Parliament 2021)*. The policy itself has been influenced by many factors through the years (Ibid.). One of the being the digital transition, as well as the transition toward a carbon neutral economy (Ibid.). These changes naturally lead to some changes and new strategies in the policy. The most recent event or better said chain of events that influenced the industrial policy of the EU is the Covid-10 crisis that shifted the focus of the EU to economic recovery, reconstruction and building resilience (Ibid). Thus, the EU industrial policy has been updated in May 2021 (European Commission 2021).

The two main objectives of the EU Industrial policy are digitalization and sustainability, but the precise goals the policy is trying to achieve include:

*"(1) 'speeding up the adjustment of industry to structural changes'; (2) 'encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings'; (3) 'encouraging an environment favourable to cooperation between undertakings'; and (4) 'fostering better exploitation of the industrial potential of policies of innovation, research and technological development' (Article 173 of the TFEU)." (European Parliament 2021)*.

Introduced in the Treaty on the Functioning of the European Union (1957), Article 173, a policy area was defined where member states shall establish and safeguard necessary an environment towards the goal of a competitive Union's industry. To achieve this goal, it is proposed that in compliance with the openness and competitiveness of markets, actions which ensure that: Industries may adjust to structural changes more rapidly; A favorable environment is provided which encourages the initiative as well as the development of enterprises within the Union, with a particular focus on small and medium sized businesses; Safeguard an environment in which cooperation between businesses is encouraged, as well as particularly mentioning the importance of using the potential of policies in the sectors of innovation, research and technological development to its full available capacity. To facilitate the coordination, the EC should also be involved when the member states coordinate their steps and may propose and organize initiatives to enhance this collaboration in whatever form necessary, including guidelines, best-practice exchange, monitoring and evaluation mechanisms. The Union as legislator was also meant to contribute in the sense of legislation harmonization wherever appropriate.

But Industrial policy itself may not be discussed without the context of it being deeply integrated into several other EU policy areas like trade, the internal market, employment or environmental protection and others. (Gouardéres, 2021)

Due to this integration, developments and changes within these various policy areas that are interconnected, also shape the EU's industrial policies. In the last decade, globalization was one of the major influences for the industrial policy as part of the Europe 2020 strategy (c.f. Gouardéres, 2021), whereas at the start of the new decade, the EC, under President von der Leyen, is set to tackle a more complex and rapidly changing global competition influenced by protectionism and trade tensions, accompanied by a steadily changing distribution of power in the world. Despite these already complex challenges to establishing itself as a leader in the global economy, the EC is simultaneously taking on the vision of climate neutrality and digitalization. These three major challenges are of course heavily influencing the industrial policy on a short-term as well as a long-term basis. (European Commission, 2020: p.1ff)

The "New Industrial Strategy for Europe" communicated by the EC in 2020, introduces several packages of measures and initiatives to cope with these challenges the EU faces and the EU's industry in particular. It embraces the fact that the European industry is a key factor for the bloc's success on a global scale and that the successful drive for global competitiveness by leading this twin transitions need to bring unprecedented change to the industry. It calls for less protectionism and pleas level playfield of international trade to encourage global competition across all industries setting the stage for all companies, regardless of their size to thrive and grow. The EU should set ground-breaking standards for global industries by leveraging the power of the Single European market to establish itself a leader in a geopolitical context.

In coherence with the roadmap of actions provided by the European Green Deal, the new industrial strategy also is set to embark on the transition towards a climate-neutral European Union by 2050. In an industrial context, it will focus on transitioning towards a more resource efficient industry, particularly include resource-intensive industries, accompanied by initiatives for research of alternative technologies which will transform industrial value chains. To remain competitive, the reliable supply of clean and affordable energy and raw materials will be from utmost importance, which will require domestic EU lead markets to firstly drive internal transition and then roll out these technologies as a global first mover will be key. The promoted digitalization will in respect to the EU industry help to on the hand help to decarbonize industries with digital solutions like smart mobility smart grids, but also has to provide the necessary digital infrastructure for all sectors to assure companies are able to innovate on a state-of-the-art basis. (European Commission, 2020)

A European industry that will be impacted by not only one but several ways from the new industrial strategy in coherence with the European Green Deal will be the European automotive industry including companies like Volkswagen, Daimler of BMW. This will change both the cars as end-products on the one side of the value chain as well as the production processes within the European manufacturer's plants. The prompted transition towards a more climate neutral transportation sector is only possible with alternative fueled cars and therefore the automotive industry will have to engage in R&D and further develop the already existing alternatives to achieve an affordable mass production of alternatively fueled cars. One technology which is specifically mentioned in the new industrial strategy is the research on hydrogen as source of energy. The other perspective how this strategy will impact the automotive industry is through digitalization efforts in the production of cars. Industry 4.0 solutions are foreseen to achieve a more resource efficient production process which is also a key element for the transition towards a climate neutral Europe by 2050. In the truest sense, the vision of a sustainable built economy also impacts companies in the construction sector like for example Austrian company Strabag. As resources like sand or concrete will need to be used in a more limited way due to scarcity, the projected transition towards a more circular economy will boost innovation of alternative or reusable construction materials. Similar to the automotive industry, the construction sectors also provides a lot of chances to implement digitalized solutions for an increased resource efficiency.

**The first integrated Industrial Policy in Europe dates back to 2005. Changes the Industrial Policy has undergone and their impact on business.**

After 2005, the three most important changes of Industrial Policy were 2010, "Europe 2020", 2011, "Reinforcing Competitiveness" and 2020, "A New Industrial Strategy for Europe", followed by its up-date due to the COVID-19 pandemic.

The first important change came **2010** with **"Europe 2020 – A strategy for smart, sustainable and inclusive growth"** (European Commission, d 2010), because it was the first political answer to the financial crisis of the last two years. The crisis hit Europe very hard and revealed the vulnerability and faults due to economic structures, e.g., the dealing with globalisation and resources, made until this time. Therefore, the strategy followed the goals of creating a knowledge and innovation-based econ-omy, acting as a unity while being resource efficient, competitive, and environmentally friendly and moreover, following the goal of high employment. The strategy created *flagship initiatives*, like “Re-source efficient Europe”. One part of that initiative includes the aviation sector, referring to the im-portant decrease of CO2 emissions in the transport sector. (European Commission, 2010).

Last year, the deadline of the strategy ended, and the question is, how big was the influence on busi-ness and thus, how successful has it been? The results are ambivalent, on the one hand there has been a clear improvement in, for example, spending in R&D and renewable energies and the employ-ment rate raised, as well as the poverty rate declined. Nevertheless, the results differ extremely from country to country, and not one of them met all the targets set before, especially when it comes to the environmental ones, like reducing the greenhouse gas emissions. (Becker et al., 2020). A point, which is especially true for the aviation sector, although new targets according to that are set in the “Flightpath 2050”, released one year after “Europe 2020”. (European Commission, 2011).

The second important step was the one of **“Reinforcing Competitiveness” in 2011**, which was nec-essary, because of the slow recovery of the business from the financial crisis and the difficulty to match the goals from “Europe 2020”. Therefore, the competitiveness should be increased by assembling all scarce resources in order to create the necessary amount of innovation, which would help all countries in the EU, and by loosening regulations of systems, which should support innovation, through for ex-ample, focusing the market on R&D. Moreover, the focus was set in supporting and promoting clean energy and competence in using scarce resources, as well as in fair pricing and establishing distribu-tion systems concerning energy. Easing up administrative burdens and legislative barriers concerning the transfer of goods or innovation should also help driving competitiveness. (European Commission, a 2011). Which influence had those governmental actions to the business? One way to see the results is having a look at how the countries translate the strategy from an EU perspective to the national level. The aviation industry in Austria, for example, developed a set of goals and measures in order to not only follow the regulations of the EU, but also to face the old and new challenges to be able to stay competitive. For instance, enhancing the aviation industry’s competitiveness by, “avoidance of addi-tional burdens” (e.g., obligation to principles of transparency), “ensuring Austrian companies’ compet-itiveness in global aviation through the development of European regulations”, “Improving network quality at Austrian airports” (e.g., study of the quality in comparison to other airports), “supporting the locational quality of Austria as a centre of air transport”, or “creating a uniform framework for worker protection”, (e.g. training for aviation staff) (Federal Ministry for Transport, Innovation and Technology Department II/L2 – Aviation Affairs, 2011).

The third important development is the one of **2020, “A New Industrial Strategy for Europe”**, fol-lowed by its **update due to the COVID-19 pandemic**. The third one seems to be the most important change, not only because of its actuality, but more because of the understanding, that EU’s industry must not only adapt to current tasks but rather be de initiator of solutions to the challenges of tomorrow. This refers mostly to the goals of reaching climate-neutrality and making more than noticeable changes and improvements in digitalisation and infrastructure, all in the framework of the sovereignty of Europe and its social market practices and habits. This strategy should be achieved by for instance, better working conditions for platform workers or updating the legal regulations due to Digital Services. (European

Commission, 2020). However, with the COVID-19 pandemic the focus changed to "build-ing a stronger Single Market for Europe's recovery" (European Commission, g 2021). The update focuses on two parts, on the one hand it is about stressing the consequences the industry has to draw out of the experience of restrictions and lockdowns, e.g., how important the free movement of goods, services and people is to make the industry work and how essential the dependency to technology and thus, to digitalization, is, and on the other hand, what can be done to handle upcoming crises better, like finding instruments, e.g., simplifying cross-border exchange, to make the single market being prepared for such crises (European Commission, g 2021). It is too soon to see the effects of the strategy and its update, but it will be a long way for all business sectors to recover from the crisis. Furthermore, even if national and EU wide financial support will help the industry to survive for now, the extent of financial deficits will be revealed to its entirety only later. Nevertheless, the statement *"aviation will live to fly another day"* (European Commission, f 2021) offers some guarded optimism from the industry, that the strategies will help.

# DIGITALISATION

**The biggest challenges facing Europe in terms of digitalization. The nature of the EU Digitalization Policy, its main messages and their relevance for businesses.**

The 2030 Digital Compass represents the Commission's vision of Europe's path to digitalisation achieved by 2030. By empowering people and businesses, digital policies allow to shift the focus on a sustainable and human-centred future (European Commission, 2021, p.1). Ursula von der Leyen put great importance on leadership regarding ethical Artificial Intelligence, a European Cloud, as well as a secured digital identity and an improved infrastructure which led to four overarching goals, including key milestones and the tools to achieve them (European Commission, 2021, p. 1). The decade long transformation is built on four pillars: skills, government, infrastructure and business which will be assessed by an advanced monitoring system (European Commission, 2021, p. 4).

To empower digitally skilled professionals and capable citizens, this needs to be supported by a digital education system and a policy that allows to connect with talents from all over the world (European Commission, 2021, p. 4). The overall goals of this pillar are to enhance basic digital skills to a minimum of 80% of the population and have 20 million ICT specialists aiming to close the gender gap by having a gender adjustment (European Commission, 2021, pp.4).

The second pillar is based on creating a digital infrastructure that is secure, sustainable and performant allowing to become a digital leader (European Commission, 2021, p.5). The role of digital leadership is itemised by enabling Gigabit for every household and 5G accessible everywhere, while working on 6G in the upcoming years (European Commission, 2021, pp.5). Furthermore, the launch of the first computer with quantum acceleration will help solving highly complex problems and employing 10,000 edge nodes which are climate neutral and highly secure (European Commission, 2021, p. 8).

The digital transformation of businesses has become even more important for businesses during the pandemic and to strengthens organisations their capabilities need to be strengthen by using and implementing Artificial Intelligence, big data and cloud computing services (European Commission, 2021). This tech up-take is aimed at 75% of European companies, additionally more than 90% of SMEs should attain a minimum level of digital intensity (European Commission, 2021). At the same time the European Union needs to ramp up its scale ups of innovation and make financial support more available to double the number of European unicorns (European Commission, 2021, p.10).

The digitalisation of public services aims to guarantee a more democratic life for everyone while upholding the highest security and privacy standards (European Commission, 2021).The ambition is to enable 100% of Europeans to access their medical records and key public services, as well as 80% of citizens to use a digital ID (European Commission, 2021).

Digitalisation is a major undertaking and despite careful and detailed planning efforts, there will be challenges as well. One of the main challenges became visible during the Covid-19 pandemic. It revealed that there are weaknesses within the European digital space which relies on technologies from outside of Europe and the overall effect of disinformation threatening democratic societies (European Commission, 2021). These highly risky vulnerabilities have to be managed in order to formulate a response to these new uncertainties and growing powers. The digital divide is one of the main issues that has to be addressed by the EU (Shaping Europe's digital future 2021). In order to offer protection to its citizens against cybertheft and counterfeit goods, the EU needs to focus on becoming more strategically autonomous within the technology space and formulate new regulations and technologies to do so (Shaping Europe's digital future 2021).

Cybertheft has become more and more problematic for businesses and therefore it is crucial for companies such as pharmaceutical firms to protect and secure their data, patterns and knowledge. But also increasing their capabilities to grow financial support and increase scale ups means higher changes for innovations and becoming unicorns within the European Union. Just looking at the current pandemic showed the potential European countries such as Biontech have. Successful enterprises have to increase their tech up-take and rely on efficient and effective connections to access and work with data all the time without delays.

Again, the COVID-19 pandemic showed the urgency and dependencies on digitalising not only businesses but also the public sector. It became obvious how crucial the public sector is, especially handling so much private data. This information needs to be stored and accessed securely. E-health has been a major focus to enable citizens to have access to their medical records. The accessibility and security also help to introduce things like the green vaccination pass, enabling citizens to have all the documents and move more easily. But having access to these information does not only require to have the digitalisation of the public services but also strengthen the skills and knowledge of the European citizens.

---

# ENVIRONMENTAL POLICY

**Environmental protection as an important aspect of the EU Industrial and Business Policy. Main measures implemented in this field; main policy documents paving the way for the climate neutrality and circular economy.**

Environmental protection is an aspect that had permeated EU policies since the initiation of environmental concerns at the global level. After gaining official recognition through UN level discussions, the EU declared a need for an encompassing environment policy to accompany the growing and integrated economy of the single market (European Parliament 2021). This proclamation was formulated by virtue of a legal basis and was subsequently enshrined in the Treaties becoming an official policy area with commitments of integrating environmental protection into a broad range polices from all sectors so as to endorse sustainable development (Ibid, p. 9). As one of the most important sectors on the EU agenda, the industry and its policy indubitably had to include environmental aspects, whose impact was observed through both the negative aspects of pollution and positive aspects of creating new business opportunities in the sectors of recycling and renewable energy. Given that EU environment policies are based on precaution, prevention and remedying pollution at its origin (European Parliament 2021, p.1), their place in the Industrial Policy, which aims at a reallocation of resources to promote sustainability, efficiency and socio-economic interests, is of comprehensible salience. While industrial policies can be generic, applying to all sectors, and selective, applying to specific sectors, spillover effects condition the use of both through a hybrid approach whereby positive policy actions of accelerating a transition by observing socio-economic priorities naturally out-weigh negative actions aimed at retarding the process of change. Understanding the precedence of positive policies and despite the 2008 Eurocrisis, the Commission envisaged and pro-posed the Europe 2020 Strategy in 2010 to promote sustainability and inclusivity of growth (COM(2010) 2020). Among the envisaged goals, the goals relevant to the environment included reducing levels of greenhouse gas emissions by at least 20% in comparison to those of 1990, increasing the percentage of renewable energy consumed at terminal point to 20%, and increasing energy efficiency 20% (Ibid, p. 8). This was implemented through the Horizon 2020 framework programme offering grants to research and innovation projects for the fields of improving energy efficiency and developing sources of renewable energy (European Commission a). Recognising the potential borne by clean energy, the 2012 Stronger European Industry for Growth and Economic Recovery Update propelled the Commission to offer investment support in technologies for clean production, bio-based products, sustainable industrial and construction policy and raw materials, clean vehicles and vessels and smart grids (COM/2012/0582 Final). However, given the velocity of climate change as observed even from a global level, the EU ob-served the necessity for an even more encompassing framework thereby adopting the 2019 European Green Deal, as a set of policy initiative having the ultimate goal of making the EU the first clime neutral bloc by 2050 (COM(2019) 640 final). This overarching Deal focuses of seven different segments, namely Clean Energy, Sustainable Industry, Building and Ren-ovation, Farm to Fork, Eliminating pollution, Sustainable mobility and Biodiversity (COM(2019) 640 final).

Considering the environmental impact of carbon emissions, the Deal entails several tools such as the Carbon Border Adjustment Mechanism to include levying carbon tariffs for transgressing states but more importantly intent to optimise the Emission Trading System and to review the Energy Taxation Directive with a focus on fossil fuel subsidies and tax waivers in the sectors of shipping and aviation (Ibid). As the European economy is vitally dependent of the industries of steel, chemicals and cement, all of which entail large amounts of energy consumption, an Innovation Fund has been established to provide EUR 20 billion of support over next 10 years for innovative projects in the production of clean energy (European Commission b). These projects focus on low-carbon technologies, creating carbon-intensive product substitute, carbon capture and utilisation, carbon capture and stor-age and renewable energy generation and storage (Ibid). An aspect of circular economy can be observed in the strategy whereby the Emission Trading System provides funding for the Innovation Fund, revenue created through the polluter-pays principle promotes the creation of new industrial solutions to support the EU in its climate neutrality goal. Having in mind the diverse levels of economic development among MS, the Just Transition Mechanism has been developed with a 100 billion euro fund to ensure that regions dependent on the fossil fuel value chain, which are to be most affected by clean energy transition, do not bear the full the socio-economic impact of the transition (European Commission c).

A building block of the European Green Deal, the Commission also adopted the Circular Economy Action Plan in March 2020 for the further promotion of sustainability so as to diminish overuse of natural resources and create new jobs as well as stop biodiversity loss (European Commission). By focusing of the whole product life cycle, the Plan addresses the design, sustainable consumption, aims to minimize waste and attempts to keep the used resources circulating in the EU economy for as long as possible (Ibid). Seeing the linear economy as embracing the “take-make-use-dispose” principle (COM(2020) 98 final: 3), the Commission observed the need to focus measures sectors with high resource consumption and can make the most used of its circular features such as the sectors of “electronics and ICT, batteries, vehicles, pack-aging, plastics, textiles, construction and buildings, food, water and nutrients” (European Commission). Another way is to include consumers and public buyers into the circular value chain by informing them of the benefits of their recycling benefits and rewarding them for their efforts (Ibid.). Through relying on a circular economy, the EU attempts to increase independence from foreign natural resources and thereby increase efficiency and competitiveness on the global market. The Plan also relies of a regulatory framework of the Ecodesign Directive (Directive 2009/125/EC) and the Ecolabel (Regulation (EC) No 66/2010) to extend the concept of reusability to the broadest range of products possible. Furthermore, apart from incentives, the Plan also outlines a ban on destruction of certain non-perishable products so as to minimize pollution. Despite the COVID-19, the EU is steadfast at pursuits its decarbonisation goals by relying on Horizon Europe, the succes-sor of Horizon 2020, as way to partner with industry and MS in innovating transport technologies, promoting circular bio-based sectors both through national public and private investments (COM(2019) 640 final). Naturally, the goal to incentivise cannot be equal for all industries, whereby a special focus must be paid on the energy industry and transportation in-dustry. Naturally, it can be expected that these would both seek and receive the largest amount of incentive assistance. Large energy producers such as the Italian Enel are expected to get assistance for transitioning and investing into wind power sources. In the transportation industry, large conglomerates such as Volkswagen will undoubtedly receive support for hybrid and electric car solutions. However, large industries are just one aspect. Several start-ups in the fields of textile and plastic recycling, construction materials and so on are paving the way of for the SME sectors as the largest contributor to the EU economy (Smith, 2020). Further companies that benefit from the incentives include KLM Dutch Airlines, through the recycling of used uniforms into cabin interior carpets, and Henkel's Holy Grail project embedding recycling codes on plastic packing for automatic waste sorting in recycling facilities. Providing incentives will be no easy feat considering the contraction of the global economy as a result of the pandemic as many large enterprises seek aid to assist them in overcome difficult times and balance sheet challenges. The EU will in any case have to review state aid policies to ensure that allocation is justified and fair.

# EU LABOUR POLICY

**There are several directives in the EU regulating the rights of the employees. Please discuss the *Working time directive*, as well as other recent developments specifically touching upon such topics as the regulated minimum wages and treatment of self-employed. What is the response of the European industry towards these initiatives of the EU Commission?**

Living in the EU means having the right to refer to the **European Pillar of Social Rights**. One important part of the 20 principles in the European Pillar of Social Rights is the protection of the rights of employees, this includes *"equal opportunities and access to the labour market, fair working conditions [and] social protection and inclusion"* (European Commission, k n.d.). Most important is, that all work-ers within the EU can claim to at least a minimum of guaranteed rights, like *"health and safety at work, equal opportunities for women and men, protection against discrimination and labour law"* (European Commission, h n.d.; EUR-Lex, 2003).

**The Working Time Directive (2003/88/EC)** includes besides others *"a limit to weekly working hours, a rest break, a minimum daily rest period, a minimum weekly rest period, paid annual leave and extra protection in case of night work"* (European Commission, i n.d.). The directive was a very good start to implement the already present social rights, nonetheless, there are some problems with the directive. First, the Member States have the possibility of opting out of the working limit of 48 hours per week, even though it is limited by another directive to 65 hours as an absolute maximum. Moreover, the problem is that the limited working time refers not to the sum of all hours worked in different jobs per person, and thus the opting out possibility should consider only the worker and not the relationship between one employer and employee per se. Furthermore, the question rises, what happens if the worker is willing to work more than 65 hours, because of, e.g., financial rewards or promotion? (Eurofound, 2021). There must be further discussions about that in order to be able to safe the right of health and safety at work. Also, the current debate about working time in hospitals or homes for old people needs more awareness on a political EU-wide place.

There are a lot of new developments in the area of labour law, like for instance, *the gender equality strategy, the pay transparency proposal, or the EU Anti-racism Action Plan 2020-2025* (European Commission, k n.d.). Therefore, the focus is now on the question, what are the recent developments according to regulated minimum wages and treatment of self-employed?

The **regulation of minimum wages** becomes more and more important under the circumstances of the pandemic because people with lower income were most influenced by short term work or unemployment. Nevertheless, the EU tries to avoid the downward spiral with the initiative of adequate minimum wages in the EU, because it is an important possibility helping to steady domestic demand, as well as to guarantee access to the labour market and having better circumstances for people in the EU concerning there living and working. However, the economic uncertainty caused by the pandemic, is the reason for the only less improvement in only some countries. Whereas some countries raised their minimum wage level about 3%, others stayed with the level before the crisis, or even postponed it. (Eurofound, 2021; European Commission, 2020).

**Self-employment** is very important for business in general since it pushes innovation and job creation, however, there are also some general concerns to that, like the diversity, job quality, health and insurance or working conditions. Therefore, EU interference is in the part of self-employment equally important as in economic dependence (Eurofound, 2017). The treatment of self-employed is a topic, recently discussed because of the current initiative of *collective bargaining agreements for self-employed*, having the goal to create better working conditions. (European Commission, j n.d.). However, even this seems to appear a good initiative on the first side, it has to face a lot of criticism, for instance, it would generalize the working conditions, which depends on different factors, as well as there is an issue with the competition policy, namely the threat of influencing market or prices (Business Europe, 2021).

**How does the European industry respond to new developments and initiatives concerning the labour law?** To answer that question, the focus is now again on the aviation sector and the working conditions there. In the EU's aviation industry working conditions changed since the sector was liberalized in the 1990s. The results were variable income, the necessity for workers to move to new working places, or an increase of atypical forms of contracts and employment, e.g., agency work or self-employment. This led often to more difficult working conditions. The EU tried to react and emphasizes a change of the working conditions to a realisation of the pillar of social rights, but initiatives with an opt-out possibility will not change much if the industry is not obliged to actually implement them. (European Parliament, 2016).

**The concept of *skills gap*, its essence and the industries and occupation where the gaps are the most severe. The measures proposed at the European level to narrow down the gap and the response of businesses.**

The skills gap is a feature that seems to be on the rise in the global economy and not just the European economy whereby it can be defined as a mismatch between the skills demanded and offered on the labour market. It is estimated that 40% of employers cannot recruit staff with right skills due to their absence from the market whereas only 40% take part in learning (European Commission e). Several factors contribute to this such as the rapid changes in the economy shifting to digitalisation and automatisaton as we as an aging population. The velocity of the economy constantly creates new labour requirements, which if not met, create a gap that is difficult to immediately compensate that decreases competitiveness on the global market. Therefore, economies should predict trends so as to create an environment where skill formation will have a head start thereby being able to offer the labour market what it need when the demand comes. The industry with the most severe skill gap is naturally the digital industry given that digital trends move at almost warp speed making catching up processes of the labour market difficult. The EU recognised this trend and incorporated skills in Europe 2020 through the new skills for new jobs agenda as well as a digital agenda for Europe (COM(2010) 2020). Furthermore, the EU specifically identified the need for up-skilling and cooperation between industries and social partners to ensure a smooth transition to a digitally highly skilled labour market as well as digital transformation ICT standardisation big data and skill (COM(2016) 180 final). Skills were inextricably linked to EU's decarbonisation goals given both the transition to redundancy by abandoning industrial polluting practices as well as digital transformation and were thus included in the European Green Deal through a dedicated Skills Agenda (COM(2019) 640 final). The European Skills Agenda aims at reskilling the labour force by virtue of measures through twin transitioning, which entail the combined development goals towards climate neutrality and digital transition (COM(2020) 102). It stresses the importance of alliances for sectoral development whereby stakeholders create sector-specific partnerships to assist in speeding up the up-skilling process. Hence, the Pact for Skills, one of the Agenda's features, relies on the collective actions of governmental bodies, research and educations institutions, social stakeholder and the industries to cooperate so as to optimise the impact of investment in the skill sector given the importance of scalability in a digitalised economy (Ibid., p.4). Though the pandemic was not conceptualised in the Agenda, its significance as a way to build resilience to crises is indispensible (European Commission a). As reskilling is not easy feat, encompassing actions are required and thus the EU supports up-skilling activities at national levels while also fostering cooperation between MS and promoting increased participation in STEM education particular for female graduates so as to include gender balance into the equation (COM(2020) 274 final). Lifelong learning and informal education are supported by virtue of individual learning accounts ensuring that attained training qualifications are transferrable and recognised also through the CV generating Europass platform (Ibid.). Furthermore, individuals are financially incentivised to expand their knowledge and skills for their respective professions (Ibid.). The extent of the investment requires EU wide funding conducted through the 'Horizon Europe' initiative aimed at research and innovation while tackling global challenges (European Commission b). This initiative provides businesses with the opportunity to apply for funding through tender to fund their research and innovation for smart digital solutions (Ibid.). Further enforced programmes, such as Next Generation EU, aim to assist in continuation of investment into skills development in pandemic crisis contraction times (European Union). Nevertheless, an efficient transition towards digitalisation required a comprehensive EU umbrella strategic policy given that digital technologies are used in multiple sectors and their share will continue to increase whereby it is expected that 90% of all future jobs will require digital skills (European Commission c). Having in mind this forecast, and despite the pandemic challenges, the Digital Compass was announced by the Commission in March 2021 as a future strategy to ensure the EU's preparedness for the digital age and decrease dependence on digital technologies from third country market actors, but also to increase cooperation with other regions such as Latin America (COM(2021) 118 final). This strategy focuses on encompassing policies for "skills, infrastructures, transformation of business and of public services" (Ibid., p. 18) through the fundamental principles of solidarity, prosperity, and sustainability, whereby sustainability is intertwined with climate neutrality goals outline in the European Green Deal. The goal of attaining a productive digital education is to be achieved through an ecosystem to provide foundational digital training to all citizens thereby creating an interest in current ICT education and a basis for creating of expertise, which will be in great demand in the coming decade (COM(2021) 118 final, p. 4). However, as use of digital technologies grows so will threats to security, thereby encouraging the EU to invest in cybersecurity, but also artificial intelligence so as to optimize utilisation of these technologies. Apart from a focus on digitalisation, the EU offers real-time information of labour market trends through the Skills Panorama, a platform where policy-experts, researchers and guidance practitioners can inform themselves of the latest labour market developments so as to compare trends and anticipate changes (European Commission d). It represents a milestone for the education and training system, which can respond better to labour market requirements. It is expected that businesses will greatly welcome these measures as it provides them with growth opportunities and timely response to market demands. However, they will need to continue communicating their needs to so as to ensure real time response of skills industry.

## REFERENCES FOR ADVANCED DISCUSSION

Becker, William, Norlén, Hedvig, Dijkstra, Lewis, Athanasoglou, Stergios. (2020). 'Wrapping up the Europe 2020 strategy: A multidimensional indicator analysis', Environmental and Sustainability Indicators, 8, 2020.

Brook, O., 2019. Struggling with Article 101(3) TFEU: Diverging approaches of the Commission, EU Courts, and five Competition Authorities. Common Market Law Review, [online].

Brook, Or and Cseres, Kati, Member States' Interest in the Enforcement of EU Competition Law: A Case Study of Article 101 TFEU (September 6, 2018). M Varju (ed), Between Compliance and Particularism: Member State Interests and European Union Law (Springer, Forthcoming)

Business Europe (2018). Industrial Policy.

Business Europe. (2021). Consulting response, EC public consultation on collective bargaining agreements for self-employed – scope of application EU competition rules.

Cavusgil, S., Knight, G. & Riesenberger, J. (2017). International business: The new realities. Pearson Eduction Limited. Harlow.

College Accounting Coach. (2008). The advantages and disadvantages of economic integration.

Daujotas, R. (2011). Extraterritorial Application of Competition Law: Different Angles–Same Conclusion.

Dimitrova, O., Cantuche, J. & Amores, A. (2018). How Important Are Eu Exports For Jobs In The EU? Chief Economist Note. [online]

Directorate-General Competition. (2004). Regulation 1/2003 and the Modernisation Package fully applicable since 1 May 2004. [online]

ECCP News. (2021), First ever financial programme to boost the single market ready to kick-off

EFTA. Free Trade Agreements.

Egan, M. (2019). The Single Market, in Cini, M., Perez-Solorzano Borragan, N. (eds.) 'European Union Politics', 6th Edition, Oxford: OUP, pp:295-309

Erixon, F. & Georgieva, R. (2016). What is Wrong with the Single Market?, Five Freedoms Project at ECIPE, Working Paper.

EU3dom. (2017). The four freedoms of the European Union: Debate on the Future of the four freedoms of the European Union, 'EU3doms' supported by the Europe for Citizenship Programme.

EUR-Lex. (2003). Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organisation of working time. Official Journal L 299 , 18/11/2003 P. 0009 – 0019.

Eurofound. (2017). Exploring self-employment in the European Union.

Eurofound. (2021). Industrial relations and social dialogue, Minimum wages in 2021: Annual review.

European Commission. (1985). White Paper on Completing the Internal Market

European Commission. (2010). Communication from the Commission of 3 March 2010: Europe 2020. A Strategy For Smart, Sustainable And Inclusive Growth [Online]

European Commission. (2011). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Industrial Policy: Reinforcing competitiveness.

European Commission. (2011). Flightpath 2050, Europe's Vision for Aviation, Report of the High Level Group on Aviation Research.
European Commission. (2012). Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions: A Stronger European Industry For Growth And Economic Recovery Industrial Policy Communication Update [Online]
European Commission. (2016). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Digitising European Industry Reaping the full benefits of a Digital Single Market [Online]
European Commission. (2018). Summary of the Single European Act. [online]
European Commission. (2019). Antitrust: Commission consults stakeholders on guidance for national courts when handling disclosure information. [online]
European Commission. (2019). Communication from the Commission of 11.12.2019: The European Green Deal [Online]
European Commission. (2020). Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions: European Skills Agenda for sustainable competitiveness, social fairness and resilience [online]
European Commission. (2020). Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions of 11 March 2020: A new Circular Economy Action Plan for a cleaner and more competitive Europe
European Commission. (2020). Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions 2030 Digital Compass: The European Way For The Digital Decade [Online]
European Commission. (2020). Communication From The Commission To The European Parliament, The European Council, The Council, The European Economic And Social Committee And The Committee Of The Regions A New Industrial Strategy For Europe [online]
European Commission. (2020). Making Europe's businesses future-ready: A new Industrial Strategy for a globally competitive, green and digital Europe. [online]
European Commission. (2020). Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union.
European Commission. (2020). Single Market Scoreboard 2020: EU countries need to do more to ensure the good functioning of the EU single market. [online]
European Commission. (2021). 'The future of aviation: the only way is up', Research*eu Bringing you the results of EU research and innovation, no. 99, February 2021.
European Commission. (2021). A European Green Deal - Striving to be the first climate-neutral continent. [online]
European Commission. (2021). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Up-dating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery.
European Commission. (2021). Competition Policy and the Green deal Conference, 4 February 2021. Student challenge – The voters have spoken. [online]
European Commission. (2021). Competition policy contributing to the EU Green Deal. [online]
European Commission. (2021). Competition Policy. Antitrust rules and coronavirus. [online]
European Commission. (2021). Europe's Digital Decade: digital targets for 2030. [online]

European Commission. (2021). Industry 5.0: Towards more sustainable, resilient and human-centric industry. [online]
European Commission. (2021). Internal Market, Industry, Entrepreneurship and SMEs, The European single market.
European Commission. (2021). The European Single Market.
European Commission. 50 years of the EU Customs Union.
European Commission. Bilateral relations on competition issues.
European Commission. Circular economy action plan [online]
European Commission. Collective bargaining agreements for self-employed – scope of application EU competition rules.
European Commission. Employment, Social Affairs & Inclusion, Rights at work.
European Commission. Employment, Social Affairs & Inclusion, Working Conditions – Working Time Directive.
European Commission. EU Customs Union – unique in the world.
European Commission. European Skills Agenda [Online]
European Commission. Financing the green transition: The European Green Deal Investment Plan and Just Transition Mechanism
European Commission. Horizon Europe [Online]
European Commission. Innovation Fund [Online]
European Commission. Skills and qualifications [Online]
European Commission. Skills panorama [Online]
European Commission. The Digital Skills Gap in Europe [Online]
European Commission. The European Pillar of Social Rights in 20 principles.
European Commission. What is Horizon 2020? [Online]
European Council. (2018). 25 years of the EU Single Market.
European Environment Agency, 2015. 2. The European environment in a wider perspective. The European environment — state and outlook 2015 — synthesis report. [online]
European Parliament. (2016). Briefing, Employment and working conditions in EU civil aviation.
European Parliament. (2018). The EU's position in world trade in figures (infographic). [online]
European Parliament. (2020), Jacques Delors: Architect of the modern European Union
European Parliament. (2021). General principles of EU industrial policy, Fact Sheets on the European Union
European Parliament. (2021). Competition policy. Fact Sheets on the European Union. [online]
European Parliament. (2021). Environment Policy: General Principles And Basic Framework. Fact Sheets on the European Union [Online]
European Union. Next Generation EU [Online]
Federal Ministry for Transport, Innovation and Technology Department II/L2 – Aviation Affairs. (2011). Aviation Road Map 2020.
Gouardères, F. (2021). General principles of EU industrial policy – Fact sheets on the European Union. [online]
Gurría, A. (2008). Globalisation and Rising Competition: Challenges for the Czech Economy. OECD.
Johnson, D., & Turner, C. (2016). European business. London: Routledge.
Kokkoris, I. (2017). The Google Case in the EU: Is there a case? The antitrust bulletin Vol. 62(2).
Learneurope (2021). Types of economic integration. [online]
OECD. (2017). Extraterritorial reach of competitive remedies.

Parenti, R. (2020). Competition Policy. Fact Sheets on the European Union. European Parliament.

Salm, Ch., Lehmann, W. (2020). Jacques Delors - Architect of the modern European Union. [online]

Schmidt, V. (1999). In: D. Smith, D. Solinger and S. Topik, ed., States and Sovereignty in the Global Economy, 1st ed. London: Routledge, p.172.

Science Business. (2021). Tackling the challenges facing European industry

Shelton, J. R. (1999). Competition policy: what chance for international rules.

Smith, Phoebe (2021). 10 promising circular economy start-ups to watch in 2021 [online]

Snyder, F., (1999). Globalisation and Europeanisation as friends and rivals. San Domenico, Florence: European University Institute.

Suder, G. & Lindeque, J. (2018). Doing business in Europe. Sage Publications Ltd. London.

The Council of the EU and the European Council. 2021. 10 things the EU is doing to fight COVID-19 and ensure recovery. [online]

Wall, S., Minocha, S. & Rees, B. (2015). International Business. Pearson. Harlow.

Wallace, H. (2000). Europeanisation and Globalisation: Complementary or Contradictory Trends?. New Political Economy, 5(3), pp.369-382. [online]