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THE STRATEGIC CONSEQUENCES OF EUROPEAN ECONOMIC INTEGRATION FOR AUSTRALIAN MANUFACTURERS IN THE UK: A STUDY OF FIVE SURVIVORS

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Abstract

This paper presents a longitudinal insight into the strategic consequences of European Union (EU) expansion for Australian manufacturers in the UK. In 1992, immediately prior to the 1992 single market reforms, Edwards and Buckley surveyed 20 Australian manufacturing firms in Britain for their perception of the likely strategic impact of those reforms. The results of that study indicated that Australian businesses did not expect dramatic strategic consequences from European integration. In 2004 a 12-year follow up investigation focusing on EU expansion was undertaken. Of the 20 firms originally interviewed, 11 had been divested, and four were unable to provide appropriate respondents that met the researchers logistical and time constraints. Respondents from the remaining five firms were interviewed at their UK offices. Unlike the lackluster approach reported from the original study, the five 2004 respondents appeared to have undertaken a relatively sophisticated analysis of the strategic consequences of EU expansion. It later emerged that four of these five 'survivors' were the minority that had earlier attributed significance to the 1992 single market reforms. A range of considerations was identified from their responses.

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INTRODUCTION

> "Arguably, the world trading system has entered a period of greater change and uncertainty in the past two years than at any time since the end of the Cold War" (Kunkel, 2002:237).

The tumultuous world trade environment described by Kunkel (2002) is the setting for this paper. In such a disorderly setting the importance of strategy to multinational corporations (MNCs) is significantly heightened. This paper considers the strategic response of five Australian MNC manufacturing subsidiaries in the UK to the 2004 EU expansion from 15 to 25 member states. Importantly, the paper also contains an historical anchor. In 1992 Edwards and Buckley (1997) interviewed 20 Australian manufacturing subsidiaries about the impact of the 1992 single market reforms on corporate strategy. On the whole, they found that the anticipated impact of those reforms was much less dramatic than might have been expected.

The overall lack of strategic preparedness for EU economic integration by Australian MNCs found by Edwards and Buckley (1997) was not inconsistent with other studies. Catoline (1990:33) found a "surprising lack of preparation by all but the largest firms" for the single European market amongst U.S. firms, and the Chamber of British Industries (CBI) declared that British companies were "sleep walking" towards 1992 (CBI, 1989). That study found that 80% of British firms were not reviewing their strategy in the lead up to reforms. Despite significant media attention and academic postulations, the Australian businesses surveyed by Edwards and Buckley were also of the view that the EU posed no significant competitive threat, nor did it offer significant new opportunities.

This paper focuses on five MNCs that participated in the 1993 research, and were also revisited in 2003. As such it has longitudinal characteristics that are of interest. One is the progression of the five firms who were in the original study. Since 1992, 11 of the 20 firms visited by Edwards and Buckley have been divested or discontinued. A study investigating the reasons for those divestments, while in progress, has not been concluded, and the possible contribution of under-preparedness for the impact of integration on their demise cannot, therefore, be eliminated. Interestingly however, the five surviving firms that were revisited in 2003 were in the minority of those visited in 1992, in that they viewed the strategic consequences of economic integration as being significant. They are now in the minority group that has survived, and interestingly, also attribute significance to the 2004 EU expansion.

The remainder of the paper proceeds as follows. Initially, the paper's underlying theoretical framework, Porter's (1980) five forces of competitive strategy, is reviewed. This review includes consideration of the effects of economic integration on businesses located inside an integrating region, making use of the five forces. The 1997 findings of Edwards and Buckley are then briefly described as a reference point, and the methodology of this study is outlined. Finally, the results of the study relevant to this paper are discussed and conclusions drawn.

LITERATURE REVIEW

A useful way to approach the question of the impact of EU expansion on corporate strategy, is through the impact of economic integration on Porter's five forces of competitive strategy: (1) the threat of new entrants, (2) rivalry among existing competitors, (3) the threat of substitute products, (4) the bargaining power of suppliers, and (5) the bargaining power of buyers. The use of this framework to evaluate the strategic consequences of economic integration has precedent, with Daems (1990) analysing the likely strategic impact of the 1992 European single market reforms through Porter's five forces of competition.

Porter (1980:4) states "the goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favor". Because the collective strength of these forces may be evident to all competitors, it is important for firms to undertake detailed analyses of the sources of competitive pressure through each of the five forces.

Potential Entrants

New entrants to an industry may threaten the market share of existing firms and reduce their profitability. The extent of the threat of entry depends upon both the barriers to entry and the reaction from existing firms to newcomers. The higher the barriers to entry and/or the strength of retaliation from entrenched competitors, the lower the threat of entry. Porter (1980) identifies several major sources of barriers to entry, including economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale, and government policy.

Each of these barriers to entry can influence the likely threat of new firms entering the industry. For example, economies of scale - the decline in unit costs as absolute volume increases - can deter entry in some industries where potential entrants are forced to come in at large scale or accept cost disadvantages. Product differentiation relates to the brand identification and customer loyalty advantages that can be developed by established firms. It presents a barrier to entry in that new entrants need to spend heavily to overcome these existing loyalties. This cost deterrent is also present in industries that require large capital requirements, creating another barrier to entry.

Broadly, the threat of new entrants to the existing European markets of Australian MNCs in the UK will increase following EU expansion, however at the same time those companies may be afforded opportunities to expand into new markets themselves. This is because many of the various industry barriers to entry identified by Porter (1980) will be reduced.

An example of an entry barrier being reduced by EU expansion can be found in Porter's (1980) description of 'cost disadvantages independent of scale'. Preferential government subsidies are identified as a critical factor in establishing this barrier. Clearly, with 10 new countries entering the EU free trading area, firms from any of those new countries who were previously unable to overcome EU subsidies or tariffs as an outsider firm, may find themselves in a position to consider entry as an insider. Again, the same opportunities apply in reverse. In addition, this entry barrier can be linked to the 'economies of scale' entry barrier in that should new markets be servable following the removal of government subsidies and tariffs, overall unit costs may decline.

Dunning (1993:480) describes the primary consequence of the removal of tariff barriers in free trade areas as "a change in the costs and benefits of supplying an existing market from a location inside and outside the integrated region". Clear similarities in the outcomes predicted by Porter can be found in Dunning's further comment that "the extent to which exports will increase will depend on the relative importance of the transfer costs saved, any effects the extra sales of the exporting companies may have on its production costs and the elasticity of demand for the final products" (1993:480). For countries outside the expanded EU meanwhile, Dunning (1993:480) believes the locational effects will depend upon "the value of the common external tariff and/or non-tariff barriers relative to those previously imposed by individual countries".

Which countries and firms will benefit most from EU expansion is beyond the scope of this paper. What can be established however is that the expansion will change business conditions, and may require a strategic response. Of this, Yannopoulos (1992:329) has no doubt, stating in a review of the strategic response of MNCs to the EU that "changes in the business environment…will inevitably result from the elimination of the non-tariff barriers in the internal market of the EC". Yannopolous (1992:334) also specifically identifies the threat of new entrants following economic integration, saying "a multinational firm neither trading with nor producing inside the single market may decide to build a market share, given the inducement from the growth effects of the internal market programme". In addition to its effect on potential entrants, EU expansion will also impact existing rivalries.

Rivalry among Current Competitors

The intensity of rivalry among existing firms in an industry is a further competitive force. Rivalry occurs because one or more competitors either feels the pressure or sees an opportunity to improve its position, and takes the form of jockeying for position using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties (Porter, 1980). According to Porter (1980), intense rivalry is the result of a number of interacting structural factors including numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, a capacity augmented in large increments, diverse competitors, high strategic stakes, and high exit barriers.

According to Porter (1980:21) "the factors that determine the intensity of competitive rivalry can and do change". Sensing and responding to those changes to the environment with appropriate strategies is therefore critical. The intensity of rivalry amongst existing competitors in some industries is likely to increase following the expansion of the EU, due to the impact of integration on a number of the interacting structural factors identified by Porter (1980). Benito, Grøgaard and Narula (2003:444) focus on the effect of the free trade area on locational issues. They state:

> The importance of location advantages in determining MNE activity within the EU has largely been studied on an aggregate level. Considerably less attention has been paid to the firm-level response to changing location advantages as a result of integration, although it seems axiomatic that changes in economic structure due to integration have significant implications for the way in which MNEs organize their activities.

Yannopolous (1992) also identifies the redistribution of locational advantages expected following the single market program, and some of the strategic responses that MNCs may adopt. These include the predictable regrouping of production to the most profitable locations for the servicing of the rest of the market, as well as some less traditional investment types such as joint ventures or alliances. Such strategies are, according to Yannopolous (1992), due to the high cost of acquiring local market knowledge.

Further, Yannopolous (1992:334) believes an MNC "with production facilities already inside the single market will engage in reorganization investment or, in other cases, in rationalized investment". When considering the likely effects of the 1992 single EU market, Yannopolous (1992:333) states that "the intensification of competition inside the single market will also induce firms to concentrate in their core business, that is, in the activities they are best at". This hypothesis would likely lead to geographic diversification through the acquisition of assets in new member states in the firm's core business, as opposed to conglomerate businesses based on product diversification. A further possible ramification of this single market effect on MNCs is the 'hiving-off' of parts of the production process outside the EU in search of lower costs, and is equally applicable to EU expansion.

Segal-Horn and Faulkner (1999) use Nike, and the European insurance market, as examples of developments in regional strategy following economic integration. According to the authors, US sports shoe giant Nike is seeking to replace more than 20 national warehouses with one single European distribution centre located in Belgium. In so doing, Nike would follow the company's successful centralisation of its American operations at a single hub in Memphis. Such concentration of warehousing and distribution can help reduce inventory, avoid duplication, provide the ability to stock a wider range of products centrally, and therefore reduce costs (Segal-Horn & Faulkner, 1999).

The EU has also had a major impact on the European insurance market. A historically highly fragmented market with large price differentials between protected national insurers, the crossborder competition generated by the directives of the EU since 1994 has gradually changed the industry. These changes have fostered increased competition among insurers from different countries, forcing firms to adopt common European prices. These examples underscore the significant changes to some competitive environments that follow economic integration that will undoubtedly influence rivalry amongst existing competitors. Therefore, MNC strategy following EU expansion should consider the ramifications of that changed environment on their firm.

Threat of Substitute Products

Porter (1980) asserts that all firms in an industry are competing, in a broad sense, with industries producing substitute products. For example, Porter identifies high fructose corn syrup as a sugar substitute. In that example, the availability of such substitutes places a 'ceiling' on the prices firms in the sugar industry can charge and limits profits. According to Porter (1980) an analysis of the availability and nature of substitute products is an important element in strategy formulation.

Interestingly, the potential impact of economic integration on the threat of substitute products from other industries is significant, and can in effect be predicted using the same logic employed to forecast changes within a firm's immediate environment. While the five forces analytical tool is industry focused, it recognises the importance to firms of searching for products in other industries that can perform the same *function* as their own, and are therefore a threat. For example, in the sugar example provided by Porter (1980), corn syrup is identified as a potential substitute. Clearly, corn syrup producers will also be affected by EU expansion, and MNCs in that industry will also need to review their corporate strategy. Importantly, their competitiveness may be improved or reduced relative to sugar. Indeed, it could be argued that EU expansion based changes to the threat from substitute products is perhaps more significant than changes within a firm's own industry. Whilst a change to an organisation's direct industry may affect all players in that industry somewhat equally, changes in the industry of a potential substitute might be more difficult to combat, increasing the importance of a measured strategic response.

Bargaining Power of Buyers

The bargaining power of buyers, or customers, is another competitive force identified by Porter (1980). In short, buyers compete with firms by playing suppliers against each other, forcing down prices, and bargaining for higher quality or more services. Porter (1980) states that buyers are powerful if they purchase large volumes relative to seller sales, the products they purchase from the industry represents a significant fraction of their costs, the products are standard or undifferentiated, there are few switching costs, the buyer earns low profits, buyers pose a credible threat of backward integration, the product is unimportant to the quality of the buyers' products or services, or the buyer has full information.

These sources of buyer power can be applied to consumers, as well as industrial and commercial buyers, and economic integration may impact on the bargaining power of those buyers. The bargaining power of buyers will increase following EU expansion, as they will have greater choice of suppliers. However, the extent and direction (positive or negative) of change to an organisation's buyer power created by EU expansion will vary between organisations.

Bargaining Power of Suppliers

Suppliers are another competitive force. Suppliers can exert influence over firms by threatening to raise prices or reduce the quality of goods (Porter, 1980), with the conditions that make a supplier group powerful tending to mirror those that make a buyer group powerful. According to Porter, suppliers are powerful if they are dominated by a few companies and are more concentrated than the industry they sell to, are not obliged to contend with other substitute products for sale to the industry, the industry is not an important customer of the supplier, the suppliers' product is an important input to the buyer's business, the supplier's products are differentiated or it has built up switching costs, or the supplier group poses a credible threat of forward integration.

Importantly, Porter (1980) recognises that the conditions that determine a supplier's power are both subject to change and often beyond the firm's control. A firm can, however, sometimes improve its situation through strategy. From an organisational perspective, the bargaining power of suppliers is likely to be diminished by EU expansion as the number of potential supplier's increases. Like its effect on the bargaining power of buyers however, the extent and direction of that change in power will be organisation specific.

In summary, it has been argued that EU expansion has the capacity to affect all five elements of competition, and consequently warrants specific consideration in corporate strategy. In short, political decisions such as the expansion of the EU alter the competitive environment significantly, necessitating a strategic review. Organisational costs and logistics may be altered, entry barriers affected, and regulatory power shifts from nation-state to a central authority. Some consequences will be stark, others subtle. In sum, it may therefore be expected that the resultant competitive environment will be significantly altered for many organisations. With this in mind it is interesting to note the findings of Edwards and Buckley (1997) from their research into the strategic consequences of the initial European single market reforms in 1992.

A SUMMARY OF THE FINDINGS OF EDWARDS AND BUCKLEY (1997)

The methodology employed by Edwards and Buckley (1997) was reported in that publication. In short, in 1992 the authors interviewed 20 senior managers from Australian manufacturers in the UK about the strategic consequences of European economic integration, and undertook content analysis of the data that was gathered. The broad findings of the study were that as a whole, those manufacturing companies did not view this development as particularly significant. Indeed, only one of the 20 respondents indicated that the 1992 reforms had been a noteworthy factor in their European strategy, and only four could identify significant improvements in their competitive position flowing from those reforms. Interestingly, no firms anticipated any serious threats.

Thirteen of the 20 respondents in the Edwards and Buckley (1997) study indicated that the reforms were irrelevant to their firms for one of two reasons. Either the effects would be insignificantly small, or, their firms had established a market strength that provided an ample buffer to meet any new challengers. A further three respondents indicated the effects of the reforms were not of strategic significance without specifically stating why. A common response from all sixteen of those respondents was, according to Edwards and Buckley (1997), that the reforms were 'largely public relations hype', and had no practical importance in the short term. The authors described these findings as 'surprising', setting the scene for this follow up study. The methodology employed in this study is now outlined.

METHODOLOGY

In November and December of 2003, a series of 23 interviews were conducted in the UK, in order to gather data surrounding the strategic response of Australian MNCs to EU expansion in 2004. This paper considers the results from five of those interviews - those that represented firms also surveyed by Edwards and Buckley in 1992. Of the 20 firms originally interviewed by Edwards and Buckley, 11 had been divested, and four were unable to provide appropriate respondents that met the researcher's logistical and time constraints. Respondents from the remaining five firms were interviewed at their UK offices.

It was quickly established that four of the five firms interviewed were the same four firms in the Edwards and Buckley (1997) study that attributed any significance to the 1992 single market reforms. In short, the four firms that had been able to identify a change to their competitive position in 1992 were amongst the nine that were still in operation in the same form in 2003, and all four were re-interviewed, along with one other, in 2003. On the other hand, eleven of the sixteen who did not anticipate any significant consequences had been divested in some manner i.e. either sold or closed down. As stated in the introduction, the specific reasons for those divestments are yet to be determined.

The qualitative research protocol employed was designed to generate a rich variety of data about the perceptions of the strategic consequences of EU expansion. According to Armenakis (1999) a qualitative approach is the ideal way to collect objective data where coding is the chief mechanism of data interpretation, as was the case in the wider study of which this paper represents a part. The perceptions of five respondents were collected using semi-structured, in-depth interviews. Such interviews begin with broad interview schedules and ordered questions, but rely substantially on the interaction between the interviewer and informant to gain information (Minichiello, Aroni, Timewell & Alexander, 1995). The interviews lasted for an average of approximately 45 minutes and took the form of a conversation between the interviewers and the respondent. As prescribed by Burns (1994), the interviews focused on the informant's perception of himself or herself, of his or her environment and of his or her experiences, and were conducted by the researchers.

Informants provided information about the background of their company or organisation, the nature and location of their operations, what opportunities and threats the 1992 single market reforms presented them, and the likely impact of EU expansion on their business strategy. As stated, the interviews began with structured questions, however the medium for information gathering was largely free-flowing conversation and relied on the researchers to use interpersonal skills to subtly direct the conversation (Fontana & Frey, 1994). The researchers attempted to allow the respondent to control the conversation, only asking questions to clarify comments, and only casually and indirectly changing topics or subjects. All of the interviews were audio recorded, transcribed, and subsequently coded.

The coding process was undertaken in three stages, as recommended by Strauss and Corbin (1994): open, axial and selective. These three coding methods are not totally separate, but sequential and interrelated. Each is built upon the previous. The open stage of coding involved breaking down, examining, comparing, conceptualising, and categorising data (Strauss & Corbin, 1990). The Interview transcripts were studied with the objective of assigning a code or label to every relevant piece of information. In the initial open phase, categories are required to be broad and inclusive, rather than specific and selective. Once particular phenomena were identified in the data, concepts were grouped around them, in axial coding, ready for subsequent and more precise reduction in selective coding. The selective codes, or specific issues identified by the five respondents are considered here.

RESULTS AND DISCUSSION

The data obtained from the interviews contributed to the generation of a series of selective codes that represent issues of significance emanating from EU expansion. As stated, this paper only considers the data acquired from the five firms also surveyed by Edwards and Buckley (1997). Crucially however these five firms included the four firms that attached a higher significance to the strategic importance of the 1992 single market reforms, and also viewed the 2004 as being significant. In this section, the respondents' general perceptions of the impact of EU expansion are examined in order to provide some context for the subsequent discussion. Following this, some of the specific strategic issues raised by those five respondents are considered.

Unlike the lackluster approach reported from the original study, the five 2004 respondents considered here appeared to have undertaken a relatively sophisticated analysis of the strategic consequences of EU expansion. A range of considerations were identified, and respondents generally provided an 'upbeat' assessment of the expanded EU business environment. The following quote is representative, and acknowledges both the environmental changes emanating from EU expansion, and the potential of new markets:

> The integration of central Europe next year in certain countries, Hungary for example, has been given admittance to the EU. That's really going to change dynamic. It's going to change lot of these countries from an agricultural based if you like export scenario hopefully to a more of a technology one as well as it's going to open up a level playing field for businesses like ours to do business in these area. You're going to have better standards to comply to, more internationally recognised best practice in relation to xxxx that will really drive our business.

Throughout the interviews, the tendency for respondents to refer to the post 2004 expanded EU as 'dynamic' was common. The lively mood associated with such descriptions indicated that respondents were keen to explore any new opportunities that might appear in their industry. Interestingly, the macro theory behind the economic integration of sovereign states, i.e. that the overall efficiency and competitiveness of the trading area should improve following the removal of artificial trade barriers, allowing the production of goods and services to settle in their 'natural' locations, was recognised, as were the varying micro realities. The comment below, considering integration from a UK perspective, recognises this phenomenon:

> It's increasing trade. I don't know that there will be certain sectors, certainly manufacturing, where UK companies have fallen away because they have not been able to compete on the European stage. So overall, it's helped ship jobs around Europe to the right places. At the end of that the spiel is competition has been bad for certain UK companies, but very positive for others.

No doubt, the architects of the European single market would gain satisfaction from this assessment. What is critical for the individual firm of course is to identify the issues that are likely to affect their business, develop appropriate strategies, and attempt to ensure that their company is one of those that achieve a positive outcome from the competitive changes. It was the paradox between this heightened need for strategic consideration, and the somewhat passive response to the 1992 single market, that inspired this longitudinal study. However, a passive response was not evident among these five respondents.

In general then, respondents identified a clearly changed competitive environment following EU expansion that presented both opportunities and threats, and importantly, necessitated a considered strategic response. At this point in the interviews, the interviewers attempted to hone the respondents' observations towards some of the more specific issues that they associated with EU expansion for their business. Table 1 below displays the issues they discussed, and also identifies the competitive force they were deemed to 'fall into'. This logic, and the relevance of the selective issue to the respondents are subsequently discussed.

Table 1: Selective Codes and Relevant Competitive Force

Competitive Force	**Selective Code**
Threat of Entrants	Parochialism
	Subsidies
	Taxation
	Clustering
	Logistics
Rivalry Among Current Competitors	Bureaucracy
	Risk
	Management Mindset
	Information
	Lobbying
	Entry Method
	Positioning
Threat of Substitute Products	Best Practice
Bargaining Power of Suppliers	Existing Market Suppliers
Bargaining Power of Buyers	Market Size
	Market Affluence
	Market Growth Potential

From this point, the issues identified by the respondents are briefly considered along with the logic behind their categorisation into one of the five competitive forces. The first five selective codes were all deemed to be issues concerning the threat of new entrants: Parochialism, Subsidies, Taxation, Clustering and Logistics.

Respondents identified strong national market sentiment, or parochialism, as a significant issue in Europe as they considered new markets. While a level of consumer parochialism is an accepted obstacle in international business, identifying the strength of that parochialism in new markets is certainly a strategic consideration, as are the techniques that might be used in addressing this barrier, such as the method of entry to the market and marketing strategies. Subsidies and taxation meanwhile, are examples of local trade incentives. EU policy permits member states to offer relatively generous investment incentives wherever they can demonstrate that unemployment in their country, or in a region of their country, is either noticeably above the EU average, or when they are lagging in growth or structural adaptation (Dunning, 1993). These five respondents therefore believe that scanning the expanded EU for areas with local subsidies or taxation rules that varied from the wider market and could potentially benefit them, was a significant strategic consideration.

Respondents also regarded consolidation as strategically important. Both clustering and logistics can affect the threat of new entrants. Indeed, respondents regularly raised consolidation issues such as clustering, which is an example of the 'follow my leader' geographical strategy among foreign investors that is fostered by integration (Dunning, 1993). Should a particular industry cluster in one area, the logistics associated with that industry could be improved, making alternative locations less efficient. Both these consolidation issues, along with consumer parochialism, local subsidies and taxation incentives, were deemed by respondents to be strategically important. These issues relate to the threat of new entrants into the respondents' industries, and importantly, also needed to be considered in reverse. In other words, firms should consider these issues when evaluating their own capacity to threaten new markets.

Strategic issues related to the intensity of competitive rivalry were also prevalent amongst the data. The five respondents identified seven considerations that formed selective codes: Bureaucracy, Risk, Management Mindset, Information, Lobbying, Entry Method, and Positioning. The first consideration, bureaucracy, encompassed a series of bureaucratic hurdles likely to emanate from the single market expansion. Onerous EU paperwork for example will impact on some firms more than others, with small firms for example being vulnerable to relatively large administrative cost changes.

Respondents also identified risk management issues associated with EU expansion as strategic considerations. An established management idiom, risk management in this paper encompassed data concerning the selective codes of 'risk' and 'management mindset'. Firstly, respondents identified some sovereign-state risk associated with eastern European nations entering the EU. These states were perceived to be trailing existing members in terms of economic development, and having associated inherent country risk. Far from prohibiting entry into these new markets however, the identification and management of sources of risk in new states nonetheless becomes a critical issue in the rivalry amongst current competitors as they attack these new markets. From the data gathered it was clear that respondents felt an assessment of inherent country risk would be an essential part of their FDI strategies. This strategy could also be linked to management mindset.

In some respects the issue of management mindset is intrinsically linked with risk assessment, in that an element of perceived risk can sometimes be attributed to the unfamiliar, and those with a global management mindset will perceive new EU markets differently to those with a parochial mindset. The respondents identified themselves as 'global thinkers', and were not daunted by these new frontiers. They did, however, identify two areas in which they believed the Australian government could assist them in competing with rival firms. Assistance in gathering, deciphering and disseminating information relevant to trade within the EU, and lobbying the EU commission on a variety of issues, were identified as specific ways in which the Australian government could assist their operations. One respondent provided an interesting view when comparing the Australian and New Zealand national governments' actions in this respect:

> But interestingly enough, New Zealand have almost blanket coverage so you could bring any product from any industry in New Zealand into the European union without needing a certificate. And Australia should be negotiating that status.

There were numerous references by respondents to the involvement of the government in the affairs of Australian MNCs operating in Europe, with many positive comments directed to the work of bodies such as Austrade and State based trade chambers. This area was clearly viewed as an important ingredient for success by those respondents. First mover advantages were also an important strategic consideration for respondents.

Respondents viewed the method of entry into new EU markets, and their positioning in those markets vis-à-vis competitors, as important strategic considerations. Determining whether an acquisition, greenfield investment or joint venture into Eastern Europe would best suit an organisation, and the relative importance of being first into a new market therefore, would therefore be an integral part of these organisations' EU expansion strategies.

At this point it is worthwhile noting that while EU expansion is likely to have an overt impact on the threat of potential entrants and existing rivalries, the impact of economic integration on the remaining three competitive forces described by Porter is perhaps less likely to appear in corporate strategy. While the impact of EU expansion on the threat to a firm from substitute products for example is clear, the psychological distance of the strategic consequence is remote. Although managers may be considering the direct impact of EU expansion on them in terms of immediate threats and opportunities, the longer-term impact on their businesses resulting from changes in other industries, and on their suppliers and buyers, would hypothetically appear in only the most thorough strategy documents. Respondents did however identify five such issues: Best Practice, Existing Market Suppliers, Market Size, Market Affluence and Market Growth Potential. Each of these considerations is now discussed briefly.

Respondents identified anomalies in product standards for substitute products as potentially affecting them. Returning to Porter's sugar / corn syrup example, hypothetically, should sugar producers be forced to adopt the cost of higher EU regulated best practice standards, while corn syrup producers incur no related cost increase due to processing differences or political wrangling, then the relative cost attractiveness of corn syrup as a sugar substitute may increase. Clearly there is any number of permutations in such complex analyses that will vary dramatically at firm level. Nonetheless, these respondents viewed such considerations as strategically important.

The effect of EU expansion on existing market suppliers was also important to respondents, who were conscious of any changes in supplier power on their business. Respondents also identified new market size, affluence and growth potential as key considerations in determining the attractiveness of buyers in those markets. In sum respondents identified all five issues as being significant strategic considerations emanating from EU expansion. When combined with the earlier twelve considerations, respondents provided a rich series of data that is worthy of contemplation.

CONCLUSION

From the outset, it is worth reiterating that the results presented here are a small part of a wider study. However, in contrast to the overall findings of Buckley and Edwards (1997), and the work of Catoline (1990) and the CBI (1989), the five firms considered in this paper appear to place considerable weight on the impact of EU expansion on the future of their business. It is noteworthy that these five firms also viewed the 1992 single market reforms as being strategically important, and have 'survived' the twelve years since that economic integration took place.

Respondents were able to identify a range of specific considerations emanating from the expansion of the EU. Issues that related to the increased threat of new entrants, such as changes to subsidies, taxation and consolidation, were particularly prominent, as were the issues surrounding an increase in competitive rivalry, such as risk, government assistance and first mover advantages. Although not as noteworthy as their counterparts, respondents did identify some EU expansion issues in the areas of substitute products, and the bargaining power of buyers and suppliers. Variations in best practice legislation, an increase in supplier options, and the characteristics of potential markets were examples.

In conclusion, in 2003 these five firms offered valuable insight for the wider business community by identifying a range of issues associated with EU expansion that they have accorded particular attention. Each of these issues was contained within the framework of Porter's five forces of competition, which remains a useful way to consider the strategic consequences of economic integration. In the future, as firms continue to negotiate the tumultuous world trade environment described by Kunkel (2002), such analyses may help 'steady the ship'.

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