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International Financial Linkages and Business Cycles in the European Area: from Business Economics a Theoretical Business Model to absorb the current crisis

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Summary: – Abstract. – 1. Introduction. – 2. The first lesson from the Past: the Kondratieff Long Wave Cycle (K-wave). – 3. The second lesson from the Past: Henry Ford's thought inside the "*ANIS-BE Model*". – 4. Cognitive & Neural Knowledge (X = CNK) oriented to capture the consumer behaviours. – 5. Glocal Strategies (J = CS). – 6. Instruments of Corporate Social (and/or Environmental) Responsibility (K = I-CSR). – 7. Conclusion. – 8 References.

Abstract

The Conference Theme - "*Business History: Celebrating the Past; The Future of the Past*" - attracts our attention to Business Cycles Theories: this paper investigates the following questions:
what kind of cyclical profile does the present crisis of the European Area have?
what must be done to restore profitability and durability to the Business System?
In both issues the paper tries to find a solution, looking at the Past: because often it is possible to discover in the Past what we need for today and tomorrow.
The first section of the paper is dedicated to defining the cyclical profile of the present crisis in the European Area.
The second section of the paper focuses on a Theoretical Business Model, a proposal from Business Economics to absorb the current crisis and to restore competitiveness, profitability and durability to the European Business System.

1 - Introduction

The greatest deficits offered by the European Business System, concern some important signals and the picture emerging from the projections contains a number of risks. On the external side, high and volatile oil prices and persistent global imbalances pose downside risks to growth. On the domestic side, there are uncertainties surrounding the evolution of consumption, while the very favourable financing conditions and the recovery in corporate earnings could lead to higher investment growth than currently projected [1].

As regards structural developments, the euro area has seen relatively low trend productivity growth since the mid-1990s. An analysis of the determinants of productivity shows that lower productivity growth in the euro area has been partly related to higher employment due to greater participation of lower-skilled labour.

Sustained wage moderation and some progress in labour market reforms aimed at increasing labour market participation appear to have partially shifted production towards a more intensive use of labour. There are also indications that the slower pace of productivity growth observed in the euro area since the mid-1990s reflects an insufficient use of new productivity-enhancing technologies. While productivity growth has increased in sectors that produce information and communication technologies or provide related services, it has declined in many other areas of the economy. This points to structural rigidities in the euro area that prevent or hinder the fast and effective dissemination of new technologies and improved production processes across the economy. Against this background, structural reforms that stimulate innovation, investment and productivity, and promote the use of new productivity-enhancing technologies are crucial. Stimulating product market competition, facilitating restructuring and improving human capital through adequate educational systems and "on-the-job" training are likely to speed up productivity gains from the use of new technologies.

Now looking at the Past - "The Future of the Past" - we must investigate the kind of cyclical profile that the present crisis of the European Area has. From the Past we find the first lesson on this macroeconomic issue in the Kondratieff Long Wave Cycle (K-wave): the following paragraph is dedicated to illustrating this Theory and to adapting it to the Present.

Subsequently we must research the ways to restore profitability and durability 2 to the European Business System: this is a microeconomic issue and also in this case it's necessary to look to the Past to find a solution and to adapt it to the Present. About this issue we can find a lesson from Henry Ford's entrepreneurial thought: the final section of the paper is dedicated to this thought, transferring it in a Business Model - "The ANIS-BE Model" – that links the instruments of Corporate Social Responsibility disclosure to the marketing strategies oriented to consumer behaviours, as are defined by the neural and cognitive sciences.

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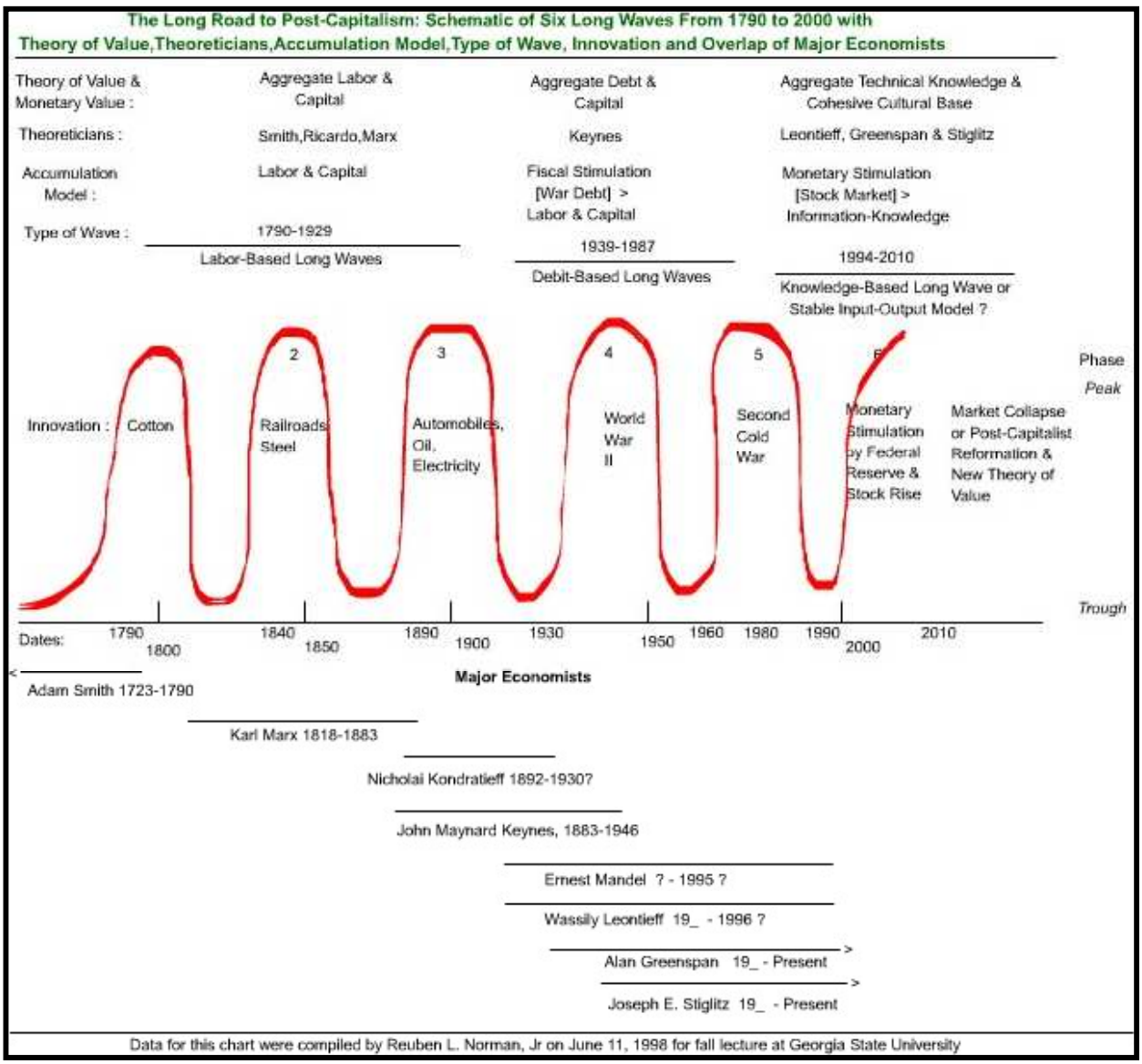
[1] Source: European Central Bank (ECB), (2005), *Monthly Bulletin*, March [5-7].

[2] The concepts of profitability and durability are clearly explained in the following publication: Ferrero, G. (1980), *Impresa e Management*, Milano, Giuffrè, [139-140].

2. - The first lesson from the Past: the Kondratieff Long Wave Cycle (K-wave)

In the Past many Economists studied the Economic Cycles [with reference to Figure n. 1], but I think that the Kondratieff thought is the closest to the present moment. The Kondratieff Long Wave Cycle (K-wave) was originally used to explain long wave economic cycles.

Fig. 1 – The Long Road to Post-Capitalism.



Kondratieff's major premise was that capitalist economies displayed long wave cycles of boom and bust ranging between 50-60 years in duration: this study covered the period 1789 to

1926 and was centred on prices and interest rates 3. Kondratieff (1892-1936) identified four distinct phases the economy goes through. They are a period of inflationary growth, followed by stagflation, then deflationary growth and finally depression.

Some characteristics are as follows [with reference to Figure n. 2]:

1. Inflationary Growth (expansion): - stable to slow rising prices, low commodity prices, low and stable interest rates, rising stock prices. The period might also be characterized by strong and growing corporate profits and technological innovations.
2. Stagflation (recession): - rising prices, rising commodity prices, rising interest rates, stagnant to falling stock prices. Stagnant profits, rising debt. This period usually sees a major war that contributes to commodity and price inflation and to the rising debt and misdirects business resources.
3. Deflationary Growth (plateau): - stable to falling prices, falling commodity prices, falling interest rates, sharply rising stock prices, profit growth but probably not as good as in the inflationary growth phase. Sharply rising debt. Possible period of considerable technological innovation. Excess debt contributes to speculative bubbles.
4. Depression (depression): - falling prices, rising commodity prices (particularly gold), stable interest rates, falling stock prices, falling profits, debt collapse. As the stock market collapses numerous scandals will emerge. A major war occurs that helps contribute to end of the depression phase and the start of the new expansion period.

With four distinct phases in the K-wave a number of analysts have compared them to the seasons 4:

1. Spring (inflationary growth, expansion),
2. summer (stagflation, recession),
3. autumn (deflationary growth, plateau),
4. winter (depression).

David Chapman' chart [with reference to Table n. 1] summarizes the generally accepted phases since 1784 in the United States. Chapman has noted the significant wars that accompanied the recession (price peak) and depression (trough) phase and he has also noted the tag name for the Autumn periods that were characterized by massive debt growth and speculative bubbles. We have entered the downside of the current K-wave. This wave could last anywhere from nine to twenty years as we saw in earlier winter K-waves.

The K-wave is the rise and fall of a generation and covers both the social and economic life of the period. The current winter K-wave is still young in the U.S. Area and also in the European Area and it'll get longer due to two causes: 1) the raw material shortages and their volatile prices

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[3] Kondratieff Wave concept is also clearly explained in the following publications:
- Kondratieff N.D. (1984), *The Long Wave Cycle*, New York, N.Y., Richardson & Snyder;
- Kondratieff N.D. (1935), *The Long Waves*, in *Economic Life, Review of Economic Statistics*, n.17, Nov, [6];
- Kondratieff N.D. (1926), *Die langen Wellen der Konjunktur*, in *Archiv für Sozialwissenschaft und Sozialpolitik*, n. 56, [573-609].

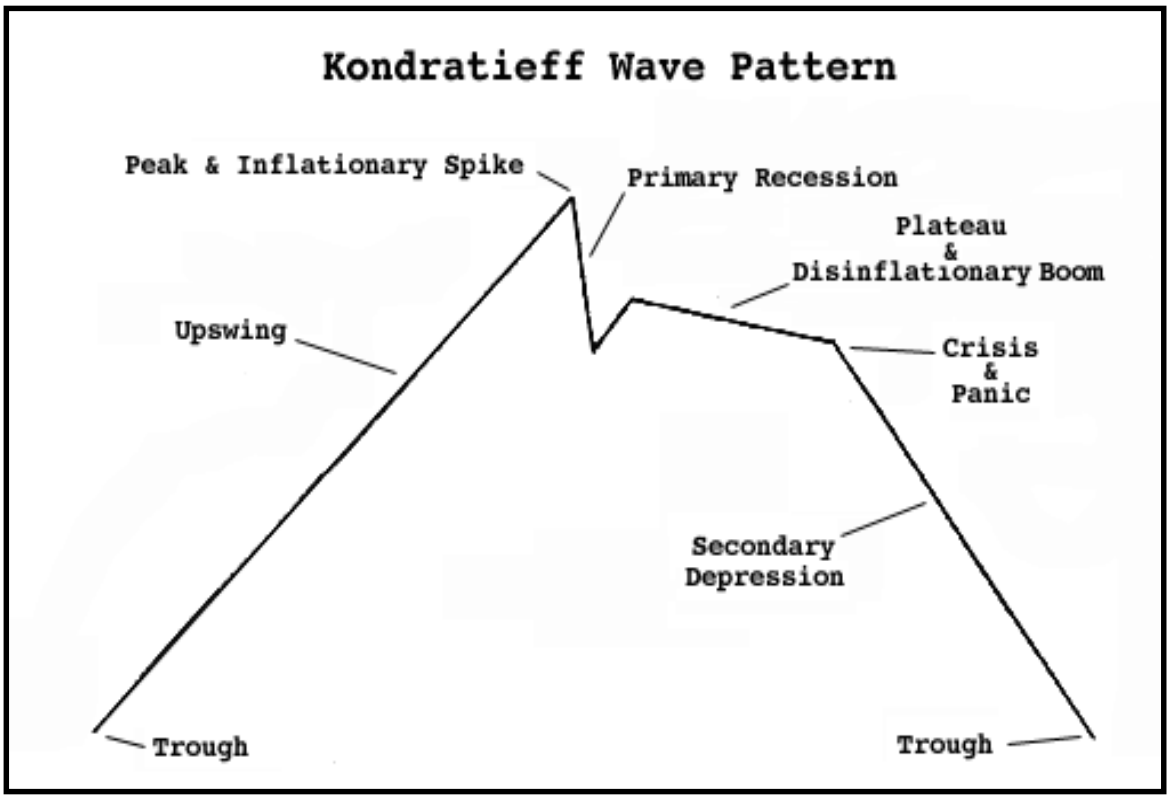
[4] Source: charts and technical commentary by David Chapman of Union Securities Ltd. 69 Yonge Street, Suite 600, Toronto, Ontario, Canada.

(oil, gas and coal for example); 2) the low European price competitiveness (compared to the Chinese one for example).

With regards to the first issue it is very difficult to make any predictions: probably in future years our life standards will change greatly. With regards to the second issue to reduce the winter K-wave it is necessary to hurry up the Asian development introducing Antidumping Duties (or Compensatory Duties).

An Antidumping Duty (or Compensatory Duty) is a duty assessed on imported merchandise that is subject to an antidumping duty order.

Fig. 2 – The Kondratieff Long Wave Cycle (K-wave).



The Antidumping Duty is assessed on an entry-by-entry basis in an amount equal to the difference between the European price of that entry and the foreign market value of such or similar merchandise at the time the merchandise was sold to the European Area.

To explain the Antidumping Duties (or Compensatory Duties), we can use the following formula for a hypothetic "n period":

$$\alpha_n = \varphi_n - \mu_{n(e)}$$

Tab. 1 – David Chapman' chart that summarizes the generally accepted phases The Kondratieff Long Wave Cycle (K-wave) since 1784 in the United States.

Spring (expansion)	Summer (recession)	Autumn (plateau)	Winter (depression)
1784-1800	1800-1816 (War of 1812)	1816-1835 ("Era of Good Feelings")	1835-1844 (Mexican American War)
1845-1858	1859-1864 (American Civil War)	1864-1874 ("Reconstruction)	1875-1896 (Spanish American War)
1896-1907	1907-1920 (World War 1)	1920-1929 ("Roaring 20's")	1929-1949 (World War 2)
1949-1966	1966-1982 (Vietnam War)	1982-2000 ("New World Order")	2000-? (War on Terror? Or?)

Where:

α_n = Antidumping Duties (or Compensatory Duties) due;

φ_n = Imported good price;

$\mu_{n(e)}$ = Estimated European good price.

For a hypothetic "n period" the estimated European good price - (m n(e)) - is calculated in the following way:

$$\mu_{n(e)} = \frac{\sum_{c=1}^{K} \left(x_{c/(n-1)} * (1 + q_{n(e)})\right) * \left(w_{c/(n-1)} * (1 + i_{n(e)})\right)}{\sum_{c=1}^{K} \left(w_{c/(n-1)} * (1 + i_{n(e)})\right)}$$

where:

- c = EU Countries;
- $X_{c/(n-1)}$ = Real Production for similar merchandise in a hypothetic "n-1 period";
- $q_{n(e)}$ = Estimated Production Growth Rate for similar merchandise in a hypothetic "n period";
- $w_{c/(n-1)}$ = Real Price for similar merchandise in a hypothetic "n-1 period";
- $i_{n(e)}$ = Estimated Inflation Growth Rate in a hypothetic "n period".

This configuration of duty (as weighted average) involves several advantages, such as for example:

- it is an only rate determinated by an EU Authority (an impartial subject);
- it is a measure of sterilization because it reduces the indirect exchange;
- it is an inequality of prices inside the EU Countries;
- it is an inequality of prices outside the EU Countries.

The European Commission has collected information on the trend of imports of certain textile products originating in the People's Republic of China (PRC).

The following import growths have been recorded during the first quarter of 2005 when compared with the same period of 2004 chart [with reference to Table n. 2]: 164 % (Product category 4); 534 % (Product category 5); 413 % (Product category 6); 186 % (Product category 7); 183 % (Product category 12); 139 % (Product category 15); 63 % (Product category 31); 51 % (Product category 115); 257 % (Product category 117).

In April the European Commission published a document (Notice of Initiation of a safeguard investigation concerning imports of certain textile products originating in the People's Republic of China - Official Journal of the European Union - 29.4.2005 - (2005/C 104/07)) that appear to call for the opening of an investigation into whether to invoke the textile specific safeguard provisions concerning products originating in the People's Republic of China (PRC) pursuant to Article 10a of Council Regulation (EEC) No 3030/93.

This document indicates that the duties season is in the early stages.

3. - The second lesson from the Past: Henry Ford's thought inside the "ANIS-BE Model"

Subsequently we must research the ways to restore profitability and durability to the European Business System: this is a microeconomic issue and also in this case it's necessary to look to the Past to find a solution and to adapt it to the Present.

Tab. 2 – Product categories concerned by the European Commission investigation

Product Category	Product Group	CN Codes
4	Shirts, T-shirts, lightweight fine knit roll, polo or turtle necked jumpers and pullovers (other than of wool or fine animal hair), undervests and the like,knitted or crocheted	6105 10 00, 6105 20 10, 6105 20 90, 6105 90 10, 6109 10 00, 6109 90 10, 6109 90 30, 6110 20 10, 6110 30 10
5	Jerseys, pullovers, slip-overs, waistcoats, twinsets, cardigans, bed-jackets and jumpers (others than jackets and blazers), anoraks, wind-cheaters, waister jackets and the like, knitted or crocheted	6101 10 90, 6101 20 90, 6101 30 90, 6102 10 90, 6102 20 90, 6102 30 90, 6110 11 10, 6110 11 30, 6110 11 90, 6110 12 10, 6110 12 90, 6110 19 10, 6110 19 90, 6110 20 91, 6110 20 99, 6110 30 91, 6110 30 99
6	Men's or boys' woven breeches, shorts other than swimwear and trousers (including slacks); women's or girls' woven trousers and slacks, of wool, of cotton or of man made fibres; lower parts of track suits with lining, others than category 16 or 29, of cotton or of man-made fibres.	6203 41 10, 6203 41 90, 6203 42 31, 6203 42 33, 6203 42 35, 6203 42 90, 6203 43 19, 6203 43 90, 6203 49 19, 6203 49 50, 6204 61 10, 6204 62 31, 6204 62 33, 6204 62 39, 6204 63 18, 6204 69 18, 6211 32 42, 6211 33 42, 6211 42 42, 6211 43 42
7	Women's or girls' blouses, shirts and shirt-blouses, whether or not knitted or rocheted, of wool, of cotton or man-made fibres	6106 10 00, 6106 20 00, 6106 90 10, 6206 20 00, 6206 30 00, 6206 40 00
12	Panty-hose and tights, stockings, understockings, socks, anklesocks, sockettes and the like, knitted or crocheted, other than for babies, including stockings for varicose veins, other than products of category 70	6115 12 00, 6115 19 00, 6115 20 11, 6115 20 90, 6115 91 00, 6115 92 00, 6115 93 10, 6115 93 30, 6115 93 99, 6115 99 00
15	Women's or girls' woven overcoats, raincoats and other coats, cloaks and capes; jackets and blazers, of wool, of cotton or of man-made textile fibres (other than parkas) (of category 21)	6202 11 00, ex 6202 12 10, ex 6202 12 90, ex 6202 13 10, ex 6202 13 90, 6204 31 00, 6204 32 90, 6204 33 90, 6204 39 19, 6210 30 00
31	Brassières, woven, knitted or crocheted	ex 6212 10 10, 6212 10 90
115	Flax or ramie yarn	5306 10 10, 5306 10 30, 5306 10 50, 5306 10 90, 5306 20 10, 5306 20 90, 5308 90 12, 5308 90 19
117	Woven fabrics of flax or of ramie	5309 11 10, 5309 11 90, 5309 19 00, 5309 21 10, 5309 21 90, 5309 29 00, 5311 00 10, 5803 90 90, 5905 00 30

About this issue we can find a lesson from Henry Ford's entrepreneurial thought. With regards to the Model T (Ford Car) H. Ford said: "(…) Let the customer have the car in any colour he wants, (…) so long as it's black.". The Model T was the ninth model made by Ford industries.

It was first marketed in October 1908 and the company dominated sales for the next eighteen years. Because of his development of the assembly line used to mass produce automobiles, Ford sold more than one half of the cars in the industry in 1918-1919 and 1921-1925. The Model T, or Tin Lizzie, was a hard working, sturdy, commonplace car. Ford's dream had come true and he said: "(…) I will build a motor car for the great multitude, constructed of the best materials, by the best men to be hired, after the simplest designs that modern engineering can devise, so low in price that no man making a good salary will be unable to own one and enjoy with his family the blessing of hours of pleasure in God's great open spaces. (…)". The first production Model T Ford was assembled at the Piquette Avenue Plant in Detroit on October 1, 1908. Over the next 19 years, Ford would build 15,000,000 automobiles with the Model "T" engine, the longest run of any single model apart from the Volkswagen Beetle. From 1908-1927, the Model T was produced with little change in its design. Henry Ford had succeeded in his quest to build a car for the masses. Ford's business idea was a car strongly oriented to consumer behaviours, an advanced and identified economic good.

Now it is possible to develop Henry Ford's entrepreneurial thought in a Theoretical Business Model - "The ANIS-BE Model - (The Advanced Neural Identified Social - Business Enterprise Model)" - that links the instruments of Corporate Social Responsibility disclosure, to the marketing strategies oriented to consumer behaviours, as are defined by the Neural and Cognitive sciences.

The architecture of the Model identifies the Structure of the Excellent Business Enterprises (S-EBE, as Y = dependent variable), in function of the following variables: a) Cognitive & Neural Knowledge oriented to capture the consumer behaviours (CNK, as X = independent variable); b) Glocal Strategies (GS, as J = independent variable); c) Instruments of Corporate Social (and/or Environmental) Responsibility (I-CSR, as K = independent variable). So these relations may be presented, by an ideal function as [with reference to Figure n. 3]:

Y = f (X, J, K,), where Y in the Structure of the Excellent Business Enterprises (S-EBE) and it depends on: X = Cognitive & Neural Knowledge (CNK); J = Glocal Strategies (GS) and K= Instruments of Corporate Social (and/or Environmental) Responsibility (I-CSR).

These profiles are analyzed in the following paragraphs.

4. - Cognitive & Neural Knowledge (X = CNK) oriented to capture the consumer behaviours

The main problem about the present European Business System, concerns the marketing strategies: in several cases the consumer has difficulty to identify the enterprise and their products.

This happens for several reasons, for example: often the price/quality ratio is not competitive; there is no continuity between the different goods: they are too different from each other; wrong advertising campaigns that don't capture the consumer sentiment; the multi-brand strategy has several limits; etc..

A right brand strategy must restore identity to the enterprises and to their products, in one direction: capturing the consumer sentiment. To build the competitive advantage we have to invest more resources in Research & Development expenditure, modelling an elastic enterprise by a neural network.

A neural network is a complex nonlinear modelling technique based on a model of a human neuron. Neural and cognitive applications influence: a) the Information System and Marketing Areas directly; b) all the other Corporate Areas indirectly.

This criteria regards Business Economics, that study the Structure of the enterprises (S-EBE) in a Systemic Approach [5] [with reference to Figure n. 4].

This approach identifies the following Corporate Functional Areas in the Structure of the enterprises: a) the Core Functional Areas: Research & Development Area; Marketing Area and Production & Logistic Area; b) the Integrative Functional Areas: Finance Area, Organization & Behaviour Area, Strategic Planning Area and Information System Area.

Before we have explained that the Neural and Cognitive applications influence: a) the Information System and Marketing Areas directly; b) all the other Corporate Areas indirectly.

In the Marketing Area, the neural and cognitive applications allow to orient the Corporate System to the consumer behaviours: so it is necessary to realize a Cognitive & Neural knowledge (CNK) oriented to capture the consumer behaviours.

We'll investigate, with your synergic contribution in order to answer the following question: what is the decision making model within consumer's behaviours? To answer this question we can use some recent theories, such as: The Expected Value Theory; The Adaptive Unconscious Theory; The Paradox of Choice Theory; The Left Brain Marketing Theory; etc..

Although mathematical approaches to decision-making propose different formulae to identify the response a subject should choose under a given set of conditions, nearly all theories require the decision-maker to have some knowledge of two environmental variables [6]: a) the gain expected to result from an action; b) and the probability that the expected gain will be realized.

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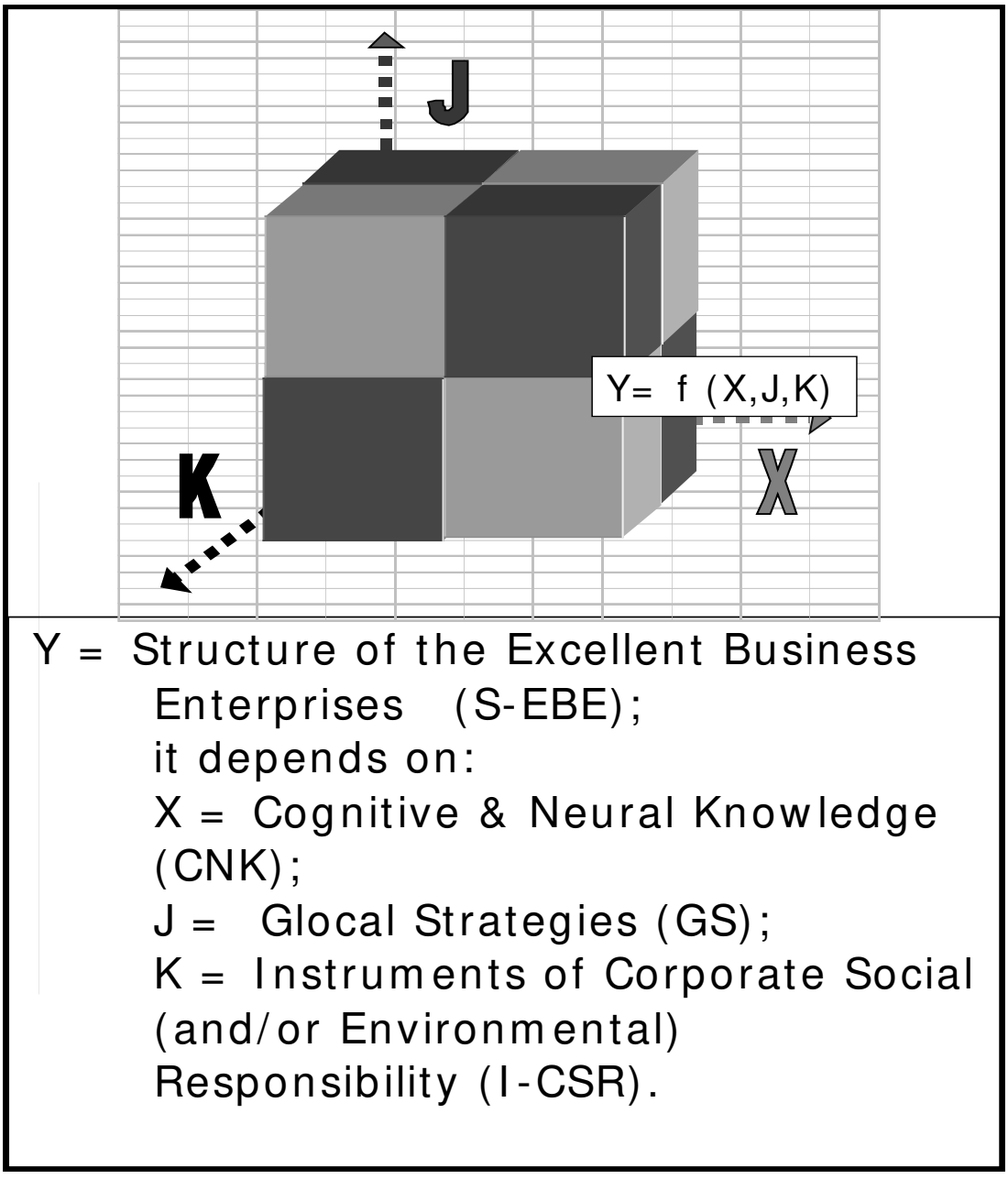
[5] The Systemic Approach is clearly explained in the following publication: Ferrero, G. (1980). *Impresa e Management*, Milano, Giuffrè, [139-140].

[6] Ref.: Platt M. L., & Glimcher P. W., (1999), *Neural correlates of decision variables in parietal cortex*, in *Nature*, Vol. 400, [233-238]. Others contributions on this subject are: Shadlen N., & Newsome T. (1996), *Motion perception: seeing and deciding*, in *Proceedings of the National Academy of Sciences*, Vol. 93, [628-633]; Shadlen N. & Others Authors (1996), *A computational analysis of the relationship between neuronal and behavioural responses to visual motion*, in *Journal of Neurosciences*, Vol. 16, pp. [1.486-1.515].

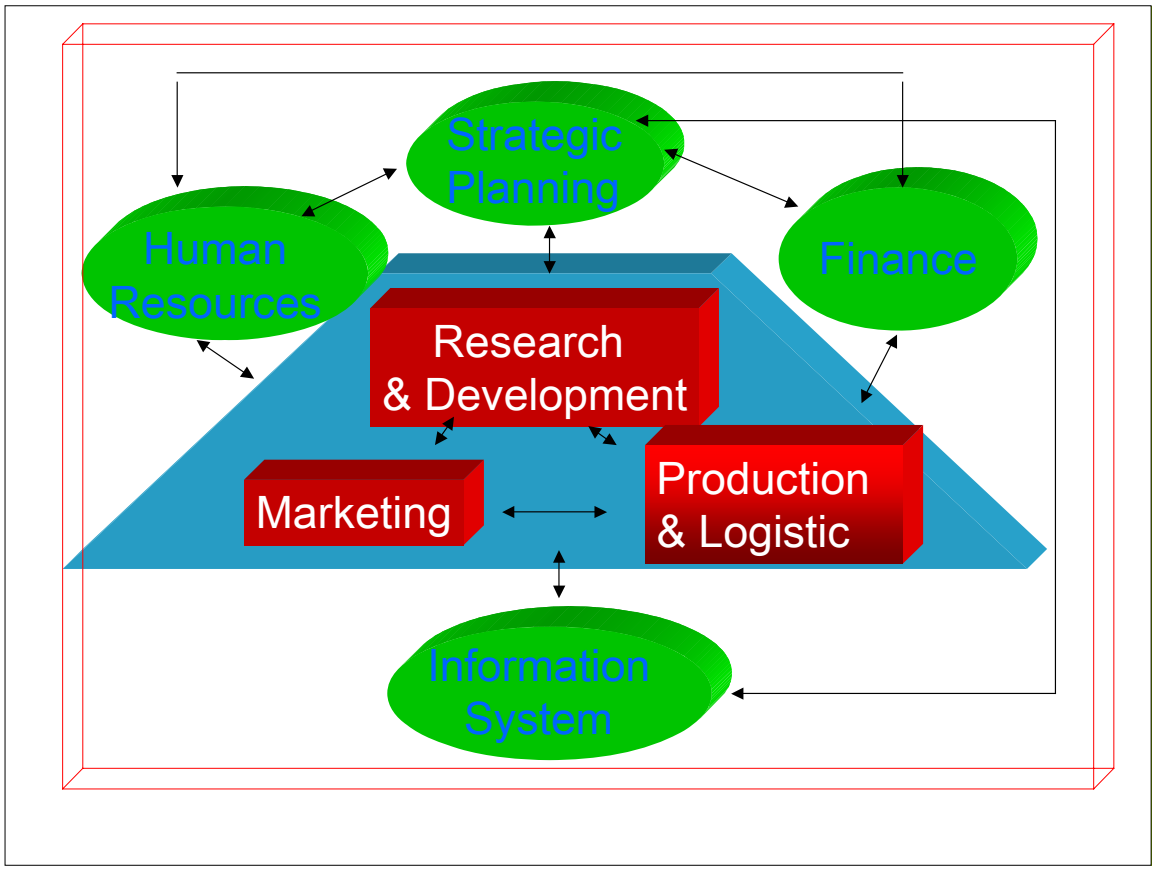
Fig. 3 - Structure of the Excellent Business Enterprises



The expected value theory of Arnaud and Nichole 7 proposes that a rational decision-maker should multiply expected gain by the probability of gain to establish an expected value for each course of action, and then should choose the option with the highest expected value.

7 Ref.: Arnauld, A. & Nichole, P. (1982), *The Art of Thinking: Port-Royal Logic* (transl. Dickoff, J. & James, P.), Indianapolis, Bobbs-Merrill.

Fig. 4 – Structure of the Enterprises in a Systemic Approach



Although subsequent theorists have proposed different mathematical combinatorial rules that provide more accurate models of the decision-making process, knowledge of the gain expected from a response and the probability of realizing that gain is still considered to be critical to the computation of rational choice. Several marketing strategies are wrong because they don't investigate sufficiently inside the consumer's adaptive unconscious .

The adaptive unconscious that empirical psychology has revealed, and that Wilson describes 8, is much more than a repository of primitive drives and conflict-ridden memories. It is a set of pervasive, sophisticated mental processes that size up our worlds, set goals, and initiate action, all while we are consciously thinking about something else.

If we don't know ourselves - our potentials, feelings, or motives - it is most often, Wilson tells us, because we have developed a plausible story about ourselves that is out of touch with our

8 Ref.: Wilson, T. D. (2002), *Strangers to ourselves: Discovering the adaptive unconscious*, Cambridge, MA, Harvard University Press.

adaptive unconscious. Citing evidence that too much introspection can actually do damage, Wilson makes the case for better ways of discovering our unconscious selves. If we want to know who we are or what we feel or what we're like, Wilson advises, pay attention to what we actually do and what other people think about us.

Showing us an unconscious more powerful than Freud's, and even more pervasive in our daily life, Strangers to Ourselves marks a revolution in how we know ourselves. But, can the Business Enterprises produce the goods or the services really desired by the consumers? The consumer behaviours are defined by the neural and cognitive sciences that are currently being researched.

In the Paradox of Choice [9], Barry Schwartz explains at what point choice - the hallmark of individual freedom and self-determination that we so cherish - becomes detrimental to our psychological and emotional well-being. Schwartz shows how the dramatic explosion in choice - from the mundane to the profound challenges of balancing career, family, and individual needs - has paradoxically become a problem instead of a solution.

By synthesizing current research in the social sciences, Schwartz makes the counter intuitive case that eliminating choices can greatly reduce the stress, anxiety, and busyness of our lives. He offers eleven practical steps on how to limit choices to a manageable number, have the discipline to focus on those that are important and ignore the rest, and ultimately derive greater satisfaction from the choices you have to make.

A correct framework to orient Business Enterprises to consumer behaviour is realized by the Left Brain Marketing [10]. Following this marketing philosophy three technology trends - media fragmentation, addressability, and interactivity - are converging on the world of marketing and advertising. The left brain is considered analytic in approach while the right is described as holistic or global. A successive processor (left brain) prefers to learn in a step-by-step sequential format, beginning with details leading to a conceptual understanding of a skill. A simultaneous processor (right brain) prefers to learn beginning with the general concept and then going on to specifics.

Schmitt points out that Teradata's philosophy of collecting as much data as possible in one place (thus creating a single, compelling view of that information) makes it better suited than competing systems for gathering and analyzing massive amounts of customer data. In a new era

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[9] Ref.: Schwartz B. (2004), *The Paradox of Choice: Why More is Less*, New York, N.Y., Ecco/HarperCollins Publisher.
The concept is also clearly explained in the following publications: Schwartz B. & Others Authors (2002), *Maximizing versus Satisfying: Happiness is a Matter of Choice*, in *Journal of Personality and Social Psychology*, Vol. 83, n.5, [1.178-1.197]; Kahneman D., & Tversky A. (1984), *Choices, Value, and Frames*, in *American Psycholigist*, Vol. 39, [341-350]; Lane R. E. (2001), *The Loss of Happiness in Market Democracies*, Yale, Yale University Press.

[10] Ref.: Schmitt E. (2004), *Left Brain Marketing*, Cambridge, Mass., Forrester. See also: Maddock R. C., & Fulton R. L. (1996), *Marketing to the mind: right brain strategies for advertising and marketing*, Westport, Conn, Quorum Books.

of Left Brain Marketing, analytical strategies grounded in deep audience knowledge will rise to predominance: creativity will remain essential but will play a smaller, more sophisticated role: the looming transformation of TV into an addressable medium marks the inflection point in the shift.

5. - Glocal Strategies (J = CS)

Even if every case study presents its own characteristics, in general terms, it is possible to say that the European Corporate System must realize targeted glocal strategies 11, in the following directions: a) to delocalize some of the Corporate Functional Areas, when the competitive gap between the European Area and the other Areas is too large; b) to develop, to reinvent, to reengineer the Corporate Functional Areas, when the competitive gap does not exist, or if it exists, is not too large.

The Corporate System must realize targeted strategies that can concern the localization (or the delocalization) about entire enterprises (for example in the consolidated groups), or - in a single enterprise - about: a) some Business Units (this situation concerns the multi-product enterprise); b) some Business Processes [meaning as Business Process, a group of logically related activities that use the resources of the organization to provide defined results in support of the organization's objectives]; c) some Corporate Functional Areas. Developing, reinventing, reengineering the corporate functional areas - where a competitive advantage may be present - means to operate, usually, on the following Core Functional Areas: a) Research & Development Area; b) Marketing Area. The Research & Development processes are closely linked to those of Production & Logistics. The Research & Development Area influences the Area of Production & Logistics: the Research & Development expenditure improves the Production & Logistic Area in the ways of competitiveness and productivity. It's necessary to comment on the trade-off between Research & Development expenditure and GDP growth: the Nations where Research & Development expenditure goes up have the best GDP growth: the European Area spent nearly 2% of GDP on Research and Development (Italy only 1%) and the European Research & Development expenditure remains behind the United States and Japan 3%.

A practical point of view to measure the competitive advantage is offered by the ROA ratio and their factors (ROS and TURNOVER): ROA = Return On Assets = (NET INCOME / ASSETS). The ROS ratio reports entrepreneurial policies based on Margin, while TURNOVER ratio reports entrepreneurial policies based on Volumes. Observing the trend of the two ROA factors (ROS and TURNOVER), it is possible to say that: there is high competitiveness when both ratios go up; there is no competitiveness when both ratios go down; there is low competitiveness when a ratio goes up, while the other goes up. By this simple way it is possible: a) to measure the competitive advantage; b) to know when the Business System must: delocalize

[11] About these themes I remark the following Roland Robertson's research: Robertson R., White K. (2003), *Globalization: Critical Concepts in Sociology*, London, Routledge.

some of the Corporate Functional Areas (if the competitive gap between the European Area and the other Areas is too large); develop, reinvent, reengineer the Corporate Functional Areas (if the competitive gap does not exist, or if it exists, is not too large).

6. - Instruments of Corporate Social (and/or Environmental) Responsibility (K = I-CSR)

To strengthen the Cognitive & Neural knowledge (CNK) oriented to capture the consumer behaviours (presented in the previous pages), it is very important to link the Business strategies to the instruments of Corporate Social/Environmental Responsibility: they too are Instruments oriented to capture consumer behaviour.

In the wake of worldwide financial and ethical business scandals (for example the Italian cases of PARMALAT, CIRIO, FOOTBALL CLUBS, etc.) and a corresponding breakdown of public trust in commercial organizations, Corporate Governance has become a hot topic in both research and business practice around the world. In order to restore the trust relationship that links the community to the Corporate System, it is necessary to develop the instruments of the Corporate Social/Environmental Responsibility (I-CSR). The instruments to achieve the Corporate Social/Environmental Responsibility Model, can be classified into three main groups: a) actions with main impact on the internal governance; b) actions with main impact on the external governance; c) actions with bivalent impact on the internal and external governance.

a) The actions with main impact on the internal governance of the Corporate System, are: expression of the ethical view of the enterprise (or mission); promulgation of the ethical code from an ethical committee; creation of an internal ethical audit, presided over by an ethical officer; realization of activities concerning ethical training.

b) The actions with main impact on the external governance of the Corporate System, are: Instruments of Ethical-Social Reporting; Social and Environmental Accountability and Auditing. Instruments of Ethical-Social Reporting. Ethical-social reporting uses some instruments of different kinds: final reporting such as, for example, the Corporate Social Responsibility Report, or the Environmental Balance (or Eco-balance); preventative reporting such as, for example, the Sustainable Development Report. Social and Environmental Accountability and Auditing. As far as Social and Environmental Accountability is concerned there are different kinds of documents, such as, for example: SA8000 (Social Accountability 8000), ISO14000, etc..

c) The actions with bivalent impact on the internal and external governance are the e-Business processes. The concept of e-Business is referred to the use of modern Information and Communication Technologies (ICT) linked to the development of electronics and the Internet in the modernization process of the Entrepreneurial System. The different processes of e-Business may be analyzed with reference to the various models, that the enterprise may adopt during the modernization process of the structure (using digital technologies to interact with customers, suppliers, employees, partners, competitors, and other stakeholders). The different e-Business

models are 12: the B2C model (Business to Consumers model), the G2B model (Government to Business model), the B2G model (Business to Government model), the B2E model (Business to Employees model), and, finally, the B2B model (Business to Business model). The development of the e-Business processes (conditioning processes or causes) determines an improvement in the governance processes of the Entrepreneurial System that - using highly technological solutions - are named e-governance processes (conditioned processes or effects). Consequently, e-governance is the second aspect of technological innovation applied to Corporate Governance processes: that is to say the possibilities for the improvement of the democratic participation processes offered by the new technologies.

These e-governance processes include the direct participation of the employees to the internal decision of the enterprises: these processes influence internal governance with activities, for example, of internal electronic polls (e-decision).

7. - Conclusion

About the Conference Theme - "Business History: Celebrating the Past; The Future of the Past" - this paper has investigated the following questions: what kind of cyclical profile does the present crisis of the European Area have? What must be done to restore profitability and durability to the Business System?

We have found two lessons from the Past: the Kondratieff Long Wave Cycle (K-wave); and Henry Ford's entrepreneurial thought. Now the Future will tell us if we are right or not.

[12] The different e-Business models are clearly explained in the following publication: Pollifroni M. (2003), *Processi e Modelli di e-Government e di e-Governance applicati all'Azienda Pubblica*, Milano, Giuffrè.

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