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THE FOOLHARDY QUEST FOR A EUROPEAN GOOGLE

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In a recent article in *The Wall Street Journal*,¹ it was said that every time California-based Apple sells an iPhone, Japan-based Sony makes a profit. Sony, as the world's largest supplier of image sensors, generates revenues through other vendors of mobile devices fitted with digital cameras. And Sony is not the only Japanese company to benefit from the sales of Apple products; every time Apple sells an iPad device, Toshiba, a Japanese company, that makes the hard-drive for the iPads, generates revenues too. These types of technologies are enabling technologies, i.e. technologies that allow third parties to innovate and design solutions that are not possible without their inputs. In fact, according to some calculations, Apple captures only 30 percent of the direct value generated from the sale of one iPad.² According to this research, while Apple is the biggest beneficiary of the sales of its products, Korean companies LG and Samsung come second.

This value does not have to be integrated into the actual supply-chain of the device's design and manufacture to benefit from its sales. TomTom, the Dutch satellite navigation company, provides Apple with its maps, and hence also turns a profit every time an iPhone or iPad is sold. Skype, another Europe-based company that is part of US-based Microsoft, now has its fortunes tied to the sales of Microsoft products. Rovio, Supercells, and other gaming companies that use mobile devices as their platforms are another breed of companies that create value indirectly through the sales of US, Korean and other manufacturers of mobile devices. Similarly, UAE-based Mubadala, which owns GlobalFoundries, a semi-conductor company that reportedly has 13,000 employees

across three continents, makes money every time its chips are loaded onto computer devices, regardless of their country of manufacture. Alcatel, Ericsson, Nokia and Siemens are all companies that continue to benefit from and make money from the sales of mobile devices, even if they no longer manufacture the devices themselves.

These examples are manifestations of two increasingly dominant and complementary developments. Firstly, as technology-driven competition intensifies, large high-tech companies ironically become more – as Pavitt (1984) put it – supplier-dominated. In these industries big dominant companies grow to benefit from economies of scale and, in due course, become more production-intensive. While they 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 globalizing their supply chain.

The automotive industry was perhaps the first to pay attention to the changes underway and has led the development and integration of global value chains. As 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 (2014) provides an excellent review of this phenomenon. The authors describe global value chains as “mostly about combining value added from different sources” and that they 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 perspective, now largely referred to as innovation policy, the most relevant question is, therefore, what should be done to maximise the integration and contribution of local economic agents to 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, affiliat-

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¹ See www.wsj.com/articles/how-sony-makes-money-off-apples-iphone-1430274602.

² See www.pcic.merage.uci.edu/papers/2011/Value_iPad_Iphone.pdf.

ed 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 question of 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. The latter point is particularly relevant for the ongoing policy debate outside the United States, especially in Europe, in terms of the necessity to breed home-grown Googles and Apples. The unrelenting desire of European policymakers to create European Googles and Apples has eclipsed the continent's enormous success over the past decade in terms of plugging itself into emerging global value chains in ICT, while preserving its 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 (2014), 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).³ 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. Interestingly, only a minority (130 vs 228) of these firms were venture capital-funded, suggesting that the lack of VC is not detrimental to the successful emergence of tech start-ups.

Adopting a global value chain approach to economic competitiveness will elicit a different judgement of the performance of European high-tech start-ups. The latter's acquisition by global players indicates that they are now successfully integrated in global value chains and are operating as conduits for value capture for their home locations. As European businesses cannot compete internationally on the basis of cost, nor on the basis of a large-scale domestic lead market (like the United States), 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.

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 MacMillan, March 2016), can individually, collectively, or configured in multiple formations, generate what some have called a *place surplus* (see e.g. Bolton 2002): namely the extra utility an individual or a firm accrues from being active in a particular locality after deducting all the costs associated with being there. 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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³ <http://tech.eu/inside/4367/tech-eu-european-tech-exits-report-2014/>.