Where Will Europe's Next Champions Come From?

Nicolas Véron

Originally published in French in *La Tribune*, 17 March 2008

Europe is ageing. Not only its people: Large corporations which are European's pride and joy are also getting on a bit.

Consider all listed companies whose market value puts among the 500 largest worldwide: the median age of the Europeans in this sample of 'champions', at 130 years, is thirty years higher than that of US counterparts.

Almost none of the European champions are young. Only 12 European companies out of 154 in the global top 500 were created after 1950, while they are 51 out of 174 in the US. Only three of the European companies were born after 1975, against 26 in the US (1).

Perhaps this does not constitute a problem. Perhaps large companies, in Europe more than elsewhere, are capable of continuously re-inventing themselves.

In fact, the European champions are not doing badly. Their share of the top 500 has remained relatively stable for ten years, whereas that of the US has declined. They have managed to expand beyond their domestic borders and in the last few years have recorded spectacular profits.

Nevertheless, there is scope for concern in this picture. These are times of sharp differentiation of value chain segments, strategic specialisation through complex dynamics of outsourcing and offshoring.

As Suzanne Berger forcefully illustrated in 'How We Compete' (Doubleday, 2005), there is no single model of success. But all winning strategies must increasingly adjust to an environment of 'creative destruction', to use the expression coined many decades ago by Joseph Schumpeter, in which less successful businesses exit the market for new entrants to expand, such that the economy as a whole may thrive. Recent economic research based on individual company data tends to confirm that the more 'Schumpeterian' economies, all else equal, grow the strongest.

So it is not unnatural for Europeans to envy the US and its many big companies born after 1950, each of them above 20 billion USD in market value.

These 51 in our sample break down as follows: 21 high-tech firms (in electronics, software, internet and biotech), against only two born during the same period in Europe; 21 additional companies in less technology-intensive services (such as finance, media, hospitality, retail, personal services); and only nine non-high-tech industrial firms, of which five in manufacturing and four oil companies.

The technological domination of the US is inseparable from the performance of its top universities. These generate both projects and entrepreneurs which are especially prone to high growth. Europe can only hope to recover the lost ground slowly, because top research institutes are not created overnight. Just think of the repeated flops after fanfare announcements of creating a 'MIT à la française'.

The remainder of the gap is essentially accounted for by services. Here the relative weakness of Europe appears to stem from two main factors: the fragmentation of its markets, hamstrung by myriad national rules and regulations; and the relatively stunted development of its SME finance sector, which is ill-equipped to provide financial solutions tailored to service companies which cannot pledge tangible assets as collateral.

The cultural dimension is also relevant. The French, as the Germans, often give precedence to smokestack industries over other sectors of the economy, as evidenced by the frequent calls for 're-industrialisation' as a remedy for the effects of restructuring, when it would probably be more effective to think in more neutral terms of economic redevelopment.

If Europe is to see success not only of its old champions but also of young bloods, several policy priorities should be heeded. Universities obviously need more autonomy and resources. Services markets must be defragmented by drastically reexamining current regulations, as the Attali committee proposed for France. Obstacles to the development of financial services for high-growth companies should be identified and reduced. And Europeans would gain from ridding themselves of the obsession with manufacturing industries which is so prevalent in public debate, anchored in mercantilist stereotypes from the last century: it is certainly time to move towards a broader vision of the drivers of growth.

(1) Figures from a study to be published by Bruegel this spring, based on the FT Global 500 ranking of 30 September 2007.

The author is a research fellow at Bruegel (n.veron@bruegel.org).