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# Where are Europe's gazelles?



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**In business, longevity has merit. Research shows that about a third or more of start ups discontinue within the first three years. Even for those that survive, most remain small, and unable to grow beyond their initial niche. Surviving for a long time requires dealing with ownership and management transitions, new technologies, new market trends, and new competitors. So, it is impressive when companies manage to remain vibrant for decades or even centuries.**

Yet, what is good for individual companies may not be necessarily good for an economy. An economy that is dominated by older firms may reflect a unique ability to reinvent themselves (like Nokia, founded in 1865 as a wood-pulp mill that reinvent itself in the 1980s and 90s). But, dominance by older firms may also reflect a context where barriers to entry, regulation, or protective practices, impede the workings of Schumpeter's "creative destruction".

To bring some simple facts to bear, I took the list of Fortune's magazine's "Most admired corporations" for 2012, and looked at the top ten most admired companies based in the United States, Europe, and Asia. The Fortune survey is a corporate reputation ranking based on 1,500 large

companies as evaluated by executives, directors, and security analysts. For these companies, I took the date of founding of the company or its oldest predecessor (if the company was the result of a merger or acquisition). Admittedly, this is a sample of convenience, since these companies are not necessarily the largest or the most profitable, and there is a probably a US bias in the sample (firms that are known in the US probably would perform better). But the ranking reflects the subjective views of global executives about which companies have a more successful and innovative strategy and practices.

Both the list for the United States and Europe companies show companies that started in the 19th century, and are still among the most admired today. For example, companies like IBM, Coca-Cola, and Nestle, all started before 1900, and have been able to maintain competitiveness in industries with high rates of innovation. But what I find remarkable from the list is that **six of the top ten most admired corporations in the United States started after 1970** (in the last 42 years). Companies like Apple, Google, Amazon, FedEx, Starbucks, and Southwest, managed to go from startup to leadership in as little as 16 years. These companies either exploited technological discontinuities, such as computing and Internet, or created innovative business models that allowed them to challenge the status quo of mature industries (e.g., Southwest, Amazon). These high growth companies, often called “gazelles” in the entrepreneurship literature, are responsible for a disproportionate share of wealth and employment creation.

So, how many of the top ten most admired companies in the other continents started after 1970? The answer **for Europe is “zero”**. In fact, the youngest company among the top ten most admired European companies is Volkswagen, which dates from right before WWII. One needs to go down further in the ranking to find one started in the last 40 years, with SAP ranked at #13 and Vodafone at #27. It is also remarkable how many of the top ten companies were the result of horizontal mergers, like the ones creating Unilever in the 1930s and Novartis in the 1990s. The focus in Europe has been more on industry consolidation and restructuring than on global-scale entrepreneurship.

The table also show the age of the Asian companies. All of them were founded in the 20th century, but only two, both Chinese, started after 1970. It seems that the lack of gazelle’s is not a problem unique to Europe, but that the economic emergence of new countries in Asia, with large domestic

markets, has generated new opportunities for high-growth gazelles. This is consistent with the experience in Europe, where a lot of entrepreneurial dynamism is happening now in Eastern Europe. Let's hope that they will be able to scale up, although this will be more challenging in the more fragmented European market.

This finding is not that surprising, of course. The United States over the last 30 years has developed an infrastructure for entrepreneurial capitalism, where resources are quickly mobilized through markets (flexible labor and capital markets) to be allocated to their best individual uses. European-style capitalism, like that in Japan and Korea, has tended to retain resources (talent and capital) tied within established firms, under the control of management hierarchies, and focused on internal growth. While these companies often invest heavily in innovation, and actively promote corporate entrepreneurship, the level of resource fluidity, incentive intensity, flexibility, and risk-taking within large companies often pales in comparison with the market-oriented approach, at least in some industries.

Clearly, there are merits to both approaches to entrepreneurship- corporate and new ventures. But Europe has perhaps put too many eggs in the corporate entrepreneurship basket, to the detriment of high growth gazelles. This is a double challenge, since gazelles not only serve to create value by themselves, but also push the established corporations to be more responsive and innovative. What would be of the European airline industry without Ryanair and easyJet?

So, let me offer a challenge for the readers of this blog. If you can think of **a European company founded after 1970** that has a reasonable shot to **make it to the top ten of the list of Most Admired Corporations before 2020**, please let me know. Given that the list of Most Admired Companies is drawn from the Fortune Global 500, that means that the company should have at least about \$10 billion in revenues by 2020. Send an email to [europe.gazelles@gmail.com](mailto:europe.gazelles@gmail.com), and let me know why you think this company is likely to make it. After one month, I will post the list of companies submitted in the blog, and will share the information internally for case study development at INSEAD. I am sure those companies will deserve your recognition, and perhaps your investment too.

>> Post originally appeared at <https://strategy-and-organizations.insead.edu>

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