The Foolhardy Quest for a European Google

By Sami Mahroum , Academic & Executive Director of INSEAD's Innovation and Policy Initiative

With the increasing globalisation of businesses and their supply chains European policy-makers should take a second look at where the real value lies.

In a recent article in ***The Wall Street Journal***, it was said that every time California-based Apple sells an iPhone, Japan-based Sony, the world's largest supplier of image sensors, makes a profit. Sony is not the only Japanese company to benefit from the sales of Apple products; every time Apple sells an iPad device, Toshiba, which makes the hard-drive for the iPads, generates revenues too.

In fact, according to **some calculations**, Apple captures only 30 percent of the direct value generated from the sale of one iPad.2, and while this makes it the biggest beneficiary of the product's sales, Korean companies LG and Samsung come second.

While there are many 'enabling technologies', that allow third parties to innovate and design solutions that benefit from the sales of an end product,

not all beneficiaries are connected to the products' design and manufacture. TomTom, the Dutch satellite navigation company providing Apple with its maps, also turns a profit every time an iPhone or iPad is sold. Similarly Skype, another Europe-based company that is part of US-based Microsoft, now has its fortunes tied to the sales of Microsoft products. Gaming companies like Rovio, Supercells, create value indirectly through the sales of U.S., Korean and other mobile devices; Alcatel, Ericsson, Nokia and Siemens all continue to make money from the sales of mobile devices, even if they no longer manufacture the devices themselves; And UAE-based Mubadala, which owns GlobalFoundries, a semi-conductor company with 13,000 employees across three continents, makes money every time its chips are loaded onto computer devices, regardless of their country of manufacture.

These examples are manifestations of two increasingly dominant and complementary developments. Firstly, as technology-driven competition intensifies, large high-tech companies ironically become more supplier-dominated. In these industries big dominant companies grow to benefit from economies of scale and, in due course, become more production-intensive. Secondly, while these companies continue to generate their own process and design innovations, they also grow bigger in their dependence on external sources of technology and innovation suppliers. The latter makes it necessary for companies to look outside to source new knowledge and technologies from around the world, subsequently globalising their supply chain. As these supply chains become more integrated, with supplier-producers beginning to co-design and co-develop the necessary components, they become value-adding chains.

Today, such global value chains tie the economic fates of countries and regions together. A recent paper by **Amador and Cabral** notes that global value chains are a phenomenon that "cannot be perfectly understood under the classical concept of comparative advantages applied to countries and broad sectors". From an industrial policy (or innovation policy) perspective the most relevant question then is, what should be done to maximise the integration and contribution of local economic agents to global value chains?

Benefits of integrating into global value chains

Some companies have grown so big that they now represent global value chains to a greater extent than mere domestic firms. Companies like Apple, Google, and Microsoft are like football clubs, affiliated with certain places,

but composed of different nationalities. The smaller supplier companies that make up a significant part of their global value chains come from different countries and play an equally, if not more important, role in sustaining the competitive edge of the larger companies.

Policymakers concerned with the economic competitiveness would do well to think of ways to increase the integration of their regions into global value chains, rather than aiming to create home-grown ones. This is particularly relevant outside the United States, especially in Europe, where the unrelenting desire of European policymakers to create European Googles and Apples has eclipsed the enormous success the continent has already had plugging into emerging global ICT value chains while preserving traditional home-grown global value chains in automotive, chemicals, pharmaceuticals, aviation, and luxury products.

In fact, Europe has been doing rather very well in the division of labour along global value chains. According to the **European Tech Exits Report**, in 2014 alone, there were 385 European high-tech exits totalling 80 billion euros, with US companies Google, Facebook, and Microsoft as the top acquirers **(37 percent of total acquisitions)**. The biggest acquisition was made by Google, of UK-based tech company DeepMind. Germany and Britain represented the bulk of the exits, which comes as no surprise given that they are two of the three largest economies in the EU.

Adopting a global approach to economic competitiveness should promote a different view of the performance of European high-tech start-ups which, through their acquisition by international players, are already successfully integrated in global value chains and operating as conduits for value capture for their home locations.

As European businesses cannot compete internationally on the basis of cost or economies of scale, Europe’s best bet is on small to medium-size, knowledge-intensive, specialised supplier companies. Policy thinking therefore needs to adapt to the new reality of economic performance. Locations are no longer home bases, but points of integration in global assembly lines.

New pillars of competitiveness

From a locational perspective, a greater emphasis is therefore needed on identifying new pillars of competitiveness. In some places, these pillars will

be the cost of doing things, in others they will be the convenience of living and working, or the calibre of institutions, workforce, and infrastructure, or the prowess of the creative talent; or simply the presence of a particular legacy community of users or producers of some sort.

These five pillars, which I refer to as the **5Cs** in my forthcoming book: *The Black Swan Start-Up: Understanding the Success of Technology Business in Less Likely Places (Palgrave MacMillian, March 2016)*, can individually, collectively, or configured in multiple formations, generate what some have called a *place surplus.* This surplus can be accrued in the form of a cost saving, the convenience of business operations, superb calibre, unique creativity, and/or community embeddedness.

So why try to recreate new world-class football clubs when you can have many of your players play on some of the best teams in the world? Technology firms are more like football clubs than national football teams. If you want to beat the competition, send your players to play on top teams. As the last world cup showed, Brazilian football is more famous for its individual brilliance than for its collective team. In the technology business, the situation is increasingly the same. Top automotive, space and ICT companies depend on the brilliance of component suppliers from around the world.

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