Business and the euro

By Scott Hammen

The euro has become a political football these days, but some of the players in that game have businesses to run. What is their end game?

“Companies and executives are not merely the object of decisions to be taken; they are the ones that should bring recovery to Europe – as well as new prospects and increased growth.” That was a key sentiment in the 2012 report on the State of the European Union created by INSEAD and Booz & Company and presented at the European Executive Committee’s second annual conference in Brussels at the end of May. Responses from more than 2,000 senior executives were included in the report, entitled “Giving a Voice to Business”.

Given the dismal scenario of Greece’s potential withdrawal from the euro and a banking collapse in Spain, the most surprising aspect of the report is its relative optimism.

Openness and creativity, key to success

As one of the report’s authors, Ludo Van der Heyden, INSEAD Professor of Technology and Operations Management and Director of the INSEAD Corporate Governance Initiative, points out “Europeans should not underestimate themselves: the region’s companies fare well in the global economy, aided in great part by their managers’ comfort with other cultures, openness to ideas, and excellent training. If, given greater competitiveness within the EU, that same openness and creativity can be applied to Europe’s home markets and to its overall system, the continent will flourish again.”

But if business leaders do not doubt that, whatever the outcome of the current crisis, the EU – with its immense wealth, high quality of life, and well-educated population - will remain a lead player in the world economy, this does not mean they favour preserving the status quo or the eurozone’s current boundaries. Leaders surveyed by the report, particularly those in the larger, more economically solid EU states such as Germany, are quite receptive to the idea of a two-tiered Europe and a smaller eurozone.

Surprisingly, respondents also said they favoured more rather than less financial control in Brussels. “I didn't expect such a strong voice for greater authority in Brussels,” admits Van der Heyden.

According to the report, business leaders actually support the concentration of economic authority in Brussels and feel that there should be more federal power to create a uniform industrial policy. For businesses, Van der Heyden concludes, “Clearly a single currency makes sense; the single market is the best weapon for inducing competitiveness.”

However, the report makes an important distinction between social and fiscal policy, the former being viewed as better handled by the individual states. Business leaders saw no need for more centralisation of social and cultural policy - areas where diversity is considered a virtue. Health, education and welfare, the report suggests, are best handled on the national level even as fiscal policy becomes increasingly uniform.

Flexibility is vital

The gap between northern and southern Europe in general, and Germany and its neighbours in particular, is readily acknowledged; however, the issue is not one of national sovereignty, the report concludes, but of a competitiveness deficit on the part of the weaker members. “The problem is not Germany,” comments Van der Heyden, “it's that other nations are not competitive enough.”

Changes, some fairly radical, are seen by the business community as inevitable. Co-founder of the European Executive Council and another of the report’s authors, Robert Gogel, points out that “many of the regulations and social compacts of the past are inhibiting the EU’s competitiveness in today’s more global and challenging economy. This being the case, a greater degree of flexibility is an absolute must if the EU is to become the agile competitor it needs to be.”

“Europe may be the largest economic entity in the world, “points out Fernando Beccalli Falco, the President and CEO of GE Europe, “but it underperforms because of too complex and cumbersome processes.”

But while such a sentiment is often associated with calls for deregulation and a more laissez-faire approach, business leaders actually want tighter and more unified rules governing spending by member governments including the power to sanction national governments who are too protective of their local industries. A majority of the executives surveyed agreed that a complex alliance like the EU requires active management through strengthened federal structures.

The report also covered the views of other voices rarely heard in discussion of the euro crisis - younger business professionals and business leaders from the BRIC countries (Brazil, Russia, India and China). Though the two groups have little direct influence on European economic policy, their support for a strong centralised European approach was very high.

“The younger generation adds a sense of urgency to the debate,” Bruno Lanvin, Executive Director of INSEAD eLab and an author of the report explains. “They are more worried about Europe’s current difficulties, but they are also more confident that the solution lies in maintaining and strengthening the Union, and are more ambitious in their views about what the EU can achieve.”

Austerity the only way

Taken together, respondents’ support both for limiting the size of the eurozone and for further integration suggests that business leaders are comfortable with a two-speed Europe: they are willing to move ahead with a stronger, if smaller, core because they see it as the best way to improve the current business environment. And, even if increasingly unpopular politically, they see no alternative to continued austerity.

Per-Ola Karlsson, senior vice-president and managing director, Europe at Booz & Company, states categorically: “Executives in Europe simply do not think that spending Europe’s economy back to growth is the answer to overcome the current recession. Instead, structural adjustments and continued budgetary austerity will be required.”

“This economic crisis is a full scale test of the EU’s strength and cohesion,” adds Bruno Strigini president of Merck & Co., Inc. Europe/Canada. “If institutions can weather this crisis, they will only become more effective and resilient in the future.”

Bruno Lanvin is Executive Director of INSEAD's eLab.

Ludo Van der Heyden is Professor of Technology and Operations Management at INSEAD. He is also the Mubadala Chaired Professor in Corporate Governance and Strategy and Academic Director of the INSEAD Corporate Governance Initiative. He co-directs the International Directors Programme, part of INSEAD's portfolio of Executive Education programmes.

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About the author(s)

Scott Hammen