Tzu war strategy into focusing on a niche ignored by market leaders. Size can make all the difference. The planes built by Boeing and Airbus are often too large for regional routes, but many travelers don't like the slow speed and weather-related bumpiness of noisy turbo props. Market deregulation and competition from new carriers provided an opening for small, regional jets that Brazil's Embraer spotted before most others. China's Haier exploited another niche to get noticed in the American market. Its mini-fridges for college students became so popular that big-box stores like Wal-Mart began to notice the newcomer in the appliance area and sourced other models from Haier's product line.

9. Offer cheap brainpower instead of cheap brawn power (making R&D and software development more affordable). The new economy came in like a lion and went out like a lamb: The great fanfare and sky-high expectations finally fizzled (at least in the short term) when it failed to deliver on its outlandish promises. Technology moved so fast that much less fiber-optic cable was needed than was installed around the world. But in the meantime, the Internet—invented to allow the Pentagon to communicate even after a nuclear strike and first used by nerdy academic types—took the world by storm. All of a sudden, free and instantaneous digital communication allowed people everywhere to be in touch at virtually no cost. Even if pornography and sports headed the list of "information" that people searched for as they browsed the Web, in the end, the Internet rendered it irrelevant whether the person you worked with was sitting in an adjacent cubicle or thousands of miles away.

Armed with the Internet, a college graduate in India with software expertise or even English-language skills could do as good a job—sometimes even better—as a similar professional in Europe or the United States, while being paid one-tenth or one-fifth as much as her First World counterpart. Not only goods could be traded—services became frictionless and mobile. IT services companies such as Infosys, Tata Consultancy Services, and Wipro in India were quick to take advantage of this unprecedented opportunity. Ranbaxy Laboratories and others soon followed suit by offering drug research to global pharmaceutical companies while also working hard at developing their own proprietary drugs. In the end, the secrets of becoming world-class boil down to bold ambition, discipline, adopting a global mindset, and making adaptability a core capability.

Some lessons that every company—not only those in emerging markets—can take away from these trends and twists:

- Find the most (rather than least) demanding taskmasters as clients.
- Compete globally, not just locally or even regionally.
- Expect trouble—and react in a decisive way to bounce back.
- It's OK to not get it right the first time, as long as you get it right the second time.
- Vision is important, but execution is paramount.
- Patience and persistence rather than flamboyance are key.
- Build a brand—or buy one.

Over There

What U.S. executives need to understand about doing business in Europe.

By Stuart Crainer and Des Dearlove

The CEO of a growing Chinese company addressed a gathering of CEOs in Europe earlier this year. Everyone anticipated the usual talk of expanding opportunities, mutual cooperation, and *guanxi*. Instead, the CEO gave the assembled business leaders a lesson in bluntness. "Europe's problem is this: arrogance," he pronounced. "Every European country you go to, they tell you that they're different and that they have one thousand years of history. Well, we have *two* thousand years, but arrogance won't stand in our way." Europe, he not-so-subtly implied, is so busy looking backward and congratulating itself on its glorious past that it is unable to create the future. One of the few Americans in the audience remembers the awkward silence that followed. "As an American," she admits, "it struck a chord. It is what I have thought many times, but daren't articulate."

Europe can appear hidebound by history, locked in what was and what might have been—a backward-looking behemoth in a nimble-footed business world. For many American business leaders, and for at least one Asian executive, Europe remains an enigma, a labyrinth of cultures, languages, complexes, and prejudices. It's a great place for a vacation but a troublesome place to make money. "Americans don't, in general, understand Europe all that well. Not many American CEOs spend a lot of time in Europe, and Americans and Europeans have perspectives that are often fundamentally different," reflects Kevin Kelly, CEO of Chicago-based recruitment firm Heidrick & Struggles.

Stuart Crainer and Des Dearlove are the editors of The Financial Times Handbook of Management *and founders of the training and consulting company Suntop Media. Their last article was "Whatever Happened to Yesterday's Bright Ideas?", the May/June 2006* Across the Board *cover story.*

AP Photo/STR

Oryx in Doha, Qatar

Europe is definitely—at times defiantly, and sometimes even irritatingly—*not* America. Europeans differ from Americans in the ways in which they manage and lead their companies. This perhaps explains the cries of arrogance. Of course, such cries often come from both sides of the Atlantic, since there is a mutual assumption that each side's way is better. The reality is that no one person and no one approach is perfect for every company and situation. In the meantime, here's what American executives need to understand about the European way of doing business.

No Way

First, there is no definitive European way (and probably never can be). Nor is there consensus on how you should do business with Europe. What is acceptable in Gothenberg does not necessarily work in Genoa or Glasgow or Gdansk. "I do not believe there is a unique European business model, a unified *European* way to organize and run businesses," observes Hans Brechbuhl of Dartmouth's Tuck School of Business. "If there were, that would imply that the different cultures, customs, and laws of various European countries do not have a large impact on the business models of companies in those countries." In truth, European companies are heavily influenced by their respective countries.

As different as these countries are from each other, European businesses do share a number of similarities. For instance, many European companies have developed on the foundation of relatively small domestic markets, but since sustaining growth in such limited markets is not an option, they have had to cross borders to get scale. Doing so has forced them to adopt a thoroughly international perspective.

Nowhere is this truer than in Scandinavia. For example, exports account for some 40 percent of Sweden's GDP. Internationalization is in the Swedish genes. Add in enthusiasm for engineering and fashion, and you have a winning combination. "No one [outside of Sweden] speaks Swedish. No one knows our culture," explains Jan Lapidoth, who has worked with the legendary Jan Carlzon at the airline SAS and is now a Stockholm-based entrepreneur. "We're a very small market—just nine million people—with a high level of education. We've been forced to adapt." As a result of their international outlook, Lapidoth says, Swedes have found it easy to do business outside their country, including in the United States.

The lesson for American organizations is that globalization is a state of mind as much as a matter of logistics or flooding the world with a particular unified brand or way of doing things. And it's a message that is getting through, according to Allyson Stewart-Allen, author of *Working With Americans*. "Things are improving as American businesses are changing," she says. "They now know the interdependencies which exist between Seattle and Seville."

A Background Check

Europeans also share a more international perspective when it comes to diversity. In America, diversity typically refers to ethnicity; in Europe it's about culture. Watch a soccer game between two of London's most famous teams, Arsenal and Chelsea, and you will get some idea of Europe's appetite for diversity. While ancient rivalries are still stoked to the same intensity, the teams are coached by a Frenchman and a Portuguese, the Chelsea club is owned by a Russian billionaire, and only four of Arsenal's thirty-three players are British. The rest are a potpourri of nationalities from throughout Europe and beyond. Globalization, from a European viewpoint, is all about being sensitive to different cultures.

Attend classes at Europe's top business schools and this lesson is strongly reinforced. At Harvard Business School, non-Americans account for 33 percent of MBAs. At UCLA's Anderson School, the figure is 28 percent. By contrast, London Business School's MBA intake is made up of 85 percent non-U.K. citizens.

According to Tuck's Brechbuhl, this comfort with cultural difference could potentially be a major advantage for European organizations. He explains that "Europeans tend to organize and run their businesses in a much more multicultural environment and are more culturally aware in how they operate internally and externally, which serves them well when entering markets that are new to them." Clearly, in a global economy made up of "rootless cosmopolitans," the ability to mix productively with people from diverse backgrounds is an important skill.

Now contrast Europe with the United States. Only 27 percent of Americans possess a passport, so the country has a limited reservoir of global citizens. Europeans, meanwhile, travel easily and (thanks to intensive competition among low-cost airlines) cheaply between member states. The distances they travel, in American terms, are miniscule: Paris to London is only 213 miles via the Chunnel; other business capitals are within easy reach of each other. Culture hopping is *de rigeur*.

The No-Name CEO

In America, CEOs are inherently media-worthy. In Europe, they are generally ignored—not all that surprising considering that Europeans rarely regard business as glamorous. Indeed, business is sometimes not regarded as particularly important at all. While Americans often reduce everything to business and see business in everything, Europeans generally see business as one element on a broader social canvas.

As a result, the list of famous mold-breaking European business leaders is a short one. Over the last decades, the American business world has lionized Lou Gerstner, Jack Welch, Bill Gates, Lee Iacocca, and many others in a way that would instantly be distrusted in Europe. The closest the Europeans have to a celebrity CEO is Virgin's Richard Branson, portrayed amiably as another in a

The Europe Effect

"We Yanks think we are the archetypal businesspeople—that is, that we are the standard by which all should be judged," reflects futurist Watts Wacker. "Truth be told, from management theory to network applications, from design influence to understanding risk, and from leadership in marketing and advertising to innovation, I see the leading edge coming from across the pond."

There's no questioning Europe's importance in business. The expanded twenty-five countries of the European Union and the United States account for around half the entire world economy; transatlantic trade and investment is worth around $1 billion every day. Europe is also home to some of the world's top corporate names. Although the Fortune 500 is dominated by American companies (176 of them), European firms perform surprisingly well: France has thirty-nine representatives; Germany, thirty-seven; the United Kingdom, thirty-five; the Netherlands, fourteen; Switzerland, eleven; Spain, eight; and Sweden, seven. European companies in the top twenty include British Petroleum, Royal Dutch/Shell, DaimlerChrysler, AXA, Allianz, Volkswagen, and ING Group.

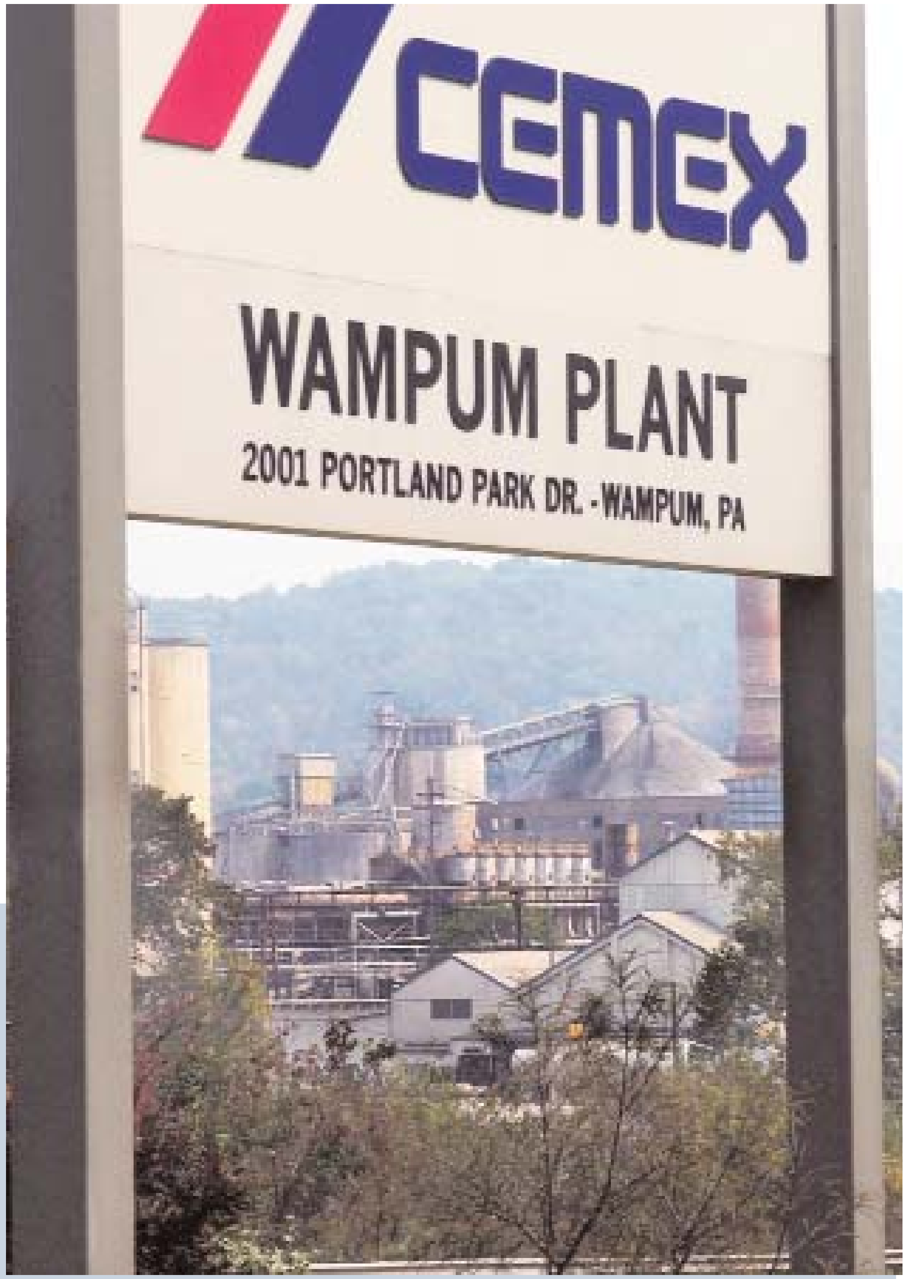
Indeed, belying their reputation for meddling labor unions, limited working hours, dedication to vacations, and tight regulation, European countries actually do very well in rankings of competitiveness. The World Economic Forum's competitiveness ranking of nations places Finland at No. 1, ahead of the United States. Sweden, Denmark, Iceland, Switzerland, and Norway are also in the top ten. When it comes to percentage of GDP spent on research and development, the United States lags behind Sweden, Finland, and Iceland, with Denmark, Germany, Austria, and France not far behind. Meanwhile, patent applications are growing faster in Finland, Switzerland, France, and Italy than in the United States.

How does this impact American businesses? Clearly, it means that Europe is a potent competitive force. It also means that the European influence will increasingly be felt in the way Americans manage and lead their organizations.

"The fact that modern management took off first in the United States—mostly with the advent of the multidivisional corporation—may lead some to believe that it is essentially American, instead of simply a series of fundamental, common practices that are appropriate for large complex organizations, wherever they might long line of maverick English eccentrics. Meanwhile, Percy Barnevik, the former Swedish CEO of ABB, an international industrial conglomerate, was also lionized—but mainly by American business writers. His own travails and those of his former company since his departure have been sources of comfort for those who dislike the CEO-as-hero model.

Why? For one thing, there is less emphasis in Europe on the individual. That is reflected in the power afforded to corporate leaders. "The concept of top-down leadership, with the CEO as hero, is an American one," explains David Newkirk, who, after working for years in the United Kingdom, is now CEO of executive education at the University of Virginia's Darden School of Business. "The European organizational model eschews leadership, especially individual and hierarchical leadership, in favor of group responsibility and initiative." This difference is seen most clearly in the German *vorstand*, or supervisory board model, where the *vorstand* members are given oversight responsibility for various aspects of the

Cemex in Wampum, Pennsylvania



AP Photo/Keith Srakocic

be," says professor José Luis Alvarez of Instituto de Empresa, Spain's top business school. "While the European model has had to prove itself vis-à-vis the American model, the latter, being the pioneer, has mostly used its own efficiency in practice as the criterion for self-evaluation."

It is notable that the Management Innovation Lab, recently launched by London Business School and involving American management guru Gary Hamel, has identified a steady stream of management innovations in Europe. The concept of intellectual capital, for example, originated in Scandinavia, and recent years have seen a steady stream of bold management experiments in Europe—including "spaghetti management" at the Danish company Oticon; a more ethical approach to business at The Body Shop; multidisciplinary teamworking at the design company IDEO; and networking consulting at the London-based consultancy Eden McCallum.

Furthermore, University of Michigan research into corporate social responsibility anticipates that the company of the future may look to Japan for inspiration on how to run its production lines; the United States for corporate-governance best practice, in terms of transparency and shareholder value; and to the European Union, the world's biggest consumer market, for basic standards of corporate social responsibility.

Europe also tends to excel at the softer, human side of business—teamwork, cultural sensitivity, participation, empowerment. As the world globalizes, these are the skills and issues that will increasingly dominate the business agenda. British authors Rob Goffee and Gareth Jones recently wrote a book called *Why Should Anyone Be Led by You?* Increasingly, it is a question that American executives and their firms must answer. —S.C and D.D.

business. They report separately to the entire board and jointly approve major initiatives. The "speaker" of the *vorstand* is translated as the CEO, but he seldom acts like a typical power-wielding chief executive. "Even in the U.K., separation between CEO and chairman dilutes the heroic CEO model," adds Newkirk. "In my experience, only a French company *président directeur générale* approaches a U.S. CEO in terms of power."

A sporting parallel is indicative of these different emphases. In American football, the quarterback is the clear leader, calling the plays, directing the action, and always playing in the same position. In soccer, the captain can be anywhere on the field—from a striker to the goalkeeper—and the leadership of the attack moves from player to player.

Shareholder vs. Stakeholder

While undeniably concerned about short-term profits, European businesses are less so than their American equivalents. Their view tends to be broader. "Europeans are less driven by immediate market feedback," explains Tuck's Hans Brechbuhl. "They generally have a more stakeholder view of business, whereas U.S. companies take a more shareholder point of view." The European notion of stakeholders is one that explicitly includes employees (a point formally recognized in German supervisory boards), customers, suppliers, and the broader community. Indeed, shareholders are underprotected in many European countries as compared to America in areas such as corporate governance or bankruptcy laws, says Santiago Iñiguez de Onzoño, dean of Spain's leading B-school, Instituto de Empresa. "This, along with factors such as the public-pensions system prevalent across Europe," de Onzoño adds, "inhibits the investment propensity among Europeans. Downsizing measures also have more restraints in Europe than in the United States. A decision similar to GM's earlier this year to downsize its labor force and cut salaries in order to sustain dividends is inconceivable in many European countries."

As such, there is a greater emphasis on corporate social responsibility in Europe. Though former British Prime Minister Margaret Thatcher famously observed that there is no such thing as society, for most Europeans, it is just that—a somewhat vague notion of society, rather than a constitution or a shared dream—that is the bond that keeps people together. "In the United States, if you fail, it is regarded as your own fault," observes Karl Moore, a management professor at Montreal's McGill University. "In Europe, there's a different perspective. If someone has failed, there is a sense that *society* has failed." Social policies are backed by a system of values that rejects exclusion and inequality and that accepts the legitimacy of state intervention and active labor-market policy.

> To some extent, nations and their cultures are a distraction.

This attitude is rooted in the fundamentally different European attitude toward the involvement of the state. The United States is a country of minimal government; in Europe, corporations have no life of their own. Like teenagers, European companies are allowed to venture out into the world, but they still remain tethered to the apron strings of their home countries. Pull too hard and companies are returned to the societal bosom for lessons in their responsibilities.

For Better or Worse

The reality is that there are no black and whites in complex global businesses—only gray. The American way of doing business is no better or worse than that pursued by a variety of European businesses. The mistake is to believe that we should all behave similarly, run businesses, manage people in the same ways. Americans have their ways; Europeans have their ways. And even then, there is a profusion of differences between West Coast and East Coast, North and South, Old and New, Sweden and France, Spain and Germany. There is no best way. Rather, there are different ways, built around economic, political, and social systems that share the twin foundations of democracy and free markets. That should be enough.

Then again, to some extent, nations and their cultures are a distraction. "Perhaps today, the most relevant criterion for comparing business practices is not territory—and even there, the cutoff point is not clear: continents, countries, regions?—but, rather, types of corporations," suggests José Luis Alvarez, associate dean at the Instituto de Empresa, who recommends comparing on the basis of company size, industry, or any number of other factors. Nonetheless, Alvarez maintains that the larger and more complex the organizations, the more similarities between them, regardless of their geographical location.

So, to return to our Chinese executive's comment: Is it arrogance or something more subtle that sets European businesspeople apart from their American and Chinese counterparts? Perhaps it is simply a contrast between firms that permit a single business culture because they have the luxury of a huge domestic market—such as China, India, and the United States—and firms in Europe and other fragmented parts of the world that must navigate multicultural markets in order to grow. The former see difference as an irritant and a weakness (a sign of arrogance), while the latter regard difference as a competitive advantage (a sign of pragmatism and strength). If such differences make Europeans seem arrogant in American and Chinese eyes, then Europeans are proud to be arrogant.