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STUDY ON ENHANCING THE PERFORMANCE OF THE SERVICE ECONOMY

CASE STUDIES OF SUCCESSFUL COMPANIES AND LESSONS FOR PUBLIC POLICY

April 2005

At its meeting in May 2003, the Ministerial Council asked the OECD to analyse the contribution made by the services sector to employment growth, productivity and innovation and identify factors, institutions and policies that could enhance the growth prospects of this sector. The Synthesis Report of this project "Growth in Services – Fostering Employment, Productivity and Innovation" is presented to the meeting of the OECD Council at Ministerial Level, in May 2005. This report, "Case Studies of Successful Companies and Lessons for Public Policy", is one of the background studies prepared for the project.

A key characteristic of the company studies reported in this paper is that they are entirely based on publicly published information. The OECD did not contact the companies in preparing this report. The sources of information are detailed in the Annex. They include information published by the company being reviewed, such as annual financial reports and other company profile type material that can be found on company Web sites, business-school type case study material published by third party analysts and information that has appeared in the press. The individual case studies do not represent an endorsement of the selected companies at the expense of other companies in the same sector. They are included here in order to illustrate the determinants of their success and how their performance was affected by public policy.

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CASE STUDIES OF SUCCESSFUL COMPANIES

AND LESSONS FOR PUBLIC POLICY

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SUMMARY

1. The success of individual services sector firms can illustrate lessons learned from economy-wide research on how public policy and private company policy affect the development of the service economy. This review of some fourteen case studies of large international services firms shows that a number of factors are common to their success:

[1] Research leading into this paper was initiated by Ricardo-Luis Tejada (now with the OECD Public Affairs and Communications Directorate) who also drafted much of the material on company case stories. Charlotte Billoir provided research assistance. The paper was prepared under the supervision of John Dryden, Deputy Director of DSTI, and benefited from valuable comments by Dirk Pilat, Shuji Tamura and Graham Vickery (all with the DSTI). The author is solely responsible for any remaining errors, and the paper does not necessarily reflect the opinions of the OECD or its member governments. It will be published, on the responsibility of the OECD Secretary-General, as a chapter in the forthcoming OECD publication *Enhancing the Performance of the Services Sector: OECD Proceedings* (OECD, Paris, 2005).

1. Open markets

2. Many successful services companies examined owe their existence and success to the opening up of markets. Several of the most successful airline companies (Southwest Airlines, EasyJet and others) would not have existed if formal entry barriers to airline markets had not been removed. Many other successful services companies were able to expand into new markets thanks to regulatory reforms (*e.g.* AXA was able to diversify into pension funds; Endemol was able to enter foreign TV markets). In certain other cases, *e.g.* Carrefour, the 'threat' of foreign competition and the ability to expand in international markets thanks to open borders has acted as a powerful incentive to grow, expand internationally and raise productivity.

2. Innovation and ICT

3. The opening up of markets enabled new entrants to take another step towards success, i.e. in doing something completely new and different. Such innovation – either in terms of processes or products – helps firms to differentiate themselves from other, often more traditional, firms. Examples are the development by FedEx of a hub-and-spoke model for package delivery or the development by Southwest of a successful business model for low cost passenger transportation. The strong focus on innovation is often associated with an important role of venture or risk capital, notably in companies such as eBay and JetBlue. In many cases, successful services firms were also pioneers in introducing information and communications technologies (ICT) and developing key applications, such as airline reservations without physical sales points, interactive TV (Endemol) and computerised tracking of packages (FedEx). The innovations pioneered by such firms often led to additional productivity effects, due to the entry of other firms and responses by incumbent firms.

3. Work organisation and human resources

4. Firm case studies also highlight the importance of factors internal to a firm, notably the organisation of work, the motivation of workers, and the company culture. These factors differ considerably across firms, but may include the decentralisation of responsibilities and flat hierarchies, compensation according to performance or compensation aimed at achieving worker loyalty (*e.g.* through profit sharing or stock options). Together, these features may lead to a high-skill, high-trust environment.

5. On the whole, the case studies confirm that policies to establish an open and competitive business environment are, without doubt, the key requirement for improved performance in the services sector. Out of the three broad determinants of company success that are highlighted above, this is arguably the only one that is largely in the hands of the public policy maker. Public policies (or lack of them) related to innovation, ICT or work organisation, were considered important for company success in many cases, but almost always in a context of open and contestable markets.

6. Last but not least, the review of company case studies stresses the need to address some of the **knowledge gaps** which affect the analysis of services sectors. In this regard, a high priority is the need to improve the availability of indicators on R&D and innovation in services, where current OECD work in updating methodologies is expected to offer guidance (see Section 5 below). Public policy authorities also need to think hard about how to recast traditional notions of industrial policy in the framework of seemingly humble activities such as hotels, restaurants, retail, or parcel delivery, which nevertheless provide jobs to a sizable share of the labour force, and are capable to experience innovation-driven productivity growth.

PART I: SYNTHESIS

1. Introduction

7. This report is a component of the OECD Study on Enhancing the Performance of the Service Economy, which seeks to identify the key analytic requirements and policy challenges that must be addressed regarding the economic implications of the service economy, regulatory reform and innovation in the service sector. Representing a cross-departmental examination combining the perspectives of macro- and microeconomics as well as trade policy, the overall Study analyses the recent and prospective trends in the service economy, its interaction with other sectors, and its impact on general economic performance, notably as regards employment, innovation, productivity and growth. The main findings of the Project are reported in a Synthesis Paper submitted to the 2005 meeting of the OECD Council at Ministerial level.[1]

8. The primary aim of the present report is to provide illustrations of good or successful performance in the service sector at the company level. Its main body (Part II) consists of case studies of fourteen companies which have been particularly successful and a discussion of the policy context in which their success has emerged. Definition of success and the selection of the cases are discussed in Section 2 below. As such, this paper firstly aims to weave a story line around the insights and findings gained from the analytically more rigorous findings at the sector and economy level, which are summarised in the Services Project Ministerial Paper. It tries to articulate 'real world' examples of how policy initiatives and framework conditions are related to company-level outcomes in the services sector. In the second place, this paper seeks to identify gaps in the knowledge regarding how economy-wide policy and other variables interact with those company-level decisions and outcomes.

9. However, this paper does not attempt to illustrate all possible types of company case experience. Not only that there is usually no more than one example per each major service sub-sector under consideration, but all of the case examples are large companies (with more than 1000 employees) if not global giants (Table 1). While it may be desirable to complement this paper with a separate study of lessons from the experience of small or medium size enterprises, this would certainly require a different methodology and a large sample of companies under each sub-sector.

Table 1. Coverage of Service Sub-sectors and Size Classes by the Case Studies

ISIC Rev3	Sub-sector	SME E<1K(1)	Large 1K≤E<10K	Very Large 10K≤E
52	Retail Trade		√	√
55	Hotels and Restaurants		√	√
62	Air Transport		√	√
64	Post and Telecommunications			√
65-67	Financial Intermediation			√
72	Computer-related Activities		√	
92	Recreational & cultural services		√	

(1) E = Employment. K: thousand.

10. The rest of Part I synthesises the case studies described in Part II below. Section 2 below explains the definitions of success taken into account and the selection of company

cases. Section 3 identifies the range of drivers contributing to success at the company-level, among selected service industry sectors. Section 4 distils a number of common characteristics of all services firms studied. Finally, Section 5 identifies some gaps in the knowledge and suggests possible directions for further work.

11. A separate paper written under the same OECD project reports on findings from some 15 company case studies from Japan.[2] The Japanese cases differ from the ones reviewed here in two major respects. First, they are mostly smaller in size. Second, they are, almost without exception, companies that are oriented towards the domestic market.

2. Methodology

12. A key characteristic of the company studies reported in this paper is that they are entirely based on public information published either in written form or on the Internet. Essentially there has been no contact with the companies in preparing this report.[3] The sources of information are detailed in the Annex. They include information published by the company being reviewed, such as annual financial reports and other company profile type material that can be found on company web sites. They also include business-school type case study material published by third party analysts as well as information that has appeared in the press.

13. Companies included in the sample are characterised by one or more of the following:

- Relevance of their experience for public policy; i.e., the availability of identifiable external and internal drivers of success – especially the former which enable inferences on the impact of public policy. Nearly all companies selected have been strongly affected by a public policy shift in a major way at some point. There are however some exceptions. The case of JetBlue has been added as it illustrates how a new growth industry (low-cost airlines) continues to evolve after the impacts of initial policy interventions that have paved the way for it have worked their way through the sector.

- Rapid growth in revenues (See Table 2).[4] All but one in the sample have revenue growth rate above ten% per year over periods ranging from a few years to a decade or two. Two-thirds have growth rates above 20% per year. The retail sector is an exception characterised by lower growth in general.

- Being one of the global market leaders or contenders by size.

- Significant international presence (except in the case of air transportation, where global markets are not there yet.)

14. Table 3 summarises which criteria are applicable to which company. Success is always associated with a given time period, which is indicated – no company can be successful for ever.

15. Although the paper is essentially of an anecdotal nature, given the large size of some of the companies studied, or their unquestionably interesting experiences, it is argued that the case studies represent a sample which, if not statistically representative, nevertheless provides significant illustrations of the experience of successful service enterprises. For instance the three airline studied are today, by and large, among the handful of private air transportation companies that are growing and making a profit without benefiting from significant government subsidies or protection. SAP is by and large the only company of European origins and shareholding amongst the top ten largest software companies in the world. Among

the large global issuers of credit cards, American Express is the only one that is a true for-profit company on its own, Visa and MasterCard being 'membership corporations' jointly held by a number of other financial services enterprises which are otherwise in competition with one-another. Besides, Amex is a rare example of a venerable financial services company that has managed to remain up-to-date and profitable. The sample also includes two of the world's top three largest retailers.[5] Vodafone is the largest company in its sector, and eBay by and large invented its sector.

16. In general this paper represents a study of policy and company-level determinants that played a key role in the making of companies that have achieved global success through rapid growth and/or maintaining a global leadership position. Table 4 summarises the general characteristics of the companies, including their position in various rankings published by the business media.

17. In terms of geographical origin of the company or the present location of its headquarters, the case studies covered in this paper are associated with a small number of countries (France, Germany, Netherlands, United Kingdom and United States).[6] However, all but two case studies have significant commercial presence outside their home country, and about half of them derive the majority of their revenues and/or have the majority of their workforce outside that country (Table 4.) Some of these companies clearly have a global reach, which means that they are strongly affected by public policy making in a large number of countries and their company-level decisions can in turn have a strong local impact in a wide range of countries. Thus the sample of companies reviewed, however small, bears lessons that are of interest to the majority of, if not all countries in the OECD area.

Table 2. Growth of Revenue

	Period of rapid growth	Number of years	Growth rate (% per year)	In this period revenues were multiplied by:
Airlines				
Southwest Airlines	1990-2003	13	12.8	5
easyJet	1997-2003	6	65.1	20
JetBlue	2000-2003	3	109.7	9
Retail				
Tesco	1993-2004	11	13.6	4
Carrefour	1994-2003	9	14.5	3
Others				
Accor	1995-2001	6	7.3	2
Amex				
AXA	1990-2002	12	21.9	11
eBay	1998-2004	6	83.0	38
Endemol	1995-2004	8	23.2	5
FedEx	1983-2004	21	16.5	25
SAP	1990-2001	11	35.7	29
Starbucks	1994-2004	10	33.3	18
Vodafone	1989-2003	15	43.3	221

Source: Company reports.

Table 3. The success

			REASONS BEHIND SELECTION			
	Founded; Quoted in Stock Market	Period of success	Revenues heavily international?	Global market- leader or contender?	Sustained rapid growth?	Public policy key factor in success? (1)
Airlines						
Southwest Airlines	1967; Yes	1973-2004			Yes	Yes
easyJet	1995; 1998	1997-2004			Yes	Yes
JetBlue	1998; 2002	2000-2003			Yes	
Retail						
Tesco	1924; 1947	1993-2004		Yes	Yes	Yes
Carrefour	1960; 1970	1994-2003	Yes	Yes	Yes	Yes
Others						
Accor	1967; 1983	'70s, 1995-2001	Yes	Yes		
Amex	1850; Yes	1890s, '20s-'30s '45-'60, 1990s	Yes	Yes	In periods	Yes (1990s)
AXA	1982; Yes	1990-2000	Yes	Yes	Yes	Yes
eBay	1995; 1998	1998-2004	Yes	Yes	Yes	Yes
Endemol	1994; 1996	1995-2004	Yes		Yes	Yes
FedEx	1973; 1978	Late '70 to 2004		Yes	Yes	Yes
SAP	1972; 1988	'80s to 2003	Yes	Yes	Yes	Yes
Starbucks	1979; 1992	1987-2004			Yes	
Vodafone	1982; 1988	1983-2003	Yes	Yes	Yes	Yes

(1) See factors listed in section 3.

Source: Company reports.

Table 4. General characteristics of the companies studied

	HQ in	Size				Geography	Rankings (FT: *Financial Times*)			
		Revenues	%	Employees		(G)lobal [1]	*Fortune* (Revenues)		*FT* (Market Capitalisation)	
Sector Studies		2003	From	2003	%	(R)egional	Global 500	US 1000	Global 500	Europe 500
Companies		(€B)	Abroad	(Thousand)	Abroad	(N)ational	2003	2003	2002	2002
Airlines										
Southwest Airlines	US	5.2	0	32.8	0	N		310	300	
easyJet	UK	1.3		3.4		R				444
JetBlue	US	0.9	0	5.6	0	N				
Retail										
Tesco	UK	44.5	20	223.3	32	G	59		182	62
Carrefour	France	70.5	**50**	419.0	**66**	G	22		128	47
Others										
Accor	France	6.8	**66**	158.0	**82**	G				182
Amex	US	22.9		78.2	47	G	183	69	67	
AXA	France	71.6	**79**	117.1	**73** [3]	G	31		101	38
eBay	US	1.9	**54**	5.7		G		673	281	
Endemol	Netherlands	1.1	**>50**	3.3		G				
FedEx	US	19.9	23	245.0		G	221	82	252	
SAP	Germany	7.0	**76**	29.6	**56**	G			73	26
Starbucks	US	3.6	15	74.0	27	G		425		
Vodafone	UK	48.5	**89** [2]	66.7	**85**	G	49		17	4
Totals		320.8		1,461.8						

1) 'Global' denotes more than 5% of revenues from at least two of the following: Asia-Pacific, Europe, Western Hemisphere, 'Regional' in only one.

2) Share of registered customers outside the United Kingdom.

3) Share in insurance business only (59,431 employees in 2003). Excludes International Insurance, Asset Management, Services Group etc.

Sources: Company reports. *Fortune Magazine*, www.fortune.com; *Financial Times*, www.ft.com.

3. Overview of factors most closely associated with success at company level

18. This section summarises the findings of the case studies regarding the factors of success found in each company. It is based on a combination of objective information and normative judgements on the factors driving success, as reported by the company in question and/or commentators in published work. Most of the information is obtained from other case studies written on the companies included in this study (see Annex for references). The range of determinants variously attributed to the success of the companies in our sample include the following:

Factors strongly shaped by policy

- Openness to FDI and foreign competition
- Regulatory quality and reform, including, *e.g.*:
  - Reducing barriers to entry
  - Regulation establishing social, environmental or security standards
- Significant investment in R&D &/or reliance on IPR enforcement
- Access to risk capital (venture capital or private capital)
- Participation in industry clusters / networks

Factors mostly shaped by company management, and frequently mentioned in the case studies

- Corporate culture; Work organisation; Entrepreneurial management
- Emphasis on innovation
- Successful application of ICT
- Acquisition-driven expansion

19. Policy factors are singled out for the purposes of this study, as it is primarily addressed to public policy makers. But it should be borne in mind that in reality many of the individual parameters require a combination of public policy making and private action. For example, public policy can establish a framework which encourages the growth of venture capital industry. But it is the private sector which mostly develops the venture capital industry.

20. There are other determinants of business success which can be strongly affected by policy, and frequently highlighted in OECD analyses, but peripherally mentioned in business analyses, often without objectively verifiable data. These are not discussed in detail in this study:

- Availability of educated labour
- Training
- Flexible labour markets

21. Table 5 displays, in a comparative mode, the key common elements by policy area or company practice type. These factors are described in greater detail in the summary boxes of each company case study. The following initial findings emerge.

Table 5. Drivers of success in iIndividual companies
(See individual case studies in Part II for details)

		Southwest Airlines	easyJet	JetBlue	Tesco	Carrefour
Factors strongly shaped by public policy:	Openness to FDI				Major - FDI driven foreign competition in the UK market. Major FDI abroad	Major - Openness to FDI-driven competition and/or takeover acted as stimulus (90s). Major FDI abroad
	Regulatory quality and reform	Major - Airline Deregulation Act (1978); Trust in e-commerce	Major - Deregulation of passenger air transportation in Europe (1992, 1997)	Trust in ecommerce; *(De-regulation does not explain JetBlue's relative success)*	Major - De-regulation of pricing (60s) and sector boundaries (90s), flexible employment	Relative liberalisation of pricing and discounting (1986)
	R&D &/or IPR enforcement significant					
	Access to risk capital	Major - Significant financing from private investors	Major - Significant financing from private investors	Major - Venture Capital		
	Industry clusters / networks					
Factors mostly shaped by company management:	Corporate culture; Work organisation	Significant use of profit-sharing and stock options. 'Friendly' image.	Emphasis on flat hierarchy. 'Friendly' image.	Large use of stock options. 'Cool' image attracts worker loyalty	*Profit sharing with employees*	Decentralised management and large autonomy of national units
	Emphasis on innovation	Major	Major	Major - Improving the no-frills model towards 'low cost + hi quality + flight with entertainment'	Major - Customer fidelity cards; pioneering expansion to non-food; new store formats	
	Successful application of ICT	Major- enabling innovations in online booking, ticket-less travel etc.	Major – reservations by ICT only (including telephone)	Major - reservation and ticketing system considered to be 'the most simple'	Increasing reliance on ICT-based efficiency improvements (after 1990s)	
	Acquisition-driven expansion		Some		Some	Major -Doubling of sales from 1999 to 2000 with the acquisition of Promodes
	Other		All activity other than management outsourced/contracted out.	Emphasis on client feedback.		

Table 5 (cont'd) Drivers of sSuccess in individual cCompanies
(See individual case studies in Part II for details)

		Accor	American Express	AXA
Factors strongly shaped by public policy:	Openness to FDI	Major - FDI-driven international competition provides stimulus at home. Major FDI abroad	Major	Major - affected by openness to FDI abroad - hurt by FDI limits in China, etc.
	Regulatory quality and reform		Major – de-regulation of financial services in the developed economies	Major - Privatisation and liberalisation of pension funds
	R&D &/or IPR enforcement significant			
	Access to risk capital			
	Industry clusters / networks			
Factors mostly shaped by company management:	Corporate culture; Work organisation			Regionalised management (key for acquisitions)
	Emphasis on innovation	Major - pioneer in mid-market hotel sector in Europe	Major – travellers cheques; first to widely commercialise a general purpose credit card	
	Successful application of ICT	Major - benefited from centralised reservations (80s); online services (90s)	Major	
	Acquisition-driven expansion	Major	In some periods of its long history; Divestments significant in other periods	Major
	Other		Pioneer in offshore outsourcing transaction processing etc.; Open to creative destruction of core business to innovate	Back-office outsourced to India; Hi norms of corporate governance have to be maintained

Table 5 (cont'd) Drivers of sSuccess ini Individual companies)
(See individual case studies in Part II for details)

		eBay	Endemol	Federal Express	SAP	Starbucks	Vodafone
Factors strongly shaped by public policy:	Openness to FDI		Major - dependent on openness to FDI abroad		Major - founders are all former IBM employees in Germany. Current expansion with FDI.	Major - affected by openness to FDI abroad	Major - Significant FDI abroad
	Regulatory quality and reform	Major - Dependent on privacy, security and consumer protection on the Internet	Major - relaxation of European rules regulating sales of foreign programming (late 1980s)	Major - Deregulation of air cargo (US, 1977) and trucking (1980)			Major - Privatisation and de-regulation of telecommunications; competition policy
	R&D &/or IPR enforcement significant	Patenting of business methods is a relevant issue for the company	Major - Heavily dependent on effective IPR protection of its innovative programme concepts		Major reliance on R&D		
	Access to risk capital	Major -Venture Capital		Major - Access to venture capital was crucial in early, loss-making years		Major	
	Industry clusters / networks	Major - Silicon Valley (But not a direct result of a single government programme)	Major (Hilversum, Holland)		Initial growth took place within the Walldorf industrial park		

		eBay	Endemol	Federal Express	SAP	Starbucks	Vodafone
Factors mostly shaped by company management:	Corporate culture; Work organisation	Significant use of stock options; Decentralised management of international sites	Emphasis on 'flat' hierarchy and entrepreneurial company 'culture'		Idea labs where employees experiment with software development	Efficiency wages, stock options	
	Emphasis on innovation	Pioneer in moving auctioning into the electronic environment	Interactive TV	Major - developed the hub-and-spoke model for the air cargo industry	Major – pioneer of integrated enterprise software; software handling a variety of languages, currencies, etc.; development of client software concept, running on a variety of computers from different vendors	Major	Major
	Successful application of ICT	Major - simple, easy to use ICT applications	Internet used heavily in media marketing.	Major - pioneer in developing digital tracking, or Internet sales			Major
	Acquisition-driven expansion		Major		Major - in ensuring presence in emerging technologies		Major
	Other	Importance of scale economies; thus first-mover advantage.	Non-core activities heavily outsourced. Widespread use of English in home base – Holland		The company remains majority privately-owned - thought to facilitate long-term strategies		

3.1 Factors strongly shaped by public policy

Openness to foreign direct investment and foreign competition

22. Of all the case studies reviewed, foreign competition in the home market, even as a potential threat, is one of the most widely cited factor that has determined company strategy in the case of Carrefour. Carrefour is considered to have embarked on a massive expansion (with the acquisition of Promodes in 1999) to gain critical size and improve its productivity in order to avoid a hostile takeover by the Wal-Mart, the world's largest retailer, following the latter's initial moves to expand in the European market (*e.g.* in Germany and the United Kingdom).

23. Other companies that have clearly been challenged by international competition in their home base include Tesco in the same retail sector, and Accor in hotels.

24. The case of SAP, the founders of which have all worked in IBM Germany, offers an indirect, but perhaps no less consequential example on the spill over effects of international investment and international competition on the host country's entrepreneurial and technological climate.

25. While the impact of international competition in the home market may be a key factor for a small sample of cases, the openness of other markets to FDI has played a key role in the making off at least half of the success cases surveyed. For some, its importance cannot be exaggerated. Vodafone, AXA and Accor would have been a shadow of what they are now without being able to operate in a large number of countries. The high degree of globalisation is also reflected in the shareholding structure of many of the companies studied, for example in Accor where international institutional investors dominate. Many other success cases also earn the majority of their revenues, or have the majority of their workers, outside the country of their headquarters. These include Carrefour and SAP (and most likely Endemol, for which precise data have not been found). EBay, a start up of the late 1990s, has recently joined their ranks.

Deregulation, regulation, regulatory quality and reform

De-regulation

26. Very few of the successful service sector companies reviewed in this study seem not to owe a large part of their success to some seminal de-regulation act. Indeed, for some, such as the airline case studies, but also FedEx in air courier services, the removal of formal entry barriers was the sine qua non of the existence of the company in question. De-regulation also made possible the entry of firms in a range of very different sectors, from AXA (privatisation and liberalisation of pension funds) to Endemol (relaxation of European rules regarding sale of foreign TV programming) to Vodafone (privatisation and de-regulation of telecommunications). All large-scale retail enterprises, including the Carrefour and Tesco cases here, have benefited from the partial or complete liberalisation of pricing, sector boundaries or relaxation of constraints on urban and sub-urban spatial use, which took place in the UK from the 1960s on, and on Continental Europe from the 1980s on. De-regulation of financial services has provided a major impetus to American Express from 1980s onward.

Regulation, re-regulation, self-regulation

27. Establishing a helpful regulatory framework, including new regulations or self-regulation, can also be a key component driving the success of new or fast growing enterprises. To the extent that the success of low-cost airlines was dependent on the uptake and growth of online reservations, e-ticketing or other ICT-based innovations, this required

the rapid growth of the Internet underpinned by liberalisation and competition in network communications, as well as growing trust and confidence on e-commerce. A host of legal and institutional reforms and update of regulation, including self-regulation, were also crucial in reinforcing the security, fraud prevention and privacy protection on the Internet. EBay's success too is closely linked to this phenomenon. Financial services is one of the most heavily regulated industries, in the sense of frequency and detail of surveillance maintained on the companies by regulatory authorities. Though this does not explain Amex's success in comparison to other financial services companies, the predominance of companies from English-speaking countries in the international financial services may in some measure reflect the early lead of these countries in establishing prudential regulations.

Investment in R&D and IPR protection

28. Only one of the companies in the sample selected for this study is known as a heavy investor in R&D, namely SAP, for which R&D expenditure was 9.5% of revenues in 2002. [7]. But no references have been found suggesting that IPR enforcement has been a major problem or opportunity for SAP. It is likely that much of SAP's IP is kept undisclosed and the issue is highly linked to the ongoing controversy concerning the patenting of software and business methods.

29. The only company in the sample that publicly places a heavy emphasis on IPR enforcement is Endemol, whose global locations are correlated with countries with strong copyright protection.

30. The other ICT-related company in the sample, eBay, seems not to have patented its principal technologies.[8] There are some IPR issues signalled concerning the products sold on eBay, but this is not a factor that is likely to affect eBay's performance as such in a major way. However, the controversy surrounding the patenting of business methods is clearly a relevant issue for eBay.

31. The relative absence of significant reference to R&D and IPR issues in the context of the companies studied may in part reflect the difficulty of defining and measuring R&D in services, which is often concentrated in organisational capabilities, management and the application of technology. Combined with the absence of patent protection for the types of innovation most relevant in services, such as business methods or software, this results in a relative non-emphasis on R&D in services.

Access to risk capital

32. Risk capital is a crucial ingredient in investments that are highly dependent on new technology development and thus subject to high risk and/or require large upfront investments. Few of the companies studied here engaged in the development of new technologies in the narrow sense. One of the few that actually is a technology firm, namely SAP, has had no use of venture capital at its inception.[9] On the other hand, and not surprisingly, venture capital investment was a key ingredient in transforming eBay from an idea into a major business.

33. The other major type of activity that were clearly and heavily assisted by venture funding in our sample of companies concerns air transportation – both passenger and parcel – which requires large upfront investments. All of the three low-cost passenger airlines studied have had recourse to one type or another of risk financing from private capital (Southwest and easyJet), or venture capital funds (JetBlue). The same is true for the other company which is in the business of flying aircraft, for package delivery (FedEx).

34. Including Starbucks, which was able to tap into the local venture capital market of Seattle in NW USA, six of our case studies owe part of their emergence to venture capital.

35. Just as access to capital at birth is crucial, the availability of exits is often cited as a key element in fostering entrepreneurship. The entrepreneurs who founded the US-based low-cost airlines have been able to build and sell some of their early innovative ventures to larger airlines, some through IPOs, such as in the case of Southwest Airlines. Endemol, the Netherlands-based TV programme producer has also been subject to a friendly takeover, by Telefonica in 2001. The company's success clearly continued after the takeover.

Promotion of industry clusters/networks

36. Only three of the case studies under consideration were associated with what can be described as an industry cluster. EBay clearly emerged in the middle of the world's most significant ICT cluster, the Silicon Valley, whereas SAP in its formative years was based at the Walldorf industrial park in the vicinity of Heidelberg and its academic facilities. This lends some illustration to the argument that physical or virtual networks fostering close university-research-industry cooperation help breed innovative companies, and extends it to the services segment.

37. However, if clusters are understood as geographical concentrations of production which are also in the vicinity of centres of academic and research excellence, most companies reviewed in this study are unconcerned with them. Indeed, network industries such as transportation, or telecommunications, or proximity services such as retailing, hotels or restaurants by definition have to spread their production (of service) geographically. There are exceptions. The HQ of Endemol, which could also be considered as a network industry, is physically located in Hilversum, which is where public TV and radio broadcasting has begun in the Netherlands and is now home to a significant concentration of film industries.

3.2 Factors mostly shaped by company management

38. The factors discussed above are largely shaped by public policy, though the private sector is expected to play a key role in the development of some, such as access to venture capital, within the right sort of framework established by public policy. There is however another set of factors that are most commonly cited as determinants of success at the enterprise level. These factors are largely shaped by the decisions of company managers. For the purposes of this analysis the most frequently cited internal factors are grouped under four major headings, including:

- The internal organisation of work and motivation of workers
- Emphasis on innovation creating value for the customer of the service
- Successful application of ICTs
- Hheavy use of acquisitions

Work organisation, motivation and company 'culture'

39. Nearly every case study written on a successful company, including the ones reviewed here in the services, places a strong accent on a host of highly interrelated characteristics which are variously described as 'firm organisation', 'work organisation', 'entrepreneurial management', 'employee motivation', 'company values', etc. These, together with more tangible parameters such as the structure of employee compensation, or more intangible expressions such as 'entrepreneurship', 'creativity', or simply 'company culture',

mark much of the literature that companies make available about themselves or business school analysts prepare on them.[10] Despite the great difficulty of measuring most of these concepts, a number of implications do emerge from the case studies reviewed that there is indeed some sort of an 'x-efficiency' factor which links how a company conceives and views itself and how it makes that view permeate its entire structure on the one hand, and how it succeeds in its competition and cooperation with the rest of the business world on the other. The main illustrations of this 'x-factor' are as follows:

Company architecture

40. All other things being equal, decentralisation would reduce economies of scale. Nevertheless, a number of companies do seem to have made decentralised management a key element of their strategy to penetrate local markets. These range from the brick-and-mortar Carrefour, which relies significantly on local staff in middle and high management, tailoring a bewildering variety of goods to the needs of the local consumer tastes, to the cyber retailer eBay which has to build its local sites under highly different legal and institutional frameworks. Also, much of AXA's management power seems to have been concentrated on a regional level around the world.

41. A number of companies maintain that their inception or continuing success is closely associated with a 'flat' company hierarchy where responsibilities and decision making are broadly distributed and employees share in a sense of 'ownership' of company values. Indeed, this aspect may well be a necessary condition for obtaining the kind of highly versatile and flexible worker commitment in a company like easyJet that set out to beat large full service carriers with their more bureaucratic management and highly stratified internal division of labour. Endemol emphasizes flat management as a sine quo non of being able to concentrate on core business, i.e. creating interesting content. SAP claims that their 'idea labs' assist the creativity of their software writers.

Elements of employee compensation

42. Some companies do provide tangible evidence that they are indeed prepared to pay better to attract 'better workers'. Both JetBlue and Starbucks maintain that they pay efficiency wages. In addition, Starbucks strengthens its 'cool' and advanced image by providing, in the United States, full health insurance to any employee working more than 20 hours a week – which is not a statutory requirement in a US context.

43. A number of companies practice more ambitious elements of a compensation strategy aimed at greater worker loyalty/motivation, including profit sharing (Southwest, Tesco) and stock options (eBay, JetBlue, Southwest, Starbucks). While there has been much public policy discussion regarding the merits of stock options, it remains to be seen whether this is a company practice that delivers results in 'good times' only, and how it will be affected by changes in its tax treatment.

Company Culture'

44. The self-image of a company and how successfully it is broadcast to the rest of the world can affect company performance. JetBlue seems to have placed a strong emphasis on its 'cool' image, which was supported by a quality of service superior to other low-cost carriers. This is thought to have provided an attraction both to workers and customers. Whereas, easyJet strives to obtain a similar effect with a more relaxed, 'friendly', image. Tesco proclaims a self-image that is friendly to older and more experienced workers, which are considered to be more amenable to a customer-centred service. It reaps benefits in the form of a below sector-average worker turnover rate.

45. An 'entrepreneurial culture' is harder to define, but perhaps not as difficult to measure in comparison to established players, or 'losers' in the same markets. Evidence for some form of it can be found in close to half of the cases reviewed, including all three airlines, eBay, Endemol, FedEx – at least originally, and Starbucks. None of these companies would have succeeded without the daring entrepreneurship with which they launched into uncharted business territories and built profitable ventures in new types of activities where there was no market leader to copy. But the entrepreneurial success characterisation is much less applicable for some of the larger case studies, such as Carrefour and AXA with their de-centralised word-wide management, or for that matter, American Express.

46. While each specific determinant reviewed in this section may be emphasised in some companies and not others, overall, the majority of companies reviewed place a high emphasis on this constellation of factors. Notwithstanding, the traditional internal determinants of business success such as the importance of building an effective management team remain absolutely valid. But there is some evidence that successful companies also tended to be the ones that have generated, one way or another, a level of employee motivation that is superior to their competitors'.

Innovation

47. A clear and large majority of company cases reviewed have built their relative success on the basis of either new or significantly altered services or new ways of producing them.[11] It should be noted that the assessment made here in terms of *(a)* whether innovation was significant in a given company, and *(b)* if so, what types of innovation it has consisted of, essentially reflects an interpretation. A detailed explanation of what the innovation consisted of can be found in the individual company case studies in Part II. A few general trends are highlighted here.

48. Concerning air transportation, there is no doubt that Southwest is considered to be a success case built on innovation, within the context of the US market which itself was the pioneer country of low-cost air transportation. The case of easyJet represents by and large a repetition/emulation of the Southwest experience in the European context, with a stronger cross-border dimension. Whereas the case of JetBlue illustrates how an additional success story was built on complementary innovations (such as combining entertainment with flight, or inventing the 'low-cost business class' variety). Only these additional innovations are credited to JetBlue as the others were already 'innovated' and do not explain JetBlue's success relative to Southwest.

49. Whereas much of the traditional measurement and policy formulation on innovation focuses on technological innovation, in the services sector managerial (or process) innovations played a key role. They were often accompanied with technological innovations. But the former did not always depend on the latter.

50. The key innovations of the airline industry illustrate this:

- 'No-frills' low cost in-flight services
- Avoidance of connecting flights, reduced ground staff and time lost on the tarmac
- Fleet maintenance efficiencies from the use of a single type of aircraft
- Use of secondary airports.

51. None of these required a new technology. At the same time low-cost airlines also pioneered some of the technological innovations in air transportation (see below for ICTs). But the two sets of innovations were partly independent from one-another.

52. Non-technological innovations played a key role in the retail sector as well:

- Experimentation with different store formats and size (*e.g.* Tesco's move away from traditional supermarkets in two directions – very large hypermarkets, and smaller discount stores)

- Expansion of supermarket activities to areas outside traditional grocery, including financial services, pharmaceuticals, travel services etc.

- New logistics and warehousing concepts.

53. The link between technological and managerial innovations may be clearer in the case of the retail industry, with larger store formats or new logistics systems requiring a higher reliance on ICT-based systems for understanding consumer tastes and behaviour or tracking goods.

54. The available sector case study material on the retail sector suggests that one of the companies reviewed, namely the UK-based Tesco pursued a particularly ambitious strategy in terms of pioneering some of these innovations. There is no doubt that today any large retailer, including the other case study Carrefour, implements any or all of these innovations. But these seem more closely associated with Tesco's success, while Carrefour success was more clearly related to acquisitions.

55. Some of the other case study examples, such as eBay and FedEx, are innovative in the sense of having virtually invented the type of business they practice. Innovative practices also helped the development of new markets for Endemol (interactive TV) and Starbucks (manufacturing-service combination, coffee retail-café combination).

Successful application of ICTs

56. Successful development and application of ICT-based technologies are frequently associated with our success stories:

57. From inception, our airline cases pioneered some of the technical innovations that now characterise the industry:

- Avoidance of physical sales points and complete reliance on non-physical reservations (even before making e-commerce fully functioning, easyJet relied largely on reservations by telephone)

- Later, rapid move to e-reservations, e-ticketing, ticket-less travel.

58. Both the technological and the other innovations have strongly contributed to a lower cost structure and prices in low-cost airlines, their primary determinant of success.

59. In the retail sector innovations with a higher technological content included:

- Ccustomer fidelity card systems, which help build

- Databases on customer demand.

- Electronic tracking of inventories

60. Finally, there is the special case of SAP, whose product itself consists of information technology. SAP has been at the forefront of technological innovation, however, combining and strengthening it with other, non-technology-based advantages, such as providing financial management software capable of handling a variety of languages or currencies.

Acquisition-driven expansion

61. In addition to the usual suspects in the fields of public policy or company strategy, there is an additional factor which emerges as a frequent characteristic of successful service sector companies, namely recourse to a heavily acquisition-driven growth in some stage of their development. For some, the emergence of the company as a well-known brand and a worldwide giant is essentially the result of acquisitions. This is the case for Carrefour (which doubled in size from 1999 to 2000), Accor, AXA, and Vodafone.

62. Acquisitions in and of themselves do not necessarily represent an efficiency factor and can create complications in the management of the integrated companies. However, acquisitions can also be seen simply as a phenomenon whereby a successful management team expands the amount of resources to which it can apply its superior business model or superior management. While every acquisition may not be successful and some may destroy value, policy frameworks which limit the ability of successful managements to expand their 'sway' constrain the re-allocation of resources which is supposed to be vehicle for enhanced productivity at the economy-wide level. Acquisitions also help a company achieve 'size' which, with or without scale economies, can be a key element in a direct competition between giant companies vying for market dominance.

63. There is also some evidence that the explicit or implicit threat of being acquired acts as an incentive to improve. This factor – often vehicled by FDI – has been a strong incentive for Carrefour. It has also affected the strategic behaviour of other companies such as Tesco or Accor.

64. Finally, we may note the importance of being able to *divest*. For example, Accor had to undergo a period of severe divestment in the late 1990s, following a period of fast growth and diversification into restaurants and packaged vacations, before it could embark on further successful expansion in its core business of hotels.[12] Likewise, being able to exit some segments of its business (such as brokerage, investment banking, life insurance) was a crucial condition for Amex's successful effort to refocus itself on core competencies (credit cards and travel services).

65. To be sure, acquisitions are not the only important factor in expansion. Very often firms are seen to engage in forceful acquisitions periods in parallel with strong organic growth in production from their existing assets. (This is true for all of the airlines reviewed, as well as Tesco, Accor, AXA, Endemol, SAP and Vodafone during the time periods under consideration.)

Other policy factors not discussed in detail

Availability of educated labour / Training

66. Nearly every company annual report, company profile material, website or case study places a considerable emphasis on the importance of training and human capital in the firm, but mostly in vague terms as a general objective. There was nowhere any information that allowed a comparative assessment of the amount or quality of training.

Flexible labour markets

67. There is no doubt that labour market flexibility plays a key role in the commercial success of many companies. This is probably especially important in the low-cost airlines, parcel delivery, retail, hotels and restaurants. However, the business analysis surveyed contained no clear assessment of how flexibility, or lack thereof may have affected company performance. The company materials, and the available case studies, most of which are written from a business school perspective, do not make a big issue out of this. Not surprisingly, no company wishes to be known as benefiting from 'flexible labour practices'.

68. The case studies do include an interesting contrast concerning the process of wage formation. Southwest Airlines is different from most of the other low-cost carriers in that its workforce has a high level of unionisation (85% in 2004[13]) and is characterised by a lower-than sector average worker turnover.[14] Southwest also had the lowest rate of layoffs during the recent downturn.[15] Analysts consider that high unionisation has been an important element in Southwest's corporate culture centred on strong worker responsibility, at times delivering considerable flexibility in wages and other work conditions. JetBlue, on the other hand has achieved a similarly flexible and peer-group style work organisation with a very low unionisation rate. Meanwhile, both in Europe and the United States many legacy airlines continue to be characterised by high unionisation and low flexibility in work organisation. All this points towards a conclusion that there is no single blueprint concerning the institutional aspects of work organisation. Companies which have achieved high levels of worker motivation, responsibility and loyalty have succeeded, with or without high unionisation.

Outsourcing

69. Outsourcing – not necessarily cross-border – of non-core competencies is cited as a key part of company strategy by easyJet, which contracts out everything, including pilots. To a lesser extent, Endemol practices outsourcing as a key element of its strategy to focus as many staff as possible on its core business of creating content.

70. It is very likely that the giant multinationals in our sample have outsourced/off-shored some or a large part of their call centres, ICT or other business services. Amex and AXA confirm that they have done so in a major way.

4. Conclusion: The common elements of excellent service firms

71. Table 6 summarises the findings already detailed in Table 5. If there is to be a blueprint for success in the modern services segment of the economy, a small number of factors seem to be located at the core of it:

- Open markets and regulatory quality
- Innovation and a successful application of ICTs
- Entrepreneurship and company organisation geared towards high worker motivation

72. All three emerge as the most frequently encountered factors among the population of firms studied. The three are also correlated. Modern-day innovation to some extent relies on enabling ICTs. Also, it is probably pointless to try to innovate in a market where regulatory barriers to entry are significant. There are also significant interactions between different factors.

The importance of doing something completely new

73. Change is not necessarily a good thing in and of itself. At the same time, for a company to either gain market share from an existing dominant player, or to create and supply a market for a new service, it has to do something differently from existing players. Without either a process innovation which helps a company to produce the same service more efficiently, or a product innovation which introduces a differentiated or a completely new service, there is no way a company can improve its performance in a market – provided that market is contested and revenue is not largely derived from protected rents.

74. This brings forth the importance of innovation in terms of doing something different – something that demarcates a company from others in the market. The point can be illustrated with the following example. FedEx's initial success in the package delivery market is closely associated with the move towards a hub-and-spoke model in the organisation of its air transportation system, at a time much air cargo was carried in the belly of passenger aircraft, which in turn relied heavily on direct flights between urban centres. By developing the hub-and-spoke model, FedEx both obtained efficiency gains and highlighted its difference viz. the other players. In the period following FedEx's achievement, the hub-and-spoke model was largely adapted for passenger air travel as well in the US context. In Europe, with its many national capitals and national 'flag careers', international air passenger travel was by default organised around a variety of the hub-and-spoke model.

75. A decade later Southwest Airlines developed a innovative business model for, this time, passenger air transportation at low cost. One of the key determinants of low-cost in this case is the move away from the hub-and-spoke model, which is associated with large fixed costs and constrained timetables resulting from the need to ensure connecting flights and dealing with passengers with missed connections. Relying exclusively on direct flights saves considerably on the amount of ground staff that need to be maintained, and allows greater flexibility in the time windows that can be used by aircraft for takeoff, thus reducing the amount of time aircraft spend – unused – on the ground. The innovation this time consisted, at least in part, of doing the exact opposite of the innovation previously mentioned.

76. The implication here is that the impact of innovation on productivity has two components. One component arises from the inherent content of the innovative process or product itself in terms of its technical efficiency with respect to the process or product it is meant to replace. But there is another, perhaps equally important component, namely, doing something new or in a new manner, which enables the entrepreneur to reorganise production in a way that takes account of lessons learned from the prevailing ways of doing business.

Competition-enhancing regulation and innovation

77. The innovations introduced by low cost airlines such as Southwest or easyJet, such as electronic ticketing or heavy reliance on electronic reservations were by no means beyond the financial or technical means of large full service carriers. Indeed, the latter could follow suit very quickly when they began to feel the competition of the former. What made the full service carriers followers, rather than leaders in these innovations was a lack of incentive to move to something new, which, however, was very strong among the new competitors.

78. Similarly, there is no structural reason that prevents full service carriers from introducing – at least on some routes where demand is highly price-elastic (*e.g.* routes to low-cost holiday destinations) competing 'no-frills' services of their own. It is worth reflecting why their response in this area has been slow in coming.[16] We may speculate that part of the reason has to do with the fact that low-frills, low-cost air service is associated with a highly entrepreneurial, cavalier management style which would have some difficulty co-existing, even as a unit, within the more bureaucratic management structure of a full service carrier

with a business model heavily relying on protected rents. They may have even greater difficulty in obtaining the type of versatile work that the staff in low-cost airlines typically provide, from only one segment of their workforce, while the rest continues with highly specialised tasks. When no-frills flights were launched, first in the US and later in Europe, most of the established full service carriers belittled them as being against the quality standards of their business. But the low-cost carriers quickly demonstrated that this is what (at least some) customers want.

79. Thus, de-regulation was a major impetus which made subsequent innovations relevant and useful. As discussed above, the success of individual airlines surveyed was heavily dependent on a host of factors other than deregulation, in particular internal drivers including an innovative business model and improved staff motivation. However, it is fair to surmise that neither those internal factors, nor the external policy factor of deregulation could alone deliver the success outcome that is observed ex post. It is the j*uxtaposition* of de-regulation leading to increased competition with innovation that explains most of the success stories reviewed here.

80. The experiences of the 14 companies in diverse service sectors reviewed here suggest that non-technological innovations were key to business success. They were not always necessarily related to technological innovations.

81. At the same time, the innovative firms almost in all cases also tended to be the ones who applied ICTs successfully. This does not lend support to the argument that ICTs were a key determinant of success in the service sector. But it does lend support to the argument that ICTs become relevant and can be successfully deployed when there is an innovative business model.

5. Addressing the knowledge gaps and directions for future research

82. What can public policy makers do with the information presented in this report up to now? One alternative is to dismiss it as a statistically insignificant collection of anecdotes. A second alternative would be to expand upon this type of analysis by conducting case studies with a significantly larger sample size, and from a much wider selection of geographies. If there is a desire to learn from the experience of small and medium-sized enterprises as well, the sample size may need to be very large indeed. On the other hand, in some activities (sectors) a survey of several major firms may give a pretty good idea of the experience of large companies. For example, although the worldwide retail industry consists of millions of enterprises, there exists a separate arena where a much smaller number of multinational firms are in strategic competition with one-another, across-borders, for dominance in the global large-scale retail business. That arena comprises perhaps 25 or 50 companies. A survey of no more than five to ten of them can provide policy makers with robust insights on how policies and other factors relate to success or failure of companies that are engaged in that type of competition.

83. A third alternative is to use this type of case analysis to inform and guide further work in traditional industry policy analysis. This type of work would essentially consist of trying to interconnect case studies or other types of anecdotal work with the more robust but also more abstract statistical data collection. In the light of this study, several directions are summarised for this type of work:

Measuring innovation

84. Measuring formal R&D better in the services is a priority. This may include, for example, measuring the importance of market research and other consultancy services purchased by enterprises prior to the launching of new services. The OECD *Frascati Manual*

on measuring innovation, which has been revised in 2002, provides guidelines on how to measure R&D better in service activities.[17]

85. There is also a need to develop better ways to distinguish technological innovation that can be related to formal R&D from managerial or entrepreneurial innovation. This should provide ways to distinguish the different types of innovation not only in terms of their numbers, but also in terms of their impact on the company performance. In particular, there is a need to articulate the link between managerial or entrepreneurial innovation and the characteristics of the markets in which these take place, especially regarding regulation of entry or other competitive conditions. The OECD *Oslo Manual* on measuring innovation discusses some of the issues involved but recognises that its recommendations on the measurement of innovation in services "are based on less firm ground than for manufacturing."[18]

Risk capital

86. While there has been a considerable literature emerging on the importance of institutionalised venture capital – with venture capital funds or companies solely dedicated to that purpose – some of the case studies considered suggest that other types of risk capital – supplied by entrepreneurial private capitalists ('business angels') – can play a similar role in the making new and innovative ventures. More work could be conducted to understand cross-country differentials on all forms of funding for start-ups.

Stock options, profit sharing

87. More case study-level research may be needed to understand how these types of employee motivation tools work in circumstances where stock markets are not subject to continual overall growth*, i.e.*, since 2001.

Innovation in industry policy analysis

88. It would be beneficial to relate firm-level assessments to economy-wide statistical data: for example by establishing the link between the success of large, global companies and the fortunes of smaller enterprises (*e.g.* in the retail sector).

Adapting the culture of industry policy

89. Traditional industry policy conducted by governments often emphasised the concept of national champions. Even if this approach may appear to be discredited or kept discrete at the official level today, public policy to foster economic performance is still characterised by a bias in favour of technologically sophisticated activities. If there is a wish to device new types of public policy to assist further development of the services sector, there is a need to understand how public policy can be seen to assist or facilitate the development of humble activities such as hotellerie, retail, auctions, TV shows, parcel delivery, café chains, etc.

The uses and limits of advocacy and lobbying

90. Many companies studied have invested considerable resources in advocacy for de-regulation and other reforms which actually helped *their* success in the markets. The legal battles fought by FedEx or Southwest Airlines and their lobbying efforts to bring about the liberalisation of entry into parcel delivery or air transport businesses are well known.[19] AXA has been a key force building up pressure on China to remove regulatory obstacles to services trade prior to its WTO accession. At the same time, it is well known that many incumbent businesses too invest considerable resources to defend any product market or other regulations which protect *their* rents derived from monopolistic competition. There is a need

to understand whether public policy should *only* seek a neutral understanding of what is 'good for the society at large', or whether and how policy can also rely on a type of 'competitive advocacy' mechanism to provide checks on monopoly rents. Perhaps public policy does rely on this to a considerable extent already in the current environment where it is fashionable to consult or 'involve' the 'stakeholders'. The question is then to understand the extent to which the policy makers are making use of this in a conscious and systematic way and what they need to do in order to make it function as a factor improving the over all economic performance.

Table 6. Drivers of success (Summary of Table 5)

	FACTORS STRONGLY AFFECTED BY PUBLIC POLICY					FACTORS INTERNAL TO COMPANY			
	Openness to FDI	Regulatory quality and reform	R&D &/or IPR enforcement	Access to risk capital	Industry clusters /networks	Corporate culture; work organisation	Emphasis on innovation	Successful application of ICT	Acquisition-driven expansion
Airlines									
Southwest		√		√		√	√	√	
easyJet		√		√		√	√	√	*minor*
JetBlue		√		√		√	√	√	
Retail									
Carrefour	√	√				√			√
Tesco	√	√				√	√	√	*minor*
Others									
Accor	√						√	√	√
Amex	√	√					√	√	*minor*
AXA	√	√				√			√
eBay		√	√	√	√	√	√	√	
Endemol	√	√	√		√	√	√	√	√
FedEx		√		√			√	√	
SAP	√		√		√	√	√	√	√
Starbucks	√			√		√	√		
Vodafone	√	√					√	√	√

PART II: COMPANY CASE STUDIES

Caveat: The individual case studies do not represent an endorsement of the selected companies at the expense of other companies in the same sector. Their company experience is described here in order to illustrate the determinants of their success and how their performance was affected by public policy. Many of the policy lessons strengthened by the case studies selected would be equally valid in the case of many other companies in the very same sectors.

THREE CASE STUDIES: LOW COST PASSENGER AIR TRANSPORTATION

> *"Flight attendants cleaned cabins to speed turnaround time between flights, and ticket agents hit the tarmac to load baggage."*[20]

91. The main elements of low cost air passenger transport include low fares, minimal in-flight services, point-to-point flights dispensing with costly flight-connection arrangements, reliance on secondary airports in the vicinity of large urban centres, significant use of digital technologies for sales, and, last but not least, an airline staff that is highly versatile and motivated.

92. De-regulation has been, by far, the most significant external impetus behind the development of this sub-sector. Successful companies in this sub-sector are also characterised by breakneck innovation and have succeeded in moving most of their reservation and ticketing to successful ICT applications. That is, the companies that got their e-business model right became the early success stories. The common elements of three company cases are presented below.

93. Southwest Airlines was the first mover in low cost passenger air transport in the US market, itself the pioneering country. In this respect Southwest experimented with some of the early innovations that later on came to characterise this industry, such as innovations that permit a lower cost reservation and ticketing, or point-to-point flights, which allows more output per plane- and per staff-hours.

94. In some respects other successful low-cost airlines, such as JetBlue in the United States of easyJet in Europe have benefited from direct emulation of some of the elements that were tested and proven in Southwest's business model. However, the former also owe their success to other complementary innovations of their own. For instance, one of JetBlue's key innovations, the combination of lower prices with an exceptional service quality (business-class service image) enabled it to create and develop an additional market segment by luring in more business travellers. EasyJet's innovations, on the other hand, focused on creating of an international business and the developing of secondary airports in the vicinity of major European metropolises and Mediterranean resorts.

95. Although there are many common elements between the different airline case studies, important differences emerge. A case in point concerns the process of wage formation. Southwest Airlines is different from most of the other low-cost carriers in that its workforce has a high level of unionisation (85% in 2004[21]), devotes a higher share of revenues (41%) to wages than most other US airlines[22], and is characterised by a lower-than sector average worker turnover.[23] Southwest also had the lowest rate of layoffs during the recent downturn.[24] Analysts consider that high unionisation has been an important element in Southwest's corporate culture centred on strong worker responsibility, at times delivering considerable flexibility in wages and other work conditions. JetBlue, on the other hand has achieved a similarly flexible and peer-group style work organisation with a very low unionisation rate. Meanwhile, both in Europe and the United States many legacy airlines continue to be characterised by high unionisation and low flexibility in work organisation. All this points towards a conclusion that there is no single blueprint concerning the institutional aspects of work organisation. Companies which have achieved high levels of worker motivation, responsibility and loyalty have succeeded, with or without high unionisation.

SOUTHWEST AIRLINES

The Success Story
Early mover with continuous success. Profitable during 54 straight Quarters to 2004Q3. Revenues growing and profitability held despite the severe air transport downturn in post 11 September 2001. Customers served per worker double the competitors' average in the US

Factors behind the success

Period of spectacular success: 1973-2004

Factors strongly affected by public policy:
* De-regulation of air passenger transport in the United States (1978)
* Remaining regulatory issues in air transportation (allocation of lading slots, ground services, regulation of secondary airports near large cities)
* Relied heavily on growing trust and confidence on e-commerce
* Venture capital and significant other risk financing was available at inception
* Taxation and regulation of stock options

Company practices regarding management, innovation and diffusion of technology:
* Company culture strongly customer-centred; work organisation peer-group and 'flat' hierarchy-oriented; heavy use of stock options and profit sharing
* Innovative practices: automatic ticket distributors (1979); ticket-less travel (1994); early mover in online booking (1996); self-service check-in (2002), single-class service.
* Strong emphasis on organisational and client-service training[25]
* Significant ICT-based innovation in reservations, ticketing, marketing etc.

Company history, description and performance

Southwest Airlines, the first low-cost airline, was created by Herb Kellecher and Rollin Kind, two entrepreneurs in Dallas, Texas, in 1971. Their concept for an airline was simple and straight-forward: to bring passengers to their desired destination, on time and at a low cost. Also, rather than flying passengers using the hub and spoke model which increased costs (and therefore fares), Southwest offered a point-to-point system, flying passengers directly to their destinations with no need for a layover. In their first year, Southwest airlines used its fleet of three Boeing 737 aircraft to fly passengers between Dallas, Houston and San Antonio. Growth in passenger traffic was brisk. Within three years 1 million passengers flew Southwest annually; by 1977 the number had grown to 5 million. Passenger growth was matched by financial performance.

Southwest has maintained a policy of investing early in technology that can lower costs and smooth the passenger experience. For example, the company began using automatic ticket distributors in 1979. In 1994, the company introduced 'ticket-less travel'. The same service became available online in 1996. More recently, in 2002, Southwest introduced self-service check-in kiosks to further smooth and quicken the passenger experience. Today, Southwest Airlines operates 2800 flights each day and flies over 65 million passengers annually to 60 airports in 59 cities. The company has been profitable every year since 1973, a unique achievement in the US airline industry.

Sector, business environment and other external drivers

Throughout much of its history, competition in the airline industry was stifled by over-regulation of pricing and routs. In the mid-1970s, the US government began to relax tight regulations. Following the Airline Deregulation Act of 1978, which permitted airlines to choose the routes and set fares, a large number of airlines began to enter the industry. This increase lasted until the mid-1980s when a wave of consolidation began. Between 1974 and 1989, real prices of passenger airfares dropped an average of 20%, 35% for long routes.

Availability of risk capital was a major ingredient in the making of Southwest as a success story. The founding entrepreneur Rollin King had already accumulated business experience with a small venture in air taxi services to small towns in Texas, which had never been profitable. In the late 1960s the foundation of the firm that was to become Southwest involved a considerable amount of risk finance from several prominent Texan business leaders and private banking. This was also pledged financing from Sears & Roebuck's venture capital fund. This deal never worked but the process helped Southwest to obtain prominent business to join its board.[26]

Today the low-cost airline sector represents 32% of domestic passenger traffic in the United States. Increased competition brought an end to the era of inefficient monopolies and introduced a new dynamism into the competitive environment. Relaxed fiscal regulations have also permitted Southwest to make extensive use of employee profit-sharing and stock option schemes to improve worker productivity.

Selected company-specific business drivers

Southwest Airlines has focused on innovative ways to keep costs low.[27] The company uses secondary airports with lower taxes. Additionally, the lower traffic means that airplane rotations can be made more quickly. Southwest uses a 'point-to-point' rather than a hub the spoke often preferred by other carriers. This system, which means that aircraft and aircrew will make a number of stops during a voyage rather than simple round trips to and fro a hub, means that airplanes can be kept in the air longer and more frequently (a Southwest Airlines airplane in idle for only 20 minutes at any airport as opposed to 45 minutes for traditional airlines). The company has also chosen to use only one type of aircraft, therefore lowering mechanic training and maintenance costs.[28] Finally, the use of electronic ticketing and internet reservations permits further cost reductions, as does a policy of free seating (no seats are assigned on the aircraft).

The company has also focused heavily on its employment policies. To attract and maintain good employees Southwest offers a high degree of job security relative to other US companies, particularly airlines which often regard workers as a variable cost. Company performance is also directly linked to worker compensation via profit sharing and stock option schemes (13% of the company's stock is owned by employees).[29] Unionisation at Southwest is high and worker salaries are among the highest in the airline industry. The company considers this as an important input to motivation and loyalty and believes that it can recover the high costs through savings in other domains. Finally, Southwest offers extensive training, including client service training to ensure that customer relations are strong and the company image friendly. At 4.5%, Southwest has the lowest worker turnover in the US airline industry.

Southwest Airlines has also concentrated on client service. Although, like other low-cost airlines, Southwest does not offer meals and consists of only one class of seats, it focuses on punctuality, baggage handling and client relations. Unlike other airlines, Southwest avoids restrictions such as Saturday night stays or schedule changes.

EASYJET[30]

The Success Story

1) A business idea (that demand for air travel is heavily price-elastic) turned into a major European regional air passenger carrier inside of a decade. Strong growth (2001-2004).
2) A strong impetus generated for innovation and productivity amongst the 'full-service' air transport full service carriers in parts of Europe.

Factors behind the success

Period of spectacular success: 1997-2004

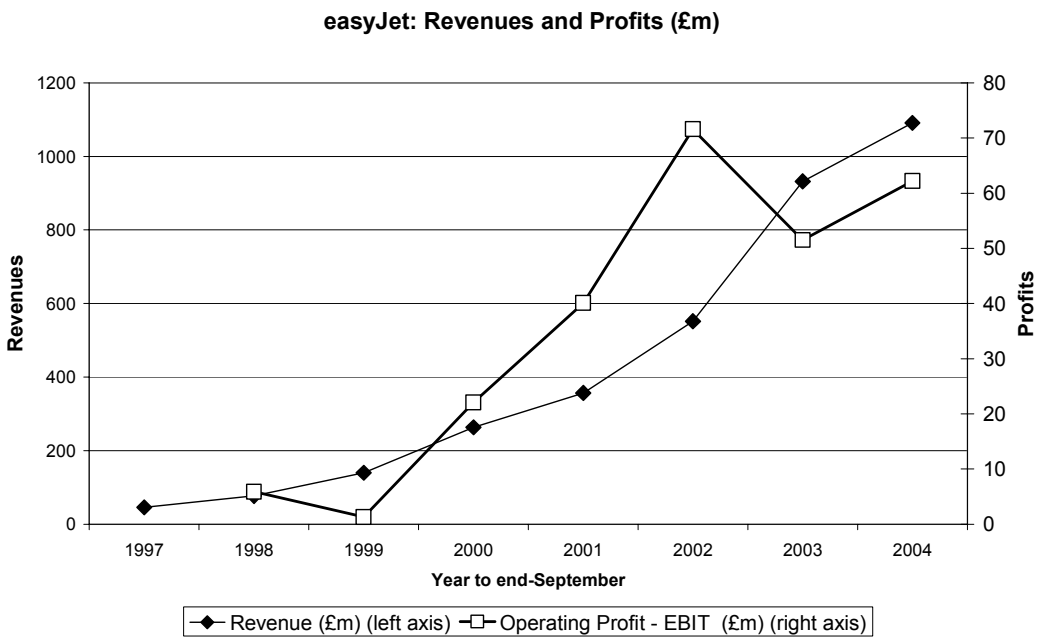
Factors strongly affected by public policy:
* Partial) de-regulation of air passenger transport in Europe (1992, 1997)
* Remaining regulatory issues in air transportation (allocation of lading slots, ground services, regulation of secondary airports near large cities)
* Relied heavily on growing trust and confidence on e-commerce
* Highly developed market for private risk capital (UK)

Company practices regarding management, innovation and diffusion of technology:
* 'Flat' hierarchy; friendly-image
* Emphasis on innovative practices: all booking by phone (initially) or (increasingly) online; ticket-less travel; faster seating in priority order (determined by reservation order), single-class service, etc. (Partly emulating US low-cost carriers'.)
* Successful application of ICTs which allows the bulk of booking to be made on the Internet and the remainder by telephone. Initial reliance on reservations by telephone only. Ticket-less travel.

Company history, description and performance

In November 1995, a new British airline, EasyJet, started flights from Luton near London to Glasgow and Edinburgh using two leased Boeing 737-300s with a capacity of 148 seats at a price of GBP29 one way. The airline was launched by Stelios Haji-Ioannou, the son of a Greek shipping tycoon who believed that the demand for air travel was highly elastic rather than simply sensitive to the economic cycle. During its early period the company operated as a virtual airline, contracting out almost all activities including pilots and check-in staff. Seats were sold exclusively via telephone, allowing the company to escape the expensive commissions charged by travel agents. In 1996, EasyJet took delivery of its first wholly owned aircraft and began to offer international services to Amsterdam from Luton. One year later EasyJet launched its Web site, easyjet.com which from 1998 onwards formed an integral part of the company's business model.

The airline's low fares proved highly attractive to travellers and the company experienced impressive growth. In 2000, the company floated shares on the London stock market and used part of the capital raised to purchase GO, British Airways' low-cost competitor, as well Deutsche BA, its German subsidiary, one year later. Only seven years after launching its first flights, EasyJet had become Europe's leading low-cost air carrier with revenues of more than 500 million pounds sterling and flying 89 routs to serve 36 destinations across the continent.



Source: Company reports.

Sector

European airline industry deregulation in 1992 ended a series of restrictions that hindered competition and made point-to-point systems less feasible. However, economic downturns in many countries combined with the after-effects of the first gulf war to dampen airline travel and the sector witnessed little in the way of new business activity. This began to change in the mid-1990s with the entry of Belgian discount airline EuroBelgian Express, EasyJet and Ryanair. After a period during which a number of low-cost airlines entered the market (many of them subsidiaries of larger, established European airlines) a period of consolidation reduced the number of carriers. Today, EasyJet's primary competitor is Ireland-based Ryanair. Ryanair was the largest budget airline in Europe before EasyJet's acquisition of Go knocked it to second place. However, Ryanair's purchase of KLM subsidiary Buzz, in 2003, has placed the two companies neck-and-neck in the European market. Competition in this sector remains fierce, with high start-up costs representing the only significant barrier to entry.

Company-specific business drivers

Keeping costs low is essential to EasyJet's competitive pricing strategy. In order to achieve this EasyJet has seized on a number of opportunities. EasyJet exploited the advent of the Internet and its growing usage to reach a large customer base at a low cost. Today, approximately 90% of the company's bookings are made on line. It complemented this with a system of telephone reservations which also allowed it to save on costs associated with travel agent commissions. Where possible, EasyJet has take advantage of technology to increase efficiency and cut costs. For example, the company uses electronic ticketing and strives to achieve the elusive goal of a paperless administration.

EasyJet also managed to control costs by using secondary airports in the vicinity of major cities. This strategy helped the company save taxes and avoid heavily saturated routs that can reduce revenues by increasing flight times and time lost on the ground. EasyJet followed a number of Southwest Airline's examples. For example, the company chose system of flying point-to-point rather than using a hub-and-

spoke system. This also permitted it to keep aircraft in the air for longer periods of time. Like southwest, it also lowered maintenance costs by using a single aircraft type. By investing in new fuel-efficient planes (A319), the company also managed to save on fuel costs, more than paying of the higher costs associated with newer aircraft.

Business environment and other external drivers

Deregulation of the European airline industry made using a point-to-point strategy more feasible. EasyJet benefited greatly from European deregulations in 1992 and 1997. The latter granted all air transport companies access to all airports within the European Union, effectively ending many state-run airline monopolies and opening the doors to continent-wide competition.

The Internet has also been central to EasyJet's commercial success. While low-cost airlines existed before this platform was widely available, its use afforded EasyJet considerable cost savings.

JETBLUE AIRWAYS

The Success Story

The first, and a rare successful emulator and competitor of Southwest in the US. Strong growth in revenues and earnings through the post September 11 airline downturn. Improving on an already successful business model, and successful in differentiating its brand from other low cost carriers.

Factors behind the success

Period of spectacular success: 2000-2003

Factors strongly affected by public policy:
* Rregulatory and self-regulatory framework to ensure trust and confidence on e-commerce
* Access to venture capital
* Tax and regulatory treatment of stock options

Company practices regarding management, innovation and diffusion of technology:
* Large use of stock options. 'Cool' corporate image attracts workers & strengthens loyalty
* Further innovations to the 'no-frills' air transport business model towards 'low cost with high quality' and business model combining flight with entertainment
* Successful application of ICTs - reservation and e-ticketing system considered to be 'the most simple'

JetBlue's success story does not add further significant lessons concerning the role of public policy in enhancing private sector performance, apart from reinforcing some of the earlier messages – such as the role of stock options in employee loyalty etc. But it does illustrate the next stage of evolution in a market segment where first-generation innovators such as Southwest have shaken the industry mould and are now

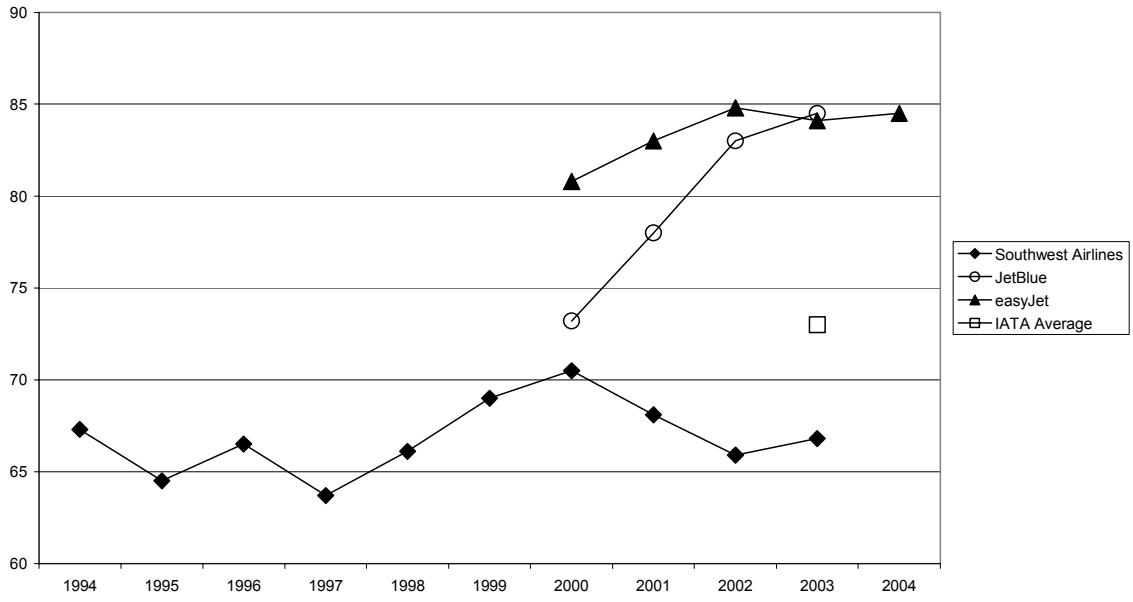
themselves challenged by enterprises which can augment on the earlier success story (*e.g.*, low cost with high quality service vs. low cost only) and thus maintain the industry-wide pressure towards continuing efficiency gains.

A key determinant of JetBlue's success has been its ability to differentiate itself from the other low-cost airlines. That in turn is based on the company's successful innovation of an entirely new business segment, namely the low cost travel with higher quality services. JetBlue places a particular emphasis in giving its aircraft a business class appearance and invests heavily on in-flight entertainment, with up to 30 TV channels made available during flights, in partnership with DirectTV. The use of some non-traditional security apparatus, such as armoured cockpit doors and surveillance cameras in the cabin, are thought to have helped strengthen its reliable image amongst the post-9-11 clientele. As a result, JetBlue has been able to surpass the other low cost carriers in the United States in terms of technical efficiency (see Table) and has been able to double its revenues in the post-9-11 period.

JetBlue's entrepreneurial and managerial innovations are complemented by an e-ticketing system which is reckoned to be one of the most simple to use by customers.

Profitable from the start, JetBlue has also benefited from significant venture capital investments from Weston Presidio Capital, George Soros and Chase Capital. With USD 130 million of funds available, the company was the most heavily capitalised airline start-up of history. So far the company has been able to put off having to pay dividends and reinvest all its earnings.

Passenger Load Factor (percent)



Source: Company reports and IATA (for the average of all IATA member airlines).

TWO CASE STUDIES: RETAIL

The two case studies of supermarket retailers reviewed here should be considered against the background of the general rise and success of department stores viz. smaller-scale retailing in recent decades. This phenomenon has important implications for the distribution of market power, rents, and consequently R&D and innovation potential, away from manufacturers of branded food and other consumer goods, towards the (large scale) retailers.[31] The focus of this study on the determinants of retailers' success does not imply any endorsement of their market power viz. other operators in the supply chain. As with all the other case studies in this paper, the purpose here is to illustrate real world examples how developments in the policy environment interacted with firm-level determinants to enable successful performance in a given sector.

The hypermarket or 'superstore' sector is an industry that is increasingly characterised by giant and rapidly internationalising companies such as the US-based Wal-Mart, French Carrefour and British Tesco. These companies, together with a few other large players, have been looking for growth through international expansion and increased market share. The latter is relatively more difficult outside North America as a result of saturated markets and national laws that limit the number of superstores. The search for scale in the international arena, together with then need to compete effectively against incoming retailers such as Wal-Mart, has provoked a wave of consolidation in the continental European food retailing industry. Table Retail 1 provides an overview of the global market for large-scale retailing included in Fortune 500.[32] It is clear Wal-Mart, the largest corporation by revenues and employment currently in the world, is a major force to be reckoned with. It also turns out to be a major stimulus for innovation and internationalisation among other large companies in this sector.

Both companies studied share an important common determinant of success, namely the competitive challenge they both faced in what were seemingly saturated developed country markets for large-scale retailing in the early 1990s. This situation was exacerbated by heightened cross-border competition via FDI. In particular, potential or actual competition from Wal-Mart, the world leader by size in this sector, has presented both Carrefour and Tesco with a similar challenge in their respective home markets. The two cases studies presented below depict two different responses devised by the two companies, each successful in its own right.

Carrefour, opted for strong international expansion, seeking strength through rapid increase in size partly through acquisitions. Autonomy of individual country units and adaptation to local conditions were key elements in Carrefour's strategy, which however limited scale economies. But, Carrefour bet on developing a competence in running a multi-cultural enterprise (in the sense of corporate culture), which helps open up new demand in emerging market economies.

Tesco, on the other hand, focused on intensive innovation. Although Tesco also went international, its victory was firstly won in its home base. In the event, even though Wal-Mart increased its market share considerably in the UK (from 12% (Asda) in 1998 to 17% in 2003), Tesco succeeded in maintaining its market share *differential* with the former at around 10%age points in the same period (see Figure Retail 1).[33]

These are differences in emphasis. Of course, Carrefour also innovated and Tesco developed its international operations. However, all things considered, Carrefour's success seems to owe more to its strong international position (read size), which among other things delivers a stronger brand recognition among consumers and helps develop new and additional markets for large-scale retailing in emerging markets. Whereas in the case of Tesco, all other things being equal, the company's success owes more to success through innovation, leading to large market-share gains in its home market. Both cases illustrate how success was made in what is seen by some as a 'saturated' service sector.[34]

Global Giants in Retailing

		Wal-Mart	Carrefour	Tesco	All 3	Fortune 500 - Retail
Founded		1962	1960	1924		
Revenues in 2003						
Total	($B)	263	78	52	394	1,261[3]
International	Share (%)	19 [1]	50	18		
Global Workforce in 2003						
Total	(Thousands)	1,500	419	223	2,142	
International	Share (%)	22	66[2]	32		
Profits						
in 2003	($B)	9,0	1,8	1,8	12,7	29,5[3]
Size Rank among Fortune 500 (2003 data)						
Revenues	All sectors	1	29	84		
	within Sector	1	2	6		
Profit	within Sector	1	2	5		

1) Share of international in net sales, 12 months ending in 31 January 2003.

2) 2001. 33% outside Europe as of 2003.

3) Total of companies in the Fortune 500 categories of 'Food and Drug Stores' (23 companies) and 'General Merchandisers' (12 companies).

Sources: Fortune 500 online database. Company annual reports.

TESCO

The Success Story

Continuous rapid growth in revenue, profits and employment since 1993. Significant rise in market share in the highly-contested UK domestic market.

Factors Behind the Success

Period of spectacular success: 1993-2004

Factors strongly affected by public policy:
* Openness to FDI in home market
* De-regulation of pricing (60s) and statutory boundaries between retail activities
* Flexibility of labour market and spatial management

Company practices regarding management, innovation and diffusion of technology:
* strong-emphasis on innovations to increase customer loyalty (*e.g.*, fidelity cards)
* increasing reliance on ICT-based technical innovations (*e.g.*, hand-held computers used by workers, barcode-based self-service checkouts, use of intranet by customer service) to increase efficiency in stock management, customer service, checking out, etc.
* international acquisitions significant from the early 2000s

Company history, description and performance

Tesco was founded in 1924 and its headquarters are located in Hertfordshire in the UK. Introduced into the stock exchange as early as 1947, Tesco develops its supermarket business from 1950s on to reach a UK network of some 400 stores by 1965. In the late 1960s Tesco is one of the pioneers in the introduction of the concept of superstore, an immense store situated at the outskirts of a city, easily accessible to a motorised sub-urban clientele.

In the 1970s Tesco begins to deploy some of its earliest pioneering innovations by developing low-price gasoline sales, taking advantage of its 'captive' motorised clientele. Further innovations into the 1990s, such as fidelity cards help strengthen customer loyalty while also permitting a better understanding of customer profiles and 'needs'.

Tesco's success begins to gather speed from early 1990s onwards, as the company starts to increase its market share, and its strategy shifts towards a stronger emphasis on innovation. Today Tesco is the first retailing group by size in the UK (27% of market), second in Europe and third in the world. Its rapid expansion is focused on eastern Europe and east Asia.

Company-specific business drivers

The recession of the early 1990s forced Tesco to shift to a business strategy emphasising market-share gains and innovation, away from its early approach of closely emulating the then market leaders such as Sainsbury. Thereafter Tesco became a pioneer in many of the innovations concerning services to retail industry clients. These include the 'Clubcard', which offers advantages to regular clients, and longer shopping hours, which aims to adapt shopping to changing lifestyles. Tesco also offers new distribution services in pharmaceuticals, telecommunications, financial services, and launches an online service.

These business innovations have been assisted by ICT-based technical innovations (*e.g.*, hand-held computers used by workers, barcode-based self-service checkouts, use of intranet by customer service) increasing efficiency in stock management, customer service, checking out, etc.

Following an unsuccessful attempt to penetrate the French market (!), Tesco turned its attention to expansion in emerging market economies in the early 2000s. The company is reckoned by business commentators to have a particularly innovative approach to international expansion – however, not entirely dissimilar to Carrefour's – relying on local management trained by expatriates.

The company maintains that its employee profit sharing system has a significant impact on employee motivation and productivity. It also places considerable emphasis to retaining older and more experienced workers, who are considered to be more amenable to customer focus. This strategy also helps reduce worker turnover.[35]

Last but not least, Tesco is pursuing very assertively the recent industry-wide trend to develop sales of products other than food in its stores, effectively dismantling the barrier between 'drugstores' and traditional 'department stores' (US terminology).

Business environment and other external drivers

Saturation of supermarket sector in the UK in the early 1990s (low population growth, low food price inflation), coupled with difficulties in obtaining building permits for large greenfield development projects etc. have been a major impetus behind intensified and direct competition in the UK retail market. The FDI-driven expansion of Wal-Mart in the UK has only intensified this. Other external, and more policy-driven parameters include:

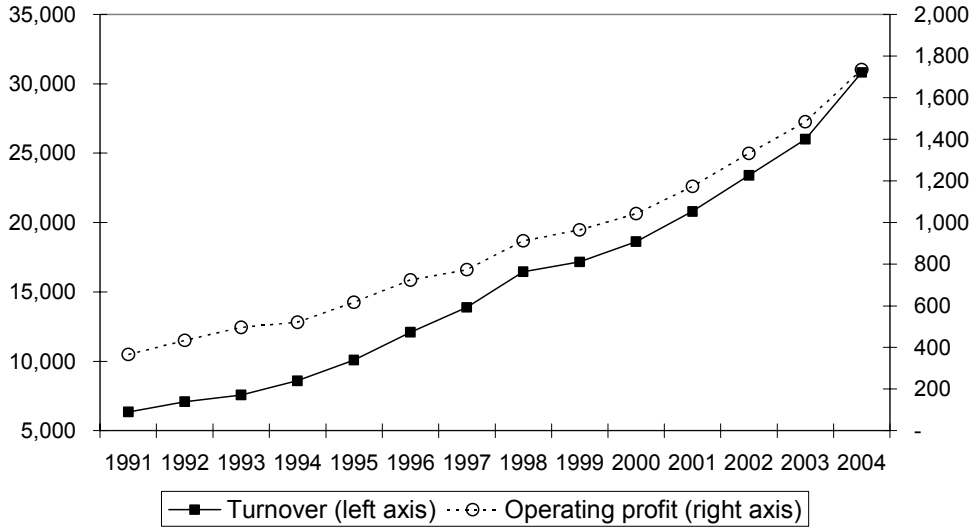
- The 1964 abolition of Resale Price Maintenance, which protected smaller retailers against price-based competition from large-scale retailers. (Tesco has lobbied intensely to bring this about.)
- UK's highly contested, and open internal market for retailing.
- Relative flexibility of UK labour market allowing greater use of part-time work and shifts in work organisation.
- De-regulation of statutory boundaries between retail activities, which allowed Tesco to expand into pharmaceuticals, telecommunications and financial services, the latter in partnership with the Royal bank of Scotland.
- Openness to FDI in emerging markets, particularly in eastern Europe.

United Kingdom Market Share of Tesco and Its Main Competitors (%, 1978-2003)



Source: Coriolis Research, Tesco : A Case Study in Supermarket Excellence, July 2004

Tesco: Continuous Growth in Global Trunover and Profit
(1991-2004, years ending in February, £m)



Source: Data from company Annual Reports, 1995-2004. Compiled by the OECD Secretariat.

CARREFOUR

The Success Story

Second largest retailer in the world; the largest in Europe. Significantly more internationalised than immediate competitors. Enjoys strong brand-recognition at home and abroad.

Factors Behind the Success

Period of spectacular success: 1994-2003

Factors strongly affected by public policy:
* Openness to FDI in home country - Threat of intensified competition and/or takeover as a result of the world leader Wall-Mart's expansion plans in the continental European market.
* Openness to FDI in host (including developing) countries where Carrefour invested
* Relative liberalisation of pricing and discounting in France (1986)
* Public policies on the protection of small-scale retailing

Company practices regarding management, innovation and diffusion of technology:
* Decentralised management and large autonomy of national units
* Heavily acquisition-driven international expansion (1990s)

Company history, description and performance

Carrefour began in 1960 as a modest-sized basement department store in Annecy, France. But founders Marcel Fournier and Louis Defforey soon followed this venture when, only 3 years later, they opened the first Carrefour 'hypermarket' on a busy five-road intersection in the suburbs of Paris. This hypermarket introduced a new concept to the retail world. The new Carrefour boasted 2,500 square metres of self-service shelf space and offered parking for 450 cars. In addition to food items, the store retailed clothing items, electronic goods, automotive parts and sporting goods. The combination of space and variety at discount prices resulted in annual sales growth rates in excess of 50% during the later half of the 1960s and into the 1970s.

Carrefour began its aggressive international expansion in Belgium in 1969; a year later the company floated on the French Stock Exchange. Throughout the 1980s and 1990s, Carrefour continued to expand internationally in a global market increasingly dominated by a few large players. In January 2000, following approval from the European Commission, Carrefour completed the unlikely acquisition of long-time rival Promodes in a friendly take-over bid announced one year earlier. The take-over created the Europe's largest and the world's second largest retailer with around 8,000 stores located in Europe, Asia and Latin America. But Carrefour's recent performance in its French home market has been muted. Analysts reckon that its stock is considerably under-capitalised in comparison to Tesco or Wal-Mart.[36]

Selected company-specific business drivers

Much of Carrefour's initial success in France may be attributed to the company's innovative strategy of offering a wide variety of food and non-food goods and services, on a discounted self-service basis, under one roof. This concept was unknown anywhere in the retail world. Carrefour therefore benefited greatly from a first-mover advantage.

But, Carrefour's continued success throughout France and around the globe has benefited from the company's strategy of tailoring management and product offerings to the local markets. Following foreign acquisitions, the company has often opted for keeping locally recognised names and brands. Large use is made of local suppliers meaning that product offerings are often very specific to the immediate markets, and decision making authority is highly decentralised.

Business environment and other external drivers

The gradual liberalisation of policy environment affecting large-scale retailing in France has proceeded along two axes with the following legal and institutional changes:

- Prices and competition: the Balladur Decree of 1986 liberalised pricing, and the Galland Act of 1996 regulated the balance of market power between producers and retailers;[37]

- Commercial space planning: the Royer Act of 1973 established the general orientation of commerce and artisanship (*artisanat*) and the 1996 Raffarin Act on the promotion of small scale retailing set limits on surface area devoted to large-scale retailing.

In the event, the latter reforms are reckoned to have had an effect opposite to what was intended. However, limitations on commercial surface are considered to have 'forced' French retailers to expand internationally.[38]

But, perhaps the most important external influence affecting Carrefour has been the flurry of international activity by large retail players such as Wal-Mart. Its decision to expand into Europe thorough acquisition in the United Kingdom and Germany forced Carrefour to consider its productivity vis-à-vis foreign investors and to contemplate potential hostile take-over bids or considerable loss of market share.[39]

INDIVIDUAL COMPANY CASES

ACCOR

The Success Story

Pioneer introducing the mid-market hotel business in France and Europe. Today, one of largest and most internationalised companies in the world, in the hotel and restaurant sector.

Factors Behind the Success

Period of spectacular success: 1970s (pioneering mid-market business); late 1995-2001 (turning around a large, diversified and below-par performing group towards greater focus on core business and profitability).

Factors strongly affected by public policy:
* openness of home market to FDI-driven competition
* benefited from government funding at inception[40]

Company practices regarding management, innovation and diffusion of technology:
* innovative pioneer in mid-market hotel sector in Europe
* ICT-based innovations: centralised reservations (‘80s); online services (9’0s)
* heavy use of acquisitions during strong expansion (to 1995); consolidating since

Company history, description and performance[41]

Boasting over 4,000 hotels in 90 counties, Accor is the world’s fourth largest hotelier group (2003). The French company Novotel SIEH was founded in 1967 by Paul Dabrule and Gérard Pélisson based on an idea that a large potential demand for mid-market hotels, which they had seen in the United States, could exist in Europe. The first hotel was opened the same year in the northern French city of Lille. Several other hotels were opened n France, including a series under the newly created brand of IBIS, which aimed at a lower segment of the market. In 1973 Accor decided to expand into other European countries and, by 1980, owned 200 hotels in 22 countries.

During the 1980s, the group intensified a diversification of its investments which it had launched in the mid 1970s, primarily through the acquisition of European restaurant businesses and the UK company Luncheon Vouchers. With the acquisition of French luxury hotel group Sofitel, the group now held investments in all segments of the hotel market. In 1983, following the merger of Novotel SIEH and the

French restaurant group Jacques Borel International, the new group began to be publicly traded as Accor Group. By 1990, in the face of a saturated European market, Accor began to look at the North American market for further expansion. The purchase of US hotel chain Motel 6 made Accor the world's leading owner-manager of hotels.

Sector

International competition in the hotel industry is fierce. The sector is dominated a few global companies which include Hilton and Marriot International. However, despite vulnerability to world crises such as unfavourable political conditions, growth in this industry has been vast, fuelled by increased international business travel, lower prices for travel and increased disposable income in many OECD countries.

Company-specific business drivers

A key characteristic of Accor is its high degree of internationalisation, even in comparison to the sample of companies reviewed in this study, most of which are heavily international. Not only that some two-thirds of its revenues originate outside France and a hefty 82% of its workforce is located outside its home base, but a clear majority of its shareholders are also non-French residents, with international institutional investors representing 54% of its capital structure as of 2003. This is a clear indicator of Accor's success in the global market for management in its sector of activity.

Through acquisitions, Accord group succeeded in penetrating all segments of the international hotel industry, which together with diversification into allied industries provided a cushion against activity-specific economic shocks. Wide international expansion has also diversified the groups dependency on any one region. Accord has used centralised reservation systems and fidelity programmes that cover all of the group's companies, to strengthen customer loyalty.

Accor has created and maintained a united work culture by encouraging employee participation in company decision making and product development. Training is widely offered and the company maintains the Accor Academy, Europe's first corporate university. Today, Accor Academy consists of seven training centres around the globe which offer employees skills enhancement specifically tailored to local needs. Worker productivity is also stimulated by performance-based bonuses and a share of annual profits which is made available to all Accor employees.

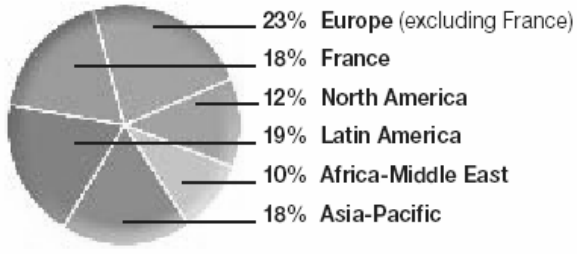
Business environment and other external drivers

Accor has benefited from rapid changes in technology which permit centralised reservations and services offered online. These advances have increased margins and increased reach; but they have also intensified competition from travel-related sites, forcing Accor to maintain competitive and transparent pricing.

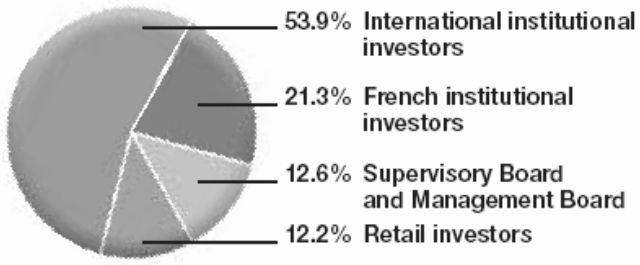
Apart from the general absence of entry restrictions in the hotel and restaurant business, one policy variable which has some bearing on the competitiveness of firms in this area is the prevalence of competition intensified by international cross-border investment, especially in Europe where Accor's success story emerged.

Accor: Global Success, Born in France

Employees by Region, 2003



Shareholder Structure



Source: Accor, *Corporate Profile 2004-2005*, available on www.accor.com.

AMERICAN EXPRESS

The Success Story

Historically a pioneer in developing innovative products in parcel delivery, travel and financial services, and in internationalising them. A venerable and strong brand which has successfully reversed relative decline in recent years.

Factors Behind the Success

Periods of spectacular success: 1890s to 1960s (except the World Wars), since early 1990s

Factors strongly affected by public policy:
* de-regulation of financial services (1980s on)
* openness to FDI

Company practices regarding management, innovation and diffusion of technology:
* key pioneering innovations built the company brand name: travellers cheques, credit card accepted by a wide range of merchants
* in the 1960s, prepared to sacrifice core business (travellers cheques) to develop credit cards
* successful re-focusing in the early 1990s, away from brokerage, investment banking and life insurance, towards credit cards, travel and entertainment
* pioneer in offshore outsourcing

Company history, description and performance

American Express is not one of the biggest financial services firms in the world. In 2003 it ranked as the twenty fourth largest company by revenues in this sector in the world (forty sixth if insurance is included in the definition of the sector).[42] But it is certainly better known and more international than the majority of the financial services companies that are objectively bigger. The key reason for this is, of course, the American Express credit card, a payment instrument that is meant to have a wide circulation.

Amex's core business encompasses, besides issuing credit cards, travel services, financial consulting and other international banking services. The company has three divisions: Travel Related Services (TRS), American Express Financial Advisers and American Express Bank. Amex and its affiliates provide services both to individual consumers as well as enterprises. Its presence is global, with revenues close to US$26 billion in 2003.

Amex was established in 1850 in New York and in its early decades was known as a very successful express delivery company serving in particular banks as clients. Its expansion into financial services as such started in the 1880s and the company underwent fundamental re-orientation of its core business a number of times since then in response to the evolving world economic environment and in conjunction with changing regulatory frameworks. In the aftermath of World War II Amex was firmly established as an international delivery and financial services company. The American Express Card was introduced in 1958.

In the following period Amex diversified the range of its activities (into brokerage, investment banking etc.) with acquisitions, a trend widespread especially in the 1970s. But this strategy proved unprofitable and the groups began to take note of its declining market share in credit cards. Following the turbulent early 1980s in the finance industry (*e.g.*, the Latin American debt crisis which affected Amex) a thorough restructuring re-focused the group on the business of credit cards and travel services. The early 2000s are characterised by relatively strong growth and improving profitability.

Sector

The field of activities in which American Express operates cross the boundaries of various 'sectors' in the national accounts sense, and include financial services as well as travel. The principal competitors of Amex in the credit card business are Visa and MasterCard, both of which have a larger global circulation but as such do not lend themselves to a similar analysis as a company case as these are 'membership corporations' which represent a partnership between a number of major financial services companies. On the banking side Amex is in competition with the Citigroup Inc., JP Morgan Chase & Co., and Morgan Stanley. When travel and related activities (such as insurance) are also considered, Amex faces competition from a large number of companies, including some reviewed in this study such as Accor or AXA.

Company-specific business drivers

A widely recognised brand name is one the key strengths of American Express. That brand name has been established an maintained largely thanks to a number of major innovations that the company has been a pioneer of. In its very early stages when Amex was mainly a parcel delivery company its market position was derived from its reputation for rapid and reliable delivery, which required mastering a new transportation and storage system superior to U.S. Postal Services at that time. Later on the company pioneered the travellers cheque, an innovation which provided the backbone of its business until the 1960s. It has also been an innovator in internationalising travel-related financial services from 1890s onwards, when it built a network of correspondent banks in Europe. Amex was one of the first companies to offer a

reliable cross-border system for small payments that corresponded to the needs of travellers and businessmen in what was an era of rapidly growing international trade and investment.

Then came the credit card, in 1958. Some companies, particularly gas stations and hotels, had started to issue charge cards as early as 1920s to be used in their own outlets. Diners Club is credited as the inventor of the first credit card accepted by a variety of merchant, but all in the restaurant business, as early 1951. However, Amex was by and large the first company to extensively commercialise a credit card accepted by a wide range of businesses across sectors.

Increasingly, technology plays a key role in Amex's success, as the company is developing innovative services combined with the issuance of credit cards. For example, Amex, in co-operation with Microsoft, has recently launched an online reservation system called American Express Interactive (AXI) which enables corporate employees to negotiate and book airfare, rental car rates and hotel rates from their desktops. Amex is also investing in smart cards. It is testing, jointly with IBM and Hilton Hotels, a smart card system that will enable ticket-less travel.

Amex is recognised to be a pioneer in offshore outsourcing of its transactions processing to 'captive centres' (in the UK and India) in the early 1990s. Today this trend continues with the offshoring of the company's customer services.[43]

Amex's long-term success and survival would not have been possible without periods of creative destruction. For example, in the late 1950s, and not without some internal debate, the company took the bold decision to cannibalise its travellers cheque business in order to develop the card.

Business environment and other external drivers

Financial services is one of the service sectors which are most heavily regulated, where capital adequacy requirements or other prudential regulations can also constitute important benchmarks, if not also barriers to entry. Cross-border financial services were subject to considerable limits too before the worldwide efforts to liberalise capital movements began to give results in the 1980s, at least in the developed countries. Amex has been strongly affected by these from its inception as a financial services company in the 1890s. Its international operations grew in conjunction with increasing liberalisation and growing openness to FDI in financial services in various jurisdictions. The company also played key public functions during the World Wars of the twentieth century, such as distributing Red Cross parcels to prisoners of war, or assisting individuals stranded abroad during wartime, which has contributed to its strong image.

AXA

The Success Story

A medium sized national mutual insurance company (*mutuelle)* transformed into one of the world's largest and geographically most diversified multinationals (1982-2000).

Factors Behind the Success

Period of spectacular success: 1990 - 2000

Factors strongly affected by public policy:
* Privatisation of pension funds and liberalisation of life insurance.
* openness to FDI (especially in emerging markets)

Company practices regarding management, innovation and diffusion of technology:
* regionalised management structure
* heavily reliance on acquisitions for international expansion

Company history, description and performance

The core business of AXA is 'financial protection', which consists of providing its clients, be they individuals or small or large enterprises, with services relating to insurance, financial foresight (*prévoyance*), savings and inheritance. Such protection is extended to property (reparation costs), revenues (to ensure financial stability), liability (coverage of damages to third parties), family protection (risks related to death, invalidity, health, etc.) as well as economic risks (savings, retirement benefits).

At the beginning of the 1980s, *Ancienne Mutuelle* (ancestor of AXA) was still a relatively medium-sized French mutual insurance company with annual revenues of 160 million euros and employing some 850 people. From that point on the company embarks on an expansion strategy based on mergers and acquisitions. By 1996 AXA shares are traded in the New York Stock Exchange. Today, AXA is one of the largest insurance companies in the world serving 50 million clients with a global workforce of nearly 120 thousand, assets reaching 740 billion euros, generating revenues of 75 billion euros (all 2003 data.)

Sector

There is a strong competition among the giants of the insurance industry in the developed countries where the market has become relatively mature. In addition, the broader insurance industry appears increasingly vulnerable to risks such as terrorism and natural hazards. In Europe the leading national companies are expanding their international operations as being the national champion no longer seems to guarantee survival. In the more mature Asia-Pacific markets (such as Australia, Japan) the leading companies are increasingly in difficulty as they seem unable to break their dependence in national markets.

The second largest property and casualty insurance company in Australia, HIH has gone bankrupt in 2002. In Asia competition between companies is increasingly organised at a regional scale.

Company-specific business drivers

AXA's ascent as a global insurance giant has been primarily driven by a strategy centred on acquisitions, initially in the US and Europe, later in Asia. A key element of this strategy is the application of the principle of subsidiarity between the global headquarters and the local or regional units. The key competencies of the former emanate from its ability to develop a comparative perspective between countries at different stages of insurance market maturity and the development of insurance products relevant for them.[44] Whereas regional units tailor these products to local markets, often remaining behind a company image that seeks to be perfectly local, relying heavily on nationals of the host country even for senior management.

In addition, to counter the fragmentation of national markets, many of which are embryonic outside Europe and North America, AXA organises the management of its national subsidiaries around regional 'platforms'. These platforms lead in the conception and design of products, or the choice of price structures, while marketing is done by national units.[45] Also, AXA has outsourced its back office functions to AXA BS (AXA Business Services) in Bangalore, which is a subsidiary of AXA UK.

Growth in Asia constitutes one of the key elements of AXA's global strategy. Singapore has been the starting point of the company's expansion in this region, with the creation of AXA RE ASIA, which helped publicise the company's name in the region and established business links with local companies. Expansion there continued with acquisitions of regional majors such as National Mutual (Australia) or Nippon Dantai. AXA was the first European company to sell insurance products in China, through Axa-Minmetals, a joint venture set up in 1999.

Asia contains two-thirds of world population, with generally the highest savings rates in the world, and, even in the more embryonic national insurance markets such as China or India a significant urban middle class is in the process of emerging. The latter markets are presently characterised by low competition and have a strong growth potential, which contrasts with the more mature markets such as Japan which involve greater competition and require more complex products. AXA's presence on markets with such different levels of development is thought not only to hedge risks but also enable the company to develop a comparative understanding of markets in rapid development and anticipate risks and opportunities in national units.

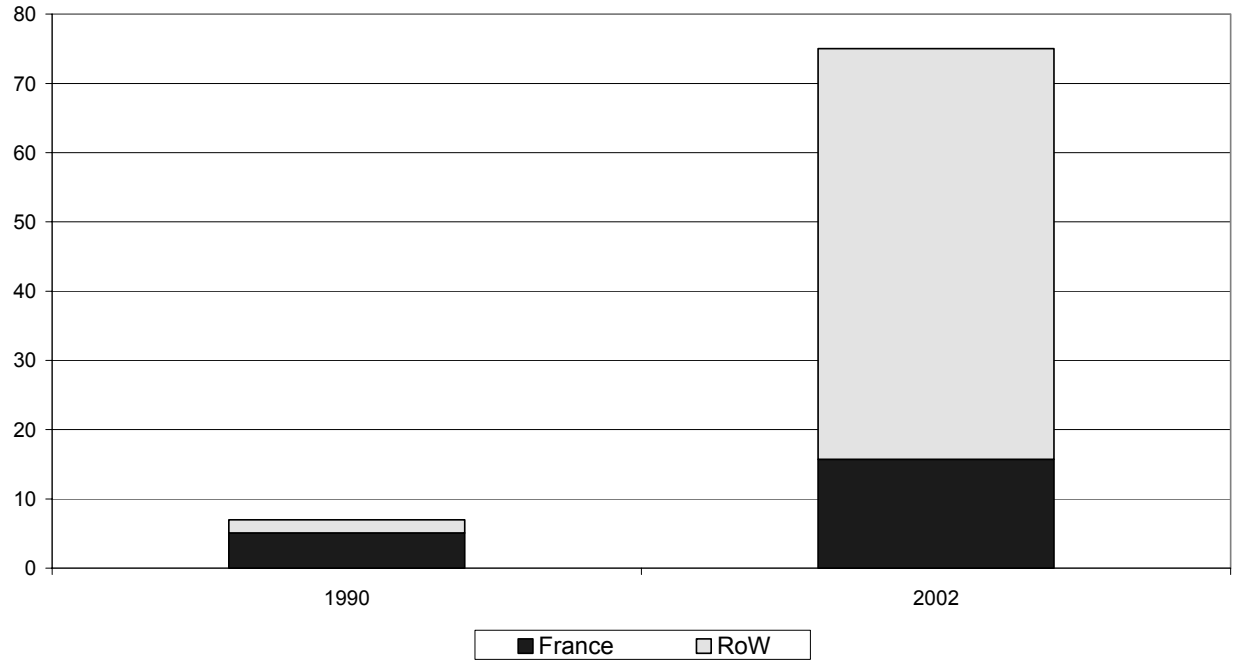
Business environment and other external drivers

Financial services was the leading sector in the privatisation, liberalisation and growth of cross-border investment in the OECD countries from 1980s onwards. The strongly acquisitions-driven growth of AXA would not have been possible without that. The continuing growth of private pensions and the associated pension funds, especially in some of the English-speaking economies (Australia, New Zealand, and the UK) represents the principal source of growth in AXA's revenues from developed market economies in the early 2000s. Fiscal incentives aimed at developing private pensions and life insurance play a key role.

Likewise, in Asia, the other major growth frontier in AXA's revenues and earnings, the regional governments' policy stance in favour of private pensions is a key determinant. Asian governments' growing openness to FDI is also a driver. However, in this region the company's growth has been constrained by the statutory limits on foreign ownership (*e.g.*, 51% of capital in China, 26% in India). To counter this obstacle AXA has forged partnerships with well established local companies (such as Minmetals in China, Affin in Malaysia or Metrobank in the Philippines). AXA has also emerged as strong

advocate of for liberalisation and openness in the insurance sector – for instance its lobbying activity at the WTO is thought to have facilitated China's commitment to a calendar for the elimination of regulatory obstacles to FDI.

Axa: Turnover in France and in the Rest of the World (RoW) (billion €)



Source: Company annual reports.

EBAY

The Success Story

A dot-com that has actually been successful. The first and still the largest general purpose online auction site. Built from an idea into a large multinational company in less than a decade. Hyper growth in revenues (83% per year in 1998-2004Q3) continuing. Rapid internationalisation (international revenues growing at 114% per year in 2001-2004Q3).

Factors Behind the Success

Period of spectacular success: 1998 to 2004

Factors strongly affected by public policy:
* privacy, security and consumer protection on the Internet
* potential anti-trust issues signalled
* availability of venture capital
* patenting of business methods relating to digital commerce
* participation in industry clusters (Silicon Valley)

Company practices regarding management, innovation and diffusion of technology:
* significant use of stock options
* decentralised development and management of international units to suit the legal, institutional and cultural specificities of local markets
* innovative pioneer in moving auctioning into the electronic environment
* simple, easy-to-use application of ICT; focus on feedback from customers

Company history, description and performance

EBay Inc. operates an online market place through its web site eBay.com. The company was founded as Auction Web by software developer Pierre Omidyar in his Silicon Valley living room in 1995. Omidyar's goal was to create an auction-based market place for the sale of goods and services, mostly second-hand goods and collector's items, open to all internet users. His idea for Auction Web stemmed from an interest in how the Internet could bring together fragmented markets to create a virtual meeting place of commerce for people who share similar interests. Rather than setting itself up as an online retailer selling goods and services directly to consumer, Omidyar created an online trading community, keeping the business free of the need to incur distribution or fulfilment costs.

Auction Web was the internet's first auction site, emerging at a time when e-commerce was beginning to gather momentum. Benefiting from word-of mouth, the site's popularity grew quickly. In 1998, a year

after taking the name eBay, Margaret Whitman, the company's new CEO to the company public. One year later the company had a market capitalisation of $19,000 million. EBay's success encouraged the creation of myriad new auction-related internet sites. However, in May 2001, despite fierce competition from well-known internet brand names, eBay gained 64.3% of spending on online auctions. It market share has been so high as to draw criticism for potential anti-trust violations. By 2003, eBay had nearly 69 million users spending $59 million daily. It has become a de facto online store for many SMEs which cannot afford to maintain their own. Currently, eBay has local sites that serve Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, Korea, the Netherlands, New Zealand, Singapore, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. In addition, eBay has a presence in Latin America and China through its investments in MercadoLibre.com and EachNet, respectively.

	1996	1997	1998	1999	2000	2001
Number of registered users at end year, thousands	41	341	2,181	10,006	22,472	42,400
Gross merchandise sales, millions of dollars	7	95	745	2,805	5,422	9,320
Number of items listed, thousands	289	4,394	33,668	129,560	264,653	423,000

Source: Krishnamurthy (2002).

EBay's self-proclaimed mission is to provide a global trading platform where practically anyone can trade practically anything. eBay has succeeded in streamlining and globalizing traditional person-to-person trading, which has traditionally been conducted through such forms as home-based sales, collectibles shows, flea markets, etc. The web interface facilitates exploration and enables sellers to list sale items sale quickly and with little effort. Browsing and bidding on auctions is free of charge. The company imposes two types of charges on sellers. When an item is listed on eBay a non-refundable Insertion Fee is charged, which ranges between 30 cents and $3.30, depending on the seller's opening bid on the item. A fee is charged for additional listing options to promote the item, such as highlighting or a bold listing. A Final Value (final sale price) fee is charged at the end of the seller's auction. This fee generally ranges from 1.25% to 5% of the final sale price. EBay notifies the buyer and seller via e-mail at the end of the auction if a bid exceeds the seller's minimum price, and the seller and buyer finish the transaction independently of eBay. The binding contract of the auction is between the winning bidder and the seller only.

Sector

Competition in the online auction sector is very high. In addition to lesser known specialised sites, well-known Internet names such as Yahoo! and Amazon.com have launched competing sites off the back of their strong brands. Barriers to entry are low, only an Internet presence is needed. However, branding, and consequently marketing, can represent a significant cost. Because it is on the Internet, online auctions are very transparent.

Company-specific business drivers

One of eBay's primary drivers is its first-mover advantage. Omidyar, together with his colleagues, was able to implement his idea into an emerging platform before existing household names could dominate this sector. EBay also benefited from a simple execution of a good idea. The site was designed to be user-friendly. Posting products for sale and searching for goods and services to buy can be done quickly and easily. An understanding of potential site users was critical for this design. Also important to an earl success was the use of client feedback. After each purchase sellers and buyers are asked to rate their counterparts. This information follows the individual and is henceforth aggregated and made available to future counterparts. This has been an important tool for developing user confidence and avoiding fraud. This also encourages repeat usage as seller and buyers can benefit from ratings from prior transactions.

EBay's has consistently made use of experienced top-level management during its expansion. The company has been able to attract such talent through the use of stock options. As eBay has grown, management has been careful to avoid developing a bureaucratic culture. International sites are developed and managed regionally, allowing for the incorporation culturally and market-specific factors. Independence has been critical for preserving this management style.

EBay quickly diversified from auctions and moved into an array of upscale markets where the average sale price, a key metric in determining eBay's transaction fees. To achieve this, the company has created partnerships with major brands such as GM, Disney and Sun. EBay's size is in itself a major driver of the company's success given that sellers are attracted by the large number of potential buyers while buyers who are in turn drawn by the extensive list of products.

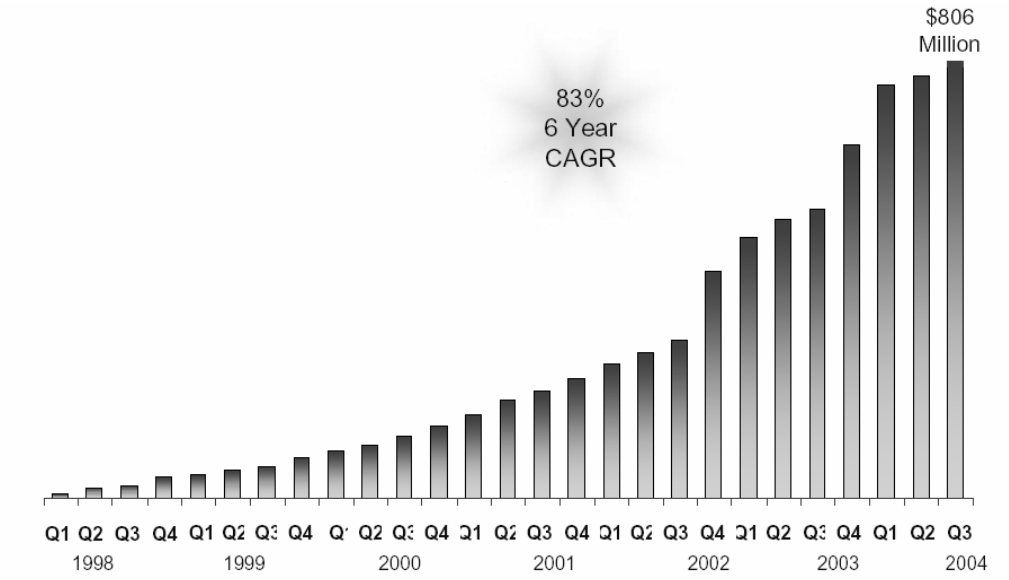
Business environment and other external drivers

Unlike many companies in the dotcom sector, eBay has always been a profitable venture. Nevertheless, eBay made use of a $5 million venture capital investment during the run up to its initial public offering, and Benchmark Capital, one the US's major venture capitalists, remains an investor in eBay.

The availability of a the globally- accessible platform of the Internet is a strong determinant for a business like eBay. Indeed, the need to bring together very fragmented markets means that eBay could not have existed a few years earlier. While parts of eBay's business could be replicated offline, global auctions of common or hard-to-find goods and services are difficult to reproduce without the Internet.

Internet fraud is a major concern for all commercial websites. However, the US National Consumer League's Internet Fraud Watch has identified eBay as the principal source of fraud-related complaints. Buyer confidence is a key success factor for eBay, so a secure online business environment that addresses issues such as payment security, privacy issues and consumer protection, are crucial to the company.

eBay's quarterly revenues, 1998 – 2004Q3



Source: eBay Company Overview, November 2004, available on www.ebay.com.

ENDEMOL

The Success Story

Rare Continental European pioneer as an independent television programme producer with significant international sales. The largest independent television production company, built in the last twenty years. Continued strong growth through the media downturn in the early 2000s.

Factors Behind the Success

Period of spectacular success: 1995-2004 (23% per year revenue growth), especially post-1999

Factors strongly affected by public policy:
* dependent on openness to trade and FDI in 'culture industries'
* relaxation of European rules regulating sales of foreign programming (late 1980s)
* heavily dependent on effective IPR protection of its innovative programme concepts
* international movement of highly skilled (and creative) labour force may play a role.
* benefits from the media industry cluster in Hilversum, Holland (But not a direct result of a government programme)
* competition policy (dominant provider in home market)

Company practices regarding management, innovation and diffusion of technology:
* entrepreneurial company culture focused on core business and 'flat' hierarchy
* creative image attracting new talent
* innovations developing interactive TV using the Internet - also used in marketing
* acquisition-driven early expansion
* non-core activities heavily outsourced.
* ability to test programming in English in the largely-English speaking domestic market of Holland, which enables international expansion, especially to the lucrative English-speaking markets
* heavily dependent on openness to FDI and effective IPR protection in emerging markets.

Company history, description and performance

In the mid-1970s, a number of successful theatre productions brought Joop van den Ende's name to some prominence in the Dutch entertainment industry. This notoriety permitted van den Ende to migrate to television production by the end of the decade and to begin exporting his programme formats to the UK and Germany a few years later. During this same period John de Mol was also gaining prominence in the Dutch television industry. After establishing a television production company in 1979, de Mol becomes a regular producer of weekly programmes by the mid 1980s. In 1992, de Mol's company began producing programming for the German market.

The two creative production companies merged in 1994 to create Endemol. The merger placed the new company in a dominant position in the Dutch market, making easier to attract talent and test new programming at home before preparing them for an export market. The company quickly expanded by acquiring foreign production companies which they could use as platforms for selling programming to these external markets. To fund much of this expansion, Endemol made an initial public offering on the Amsterdam stock exchange in 1996. In 2000, the company penetrated the desirable US market with its reality television programme 'Big Brother. By 2002, the programme, which demonstrated how the internet can be incorporated into a media marketing strategy, was in production in 17 counties. The company's success attracted large investors and, in 2000, was acquired by Spanish telecommunications giant Telefónica for 5 200 million Euros. Present in 22 counties, today Endemol is the world's largest independent television production company producing more than 15 000 hours of programming each year, achieving annual revenues in excess of 900 million Euros and an average growth rate of approximately 20%. The company employs about 3 300 workers.

Sector

Television production sector has long been fragmented along national boundaries for cultural, linguistic and political reasons. The United States remains the largest exporter of commercial television programmes in the world. Unlike many European countries, ownership of television production and broadcasting in the Untied States has been almost exclusively private. Regulations on sponsorship of programming via television commercials is loosely regulated relative to many other OECD countries and large advertising returns to programme production has long fuelled a highly productive industry. The United States also benefits from a large internal market. With the limited exception of the United Kingdom, few European counties have been large exporters of programming to the Anglophone world. The Netherlands is one of them.

Selected company-specific business drivers

The merger of the two companies allowed Endemol to achieve a critical mass with which to look to international expansion. Given the limited size of the domestic market, potential future growth relied heavily on export markets. To do this, the company acquired a number of foreign production firms which it used to leverage sale of its programme innovations to broadcasters in these counties. Endemol's post-merger dominance of the national market also permitted the company to experiment with new programme formats domestically before attempting to sell them abroad. This ability to market test new ideas made exporting more cost-effective. Once the merger was completed, the company focused on programme development and the creative side of the business. This focus on creating new programmes and programme concepts was true at all levels within the company. All employees were encouraged to submit ideas while Mr. de Mol was said to devote 80% of his working time to programme creation and development. In order to facilitate this focus the company relied heavily on external contracts for support activities.

Business environment and other external drivers

Endemol benefited from its location in Hilversum, a city where Dutch television related companies are clustered. This cluster produces a dynamic environment and permits creative talent to flow fairly freely among different firms. Endemol's success made the company particularly attractive to talent in this industry. In the late 1980s, laws regulating sales of foreign programming in European countries were relaxed. This partial deregulation opened up much larger potential markets for countries with limited domestic demand prospects. Finally, Endemol's international expansion relied heavily on copyright protection of its programme concepts, particularly because it often exported creative ideas rather than completed programming.

FEDERAL EXPRESS (FEDEX)

The Success Story

A major global company built by developing a new service market (package delivery) de novo on the basis of an innovative business model. Sustained growth since inception in 1971, more or less uninterrupted through 2004.

Factors Behind the Success

Period of spectacular success: late 1970s to early 1980s; success continuing with sustained growth in 1983-2004 (16.5 per cent per year revenue growth).

Factors strongly affected by public policy:
* deregulation of air cargo (1977) and inter-state trucking routes (1980)
* helped by policy competition between local (transport) authorities in the site selection
* access to capital: venture capital at inception (US$90million in the early 1970s)

Company practices regarding management, innovation and diffusion of technology:
* first mover in operationalising the 'hub' model in package delivery, with innovations significantly advancing the concept of integrated service.
* early mover in the use of digital technologies for e-business (*e.g.*, tracking of packages) and sales to end customers through the Internet.

Company history, description and performance

In 1965, Frederick W. Smith, an undergraduate student at Yale University, wrote a term paper about the passenger route systems used by most airfreight shippers, which he viewed as economically inadequate. Smith asserted that shippers needed a system designed specifically for airfreight that could accommodate time-sensitive shipments such as medicines, computer parts and electronics. Reportedly, his he was given a dispiriting grade of C for his work.

In August of 1971, following a stint in the military, Smith bought controlling interest in Arkansas Aviation Sales, located in Little Rock, Ark. While operating his new firm, Smith identified the tremendous difficulty in getting packages and other airfreight delivered within one to two days. This dilemma motivated him to do the necessary research for resolving the inefficient distribution system. FedEx began operations in 1973 from a new hub in Memphis, Tennessee. On it first night of business the company delivered 186 packages to 25 US cities using 14 aircraft. By mid-1975 the company was profitable.

Daily volume of FedEx packages:

Date	17 April, 1973	End-1973	1974	1975	1976	1984	1986	1988	2004
Volume	186	1,000	10,000	13,500	19,000	500,000	1 million	3 million	5 million

Source: SRI International, http://www.sri.com, and www.fedex.com.

In the mid-1970s, FedEx took a leading role in lobbying for air cargo deregulation that finally came in 1977.[46] These changes allowed FedEx to use larger aircraft (such as Boeing 727s and McDonnell-Douglas DC-10s) and spurred the company's rapid growth. In 1978, the company made an initial public offering on the New York Stock Exchange, a move which provided important investment capital and gave company backers a chance to realise gains on their initial investments. In 1984 FedEx launched services to Europe and Asia and, one year later, established its first foreign hub in Brussels. Today, FedEx is a $26 000 million business employing 245 000 persons to transport 3 million packages to 215 countries daily. To do this it maintains a total of 625 aircraft, 42 500 vehicles and 44 400 delivery depots worldwide.

FedEx integrates the entire delivery process into its operations. That is, the company covers the process of goods delivery from collection to drop-off at final destination. Its brand and reputation rely on the ability to guarantee delivery of almost any good to almost any location within a specified time limit. To achieve this, the company uses two primary means of transport: aircraft and ground delivery vehicles (vans, trucks, etc.). Links between air and land routs are made in warehouses or delivery hubs located primarily in the vicinity of airports. FedEx services 3 types of clients: individuals, physical enterprises (which can outsource logistics to FedEx) and e-commerce businesses which use FedEx for delivery fulfilment. FedEx also makes extensive use of the Internet as a service to clients who wish to track progress of their deliveries.

Sector

Package delivery via airplane was first launched by United Parcel Service (UPS) in 1929; however, that same year the stock market crash forced the company to close after only 8 months of operations. UPS resumed air delivery service in 1953 using cargo space on regularly scheduled passenger airlines. FedEx was the first company to implement a hub system of receiving, sorting and resending packages. Since FedEx launched its express delivery company, competition has grown considerably. Despite high costs to entry, a number of large international players, including many state-owned postal services, have begun to offer similar services. More recently, a high level of merger and acquisition activity has created a few express delivery giants. The market is currently dominated by three of these: FedEx, United Parcel Service (UPS) and DHL. All three are multinational companies based in the United States.

Selected company-specific business drivers

FedEx has built an internationally recognised brand that is immediately associated with express package delivery. To fortify this image FedEx has, since 1986, offered a money-back guarantee for any deliveries that take place outside the quoted delivery time. Since 1989 FedEx has followed an aggressive international growth strategy by partnering with local transport companies before establishing its own infrastructure.

Throughout its history, FedEx's success has hinged on an ongoing investment in new technologies. In 1979, FedEx pioneered the use of a centralised computer system known as COSMOS which enabled the company to manage vehicles, employees, packages routes and weather scenarios on a real-time basis. Numerous other innovative investments followed including a hand-held bar-code scanner system in 1986 and an online system which allows customers to track the progress of their packages.

Business environment and other external drivers

An express air-delivery enterprise can not be launched as a small pilot operation. Instead, such an endeavour requires considerable up-front investment. Bringing FedEx to profitability required two years of loss-making investment. In this phase, the company was able to attract $90 million in venture capital and bank financing on the basis of an untried idea that could generate future income streams.

Frederick Smith originally planed to base FedEx in Little Rock Arkansas, the city where the company was incorporated. However, the city airport managers, fearing a potentially loss-making venture declined. Airport authorities in Memphis, Tennessee, sensing a potential source of future jobs, an innovative sue for night-time airport use and the possible positioning of the city as a national trans-shipment centre, proved more entrepreneurial. Smith was offered use of several old Air National Guard hangars for use as company facilities. FedEx eventually moved all operations to Memphis.

Deregulation of the air freight carrier sector has played a key role in FedEx's success. Prior to 1977, freight shipping companies were forced to use smaller planes for deliveries, considerably raising operating costs. Deregulation allowed FedEx to use much larger aircraft, thus sending one airplane where two or more might have been necessary. Deregulation of interstate trucking routes in 1980 also permitted FedEx an important efficiency enhancement.

Global delivery companies such as FedEx have grown hand-in-hand with globalisation. Increased international integration translates into a corresponding increase in demand for global deliveries of goods and documents, and permits such companies to make the foreign investments that permit growth in businesses as well as provision of services. Last but not least, FedEx's early development seems to have benefited considerably from a prolonged strike among UPS workers in 1974. UPS, already well established as a postal delivery service at the time, was expanding services to compete with FedEx's overnight delivery services.

SAP[47]

The Success Story

Of the world's ten largest software and IT services companies by market capitalisation in 2002, the only one – ranked fourth – which is not American.[48] Small start-up software vendor turned into global industry leader in inter-enterprise collaborative software and business solutions.

Factors Behind the Success

Period of spectacular success: 1980s (fast-growing start-up), late 1990s (market leader in intra-enterprise software), early 2000s (continued growth and profitability through the ICT downturn).

Factors strongly affected by public policy:
* openness to FDI both in home and other markets
* policy frameworks affecting investment in R&D and IPR protection
* initial growth took place within an industrial park

Company practices regarding management, innovation and diffusion of technology:
* emphasis on internal communications, such as 'idea labs' where employees can experiment with software development
* Proven competence for ICT-based innovations: one of the pioneers of integrated enterprise software, and clearly the most successful in terms of commercialising it; experience and tradition of German industry in tailoring products to different languages and business environments, applied to the software sector (*e.g.*, financial software handling a variety of currencies)
* reliance on acquisitions to maintain strong presence in emerging technologies, as distinct from innovating in-house

Company history, description and performance

Systems Analysis and Program Development (SAP) was created in 1972 by five former employees of IBM Germany. By 1980, half of Germany's largest industrial firms were among the company's clients, and the company established its headquarters in the Walldorf industrial park near Heidelberg. Growth continued apace during the 1980s and, in 1988, SAP was listed on the Frankfurt and Stuttgart bourses. By the end of 1980s SAP had initiated an international expansion which brought its services to Denmark, Sweden, Italy and the United States.

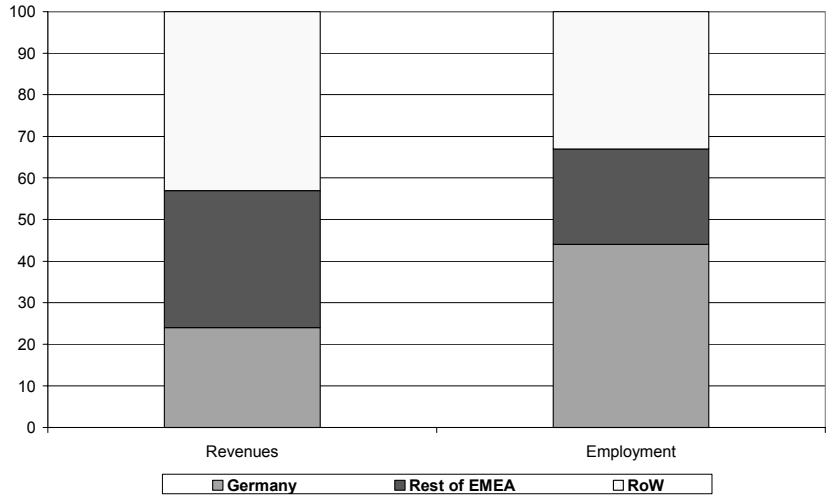
SAP's international expansion became an important source of company growth and, by 1992, foreign sales accounted for more than half of the company's total sales. In 1998, SAP's shares were listed in New York and by 2001 the company was the world's third-largest software company, a rare feat for a European

firm in this sector. With revenues at over 7 billion Euros in 2003, SAP has realised an average annual growth rate of 18% since 1995. It employs 30,000 workers globally and is present in all major markets.

Sector

The overall software market is dominated by Microsoft. But SAP concentrates its activity in the enterprise software segment of the market. In recent years, the company is reckoned to account for some 50-55% of global sales of enterprise resource planning (ERP)[49] software.[50] The most recent SAP Annual Report claims that, as of 2003 the company has 59% of global revenues in enterprise software, far ahead of its main competitors Oracle and PeopleSoft/J.D. Edwards, which have 15% and 13% respectively.[51]

SAP: A Global European (Regional Shares in 2003)



Source: SAP Annual Report 2003. EMEA: Europe, Middle East & Africa; RoW: Rest of the world.

Company-specific business drivers

SAP has always remained majority private-owned. This has enabled SAP to focus more on longer-term strategy. However, share offerings on several stock markets have permitted the company to raise capital needed for investments such as R&D, acquisitions and marketing. For example, one way in which SAP has succeeded in achieving a presence in emerging technologies is through the acquisition of small emerging firms. This has also contributed to the company's strong growth.

SAP has always maintained a strong presence in the US market. This has been crucial for remaining abreast of new developments in technology as well as in the market. SAP has always kept up with, or quickly followed, major trends in the US software industry (*e.g.* mySAP ERP during the Internet boom years). But the share of the US market in SAP's total business has gone down to 25% as of 2003.

Internal communications and idea sharing are an important source of innovation at SAP. The company maintains a series of 'idea labs' where employees can experiment with software development. The company also relies heavily on client feedback and the idea labs serve as testing centres for incorporating suggestions provided by SAP software users.

Business environment and other external drivers

The IBM origin of SAP's founders speaks for the role of FDI in stimulating local business. In addition, SAP's Walldorf location has permitted the company to benefit from a large pool of highly-skilled human capital. Walldorf industrial park is situated close to three of Germany's major universities, Karlsruhe, Manheim and Heidelberg. The company also benefited from the dynamism of an area which has been a centre of gravity for high-tech firms.

Unlike many of its American competitors, and given Germany's highly export-oriented industry and tradition to make products adaptable to different markets, SAP software designers have always made their products available in different languages, denominated in different currencies, etc. This aspect was clearly more important for a company selling software tailored to vastly different business than may the case in PC operating software. This attribute also made the company particularly attractive to clients which are multinational enterprises.

STARBUCKS

The Success Story

Daring entrepreneurship spotting a commercial opportunity and turning it into a rapidly expanding global success. Innovative example of manufacturing-service combination.

Factors Behind the Success

Period of spectacular success: 1987-2004

Factors strongly affected by public policy:
* affected by openness to FDI in host countries
* availability of venture capital

Company practices regarding management, innovation and diffusion of technology:
* emphasis on 'employee-friendly' business practices, including paying efficiency wages and providing stock options
* innovative business model

Company history, description and performance

In only a few years, Starbucks became a name synonymous with coffee in the United States. The first Starbucks outlet was founded in Seattle in 1979. At this time, time the company sold only coffee beans and coffee machines. In 1983, Howard Schultz, then the company's marketing manager, visited Milan where he was struck by the popularity of Italian *expresso* bars. Feeling such bars could have a strong potential for

success in the United States, he decided to leave Starbucks and replicate the Italian idea in Seattle. Schultz followed through on his idea in 1985, opening *Il Giornale*, a café-bar which served coffee made with Starbucks coffee beans.

In 1987, Schultz was able to raise local venture capital in order to purchase Starbucks. Changing the name of his company to Starbucks Corporation, he began to serve coffee in all stores, which he transformed into café-bars. With this, Starbucks began to expand, closing the year with a total of 17 sites, including two in Chicago and Vancouver. The following year, the company began to sell mail-order coffee throughout the United States.

By 1992, Starbucks Corporation had 165 café-bars throughout the United States. The company felt that it held the critical mass and growth potential necessary for an initial public offering, which it made in the same year. With the capital raised from the stock market, Starbucks began to expand internationally, beginning with a joint venture in Japan. This international expansion has since continued aggressively. In 2004, Starbucks had a total of 7,569 cafés world-wide. Starbucks is the world leader in coffee distribution retailing hot and cold drinks, food items and coffee-making equipment and other related accessories.

Sector

Starbucks is by far the US leader in café-bars. In 1997, Second Cup, its closest competitor, had less than 300 cafés; at this time Starbucks boasted about 8 000. Starbucks other competitors include AFC Enterprises Inc., Green Mountain Coffee Inc. and Diedrich Coffee Inc. Starbucks has also prompted competition in the foreign counties in which it operates.

Company-specific business drivers

Starbucks has relied heavily on employee-friendly policies for its success. The group prizes respect for employees, which it calls partners, and invests heavily on internal communications. All workers employed at 20 hours weekly or more receive health insurance, which may be considered revolutionary in the US, and stock options. Employees are paid above minimum wage ($6 to $8 per hour) and receive training when hired. These policies serve to maintain a low level of employee turnover (65% annually versus 150 to 400% for the fast food industry and stores).

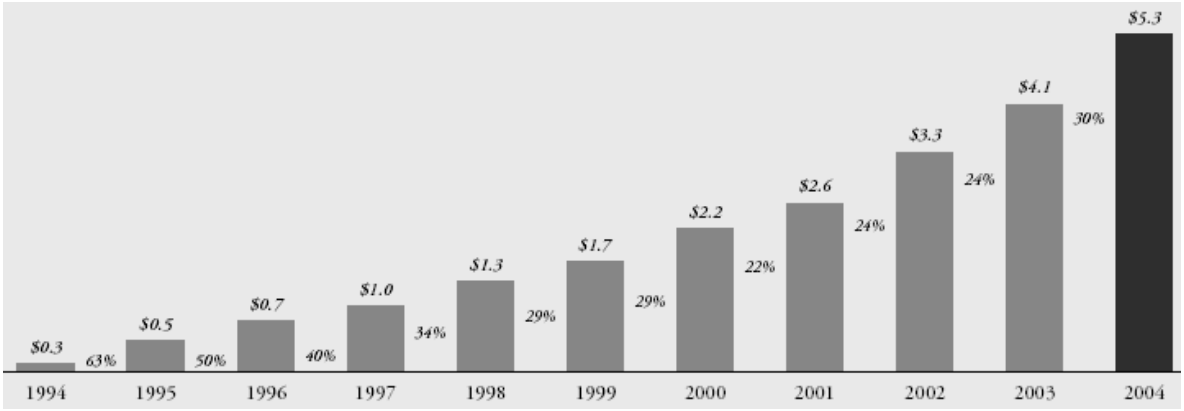
Business environment and other external drivers

Schultz's decision to open *Il Giornale*, required a source of venture capital. His first seed investment came from former partner Jerry Baldwin, but Schultz calculated that he needed $400,000 in seed capital and $1.25 million in equity to open at least eight espresso bars. Most potential investors declined to participate as they saw coffee as a commodity the price of which was volatile. Many were also sceptical about the future of coffee consumption and potential pricing. Nonetheless, Schulz managed to raise $1.65 million from about 30 investors.

From the beginning, Schultz used the company's –rapidly rising – market value to motivate employees. Starbucks offered stock options to all employees working over 20 hours. After the company had gone public, this became an important for of incentive-based pay. Also, offering healthcare to full and part-time workers, in a country where healthcare is a significant public issue, helped Starbucks gain notoriety. In 1994, Schultz was invited to the White House to brief President Clinton on its health care plan for employees.

The company also benefited significantly from its access to capital markets. In addition to the employee motivation described above, Starbucks was able to use capital raised on the stock market to finance national and international expansion.

Starbucks: Net Revenues (in US$ billions) and Revenue Growth Rates



Source: Starbucks Annual Report 2004

VODAFONE[52]

The Success Story

Largest mobile telecommunications operator in the world by revenues and subscribers. Largest private telecommunications (mobile and/or fixed-line) company in the world by market capitalisation. The most internationalised large company in an industry still heavily fragmented by nation-state borders. All built in the last twenty years.

Factors Behind the Success

Period of spectacular success: 1983-2003

Factors strongly affected by public policy:
* privatisation and de-regulation of telecommunications industry
* openness to FDI in host countries

Company practices regarding management, innovation and diffusion of technology:
* innovation: first mobile operator in the UK; first company to introduce pre-paid cards
* heavy user of TCT-based product and process innovations
* heavy reliance on mergers and acquisitions for international expansion

Company history, description and performance

Vodafone was created in 1982 as a subsidiary of Racal Telecom Limited, later known as Racal Electronics Plc. On 1 January 1985, Vodafone launched the UK's first cellular network with a call made from St. Katherine's Dock to corporate headquarters in Newbury. By the end of its first year in operation the company boasted 19,000 subscribers and, by 1987, Vodafone had become the largest mobile network in the world.

In 1988, after achieving profitability, Vodafone made 20% of its capital available through a simultaneous initial public offering on the London and New York stock exchanges. The capital was initially used to help the company fight competition from its only competitor, British Telecommunication's Cellnet. Three years later the company became completely independent as Vodafone Group Plc and looked to continue its brisk expansion. In 1993 it opened its first high-street store. International expansion was aggressive, and by 1995 Vodafone had interests in network consortia in the Netherlands, Hong Kong, Germany and France. The company also continued to make important headway in the UK through both investment and innovation. In 1996, Vodafone became the first company to offer pre-paid telephone cards, a move that would have a large impact on the mobile market at home and internationally.

In the late 1990s and early years of the new century, Vodafone used its strong share price to expand globally through mergers and acquisitions. The US market was secured by its merger with AirTouch and, in 2000, the company gained European Union approval to acquire German communications giant Mannesmann. To gain approval of the acquisition, which gave Vodafone a dominant position in the European Market, the company was forced to sell mobile operator Orange to France Telecom.

Today, following continued acquisition activity and international investment, Vodafone enjoys a full quarter of the global market share of mobile telephony. The group operates directly and has interests in a total of 26 countries and provides services to over 133 million consumers globally.

Sector

Mobile telephony in the UK began in 1985 with the launch pf Vodafone's service. Soon after, British Telecom and Securicor created joint venture Cellnet. This duopoly existed until 1989 and, in 1994, the entrance of Orange introduced a third formidable competitor into the market. In 1999, Mannesmann acquired Orange and, one year later, Mannesmann was acquired by Vodafone. The European Union made the divestment of Orange a prerequisite for the deal. Vodafone faces strong competition in a majority of the countries where it operates. Internationally, some of its fiercest competitors include giants such as AT&T Wireless Services, Orange SA and Telefónica Móvies SA. Today, following several years of high growth rates, the European market is virtually saturated and companies look abroad for growth opportunities.

Company-specific business drivers

Vodafone has been an innovator from its beginnings. It was the first to introduce mobile telephony into the United Kingdom and the first to use a pre-paid telephone card system. This latter innovation brought in an entire segment of customers that might have been otherwise shut out of mobile telephony. In order to increase the transfer of ideas and knowledge throughout the group, Vodafone operates a system of employee exchange and transfers among the group's different subsidiaries and divisions.

Vodafone's high market capitalisation has provided a strong currency for mergers and acquisitions, both central to its expansion strategy. It's large size has also permitted the company to compensate losses in regions where companies are still in the investment phase of growth or where companies need to weather sluggish economic periods.

Vodafone has realised that the majority of the markets in which it operates are heavily saturated and that it must look elsewhere for future growth. It has therefore made strategic investments in emerging countries where it has, until now, maintained a very limited presence. A recent stake in China Mobile Limited has opened the door to further investments in this economy and the company is eyeing investments in India.

Business environment and other external drivers

Along with the US, the UK telecommunications market was among the first in the OECD to undergo deregulation. Competition in the UK market started about 10 years earlier than in its European neighbours. Vodafone initially enjoyed a degree of protection from competition as the UK government licensed only two operators, Cellnet and Vodafone. However, after the cancellation of this duopoly, two further licences were granted in the early 1990s. The move brought about a drop in prices and greater take-up in mobile telephony services.

Vodafone's acquisition of Mannesmann doubled the group's size. This move gave the group the critical mass that it needed in order to increase its international expansion and survive a series o investment-phase ventures. European Commission recognition of the need for scale was critical to Vodafone in this deal, despite the need to divest Orange.

ANNEX: SOURCES OF INFORMATION

This is not an exhaustive bibliography – but a list of readings selected for executive attention.
Internet links given are valid as of 15 February 2005

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[2] "The Principles of Creation of 'High-Quality Service Companies'. Management Reform That Centres on IT", OECD working document.

[3] The only exception to this was a communication with SAP to ascertain whether the company had benefited from any venture capital funding at its inception. The reply was negative.

[4] Profitability would also have been useful as a criterion. However, economic profitability is not easy to ascertain from a reading of balance sheets only and requires more in depth analysis. This has not been attempted, although most of the companies under review, if not all, have above sector-average profitability. Some are famous for their continuous profitability (Southwest Airlines). None is known as a heavy loss maker.

[5] The largest one, Wal-Mart, has not been included, as the experiences of Carrefour and Tesco are found to be more relevant to a consideration of policy factors.

[6] The nationality of modern multinationals is an attribute which cannot always be determined except in a purely legal sense. For instance, Accor as a parent company is headquartered in France and may indeed be considered as a 'French company' by many. However, not only that the company derives the majority of its revenues from outside of France, but also the majority of its shareholders are reported to be non-French. One could maintain that its management board includes a majority of French-sounding names. However, no attempt has been made to check the nationalities held by the board members.

[7] OECD (2004), Information Technology Outlook 2004, Table A.8., p. 313.

[8] Samuel Fromartz, "eBay's birth can be a start-up lesson", *Tech Update*, 12 August 2002, online, http://techupdate.zdnet.com/techupdate/stories/main/0%2C14179%2C2877058%2C00.html

[9] Confirmation of SAP via email communication from SAP's own venture capital department that finances technology ventures elsewhere.

[10] Sometimes this set of issues is captured under the term 'organisational change', which may be misleading to some. After all, it is not the 'change' part which is important, but getting the outcome right. For a discussion at the economy-wide level see, Marian Murphy, *Organisational Change and Firm Performance*, STI Working Papers 20002/14, OECD, Paris, 2002.(www.oecd.org/sti/)

[11] See Section 5 below regarding ongoing methodological work to improve the measurement of both R&D and innovation in services.

[12] For a thorough analysis of the Accor case, see, Betsy Gomez, Kristine Marshall, Bimal Patel, Parimal Patel, Holly Schiller and Amy Tam, undated (2003 or 2004), "Accor SA", Cornell University School of

Hotel Administration, Center for Hospitality Research: Case Studies. Online: http://www.hotelschool.cornell.edu/chr/research/casestudies/

[13] www.southwest.com.

[14] Beyster Institute, "Southwest Airlines", undated, Rady School, University of California at San Diego. Online: http://www.beysterinstitute.org/other_resources/InfoLibrary/200403261219PM.html. For more general overview of Southwest's firm organisation and labour-management relations, see Ulla K. Bunz and Jeanne D. Maes, "Learning excellence: Southwest Airlines' approach", *Managing Service Quality*, Volume 8 Number 3 1998 pp. 163-169, MCB University Press.

[15] Lowest contraction of workforce between 2003 and 2004 (3 percent) among the top 10 US airlines. Source: *2004 Fortune 500* online database.

[16] A recent article by Caroline Daniel in the *Financial Times* ("Delta flies in the face of tradition", Business Life section, page 8, 2 February 2005) discusses the difficult transformations underway in one of the 'legacy' carriers aimed to emulate some elements of the low cost business model. Qantas in Australia is a counterexample of 'legacy' carrier that has been fighting back the challenge of low-cost carriers with some success. See "Shares in Australian carrier Virgin Blue slump after profit warning", *The News/wire Stories*, www.afp.fr, 19 January 2005.

[17] See OECD, 2002, *Frascati Manual. Proposed Standard Practice for Surveys on Research and Experimental Development*, OECD, Paris, pp. 46-50.

[18] See OECD, European Commission, Eurostat, 1997, *Oslo Manual, The Measurement of Scientific and Technological Activities, Proposed Guidelines for Collecting and Interpreting Technological Innovation Data*, Chapter 1. http://www.oecd.org/dataoecd/35/61/2367580.pdf, section 3.1.

[19] For the Fedex case, see SRI International, undated, Global Impacts of Fedex in the New Economy, Chapter 5. Online: http://www.sri.com/policy/csted/reports/economics/fedex/chapter5.pdf.

[20] Quotation from an JetBlue Case Study published on the www.mbajungle.com. The image of the low-cost airline portrayed is valid for all of the case studies reviewed here.

[21] Transport Workers Union of America, Newsletter, 25 June 2004. Online: http://www.twu565.org/Urgent%20Updates/SWAAgreementStatement.pdf.

[22] Lott Steve, "Can Airlines Pin Their Woes on Labor Costs Alone?", *Aviation Daily*, 19 May 2004.

[23] Beyster Institute, *op. cit*., and Ulla K. Bunz and Jeanne D. Maes, *op. cit*.

[24] Lowest contraction of workforce between 2003 and 2004 (3 percent) among the top 10 US airlines. Source: 2004 Fortune 500 online database.

[25] Ulla K. Bunz and Jeanne D. Maes, *op. cit*. Also, use of single aircraft type reduces training costs substantially (Charles Boyd, Southwest Airlines Case Update, Southwest Missouri State University, undated (2002-2004), mimeo).

[26] Keli Flynn, "Southwest Airlines", in *The Handbook of Texas Online*, the Texas State Historical Association, online: http://www.tsha.utexas.edu/handbook/online/articles/view/SS/eps1.html

[27] Beyster Institute, "Southwest Airlines", undated, Rady School, University of California at San Diego. Online: http://www.beysterinstitute.org/other_resources/InfoLibrary/200403261219PM.html.

[28] For a detailed discussion, see P.K. Jagersma and Van Gorp D.M. (2004), "Competition in the Airline Industry", mimeo, Institute for Competition, Nyenrode University, Breukelen, The Netherlands.

[29] Beyster Institute, "The Culture of Employee Ownership at Southwest Airlines", undated, Rady School, University of California at San Diego, Online: http://beyster.ucsd.edu/other_resources/InfoLibrary/200408301004AM.html

[30] Many of the observations made regarding determinants EasyJet's of success would also be valid for other pioneers of low-cost air transport in Europe, such as Ryanair.

[31] For a discussion of innovation-competition linkage in retailing see Mark Harvey, "Innovation and Competition in UK Supermarkets", CRIC Briefing Paper, No. 3, Centre for Research on Innovation & Competition (CRIC), University of Manchester, June 1999, mimeo.

[32] Fortune 500 data distinguishes two sub-sectors: 'General Merchandisers' ($540B global revenues) which includes Wal-Mart, and 'Food and Drug Stores' ($721B global revenues) which includes Carrefour and Tesco. However, given the strong diversification of the latter two into non-food, which is part of their success stories, the two segments are taken together in the Table and analysis used here.

[33] Coriolis Research, Tesco: A Case Study in Supermarket Excellence, July 2004. Available online in www.coriolisresearch.com

[34] These success stories should be considered against the background of a number of well publicised failure stories in the last few years. These include the accounting scandals which affected the Netherlands-based Royal Ahold in 2002 and the recent troubles of the Germany-based KarstadtQuelle, both subject to international competition in the same markets as Carrefour and Tesco.

[35] Christopher Stoney, and Mark Robert, 2004, "The case for older workers at Tesco: An examination of attitudes, assumptions and attributes", Working Paper No. 53, School of Public Policy and Administration, Carleton University (Canada). Online: http://www.carleton.ca/spa/Publication/WP%2053%20Stoney.pdf .

[36] "Carrefour: les marchés craignent une baisse de l'activité en France", *Les Echos*, 11 January 2005. "Carrefour sees recovery signs at hypermarkets", *Financial Times*, 12 January 2005.

[37] The French Government has announced its intension to revise the Galland Act, and a new draft law on the Commercial Code is expected to be discussed in the French National Assembly in April 2005. (See *Les Echos*, 7-8 January 2005, p.1 and p.22.)

[38] For a more detailed discussion see Montserrat Martinez Resta and Faouzi Zréli, "Cas de Synthese : Carrefour", DESS-CAAE (Certificat d'Aptitude à l'Administration des Entreprises) Thesis, May 2002, mimeo.

[39] There are many references in the business literature to the impact of Wal-Mart on other retail companies. See for example a survey on the "Top 100 Global Retailers" carried out by PricewaterhouseCoopers in 2000: http://retailindustry.about.com/od/sales_retailers/a/bl_top100pcg.htm.

[40] French government investment vehicle Caisse des Dépôts et Consignations remains in control of 4.5 percent of Accor's shares and 4.2 percent of voting rights as of 31 December 2003.

[41] See, Betsy Gomez, Kristine Marshall, *et. al*., *op. cit*.

[42] 183rd in the full Fortune Global 500 list. Fortune analysts classify Amex in a sub-sector called 'diversified financials' where the company occupies fourth rank after General Electric and the mortgage companies Fannie Mae and Freddie Mac.

[43] For a more detailed analysis see Marcia Robinson and Ravi Kalakota, "American Express – Pioneering Captive Centers", *Offshore Outsourcing: Business Models, ROI, and Best Practices*, Mivar Press, 2004.

[44] Other synergies provided by the global headquarters include reinsurance cover, audit services, costs savings from grouping ICT or travel costs etc.

[45] For a detailed discussion of the tension between global vs. regional structures see Gérard de la Martinière, "The Complexity of Managing a Global Company: Regional Exposure vs. Global Exposure", *The Geneva Papers on Risk and Insurance,* Vol. 28, No.1, January 2003, pp. 87-93.

[46] John W. Barnum, 1998, "What Prompted Airline Deregulation 20 Years Ago? What Were the Objectives of That Deregulation and How Were They Achieved?", Presentation to the Aeronautical Law Committee of the Business Law Section of the International Bar Association at its Annual Meeting in Vancouver, B.C. on 15 September 1998, http://articles.corporate.findlaw.com/articles/file/00037/004355.

[47] Systems Analysis and Programme Development (a.k.a. SAP). Notwithstanding the ongoing controversy on whether software is a good or a service in the context international trade classification, SAP is included here as a service sector case study, given that software publishing, SAP's main activity is classified as a service in the International Standard Industrial Classification of All Economic Activities, Revision 3.1, (ISIC Rev. 3.1).

[48] Financial Times Global 500 online database. This ranking included Aol Time Warner – whose business is more in services than software – in the third rank. SAP also accomplished the largest jump in the same ranking between 2001 to 2002 (latest available year in FT500), rising from 310th to the 73rd position in one year, at a time generalised downturn in ICT industries.

[49] See OECD Information Technology Outlook 2004, Box 3.4, p. 130 for a description of ERP.

[50] See David Patterson, "Software Consolidation Is on Horizon", *Small Business Trends*, 18 June 2004, www.smallbusinesses.blogspot.com/archives/2004_06_01_smallbusinesses_archive.html, or "Germany: SAP boosts market share and forecasts growth", www.ebusinessforum.com, 2 February 2003.

[51] Oracle's acquisition of PeopleSoft has been confirmed at the time of the writing.

[52] Caveat: Largely negative net income since 2001 in a period of heavy investment.