

Pettersson, Lars

Article

National and European Champions - Burden or Blessing?

CESifo Forum

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Pettersson, Lars (2005) : National and European Champions - Burden or Blessing?, CESifo Forum, ISSN 2190-717X, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 06, Iss. 2, pp. 59-61

This Version is available at:

<https://hdl.handle.net/10419/166229>

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LARS PETTERSSON

President and Chief Executive Officer,
AB Sandvik, Sandviken

Good morning, Ladies and Gentlemen,

I would like to connect our current discussion with the book "In Search of Excellence" which was written about 20 years ago by Tom Peters. That book dealt with the issues that were confronting the US economy at the time. In many ways, these are the issues Europe is confronted with today. The issue today of national champions is in my view an issue of global champions, since national boundaries have lost their significance. For a national champion to become a global champion, is of course a great opportunity, but demands that we have an understanding of the global market and are at the same time able to operate on a local level. What we have learned from this concept is that a global champion or a national champion drives growth and competence in their respective region. We have also learned that, with a few exceptions, the situation does not diminish over time, but it rather self-propels and accelerates, if it's not overregulated by governments. We have also learned that it inspires suppliers, it inspires competition, it inspires education and it inspires the overall society surrounding them to develop positively. So the question for Europe is, how do we continue to develop the centres of excellence that we already have? And how do we make sure that we develop new ones, because, as I will show later on, that is also possible.

If we look at the centres of excellence that exist today, we will find that they are rather much the same as those that were identified by Peters in 1988. Take, for example, the high-performance car industry in the southern part of Germany. If we look at the stock prices, at the growth performance, at the profitability of these companies, they far outpace the companies that have tried to produce conventional cars for the general population. No one, I think, would disagree with the fact that the discrepancy between the producers of high performance cars and the producers of normal cars has rather accelerated

than diminished over the years. This has happened because there is strong local competition between these companies in southern Germany. But also because there is a consumer base and a regulatory system that has permitted this development to take place. Another example is the telecom industry in the Nordic countries, which was not one of Peter's identified centres of excellence. The telecom industry is something that actually came out of the co-operation between the government of Sweden and the national air force to create a world-class communication and fire control system for the Swedish air force. This was the foundation of the GSM system which the Finnish Nokia Company very quickly picked up, and then it stopped to produce rubber boots, tyres and television sets. And again, these two small countries in the northern part of Europe still hold a very strong position, both on the systems side and through Nokia of course on the mobile phone side. The same holds true for the Toyota cities, which we already had around that time as centres of excellence for small cars. They again have created a very strong supply base in that part of the world, and have driven the idea of how to manufacture in a competitive world to an excellence that all of us in the western world are trying to copy and to implement in our own cultures and environments. And finally there is Silicon Valley – it existed then, it exists today. The firms there have transformed, they have changed, but they still operate as a formidable force in the area of software and hardware development.

So the lessons we can learn from this is that we should build on existing strengths. It is much easier and much less risky. But at the same time we have also learned that we can develop new things. We have learned that by focussing, by being prepared to take risks, we can develop new centres of excellence. I think that there is currently a chance in medical technology, which is one of the fastest growing areas in the world today. It will benefit tremendously from the development we are seeing in India, in China and in eastern Europe as well. Medical technology is an area where European industry has already shown that it has an ability to create centres of excellence. We have to build on this in the future.



We then need to discuss the issue of state support. I have to say that, as an industrialist, my general attitude towards this is very negative. But there are exceptions like Airbus. I think that Paul Seabright made a very good argument in his introduction, why Airbus it is an exception, why state support worked in this specific area and why it could work in certain other areas. But in the long run it must also be recognised that it inherently inhibits creativity, productivity, and further growth due to the fact that it also reduces the competitive pressure that is essential for further development. Only competitive pressure generates value and a high standard of living for the global population. The unclear financial gain in state supported industries will prohibit other new actors from stepping in and creating further competition. And in the end it drives a negative spiral: Less competitiveness leads to further protectionism and subsidies which can only result in higher costs to the consumers, a higher tax burden for the population and in the end a lower market potential for the products. So it is my conviction that in the long run this does not result in winners.

So if we look at Europe as a team, what are the things we can build on? First of all I think it is important to remember that companies have shown that we can work, not only on a European, but also on a global basis as one team. But there are also a number of issues which need to be resolved. First of all education and research has already been described yesterday as a cornerstone and a prerequisite for success. However, sometimes I think that we should caution ourselves against just looking upon this in quantitative terms. I think the quality of both, our education and research, is what is going to make the difference. There are no silver medals. Only world class education, only world class research matters and will yield the desired results in the global arena. Adding to what was said here earlier about the education of electronics engineers, I think that we should all recognise that in China alone over 140,000 Masters of Science engineers are educated every year. In numbers, India is closing up and will actually surpass China in 2015. The challenge is formidable, but there are also opportunities. For us in Europe, the issue can become very painful and a challenge for our education systems. We may have to question some of our sacred cows of the past. We had tremendous success and a good history of independent research and education in Europe and a favourable business and political environment. Going forward I think we need to question this

model. We need a discussion about what part of it should be independent and how we should interact with business in the future to make sure that the investment that our taxpayers and students are making in education and research pays off, for the individuals, for the populations and for our nations. We need to strengthen the connection between research and business. This does not mean that business will dictate what to do and where to do it, but the connection should make sure that research is linked to business, that these spheres interact, and that active frames of opportunities and networks are created that benefit Europe as a whole in the long term. We have to strengthen the manufacturing industry through research. This case I make differs from those who claim that Europe as a manufacturing base has come to an end. Certainly, for many products the game is over. We must recognise that manufacturing with high labour content can only be made in areas of the world where wages are significantly lower. And we should not forget that we are not only dealing with direct labour costs, such as wages. We are also dealing with taxation, we are dealing with environmental costs, we are dealing with transportation costs and many other costs that the governments are levying on business. We need to strengthen the manufacturing industry, because in the end the service economy cannot exist without it. With no manufacturing production there is no product related service industry.

An issue, which we are also forced to recognise, is that the national boundaries are becoming less significant. Language barriers are diminishing and we have to recognise that one of the key issues for future development is going to be the capability to communicate and interact with each other. Much has been said about how we build networks from the technical side. Less has been said about teaching languages. Like it or not, our European mother tongue is and will continue to be English. It does not mean that we are giving up French, Swedish or Spanish, but young people and our employees in companies, in the governments and in the education system must become much more fluent in English. Otherwise we will not be able to communicate, we will not be able to use the capabilities that IT and the communications systems are providing for us. It is going to be an investment which we are not harvesting to the fullest extent without English.

So what does this mean for education and research then? Well again, I think that Europe must look

upon itself and identify its strengths and its centres of excellence. The idea that you go to one university or one educational institute to take your education is becoming less and less significant. I think that we need to create pan-European education programmes, in which students can go from one centre of excellence in education to another to do the same kind of research. This is not to say that one thing should be done in only one place. But students should be able to subject universities and educational institutions to competitive pressures, to force these institutions to compete for the interests and to focus on the needs of specific students. It would create a new quality of European managers and people who are able to develop society with a true pan-European perspective and cultural understanding. We must continue to reduce the fragmentation in the European education and research institutions. We spend too much on too many places. Again we need to look at the qualitative aspects of education and research and not necessarily only on the quantitative issues. Unless we make sure that we are world class in every one of these institutions, they will gradually lose relevance on the global scale. We have shown that we can do this. We have shown it with CERN in Geneva where I work myself. We have shown it with Airbus as a company. Again it might be an exception, but we have shown that we are able to work together to build a centre of excellence. We must create a balance between basic and applied research and we have to make sure that we continue to adapt the curriculum of the educational institutions to the present and the future needs of society and industry. Competence is going to be the primary competitive advantage.

So with this in mind let me stress that we in Europe have the institutions, we have the capabilities, we have the technologies, we have the brand names and we have the capital. We have to grasp the opportunities when they present themselves to us.

Thank you.