# Articles & Commentaries

## p-Watch — Europe

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### European business productivity today

CEOs of US multinationals complain of the poor productivity of their European subsidiaries: employees are always on holiday; they have short working hours; and when their productivity is reasonable, skilled workers are difficult to find and expensive to retain. But are these perceptions borne out by reality, statistics, and other evidence?

***European productivity statistics***

To some extent it all depends on which figures are being presented. Macroeconomic data show that, measured by output per hour worked, European countries are hardly less productive than the USA. Belgium is in fact significantly (12%) better and has been so for decades (it also happens to have a very substantial rate of foreign direct investment [FDI], which contributes some 15% of the nation's export earnings). Both France and the Netherlands are on a par with the USA in output per hour worked, and Ireland, with a huge surge in its performance since 1990, has virtually caught up, again thanks to significant FDI.

Against this, there has been little convergence in their levels of performance per head, with the USA being at least 25% better than Europe's best of Ireland and Denmark. The difference here is explained by the much larger active labor force participation rate in the USA. Moreover, the fact that the European Commission has suddenly discovered that the European Union (EU) has a productivity problem means that Europe cannot be complacent.

***Everyday working life***

The realities behind these figures are experienced by the US subsidiaries. Although not "lazier," as headquarters often consider them to be, European workers are at least as interested in enjoying life as in spending longer hours at the work site to earn more money.

Moreover, the nature of rules, regulations, and negotiations in Europe makes a manager's life more complicated. Unlike the US situation, where most employees can be fired at employer will (albeit with various financial consequences through the law courts), European employers cannot chop and change their workforces according to the business cycle. Continental labor unions are tough adversaries, often still ideologically predisposed to claim (at least) belief in "class struggle." There is even a strong feeling in US subsidiaries that unions are using European laws more to maintain their own power than to improve the lot of their members. Thus the EU's requirement for larger companies to establish European works councils is increasingly being used for unions' own political purposes: to boost European-level bargaining power rather than to share information and consult with the corporate workforce.

> **"The experience of using outsourcing to reduce labor costs has not all been positive. This is true not just of manufacturing but also of service activities."**

***Subsidiaries' productivity concerns***

The prime concerns of US subsidiaries remain financial. They give pride of place to cost-cutting, by reducing inputs. In continental Europe it is not only labor as such which is expensive but also the cost of terminating contracts. Hiring new workers is thus subjected to very careful scrutiny.

Then there is "subsidy productivity." Although much is said about the need to keep politics out of business and to ensure level economic playing fields, foreign subsidiaries are keenly concerned with playing one set of governments off against others to squeeze out the greatest possible amount of governmental funds for undertaking new business ventures. There is still no harmonization between the various regions of the EU in this (and many other) respects. This means that the productivity of an economy is of relatively minor importance to them and essentially is only important in the smaller countries. The bulk of investments go to the "Big 5" – France, Germany, Italy, Spain, and the UK – which, by no means incidentally, are also the focus of the EU's productivity concerns.

As a consequence, multinational companies' propensity to be footloose, willingly close plants, and outsource when the going gets tough is thus heightened unwittingly by the very governments that seek to attract FDI to boost local employment and wealth.

***Outsourcing***

The experience of using outsourcing to reduce labor costs has not all been positive. This is true not just of manufacturing but also of service activities. Asia is the main focus for outsourcing knowledge-intensive activities. European airlines began outsourcing their ticketing operations to India in the mid-1990s. (Not that countries need be offshore: Quebecois are 25% cheaper than equivalent US labor because of direct costs and tax incentives.) India and other South Asian countries have three paramount advantages: a plentiful supply of skilled labor (India has 2 million new graduates each year, of whom 25% are hired by outsourcers); labor costs one-eighth that of Europe or the USA; and a second-to-none work ethic. Companies in France have an annual attrition rate of 30% compared with less than 5% in software businesses in India.

On the other hand, not only are the costs of senior Asian managers the same as for those in Europe and the USA, but also capital productivity.