

## **Innovation business partnering in Europe and the USA — are European SMEs losing the battle?**

Prof. Ruth Taplin  
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*65% of European Gross Domestic Product (GDP) comes from small to medium-sized enterprises (SMEs), compared to 45% in the US. In the increasingly globalized market place, European SMEs are losing the battle to compete with cheaper suppliers from the Asia Pacific, and with more technologically advanced offerings from the US. European industry and government representatives acknowledge that this is a major threat to future European Union (EU) prosperity, and that it is essential to better support European small firms in their struggle to add value to their offerings through innovation, improved use of new technology, and efficient commercialization.*

### **A choice of SMEs**

Global business experts from Europe, the US and Asia, gathered in London, UK in October at the launch of a report on European SME innovation<sup>1</sup>. Sir Digby Jones (of the UK Confederation of British Industry) and others supported the proposition that business partnering is the only way to achieve the targets set by the EU Lisbon and Barcelona accords. The Lisbon accord set the target of transforming the single European market into the most competitive market in the world by 2010, fuelled by knowledge and innovation. But participants of the report launch in London noted that European policy makers seem confused about just which SMEs to support: focusing too much on high tech businesses.

Small firms most likely to turn European Commission R&D investment into new jobs, increased GDP and patented technologies are what in the US are referred to as *High-growth SMEs* or “gazelles”. However they are not the same as research-led *High-tech SMEs*. In fact studies show that that only 2% of gazelles are also high-tech. The vast majority of growth occurs in existing companies which have the capability to turn new technology into world-beating products, without necessarily being research leaders themselves.

### **The need for business partnering amongst European SMEs**

In Europe, the business partnering model is key to SME growth. The alternative model — Mergers and Acquisitions — absorbs promising SME companies, leaving little trace of their innovative potential. Business partnering guided by an innovation facilitator (such as Pera – see below), and initiated through European Commission funding, can bring benefits including:

- spreading the cost and risks of business growth
- sharing resources and databases of potential clients

- enabling growth by SMEs that otherwise would have little chance of developing due to limited resources.

Pera is a technology innovation company with sites in six EU member states, and a leader in establishing pan-European industrial consortia for product and process innovation. CEO Peter Davies reported that PERA has helped SMEs obtain at least a 20 per cent return on their investment, three to five years from joining a consortium project, with some companies achieving well over 30 per cent per annum on the original investment. He added that the European Commission has estimated that the long term net return is seven Euros for every one Euro invested in a collaborative programme, making the case to support SME companies that are increasing productivity steadily through internal growth.

### **SME success in the USA**

Terry Young, a Texas-based expert on innovation<sup>2</sup>, attributes US SME success both to innovation, and to the transfer of that innovation to commercial applications. He says this success is made possible not by some defining or unique characteristic of an “American personality” or “psyche”, but rather by positive social and legal conditions. In the US, attitudes exist that encourage risk taking and assure individuals that SME failure does not equate to personal or financial failure. This robust entrepreneurial environment encourages SMEs to partner, as well as to work with large corporations to create domestic and international market opportunities that would not otherwise exist. This contrasts with Europe, where the European SME innovation report describes a culture of envy and blame that is averse to failing and to taking on new risk.

The American model of internal growth through efficient collaboration is also not hindered by linguistic barriers. In Europe, national pride often supersedes constructive cross-national collaboration, and language barriers bring additional hurdles. This is reflected in EU legislation which states that Intellectual Property disputes require translating into 21 languages — a costly and bureaucratic nightmare for SME companies.

### **Celebrating success, supporting failure**

Americans place high value upon success in all facets of life, according to Terry Young. Successful entrepreneurs are viewed as the “stars” of the business world, and individuals with the skills and the “gumption” to take on the many challenges of starting and growing a business are held in high esteem.

Despite the value placed upon success (and unlike in Europe) there is no negative stigma towards individuals who fail in attempts to start companies. In other words, Americans are

“forgiving” towards failure in entrepreneurship. America also has “gentle” bankruptcy laws assuring that the personal finances of entrepreneurs are not ruined by corporate bankruptcy. This is unlike many nations of the world wherein personal and corporate finances are inseparably linked.

### **Valuing competition**

Americans value competition in all walks of life, including corporate, believes Terry Young. Antitrust laws at both Federal and State levels ensure competition and prevent corporate monopoly, leading to opportunities for SMEs to enter markets. Furthermore, as a general observation, financial markets appear more open to SME needs in America than in many regions of the world. Corporate taxes are also transparent, predictable, graduated and affordable to SMEs.

A draft report by a thirteen member group appointed by the EU and led by Wim Kok, the Dutch prime minister, has stated that the Lisbon Agenda is failing. It concluded that this is even a threat to the whole existence of the EU, especially because of excessive bureaucracy. Most recently there is, however, some good news for the UK and Scandinavia: a Milken Institute Report published on 27 October 2005 concluded that the UK is the best country in the world for entrepreneurs, with Scandinavia being the only other European country in the top ten.

### **The race to establish and secure SMEs**

New companies are formed with ease in America. Corporate registration fees are low, “paperwork” is minimal, and little if any bureaucratic oversight is required. Companies can be formed within hours, compared to months in some other countries – including within the European Union. Rapid response to perceived opportunities – “time to market” – often proves to be more important than other business considerations, such as intellectual property protection.

Generally, however, the US intellectual property system supports the owner of the patent, copyright or trademark, thereby reinforcing innovation and providing strong incentive to the SMEs to innovate. The system also encourages research and its commercialization through SMEs, who may proceed with confidence that their investment in embryonic technology is protected through the nation’s intellectual property system (including a supportive judicial regime).

### **References**

1. Sir Digby Jones, Director-General of the Confederation of British Industry made these remarks as keynote speaker at the October 2005 launch of the report “Can Europe Make it? SME

innovation partnering - the missing links" written and researched by Prof. Ruth Taplin. For a copy of the report please write to Ruth Taplin at [Ruth.Taplin@btinternet.com](mailto:Ruth.Taplin@btinternet.com)

2. From Terry Young's presentation at the above mentioned launch. Terry Young is a former President of the American University Technology Managers and runs his own company Terry Young Group. He has more than 20 years experience in innovation management and technology transfer.

### **About the author**

The Centre for Japanese and East Asian Studies of which Prof. Taplin is Director won Exporter of the Year in Partnership in Trading/Pathfinder for the UK in the year 2000. She received her doctorate from the London School of Economics and is the author/editor of 11 books and numerous articles.

Her most recent book - *Risk Management and Innovation in Japan Britain and the United States* – was published by Routledge in October 2005. ISBN 0415368065

A further book *Innovation and Business Partnering in Japan, Europe and the United States*, will also be published by Routledge. Prof. Taplin has been Editor of the *Journal of Interdisciplinary Economics* for 10 years. Currently she is a Research Fellow at Birkbeck College, University of London and the University of Leicester. She was recently appointed Visiting Professor at the School of International Business and Management, University of Warsaw, Poland.