

An Essay on The Ratification of The Amsterdam Treaty - The Interaction between Management Styles and Economics of Convergence in EU-countries

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Abstract

The Ratification of The Amsterdam Treaty is characterised as a wicked mess with both high dynamic and high behavioural complexity. It is therefore analysed not only with traditional economic variables, but also with management dimensions and styles as seen in foreign policy and private business. Focus is on the interaction between economic and behavioural systems, and the inherent system dynamics. EU economics is characterised by very high unemployment levels and low labour market flexibility, existing together with high rates of productivity in selected industries and geographical areas. European politics is centred around the discussion of sustainability of the welfare state, and the Western Europeans role as followers in relation to US foreign policy.

Different EU-countries are segmented on their macroeconomic structural and dynamic elements, and by their different styles of management and leadership. The economic analysis will build on OECD norms and standards, the management analysis on behavioural theory on mental styles in foreign policy and private business. (Among others Kissingers foreign policy styles). It is discussed, how the political most significant elements of The Amsterdam Treaty: environmental protection, criminal investigation integration, and not the least, the EU-expansion with some of the former Eastblock-countries can trigger off both constructive and destructive developments patters. The analysis will be done with an adapted ex ante OADI sequence.

The result of the analysis are system dynamics caused demands for EU institutional change in voting rights for different countries, and in the rules for interaction among the Commission, the Counsel of Ministers and the European Parliament, and a comparison to demands put forward by other decision criteria such as more openness, more influence for national parliaments, more regional development etc.

1 Introduction

The Amsterdam Treaty is about making the necessary corrections in the existing EU legal basis for opening up to the Eastern European countries to join. In a way the ratification of the Amsterdam Treaty is not a big deal in itself, but the foundations it spells out for further integration in Europe say something about how turbulent the coming integration process will tend to be. Most significantly, the treaty in itself does not say anything specifically on changes in intergovernmental and institutional rules which further integration will bring about. Instead, it is concerned with further development on several of the already existing policy areas: environmental policy, criminal investigation policy etc. Anyway, a discussion of the ratification of The Amsterdam Treaty is interesting because it opens up for the entry negotiations, and hereby convergence processes, for Eastern European countries.

Applicant countries from Eastern Europe have been parted into two main groupings: Countries which start entering negotiations as soon as possible, and the group of countries coming into a second round after the first group has finished its negotiation processes. So formally, all the Eastern European applicants have been invited to join, but some must realise that for them, it can take much longer than for others to join.

The discussion among the existing EU-members has focused on whether all applicants should start their negotiation processes at the same time, or there should be different starting dates for different groupings of countries, the compromise in the end being that all got an invitation, but only the economically and politically most advanced group: Poland, The Czech Republic, Hungary and Slovenia and Estonia should start real negotiations immediately.

This essay will try to give a contribution to an understanding of the implications of the Amsterdam Treaty for European integration, not by looking more deeply into macroeconomic differences among European countries, anyway economic convergence is going faster than most observers expected, see "The Economist" (98) p. 122-124, OECD figures, but by taking a rather non-typical more non-mechanical approach, focusing on the interaction of prevailing types of management processes as they play themselves out, respectively in the private and the public sector of these same countries. That is done by using socio-cybernetic analysis with its interplay between system structure and dynamics, and with its looking after new relationships among different parties.

"The mere fact that a particular set of structures occurs in some historical sequence does not mean that the sequence will repeat, or can be used to predict sequences of stages in the future of some other human group in which the existence of some similar structure may be observed. Instead, it is necessary to examine the particular rules (my interpretation, *management styles*) in use, and to determine whether and how they are changing in order to predict future states of configurations" Paul A. Ballonoff in Ballonoff (96) p. 685. See also Roth and Senge (96) p.2, where socio-economic situations are characterised by their degree of behavioural complexity and dynamic complexity. As we shall see the EURO political theatre is high on both dimensions, a so called wicked mess, demanding systems theoretical analysis.

2 European integration and types of diplomatic management and leadership

In his book *Diplomacy* Henry Kissinger, see Kissinger (95), distinguishes between two different kinds of diplomatic management styles: The strategic and the policy-oriented. The strategic one is the traditional European where the large European powers normally tried to balance each other. Especially Britain has been good at this, often with luck balancing against the strongest power on the continent. Against France in a long period from the 14th century to the Napoleonic wars, hereafter against Germany and Russia, The Soviet Union, in the 19th and 20th centuries. But every European power in a way has tried to use this kind of diplomatic style, going into different alliances against each other.

Following Kissinger, the US style has normally been different. Instead of strategic, it has been policy-oriented. Several US Presidents have, on the surface anyway, tried to have more idealistic values as a guide for their foreign policy. George Washington with his adherence to human rights of liberty, fraternity and equality in the US bill of rights, Roosevelt with nations right of self-determination, and Jimmy Carter's human rights movements. In between there has been presidents with a more strategic point of view on foreign policy, but still following Kissinger, Nixon was the first US President really taking this line of reasoning in his foreign policy.

However, there also exists a third foreign policy diplomatic/institutional style: politics, see Charles Handy (96) and Stig R  e (96). It is more often used by medium-sized and small states, than by the big European powers, or the US. Especially by small states with a nearby geography to dominating big powers: Finland in relation to Russia, Denmark in relation to Germany, Mexico in relation to the US etc. To a certain degree this has been changed with the evolution of regional institutions and organisations as the European Union, Nafta etc., where less powerful states now have a chance of playing on all the three different kinds of diplomacy styles.

The European common currency, the EURO, implementation discussion illustrates in a fine way that different European countries often use different foreign policy styles: France and Germany as the European Union nestors, to a certain degree together with the Benelux countries, have had a strong policy-oriented style in this area. This dates back to the founding of European institutions for integration just after the Second World War, for example the Coal and Steel Union. Especially France and Germany have always seen it as their duty to hold the "European integration train on track". They not only do it within the EU, but also in other areas of policy, as for example with the building up of common military ground forces, of common cultural programs etc.

Britain, Denmark and Sweden have more been in a waiting position on EURO-developments. However, their behaviour have not been lobbyist, trying to get in as fast as possible on the lowest convergence conditions possible. Instead they have tried to balance their actions, so as to be able to join as a stabilising force when the EURO takes off. Too many, economic relatively weak European countries, as Italy, Greece and Portugal inside the EURO-belt from the start, risk destabilising the whole project. After Tony Blair, the British attitude has been not only strategic, but also more in the policy-oriented direction. - Sweden is more in a clear strategic position with its now public stated policy of not joining in the first round. Denmark has, as mentioned above, an opt out clause on participation in the EURO, but anyway the Danish Social Democratic government do all it can to meet the criteria for convergence. Denmark, for a long period of time, was the only European member, besides Luxembourg, who technically could join in the first round. However Danish public opinion is still strongly against, just as in Sweden. Again a clear strategic and balancing handling of the situation.

Italy is the far best example of a politics style of diplomacy in EURO-implementation. They have tried to do everything formally expected of them, realising the convergence criteria, and for some time their economic results looked rather nice, but they lack to be perceived as credible by their partners, especially by the voters in other countries, for really obtaining sustainable development in their macro economic results. With the breaking up of the Prodi government by a radical left wing government partner on grounds of austerity government programs, nobody really thinks the Italians can do anything else than go on lobbying. Spain has a better chance of becoming more policy oriented in her EURO-diplomacy style because of a higher stability, both in her political and economic structures, even if her unemployment levels still are very high, also compared to European standards.

3 New trends in European private management

The Scandinavian management theory tradition is process-oriented. Erik Johnsen and Stig R  e, see Hildebrandt and Johnsen (94), and R  e (96), distinguish between three different kinds of processes: innovative, strategic and political. Innovative processes focus on the ability to catch new entrepreneurial possibilities. Strategic processes on the ability to segment your businesses, to put barriers up around it, and thereby to create results. Political processes on the ability to make the firm and its products credible. I have especially tried to look into balancing points among dimensions within these processes. In political processes, for example, it can often be hard to obtain both credibility and results in a negotiation on a specific political arena. When you give and take in negotiations people may think you do not really mean what you are saying on the subject, if you at the same time are very categorical in your public statements. - In innovation processes there often exists a corresponding balancing act between catching all new trends within a certain business theatre, and the selection of the ideas you want to promote. If you try to run after all new tendencies you might loose your business orientation, if you only narrowly focus on your own current business segment, new business streams and tendencies may take you by surprise.

The three different processes can be seen all over Europe, but the point I am going to make here is that some processes are more dominating in some countries than in others. Innovative processes are currently dominating on the Eastern European scene. Since the Berlin wall came down, Eastern European countries have had very turbulent economies. Firm and country infrastructure were not as up to date in 89, as most Western European businessmen and politicians thought at the time. If you are 10% or more behind in productivity levels compared to your Western European neighbours you have not got a chance on international markets. When, at the same time, your traditional leading economy, Russia, is one of the worst off cases, your economic situation is nearly catastrophic. Many Eastern European countries went therefore, either by themselves, and/or by the help of their governments, into shock therapy with high inflation and high unemployment. A lot of old heavy state industries were privatised, and at the same time service markets shot up, where it was possible to earn a lot of fast money. In a way, a kind of "wild west" economy. No doubt, innovative and entrepreneurial processes of management are the central processes of the day in Eastern European countries. This also goes for the most well off countries as The Czech Republic, Poland and Hungary.

However, also on the Western side of the old iron curtain there exist economies, where innovative processes of management are dominating in the private sector. When Ireland attended the European Common market in 1972 together with Britain and Denmark, it was far behind on all traditional economic indicators, compared to the then existing Western European average. This has now totally changed, helped by very fine rules for direct foreign

investments, but also by an special Irish entrepreneurial spirit. Also in Spain, innovative processes of businesses in the private sector, especially the service and tourism industries, have been of significant importance in the building up of the economy. Spain got a kick start by receiving lots of money from EU-structural funds. But Portugal and Greece also have been loaded with money from these funds without getting the same results. - Italy, especially Northern Italy with its often vibrant business community, is a mix of innovative and strategic behaviour with multinationals as Fiat and Enichem.

Naturally, strategic behaviour is very decisive for European private business, and it is dominating the business profile in the UK and the Benelux Countries. Germany's business profile can traditionally be described by its big industrial locomotives as Volkswagen, Mercedes Benz (Daimler), Siemens/Nixdorf...etc., and by its many medium sized, and small highly qualified suppliers. With the German engineering/chemical oriented business history one should expect an entrepreneurial society, and a dominance of innovative processes of management. But high entrepreneurial quality does not guaranty the existence of innovative processes of management all over the business sector. The Germans are also well known for their inflexible labour market with a lot of bureaucracy, private firms paying for unemployment benefits, employee insurance and the like. Large German firms have always thought strategically. Lately, this has been done with success by e.g. Volkswagen and Mercedes Benz making many strategic direct investments in both their near European markets (Volkswagen buying up Seat and Skoda), but also far abroad (Mercedes Benz placing factories in the US deep South). But, extra employment in Germany itself has not been the result, in sharp contrast to the US economy where a flexible labour market with expanding homeworking and a low minimum wage has increased the workforce in the industrial locomotives: electronics and computers, entertainment. However, what differentiates the Germans most from the other big European countries is their focus on a value oriented style of business management emphasising high quality and environmental friendly products.

As for its diplomatic processes, the UK can also for its business management processes be placed in the strategic category. It is, as if the UK government strategic balancing thinking and behaviour through the centuries has influenced private sector economics with its focus on industries and branches where strategic management is highly important. The wealthiest districts in the UK is nowadays the South East, the home for financial services and management consulting firms. This is Europe's financial market number one, and if the UK with Tony Blair joins the EURO, rather sooner than later, it will still be. - Finally, the Benelux countries, especially the Netherlands and Luxembourg, can be viewed as mainly strategic oriented in their business management behaviour. The Dutch are much like the Germans with their big industrial multinationals, Philips and Shell, but their labour markets are much more flexible. Lately, as a consequence their unemployment percentages have had a sharp fall.

As in Germany, value based management is becoming more dominant in both Denmark and Sweden. Many pension funds have directly stated in their decision rules for direct investments that ethical considerations should be taken into account. Many Danish and Swedish multinationals have also codes for ethical behaviour and conduct doing business overseas. Anyway, also innovative and strategic processes of management are significant in these economies. In Scandinavian business, it is often possible to activate any of the three main processes of management after the demands of existing and expected business theatres. - The Swedes are more like the Germans with comparatively big industrial companies and with directly employer paid social benefits, whereas in Denmark pensions and other social security benefits are totally paid for by taxes, giving rise to a higher labour mobility among firms.

4 European integration - turbulence and possibilities

If we combine the diplomatic management styles with the business management styles, we get the scheme shown in the figure below:

<i>Diplomatic behaviour</i>	Politics	Balancing	Policy-oriented
<i>Business behaviour</i>			
Innovative	Eastern Europe	Ireland	Spain
Strategic	Italy Benelux	UK	France
Value-oriented	Sweden	Denmark	Germany

Figure 1: The combination of diplomatic management and business management styles.

In Eastern Europe a combination of politics in foreign policy and innovative business management style exists.

In contrast, Germany has both a policy oriented governmental style and a value-oriented business style. In a way this displays the fact that Germany is the leading power on the continent, whereas Russia is the falling country. Germany has lately, and maybe still is, in a recession, but this does not change the fundamentals in the power structure in Europe.

In between are the other European powers with UK in the middle with a combination of balancing foreign policy behaviour and a strategic business style of management. In a way this also indicates Britons traditional role in European affairs: a step away, trying to keep a strategic balance on the Continent with a not too strong dominating coalition.

France is policy-oriented as Germany in its foreign policy, but have a less value-oriented business style, not so high product quality, and not so many environmental and ethical concerns. The French are often only strategic in their business behaviour. This illustrates the fact that France is the most outspoken of the European big powers, but with fairly small results as a consequence. France, with its bureaucratic educated political elite, has after the Second World War tried very hard to be the leading power in Europe, but its business management has not yet been proactive to a degree that could sustain the role.

As compared to the French, Spain has innovative behaviour as her main business management style, but still policy-orientation as her prevailing style of foreign policy. This displays the fact that Spain is now much more active as a player in the European political theatre, but her business developments and growth are still not of a sort, so as to give her a role as a dominating power. Spain's actual influence also depends very much on how she succeed in taking a positive and constructive stand to the European Union enlargement with Eastern European countries, and at the same time takes care of her short term monetary interests.

Ireland is still on the fringe of Europe, but it has obtained a balancing position, as the UK, by its highly innovative economy.

Italy, the Benelux countries, and the Scandinavians, Denmark and Sweden, are all placed on the Southwest corner of the figure. Italy and the Benelux countries have a combination of business strategic behaviour and governmental politics that has placed them as little brothers, and therefore followers to the leading proactive axis in European politics Germany/France. Denmark and Sweden have a more autonomous position in the European theatre with their combination of high value orientation, as the Germans in business conduct, and especially Denmark's balancing foreign policy behaviour. If the Danes do not turn the Amsterdam treaty down in their next referendum on May 28th 1998, the Scandinavians have a fine point of departure for influencing oncoming European politics.

The more to the south east countries are placed in the scheme, the more proactively are they performing in their total dynamics on the European scene. So, if you as a firm or governmental decisionmaker tries to get a feeling of what will happen to the European integration in the near-future, you have better listen to signals being send from especially Germany, France, UK and Denmark. We should look for catalysts stabilising/destabilising the European project in total, and not so much for the traditional economic indicators, which can be overcome anyway, if the necessary political will is present.

In Germany, for example, the political strength of Helmut Kohl and CDU, especially in the former East Germany, the strength of the Social Democratic leader, Gerhard Schroeder, especially in relation to his Social Democratic left wing, if he wins the election in September etc. In the UK: Will the Blair government carry on with a highly credible stabilising economic policy, as it did with the first step of giving the Bank of England more autonomy on interest level decisions, when are they going to announce they will join the European Monetary Union etc. In France: look for left or right wing activities, which in that country can have destabilising effects, or look for falling credibility of Primeminister Lionel Jospin if he can not get through with his economic and social policies as he promised the voters. Can France and Germany together agree on the name of the person to lead the New European Central Bank etc.

In the long run, European integration destabilising catalysts will have a tendency to be of a more structural often economic nature: no enhancement of labour mobility within and among European countries, no easing up for fiscal transfers among countries, the European Central Bank not becoming more political orientated in its decisions etc. If these non events all happen, the only economic adaptation parameter, after the implementation of the EURO, will be

different price levels in different countries and regions. There will then be a tendency for the weaker economies, for example Portugal, Greece, and the newcomers from Eastern Europe, simply to be priced out of many markets.

If the European integration project is to succeed, it needs an OADI cycle, see Roth and Senge (96). But the problem or challenge is that observation, assessment, design and implementation are all the time happening in an forever ongoing political search-learning process. The European integration *peoples* project, where change also is initiated from below in society, could then be the one and only missing link.

Systems thinking and cybernetic analysis integrate structure and dynamics in the European socio-economic context for a more systemic European integration discussion, where both logic (often economics) *and* emotion (credibility, trust) have a role to play.

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