

Mind the gap, Europe!

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In some London Underground stations there is an audible or visual warning phrase issued to rail passengers to take caution while crossing the spatial gap between the train door and the station platform. Similarly, Europe itself should repeat the same expression, as a mantra: mind the gap! In this case the gap is between Europe and the USA, and it refers to the number of companies that can be labelled "disruptive". It is important to know the impact of this gap, what motivates it and, above all, how to fix it.

Disruptive companies

Most of the time, we use the word "disruptive" with a negative meaning, but here we are going to use the concept of disruptive companies with a positive meaning, as is usual when we talk about disruptive technology or disruptive innovation, for example.

New technologies, particularly in the field of ICT, allow services, products and new business models to be developed, which, if well organized and supported, can grow rapidly, creating many highly skilled jobs and quickly cover large market shares. These "disruptive companies" are generally based on knowledge and technological development, and they demonstrate rapid growth in activity and size. In many cases the business object of these companies is based on a disruptive technology, and most of them aspire to innovate disruptively; nonetheless, the former is not a sufficient condition and the latter is not strictly necessary.

Some studies suggest that one of the main differences in innovation between Europe and the USA, in particular regarding innovations that have greater economic and social impact, is the shortage of these disruptive companies –missing yollies¹–, according to R. Veugelers.

There are many problems for young companies to become truly disruptive. The fragmentation of the European market, actually the sum of multiple markets, but with low permeability and accessibility, due partly to a regulatory framework which is still scantily permissive, but also to cultural and linguistic issues. At the same time, almost all efforts focus on setting up new dynamic, technology-based companies –startups–, the more the better, but much less on supporting their growth –scale-up– and internationalisation (Isenberg, 2012).

R&D, and protecting and valuing its results, is not only a competitive advantage, in the long term it is the only way to be competitive. Conducting high quality R&D is not enough: the results thereof must be transferred effectively to the society. The so-called European paradox reflects the continent's inefficiency in this regard, although very unevenly across countries and regions. In fact, it is in the Latin countries where this paradox is more evident –beyond Europe, the case of Latin America is especially paradigmatic in this sense (Barro, 2015b).

¹ Yollies: *Young Missing Innovators*, Bruegel Policy Brief, R. Veugelers and M. Cincera, 2009.

Education has a highly decisive influence, not only in the vocational aspect of entrepreneurs, which is linked more to attitude, but also in their capabilities, an issue of key importance to entrepreneurial success. The general consensus among experts is that entrepreneurs are not born, rather they are “made”. Though it is not easy to teach someone how to be an entrepreneur, clearly it can be learnt, particularly if we provide young people with training in entrepreneurship throughout the entire education cycle (Barro, 2015).

Entrepreneurs are taking on more risks but investors and many government agencies do not support them, as they adopt a more conservative approach towards start-ups as a consequence of the economic slowdown. Moreover, the European market is less prone to the consumption of the products and services of these companies, at least until they are already well established, which sometimes fails to occur, as companies die before starvation.

How to reduce this gap?

Once we have made the diagnosis and ascertained the aetiology of the disease, we should say how it can be cured. The different European countries are well aware of this situation. In fact, the European Commission has also focused on technology-based companies as a basis for a future EU innovation index. Moreover, the European Commission should be concerned about promoting the scaling of new businesses based on knowledge and technology, and simplifying and unifying the regulatory aspects to create pan-European companies.

In the innovative section, particularly with regard to innovation based on R & D, the most important initiatives in Europe attempting to rectify this situation are the European Institute of Innovation and Technology (EIT) and the ambitious Horizon 2020 programme, with a budget of over seventy billion euros. Nevertheless, in addition to creating new businesses based on knowledge and technology, we need to help them to grow, preventing them from perishing from lack of investment.

Just a few references:

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Veugelers, R. (2009), «A lifeline for Europe’s young radical innovators», Bruegel Policy Brief, Issue 2009/01, March 2009, (<http://www.bruegel.org/publications/publication-detail/publication/289-a-lifeline-for-europes-young-radical-innovators/>).