

‘e-Business Implications for Productivity and Competitiveness’

The Annual *e-Business W@tch* Event, Brussels, 07.07.2004

Welcome address by **Pedro Ortún**, Director, European Commission, DG Enterprise

Ladies and gentlemen,

Good morning and welcome to the Annual Event of the Commission’s *e-Business W@tch*. It is a great pleasure for me to be here today to open this event, exactly one year after launching the 2nd period of this initiative.

During this year, the *e-Business W@tch* has proved to be a vibrant, dynamic initiative. It has already delivered a new set of reports on e-business developments in 10 different sectors of the enlarged European Union. The Pocket Book with the latest statistical data is available to you at the registration desk. Experts from different sectors, regions and fields have been called to discuss these developments in workshops held in various cities across Europe. The upgraded website is a vital platform not only for up to date information but also for dialogue between all interested stakeholders. The 2nd set of 10 sectoral reports, the 2004 annual summary report and the CD with all the statistical and analytical information of the last 3 years of operation will also be available soon.

As most of you are probably aware, the identifying feature of the *e-Business W@tch* since its beginning has been the sectoral perspective and approach. In contrast to practically every other similar initiative, not only in Europe but on an international scale, the *e-Business W@tch* focuses its statistics and analysis on sectors and not on countries. Based on these statistics, the *e-Business W@tch* analyses the implications of ICT usage and electronic business for enterprises and their competitiveness.

In this sense, the *e-Business W@tch* has proven to be fully in line with the latest developments in the EU industrial policy. Indeed, according to the recent Communication on how to facilitate the process of structural changes in the enlarged European Union¹, the most important factors are the increase of our policies' impact on industrial competitiveness and the strengthening of the sectoral dimension of industrial policy, along with the improvement of our approach to regulation.

Four years ago, the Lisbon strategy was setting the ultimate goal of creating more jobs and wealth in the Union. The competitiveness of European companies has since been placed at the centre of this strategy. It is true that our objectives have not been met so far. Consequently, more efforts are needed to improve the efficiency of business processes in European enterprises. Companies operating in a global economy are under continuous competitive pressure which forces them to search for opportunities to reduce costs and to improve their performance both internally and with their trading partners along the value chain.

Information and Communication Technologies (ICT) and the efficient use of e-business applications are key factors in this respect. But investing only in technology is not enough. At about the same time that the Lisbon strategy was set, it seemed that a "new economy" revolution was about to take place. We now know that this is no longer the case. However, it is certain that ICT and electronic business do matter – today perhaps more than ever.

As the adoption of ICT and the maturity of their application increases across sectors and regions, a new picture is emerging. To paraphrase the title of Nicholas Carr's well-known article in Harvard Business Review, this is the picture of an economy where, if it's not IT itself that matters, it is the digital integration of business processes – within and between enterprises.

¹ 'Fostering Structural Change: An Industrial Policy for an Enlarged Europe', COM(2004)274 final, Brussels, 20.4.2004.

In other words, e-business has become one of the most important opportunities and drivers to increase companies' competitiveness.

According to the *e-Business W@tch*, the up-take of electronic business among enterprises in the EU is developing steadily. Using PCs and accessing the Internet is common practice for almost every European firm. The number of companies with broadband connections of more than 2 Mbit/s, is rapidly increasing. Admittedly, the percentage of enterprises that sell on-line has not exceeded single digit figures. Moreover, there are still many, notably smaller and medium ones, which do not adopt more sophisticated applications like Enterprise Resource Planning and Supply Chain Management systems. However, high cost systems like these seem to be better addressed to a few large firms than to the large volume of small, medium and micro enterprises.

On the other hand, purchasing online is gaining momentum in particular when it comes to standardised maintenance, repair and operations goods. A similar, positive trend is also observed in using on-line technologies to collaborate with business partners, to communicate and exchange documents with suppliers and even for integrating the front with the back-end systems. Most importantly, however, the overall attitude towards e-business remains positive. Indeed, European companies consider that e-business has had a positive effect on at least some of the way they operate.

Such a seemingly conservative, but by no means negative, behaviour of European enterprises reflects a more rational and mature attitude towards ICT and e-business. It is becoming increasingly apparent that not all technological solutions lead to equally important efficiency gains. Companies are, therefore, becoming more selective. They follow a more cautious approach than in the past, carefully measuring the costs, the benefits and the returns on their investments in information technology systems.

In fact, a recent Economist Intelligence Unit report on "Europe's productivity challenge" concludes that we now stand at a technology crossroads. As the authors claim, the challenge is not about adopting new, revolutionary technologies. This time, the challenge is whether Europe can turn its substantial investments in ICT into greater productivity and economic gains. The study observes a gap between the United States and Europe when it comes to exploiting the productivity impacts of ICT. It suggests that technology can have a positive impact on productivity and GDP per capita growth only after a minimum threshold of ICT development is reached. In other words, ICT penetration and usage need to attain a critical mass before making a significant impact on a country's economy. The question then arises, whether the European economy has reached this critical mass. Maybe some national economies are closer than others. Maybe some sectors have reached this critical mass, while others still have not.

The *e-Business W@tch* results have clearly shown that it is the size of a firm and the sector in which it is active that mainly determine its e-business involvement. This does not, of course, mean that the much discussed differences between countries or regions are not important. It should simply be interpreted that in the world of business these differences are much less pronounced than among households. This has, for example, been confirmed by the recent data on ICT usage by companies in the New Member States. The gap between them and firms in the previously 15 EU Member States showed as narrower than originally feared.

The *e-Business W@tch* has helped us to confirm that in improving European companies' competitiveness, sectors matter: Manufacturing companies have different priorities than those in service sectors, and small enterprises need other solutions than the large ones. Companies from the automotive or the electronics and electrical machinery sectors, for example, have a strong focus on improving the efficiency of their supply chain processes. Enterprises in consumer-oriented service sectors, like tourism or retail, are focusing more on customer-facing

business functions. Tourism, for instance, comes up as a leading sector in marketing and selling online, but internal and supplier-oriented solutions seem to be less diffused.

Later this morning, you will be presented with the impacts of ICT on four of the sectors studied by the *e-Business W@tch*: The chemical industry, the automotive industry, the textile and clothing industry, and the retail sector, which together provide jobs for more than 20 million people in Europe. You will be able to discuss with the authors of these studies whether the critical threshold of ICT penetration has been reached in these sectors. And if not, what needs to be done in this respect.

During its three years of operation, the *e-Business W@tch* has allowed us to improve our understanding of the implications, opportunities and risks of doing business electronically in the enlarged single European market. The quality of its results and their analysis have been acknowledged both within the Commission, for example in last year's Competitiveness Report, and in well-known external publications like the EITO Yearbook 2003 and the OECD 'IT Outlook 2004'. By providing good and timely information on e-business developments across different sectors of the European economy, the *e-Business W@tch* is allowing us to prepare for better, more effective and targeted policies in this area, because:

Firstly, we understand the state of play about the adoption of e-business and ICT much more clearly than we did just a few years ago. By improving the analysis of the current situation, policy responses can be based on a sounder foundation;

Secondly, we also understand more clearly the challenges faced by companies in their efforts to participate in the digital economy and the obstacles faced by SMEs in particular;

Using this background, we have developed a comprehensive policy framework, defined in last year's Communication on "Adapting e-business policies in a changing environment" - which still fully applies. We have established the e-Business Support Network (the eBSN) as a forum

of open dialogue and good-practice exchange between more than 150 policy-makers from all over Europe. This has allowed us to identify and build upon the multitude of e-business related policy actions implemented in different Member States. In fact, one of the most successful examples of joint efforts initiated under the eBSN is the co-operation of Slovenia with Finland in the area of e-invoicing. Professor Gricar, who is one of the panellists today, could provide more detail on this issue during his presentation. To foster this kind of co-operation the Commission recently launched a 'twinning campaign', where eBSN members from different Member States or regions will jointly test whether good practices applied in one of them could be transferred to the other.

Another dimension of our policy framework concerns the still remaining legal barriers for enterprises doing business electronically in Europe. We conducted an on-line consultation on "Legal problems for enterprises doing e-business". The analysis of the responses suggests that the European legal framework is not a major barrier for European companies doing business electronically. However, about a third of those who responded indicated that they had experienced legal problems, mainly concerning the conclusion of contracts, issues related to taxation, electronic signatures or the provision of information society services. Many European enterprises also declared that they do not feel sufficiently informed about existing legislation on e-business. This analysis was presented and discussed at a high-level conference last April in Dublin. The conclusions, which you will soon be able to download from our Europa web-site, will constitute the basis of our future policy measures in this field.

Despite the many on-going activities, however, we still do not have a fully comparative set of figures to benchmark European firms against those from the USA and Canada. I am glad that today, in the afternoon, an international panel of speakers from renowned organisations like the OECD, Statistics Canada, the UK Office for National Statistics, and INSEAD will give us the opportunity to compare not only e-business developments on an international level, but also

the methods used to analyse its impact. For us, today's event is not only to present achievements so far; it is also an opportunity to reflect on the lessons learned and on how to take the process further forward. We hope that bringing together these different strands of research here today may strengthen the momentum in this domain.

The Commission has already declared its commitment in pursuing a pragmatic industrial policy focussed on fostering structural change. Our aim is always the same: The improvement of businesses' competitiveness in Europe through structural renewal and reform. This is a critical factor in achieving the Lisbon Strategy goals.

You, as actors in the e-business field, can do a lot by helping our enterprises to be more innovative, to use ICT more efficiently by re-organising themselves, to re-skill their workforce and, at the end, to strengthen their productivity and competitiveness. For us, the Enterprise Directorate General of the European Commission, it is important to learn from your experience. I would like to personally thank all the speakers and participants, who have accepted our invitation and have joined us here, today. I hope that you will also profit from your participation and I encourage you to actively contribute in the discussions and to disseminate further this knowledge upon returning to your daily activities.

I wish you all an interesting and successful event today.

Thank you for your attention.