Putting Europe back on track

By Shellie Karabell

What will it take to put Europe back on track? That question was the basis for the eighth European Business Summit and a research report conducted by INSEAD, Accenture and the Federation of Enterprises in Belgium, with funding from Sun and Microsoft.

Some 250 chief executives and other leaders from the private and public sector were interviewed for the survey, and the answers revolve around three main themes:

- Europe will be stronger after the recovery: 65 per cent of CEOs whose companies grew in 2009 believe Europe will become a leading player in the global economy by 2020;
- Innovation will be at the core of Europe’s recovery: more than 66 per cent said their companies thought innovation would put their businesses back on track;
- The quality and diversity of its people are among Europe’s biggest advantages: 70 per cent of respondents believe improving the skills of the workforce over the next five years will be critical to Europe’s future business success.

“There is a before and after in every crisis,” says Bruno Lanvin, Executive Director of the INSEAD eLab and one of the authors of the report. “The belief among many analysts and observers is that indeed in Europe everybody is pessimistic. Yet what this survey shows is that CEOs believe Europe will emerge stronger from the crisis: it will have better governance in the financial sector, it will have a new basis for longer-term competitiveness, and it will have a cleaner state of mind to attack the other markets around the world.”London-based Mark Spelman (MBA ’83J), Global Head of Strategy for Accenture and Chairman of the Executive Council of the American Chamber of Commerce EU, representing some 140 American companies in Europe along with 4.8 million jobs and $1.2 trillion worth of investments, says different economies are in different stages of recovery.

“We see a multispeed recovery. Even within Europe, different countries have suffered more or less badly as a result of the downturn. Poland, for example, has actually fared reasonably well through the crisis, and clearly other countries like Greece, Spain, Portugal and Ireland have much more difficult times,” he says. “You have to pick your spots (if you’re choosing a place to do business). It’s all about a combination of looking where the growth spots are, while still managing costs and avoiding too much complexity in your business model.”
Entrepreneurship is one form of growth in which there is plenty of room to grow in Europe. The economic crisis has forced many people into a tight job market where survival sometimes means setting up shop on your own. That in itself could help speed up the recovery. “If small and medium-sized enterprises (SMEs) can grow, then unemployment decreases,” says Nils Fonstad, Senior Research Fellow at the INSEAD eLab. “We have to really make the environmeRint better for SMEs.”

Richard Pelly, Chief Executive of the European Investment Fund (MBA ’83J), does just that. “Overall our mission is to enhance the access finance with small and medium-sized companies to stimulate risk support, innovation, and entrepreneurship,” he explains. “But it’s tough, it’s tough right now,” he continues. “There’s a deep crisis going on, there’s a lot of uncertainty ... The banks have created a lot of problems for themselves, but they’re also forcing a very difficult lending situation for small companies that show riskier symptoms than they would otherwise.”

How to bridge the gap between launching a new company and actually making money? There are two possibilities: government stimulus and private investment.

“When you need to reconcile short term and long term, you need governments,”

says Lanvin. “It’s clear that in the long run protectionism is a bad thing. Everyone would suffer if free trade were further damaged. But you may be in a sector that may be exposed (to international competition) so you need some government intervention, some safety nets to guarantee that people, who are going to lose their jobs because of more open trade, are not going to be left without any kind of support or possibilities to get a new job. You need governments to resolve that.”

On the private investment front, Pelly is pushing for more venture capital and private equity investment in Europe. “European venture capital is, say, 12-15 years old on the continent, 25 years old in the UK, compared with 45-60 years old in the US,” he says. “VC is our really long-term core business where we are the cornerstone of European venture capital and have been almost since the beginning.” The EIF, which is 60 per cent owned by the European Central Bank, is lowering its loan targets to cover the fast-growing microfinance industry. “We have a new programme which has been negotiated with the EU called ‘Progress Microfinance,’ Pelly explains. “This is a programme of some 200 million euros to support microfinance institutions - some of them specialised subsidiaries of banks - to stimulate ecoomic activity. Microfinance entrepreneurs are all over the place: there’s a statistic that shows at least a third of all the companies that have just set up or entities that are registered in some shape or form are registered by those who are unemployed...people who have their backs to the wall. But guess what? That’s generating innovation and some form of risk-taking which we (at EIF) need to support.”

Indeed, it appears to be the financial crisis that opened the door for microfinance in general in Western Europe, according to Pelly. “It started in Central and Eastern Europe before the accession of those countries to the EU, and it’s started to move into Western Europe because there’s a realisation that there’s a need for it here. At the moment the microfinance and microcredit industry in Europe is actually very underdeveloped because there is an assumption that the banking sector will cover it.”

But it takes more than money to create an entrepreneur or an idea. “Innovation like entrepreneurship is a mindset,” says Lanvin. “It’s very difficult to create a mindset. You have to have people who have an instinct for it…you can cultivate them, you can develop them…”

In this sort of global environment, the next generation is already thinking differently from their parents. ThinkYoung, a non-profit research group canvassing the opinions and beliefs of young professionals and government officials under the age of 35, asked their own sample questions from the INSEAD-Accenture-EFB survey.

“Young people say what they see as coming from outside Europe as an opportunity,” says Andrea Gerosa, the 28-year-old founder of ThinkYoung. “83 per cent say they see the BRIC countries (Brazil, Russia, India, China) as an opportunity rather than a threat. We see change as a good thing. Young people today are ‘digital natives’ - they speak four or five languages, most of the people we interviewed are living in a country different from the one where they were born, and with the internet, they can be everywhere.” They also say they don’t think we’re out of the recession yet, but they are positive about 2020. And they- as well as the older survey participants- are just fed up with bureaucracy and red tape. “It’s not possible (for entrepreneurs) to create a true European company,” opines Gerosa. “From Italy it’s difficult to create something in the UK or to pay your employees in Spain; it’s completely different from paying your employees in Belgium. That’s not acceptable anymore.”

The European Business Summit was held in Brussels June 30-July 1, on the eve of Belgium’s ascendency to the EU Presidency.

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About the author(s)

Shellie Karabell is Director and Executive Editor of INSEAD Knowledge. **View full profile**