Core >> Perspective

Doing business in Northern Europe

- An assessment of country attractiveness

Core Perspective is a series of e-books from Core group and Core Venture. The purpose is to introduce new business- and technology trends, as well as to investigate interesting business issues and to present new perspectives on issues related to business- and technology management, specifically in the Technology-, Media- and Telecom-sectors.

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Any remaining mistakes are, of course, Core group's responsiblilty.

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Introduction

Globalisation is forcing companies to do things in new ways

Bill Gates

According to Core group's analysis of the Norwegian IT-software industry, more than 80% of Norwegian software companies are unable to grow beyond a local niche market. We found that most Norwegian software companies lack a global perspective as well as knowledge and capability to grow internationally.

There are a number of key factors management should consider before taking an IT-company abroad. This e-book examines some of those factors, specifically country attractiveness. We have a regional perspective and have examined Northern European countries with populations higher than 1 mill.

The findings in this e-book are based on benchmark reports, country statistics and interviews with 25 international managers.

Business and market attractiveness

In this e-book, we have had a look at 16 Northern European countries, from the perspective of a Norwegian technology company with international growth ambitions. The countries have been examined along two dimensions: 1) foreign market attractiveness, and 2) country-specific barriers to entry.

In order to define market attractiveness, we have looked at market size, market growth, cost level and customer-/technology maturity.

In order to define country-specific barriers to entry, we have examined general innovativeness, language- and communication skills, tax levels, transparency, administrative- and cultural barriers as well as the labour market.

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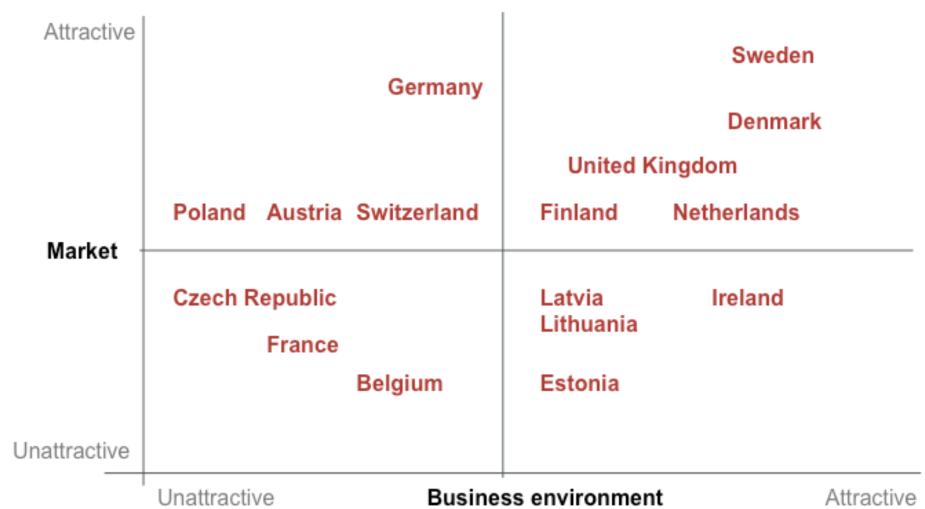
Our analysis showed significant differences in business environment- and market attractiveness between the selected countries. The results are shown in the diagram below.



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The Nordic countries, the Netherlands and United Kingdom are among the most attractive for a Norwegian technology company with international growth ambitions, even if the business environment in the UK is highly competitive.

The markets in Germany, Austria, Switzerland and to some extent Poland are attractive, but somewhat more difficult to access due to barriers in the business environment.

The business environment in Ireland, as well as the Baltic countries are favourable, but the markets are small and less attractive. France, Belgium and Czech Republic are less attractive on both the market and business environment dimensions and as such, challenging to access.

”Two countries can both benefit from trade if each has a relative advantage in production”

David Ricardo

Market size and growth

The large European countries, such as Germany, France and United Kingdom, have the largest markets for technology products and services. Both France and UK are struggling with current and future economic growth. Germany, on the other hand, is doing well on both dimensions.

The middle ground is occupied by the Netherlands, Belgium, Switzerland, Austria, Sweden, Denmark and Poland, of which only Sweden and Poland are growing at healthy rates at the moment.

The small markets include the Baltic countries, Czech Republic, Finland and Ireland. Finland and Estonia are growing significantly, while Latvia and Ireland are struggling.

Cost- and income levels

”The quality of the work force is the key strategic competitive weapon for the individual, the firm and the nation”

Lester Thurow

There is a large difference between the average salary for IT-professionals in Western- and Eastern European countries. This salary gap may be a source of competitive advantage for international companies.

Unemployment rates are also varying significantly across Europe, from the Baltics at approximately 15% unemployment rate to the Netherlands and Switzerland at less than 5% unemployment.

For companies with international ambitions, it is often advantageous to set up business in the capital or one of the larger cities of low cost countries in order to access available talent with international experience. Usually, it is advantageous with a strong brand or local presence (or preferably both) in order to attract local talent.

Customer maturity

The Economist Intelligence Unit have researched technology maturity in Northern Europe. The Nordic countries and the Netherlands came out on top, while United Kingdom, Ireland, Germany, Austria and Belgium ranked in the middle. France and the former Soviet-bloc countries were at the bottom of the ranking.

Core groups analysis of the distribution of internet connections and mobile phone penetration in the Northern European countries showed more or less the same results. Compared to the EIU-study, there were only minor differences. In our analysis of the penetration of mobile phones, for example, Estonia, Finland and Austria came out on top, with approximately 1,4 mobile phone per citizen. However, this specific finding did not have much of an impact on the overall results.

Barriers to market entry

”Globalization will tend to make strong business designs stronger and weak business designs weaker”

Adrian Slywotzky

Many internationalisation initiatives fail due to a lack of balance between centralized control and local presence. The key advice from our international experts is to focus specifically on this balance from the start.

In most countries, it is necessary to have local customer references and a local presence in order to gain market access. This is important to build and strenghten both partner- and customer relationships. However, the level of marketing, sales and support in the foreign country varies widely between countries.

For instance, it may be sufficient with local presence in Germany to serve Austria and Switzerland. In the Baltics, marketing may be international as long as the sales and support is local.

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There are a number of barriers to market entry that a local presence, predominantly staffed with local personell, might be able to overcome.

”Just because something is best practice in one country does not necessarily make it transferable to another”

Henri-Claude de Bettignies

Firstly, it might be difficult for foreigners to understand the local culture and ”tone of voice”. This may put a foreign company at a disadvantage, relative to local companies, especially in the marketing process. Local personell may be able to guide the company in the right direction.

Secondly, social networks and informal processes are usually difficult to access for foreigners, even when they are living in the foreign country. A local presence is in many cases the only way to get privileged access to these networks and processes. For some businesses, this may be the most important success factor for the internationalisation initiative altogether.

General innovativeness

”The business has only two functions - marketing and innovation. Marketing and innovation produce results. All the rest are costs”

Peter Drucker

According to European Innovation Scoreboard, Switzerland, Sweden, Denmark, Finland and Germany are the most innovative countries in Northern Europe. Unfortunately, several European countries, including United Kingdom, Belgium, Austria, the Netherlands and Ireland, are struggling with significant barriers to innovation. In France and the former Soviet-bloc countries, the innovation barriers are even higher.

Incidentally, this study ranks Norway at the bottom in Northern Europe on general innovativeness. On the one hand, this is surprising since Norway is a sophisticated economy. On the other hand, the industry structure in Norway is heavily geared towards the oil- and gas industry. The economic surplus from these industries is huge, and provides limited incentives for innovation in the rest of the economy.

Administrative barriers

According to the current Ease of Doing Business-report from the World Bank, United Kingdom, Ireland and the Nordic countries have low administrative barriers. Germany and the Baltic countries have medium to low administrative barriers, while the other European countries, including the Netherlands, Switzerland, France, Poland and the Czech Republic have more complex business environments and higher administrative barriers.

Several countries have initiated political intiatives to open up their business environment and to make it easier for foreign companies to do business in their home markets. For instance, United Kingdom and Ireland have strong foreign direct investment policies to attract new business. The Baltic countries have recently reformed market entry policies and processes, and are increasingly opening up to international competition.

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The most significant administrative barriers include complex legal and taxation frameworks, strong legal protection for workers, as well as complex internal processes and practices in the public sector. Some of these barriers, such as taxation and legal protection for workers, are subject to political control. For instance, countries such as France, Belgium, Germany and the Nordics, have legislated strong legal protection for workers. This increases the administrative barriers for both local and foreign businesses.

There are also administrative barriers that are difficult for legislators to control. For instance, Germany is separated in a number of administrative regions, whereas Switzerland and Belgium, are multilingual. Both of which increase administrative barriers and makes it more difficult to do business.

Transparency

Corruption = Authority + Monopoly - Transparency

Transparency is generally a smaller problem in Northern Europe than in the rest of the world. Still, there are some differences between Northern European countries that a technology entrepreneur with international growth ambitions should be aware of.

According to Transparency International, the Northern European countries are among the most transparent in the world, with the Nordic countries and the Netherlands at the top of the list.

However, Eastern European countries, including the Baltics, struggle with heavy bureaucracies and a corresponding lack of transparency from earlier communist regimes. France also has major issues with public bureaucracy and lack of transparency.

Tax levels

The median tax level in the former Soviet-bloc countries is less than 20% for corporate tax and just above 20% for income tax. This is a huge contrast to the Western European countries, with much higher corporate taxes, in addtion to income tax levels at between 40% and 55%.

Income tax levels in most Northern European countries range from 40% to 50%, with Czech Republic at the bottom with 12,5% and Sweden at the top with 56%. United Kingdom and Ireland both have corporate tax at the 10% to 20% level, whereas Estonia does not have a corporate tax at all. Germany, Belgium and France burden corporate profits with more than 30% tax.

The details of tax legislation differ greatly between the countries so a look at the general tax level can only give an indication of the tax burden.

”Language is a great window into culture”

Henry McKinnel

Language and communication

English is the most widely spoken language in Northern Europe, with approximately half of the population being able to hold a conversation.

The Northern European countries can be classified in four distinct groups with respect to their ability to communicate in English.

The first group is, of course, United Kingdom and Ireland, in which English is the native language.

The second group includes the Scandinavian countries and the Netherlands, in which more than 85% of the populiation are fluent in English. However, even if most managers are comfortable with English as a business language, business deals are most often done in the local language.

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The third group includes Germany, Switzerland, Austria, Belgium and Finland, in which approximately 60% speak English. Austrians and 65% of the Swiss population speak German as a native language.

It is also worth mentioning that Switzerland and Belgium are multilingual. Entrants into the these markets need to cater for that.

In France and the Eastern European countries, no more than 25% to 45% of the population speak English. The French prefer to do business in their native language, while several of the Eastern European countries speak Russian as a first or second language, including Lithuania (83%), Latvia (59%), Estonia (53%), Poland (28%) and the Czech Republic (21%).

Cultural differences

In order to successfully enter a foreign market, it is essential to understand cultural differences and barriers. According to the work of Geert Hofstede, the most important cultural differences between countries are measured on 4 dimensions:

- Power distance
- Individuality vs. collectivism
- Masculinity vs. feminity
- Uncertainty avoidance

Power distance measures the extent to which the less powerful members of organizations accept and expect that power is distributed unequally. Countries such as France, Belgium, Poland and the Czech Republic have

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high power distance, whereas Austria, Ireland and the Scandinavian countries have a relatively low power distance.

Individualism vs. collectivsm measures the degree to which individuals are integrated into groups. On the individualist side we find societies in which the ties between individuals are loose. On the collectivist side, we find societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families which continue protecting them in exchange for unquestioning loyalty.

”Culture eats strategy for breakfast”

Peter Drucker

In a global context, all Northern European countries are individualist and there are no significant differences between Norway and other countries.

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However, one should be aware of the potential generational divide which exists within former communist countries. The older generation are likely to be far more heavily influenced by the approach to business found under the old Soviet-style regime whereas the younger generation might have a more open and entrepreneurial approach.

Masculinity vs. femininity, refers to the distribution of roles between the genders. Men's values may be very assertive and competitive on the one hand, to modest and caring on the other.

In masculine countries, it is sometimes difficult to get equal respect as a female manager. According to Hofstedes studies, the Scandinavian countries have a more feminine business environment, whereas Austria,

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Switzerland, UK, Ireland, Belgium, Germany, Poland and the Czech Republic have a more masculine business environment.

Uncertainty-avoidance deals with a society's tolerance for uncertainty and ambiguity. Uncertainty-avoiding countries, such as France, Poland and Belgium generally try to minimize uncertainty and ambiguity by strict laws and rules, safety and security measures. Uncertainty-accepting countries, such as Sweden, Denmark and Ireland, are more tolerant of different opinions and are comfortable with less regulation.

There are, of course, other relevant cultural dimensions, but Hofstedes framework and research is a good place to start for managers with a need to understand cultural differences between countries.

Conclusion

"Not only is the world not flat, in many ways it has been getting less flat"

Joseph Stiglitz

A Norwegian IT-company with international growth ambitions has a number of viable strategic options.

The Nordic countries are culturally similar to Norway, but are small and may not provide sufficient growth opportunities. Germany, and the German-speaking countries, provides a large potential market, but may be difficult to access due to cultural- and administrative barriers.

United Kingdom, Ireland and the Netherlands are less burdened with administrative barriers, but are generally very competitive. The Baltics and Eastern European countries are culturally different, but may support local operations at low cost.

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This e-book does not only provide an examination of 16 Northern European countries and their relative attractiveness to a Norwegian IT-company with international growth ambitions, but also a blueprint for country selection for a broader audience.

The blueprint identifies the key drivers of country attractiveness, including administrative and cultural barriers to market entry. According to our panel of international managers, managing these issues wisely are more often than not essential to success in the international marketplace.

Of course, country selection is not the only part of an internationalisation strategy, but nevertheless an important one.

Selected links and references

List of key information sources:

- Core group – Norwegian IT-software industry analysis
- Economist Intelligence Unit – Digital economy rankings
- World Bank - Ease of doing business report
- Transparency International - Global transparency benchmark
- Eurostat
- World Economic Forum – Global competitiveness report
- CIA – World factbook
- OECD – Country statistics
- European Union – European Innovation Scoreboard
- Geert Hofstede – Cultures and organisations

About the authors

Dan Vigeland - dan@coregroup.no

Expert on offshoring and business development of IT-companies

Truls Unholt - truls@coregroup.no

Expert on innovation and business development of IT-companies

Salvador Baille – salvador@coregroup.no

Expert on innovation and business development of IT- and telecommunications companies

About the authors

Stefan Marx- stefan.marx@branchservice.com

Expert on business development and internationalisation of IT-companies

Nicolai Strøm – nicolai@obcn.no

Expert on analysis and internationalisation of IT-companies

About Core group

Core group deliver commercialisation- and transformation services to companies in the technology, media and telecom industries based on our cross-industry capabilities.

We support our clients from strategy to implementation. Our business model is value-based, and we share both risks and rewards with our clients.

Core group is based in Oslo, Norway.

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About Branch Service

Branch supports companies that want to internationalize their business.

Our main services are market evaluation, market entry, lead generation and sales outsourcing.

Branch Service has its headquarters in Oslo, Norway and provides its services in more than 20 countries.

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