CONDITIONS FOR THE CREATION OF NEW MARKETS IN EUROPE

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I. INTRODUCTION

It is a well-established fact that within the economy, as well as within the society, we face a historical moment that substantially modifies the organization of the economy and the way we understand the roles of the government and the Society in the organizational context.

We are close to the end of a transition, which lasted for some three decades, of markedly openings and liberalization of some aspects of the economic and political life - e.g. financial issues have reached a universal dimension. Slower has been the liberalization of the distribution of products and services, which has received some impulse after the GATT rounds.

(1) Translated by A. Peralta, Organization Department, Economics and Business School, University of Alcalá (Spain).

(2) This lecture was given at the III Mannheimer Unternehmerforum (Mannheim, Germany).
Nevertheless, these shifts have not known a parallel change of the national administrative regulations and norms, such as those affecting the labor market, services and infrastructure, administrative authorizations, etc.

In Europe, this has produced major dysfunctionalities, which generate too high coordination costs – this is shown in the differences among the countries of the European Union. Traditional markets are opening, and those dysfunctionalities are posing a serious burden upon the new dynamic of market creation.
Key factors to definitely break-up with the to-date transition that show the need for a new economic and social design are:

1. **Globalization of the economy**, which goes much further than a simple economic fact. Moreover, this globalization affects, in a dramatic way, society itself. Economic globalization has, as a prime requirement, the reduction of those problems regarding the functionality, i.e. the erasing of barriers and the spread out of a new understanding of the organization of the social and political life.

2. **Privatization of the economy**. One can hardly understand and accept globalization if there is no prior privatization of the public economic activities. This part of the economy account in Europe for some 50% of the European Union's GDP, with a special significance in the infrastructures industry. This high participation produces undesirable effects regarding functionality of the main economic services, which consequently produce enormous coordination costs, closing many opportunities to develop new markets.

3. **Deregulation of markets**, which implies the reduction of those functional barriers and thus the lowering of coordination costs. Deregulation of the economies cannot be conceived without privatization, and no privatization has sense if it is not followed by deregulation processes that generate new markets. And this
is one of the keys of today's European contexts: How new markets could be developed, and which chances exist of establishing competition systems within narrow oligopolies.

4. The above is forcing the development of a *culture of stability*. Globalization and deregulation of the economy and the creation of markets can only work in a context of economic, social and political stability. Economic dynamic requires stability, thus demanding another economic and social order and other behaviors different from those of the past three decades.
The above four factors are supported with the impressive technological advancement, but primarily by the value change of the societies worldwide, which is coupled with a value change of the political life. Development of communication technologies and the opening-up of societies are stressing two requirements:

* Reinforcement of the role of single institutions that are able of generating credibility and of integrating people in their project – being these either firms or institutions of another kind.

* A turn back to the person, i.e. in a firm one has to manage people, in the market one has to give answer to the demands of customers and vendors. The firm, the institution, has to seek for its legitimization within society.

We can affirm that we are shifting from a "culture of the things" to a "culture of the person", breaking up with the institutional, "contract-based" relation among people. This contract concept has lead to a reduction of the alternatives and to the generation of high adaptation costs consequence of the rigidities that have traditionally blocked the blooming of a culture toward the person. It is the individual, with his/her behavior, the one that brings in flexibility and the one that allows the reduction of coordination costs when changes of the institution and the society occur. Now, it is not enough to have personnel policies, now the requirement is for a management of the
people; it is not a management of the functions, but a management of the behavioral changes within the firm, the economy and the society.

II. BASIC CONDITIONS FOR THE CREATION OF NEW MARKET IN EUROPE

Traditional conception of the market is already broken. This traditional concept links markets to specific products and geographical locations. And those two were the basic parameters for designing business policies, set traditionally after the marketing principles.
Today, the market has a new dimension. This can be seen when analyzing what global sourcing means for the firm: the integration of customers and vendors, the development of networks, and a new dynamic of changes. All rest primarily on the globalization of the economy (the capacity of reaching worldwide economic potentials), and on the capacities generated by the technology (which make feasible a systematic reduction of the coordination costs). The traditional location scheme (Standort) basic for the interpretation of markets is gone due to the globalization trend and to the technological advancements.
This means that necessarily the classic concept of competition and its regulations has to be abandoned, particularly all those regulations and norms regarding the Trust Courts and legislation.

Regarding the markets, within the new organizational dimension of the economy, I must firstly refer to the two basic criterions needed to reach efficiency during the lifetime of those markets:

1. Coordination costs, resulting from the existing barriers and dysfunctionalities, should be lowered. Doubtless, an efficient market
is one in which coordination costs and dysfunctionalities are kept in such levels were maximum efficiency can be reached.

2. Another key issue is unit costs; unit costs are to be understood not only as a consequence of the mere factor's prices, but also taking into account the utilization of external and internal technical and economic skills and knowledge of personnel and managers. The classic institutional scheme of the firm, understood as a close institution whose relationship with the environment is made through contracts is also broken. The firm is an original element of the economic and social environments, not specific of a determined physical location but in a wider open space.

Thus, markets are configured and disappear accordingly to the above criterions, since my understanding is that markets are organizational forms of the economy that, with the current dynamics, can change continuously.

It is true that the actual trend is clearly oriented toward narrow oligopolies, i.e. few elements fostering all the problems that can arise when trying to develop competition as the engine that moves the economy. In the new market configuration, the existence of such oligopolies – kept apart of the competition pressures – will flaw the generation of the dynamics sought for the lowering of coordination costs once the international division of labor within a world economy is set.
Therefore, it is of outmost importance for the development of markets to search for a division of labor that, supported by the firms themselves, sets the conditions for specific markets and organizational forms.

Globalization of the economy, together with the privatization of half of the economic processes (i.e. the part owned by the government), are impelling the development of new markets since they strongly promote deregulation processes. Privatization without globalization of the economy, i.e. the traditional concept of privatization, where public property changed hands to become privately owned, has no sense today. Neither it could produce the consequences of an improved economic and social efficiency as they actually come out after the globalization of the economy.

The two major consequences of the globalization/privatization pair are:

1. Increase of the competition, having found a solution for the configuration of the narrow oligopolies.

2. Cultural change of firms and institutions, which means new economic and social behaviors.

Deregulation of the economy coupled with privatization efforts are, doubtless, in a global environment key to the strengthening of the competition, which on its part will force in the processes of change and the need for a new business culture. This latter will influence both
managerial and personnel behaviors and the organizational designs of the firms.

But the *sine qua non* condition for the development of the new ways of competition is the need, in a global economy, of an economic and social order that produces a stable framework within which the mentioned changes take place. In the past, the stable framework was provided by national regulations. Today, this framework of stability has to be consequence of a particular economic and social order – in Europe this is featured after the Maastricht Treaty and the Euro, which
give the support for the spread-out of stabilized economic, social and financial environments.

Without this stable framework a culture of stability cannot be reached – and this is the basic premise for the global functioning of the economy. But the culture of stability would not spread much widely through the society, nor in the markets, if it does not imply a major change in the current culture of the firms and in the behavior of all the people committed to the business processes.

![Diagram](image)

**Figure 7**

A culture of stability will allow the spawning of "confidence assets" which necessarily force the firm into a new role. This role should
mean security and capacity of integration of the internal human resources and the customers and vendors. It also means a change of the human behaviors, which have to be oriented to develop a sense of competition that stimulates development of available capacities in the management and in the workforce: dialogue, decentralization, integration of people within the project, empowerment and enrichment. These latter are key elements that were already put into the economic thought through government regulations (e.g. democracy at the workplace). Today, those key conditions are a must if the aim is to highlight and make use of the available potentials of each firm. And thus achieve success of that firm through a better service to the society – in the form of high quality products and services at a premium cost.

We feature a move from a culture featured by instability and insecurity – typical of the last decades, which resulted from the bad functioning of the economic game consequence of government regulations, to a culture of stability founded on the framework established by firms and individuals. The spirit under this shift is that of Schumpeter – of seeking the most efficient division of labor. We are, therefore, facing a great opportunity to adopt a new concept of global economy and the challenge of developing prime ethical criterions to measure the outcomes of individuals and institutions based on their contributions to the global productivity of the economy.

And this means a less importance of what could be called a "culture of prices", i.e. a culture based on marketing tools – of high cost and
primarily product/location-oriented, since this culture of prices can only be a coordination tool for specific locations and products. Success will rest on the condition of a move from that culture of prices to a "culture of costs". This latter should then be understood as a key factor for success of the economy's globalization within a stable economic and social environment.

Moreover, as indicated earlier, this is an upheaval in the way we understand the competition process. I believe we should rethink if "destructive competition", in the sense of excluding the other by means of artificial or natural barriers, is the best option to achieve the optimum of the available skills and capacities.
Reality is showing that the business world is steadily moving toward integrative competition, i.e. a competition that provides an answer to the key requirements already mentioned:

1. Economies of scale; this type of competition will lower the unit costs through the utilization of the available capacities. But in order to achieve this, one must be able to use not only his/her own capacities, but also abilities from the others, since processes are identical and competition would not be based on differentiation.
2. Competition: has to be centered on seeking all those elements that differentiate each firm, and that constitute a competitive advantage. These advantages can only be realized when the firm makes them available to others, to take advantage of them. There are many good examples of this in every industry.

Definitely, the problem is how to design and organize the economy to give answer to:

1. The need of higher efficiency in the usage of available capacities to satisfy human needs, and

2. The need of an increase of competition that generates an economic dynamism forcing the permanent search of new divisions of labor, i.e. new markets, which use resources more efficiently.

One could also say that we are featuring the need of a new design of Anti-Trust institutions, to foster competition and not to hinder it. This is a new set demanding another understanding of the economy. And a very good example of it is the conclusions of the last International Monetary Fund meeting in Honk Kong.
III. THE BUSINESS ANSWER

As already mentioned, privatization of the economy reinforces the globalization processes, and requires deregulation. In other words, it imposes a new regulation of markets and of the relations configuring business institutions.

The engine of privatization is key to achieve higher efficiency within the European economy since, thanks to the better utilization of the
available abilities, it results in low unit costs and, consequently, in a better position in the global market.

Deregulation and globalization demand a new institutionalization in economic and social terms, but particularly in what regards to the competition. The new institutions should contribute decisively to the aim of stability that will allow the adaptation process of the people. The Maastricht Treaty and the Euro currency should set the conditions for stability, which permit the people (1) to concentrate on an efficient usage of limited resources and (2) on the quest for an economic and social dynamic – which will spawn permanent changes of the division of labor to uncover more efficient ways of increasing the global productivity of the economy. Economic and social efficiency should become a fundamental requirement in the behavior of people and institutions.

Globalization means, therefore, the pursuit of new economies of scale that are configured with the participation of the other thanks to networks. Networks that are realized sometimes in the form of alliances, or joint ventures, or taking-overs, or other forms that are yet to be discovered, and that will open new possibilities for a better usage of resources.

But globalization is, coincidentally, a much more complex system, not only for the ever-changing configurations but also for the permanent pursuit of an integration of the human behaviors and the rest of the
resources – here the decentralization is one of the fundamental issues. A dramatic mistake would take place if the economic and social order and the firm's organization would answer to the complexity of the system derived from the economic globalization with a new centralized order. This would end up consequently in a dysfunctionality of the requirements for change (demanded from the decentralized units) and the imposed shift toward a centralized rigidity.

The new organizational forms of the economy, that are highlighted with the network configurations, and the new answers to the complexity of the systems – decentralization – lead to an increase of
the competition based on the search for the most efficient division of labor. And this is the reason why I hold onto the idea that the current debate over the Standort is a mistake. The term Standort is usually conceived under a "real state" idea of attained positions, in close spaces and with defined products. Traditional Standort concept has always been the base for the economic thinking, and now should be banned. Today, it has to embrace the idea of how an economy (like the Spanish or the German), or a firm is included in the globalization process, and how the economy or the firm is able of using its potentials in the network, giving a growing importance to the person, and a diminishing importance to the things.

Thus, business strategy rests on two basic principles:

1. "Own" economies of scale, i.e. those that are strategically based on business differentiation that will produce a growing demand from the environment, thus generating economies of scale.

2. Global efficiency that can only be achieved through its participation in strategic networks. This is what I call "virtual" economies of scale, i.e. the economies of scale that are reached through the use of potentials owned by others. This allows great flexibility against the changes that should be combined with a systematic reduction of unit costs and quality-assurance measures. An example of this is the current "global sourcing".
Figure 12

The prime objective of the business strategy in the globalization is that the firm needs a clear differentiation of before the customer, the employee and the vendor. A firm that dilutes its identity in the environment and that is not able of becoming a cultural or organizational reference in its markets will surely die.

The above leads me to draw upon the idea of a new business culture, which implies two major requirements:

1. Strategic thinking instead of analytic thinking. The strategy is based on the pursuit of differentiation that allows economies of
scale, and on the participation in the globalization to use those differences.

2. Managing style, featured by the integration of the person in the project to achieve flexibility and quickness of adaptation. These two demand leadership, teamwork and process organization – the integration of the person does not have to be done through regulations, but through the manager's ability to dialogue, to identify values, and to generate a particular business culture.

![NEW SOCIAL AND ECONOMIC NEW BUSINESS CULTURE](image)

**Figure 13**

This is a business culture that rests primarily on the behavior of the human beings. Again, this behavior should be mainly characterized by
the stability. Without stability, the organization of the economy based on globalization and deregulation cannot be supported. Moreover, it rests on an efficient usage of available capacities in order to lower systematically unit costs, giving an answer to the customer and supporting itself the stability of economic and social processes.

The key issue is, consequently, how coordination costs resulting from barriers and dysfunctionalities are reduced. And how those extra energies that become liberated after the breaking up of those barriers are put to the goal of a higher economic and social efficiency that gives answer to the needs of the people.

**IV. CONCLUSIONS**

* Impulses for the generation of new markets in Europe, as the answer to Globalization, come from the processes of privatization and deregulation, and from the technological development and the new configuration of the division of labor.

* The strong government presence in the European economic scene (some 50% of the GDP) is a burden that limits economic efficiency. But at the same time it allows the opportunity to foster new markets, through deregulating those same markets.
Synergies of the new markets, as opposed to the traditional markets, will motivate a new dynamic, due to the lowering of unit costs and the growing of the competition.

Deregulation aims to the creation of a new business culture that boosts competition and an efficient – and global – usage of available resources.

Privatization would miss its goals it is did not contribute (1) to spread the culture change among firms, and (2) to originate the values needed for the new social and economic environments.

Globalization of the economy and the implementation of the EURO are key elements in promoting the new economic and social cultures, which should be based on a new concept of stability – one that fosters competition.

These new economic and social cultures rest on the values that shape competitive behavior, abilities and skills. These values will generate intelligent organizations, which integrate society, economy, firms, and persons.

The orientation of the new economic and social orders should meet the demands of a culture of stability, which is needed for the development of a global economy, and a strong EURO.
Only through a change of the business culture can the change of the social and economic orders (environments) be realized. The aim is also an increase of the competitiveness of the European firm.

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