

The State of European Innovation

Only 10 European outfits made a recent *BusinessWeek* ranking of innovative companies from around the globe. Still, Europe is going strong in several segments

by [Jack Ewing](#) and [Jennifer Fishbein](#)

At first glance, the 2008 World's Most Innovative companies ranking from *BusinessWeek* and Boston Consulting Group makes depressing reading for Europhiles. Only 10 European companies made the top 50, and only one—Finnish mobile handset maker Nokia ([NOK](#))—made the top 10. North American companies dominate the list, with Asian companies second and coming on strong.

A closer look, though, reveals Europe has plenty of innovative mojo, even if its big multinationals remain underrepresented in the league tables. In several key segments such as mobile telecommunications and autos, European companies are powerful, even dominant forces for innovation.

The underlying message from the annual ranking is that the Old World has gotten better but still isn't good enough. Europe has work to do to become as innovative as its wealth and level of education suggests it should be. "China produces more scientists and engineers every year than we have in all of Europe," says John Bessant, a professor of innovation management at Imperial College London. "We've got to innovate twice as fast."

The Trendsetters

Start with the good news. Nokia's position at No. 10 testifies to Europe's lead in mobile technology, clearly one of the key industries of our time. The Finns command 40% of the world handset market and are leading the transition to the mobile Internet. Canada's Research in Motion ([RIMM](#)), maker of the BlackBerry, is just three places behind Nokia, but U.S. companies such as beleaguered Motorola ([MOT](#)) are notably absent.

Auto innovation is another European strength. German premium carmakers BMW ([BMWG](#)), Daimler ([DAI](#)), and Audi (a member of the Volkswagen ([VOWG](#)) group) all made the list—a testament to the country's dominance of the premium car segment. (Though it must be said that Japan's Toyota ([TM](#)) ranked highest of all the automakers and third overall.)

The European auto industry benefits not just from the strong auto giants but also a network of innovative suppliers such as Germany's Continental ([CONG](#)) and smaller carmakers such as Ferrari ([FIA.MI](#)), says Michael Davies, a senior lecturer at MIT's Sloan School of

Management who also consults for numerous European companies. "That whole community is working together to drive more innovation," Davies says.

Resistant to Turmoil

In fact, the evidence suggests that much innovation in Europe comes from small and midsize companies—and they don't tend to show up in surveys. In a study by researchers at French business school Insead, which looked at innovation by country rather than by companies, European nations did well. Yes, the U.S. was first by a wide margin. But Germany was second, and 5 of the top 10 spots went to European countries. Soumitra Dutta, author of the Insead study, attributes Europe's progress in part to deregulation forced by the European Union. "The EU process is a great trigger for innovation," Dutta says.

For example, Germany's engineering companies, most of them relatively small, have prospered by supplying the machinery used by manufacturers around the world, including China, India, and Russia. The innovative engineering sector is one reason the German economy has been surprisingly resistant to global economic turmoil. Munich-based Siemens ([SI](#)), one of the few big multinationals in the sector, scored No. 38 on the innovation ranking.

Siemens rivals took notice of German talent some time ago. In 2004, General Electric ([GE](#)) set up a research and development center near the University of Munich in the heart of Siemens country. "Germany is a cradle for technology," says Nani Beccalli-Falco, Brussels-based CEO of GE International. "We wanted to draw upon the talent."

Removing the Incentive

But more is needed before Europe is as innovative as its rival across the Atlantic. Venture capital funding in Europe is still far below the U.S. level. Only Britain can boast truly world-class research universities. And European governments still reflexively try to protect domestic industries, which in the long term anesthetizes companies to competitive pressure and removes the incentive to innovate. **Says Ann Mettler, executive director and founder of the Lisbon Council, a Brussels-based think tank: "The sectors where you see a lot of innovation are the sectors where you see a lot of competition."**

In this special report on innovation in Europe, we highlight a half-dozen companies, large and small, that have harnessed bright ideas, novel business models, or breakthrough technologies to change the world. From Switzerland's [Asset4](#), which has pioneered the collection, analysis, and distribution of nonfinancial corporate data, to Dutch startup [European Climate Exchange](#), whose electronic network handles 85% of Europe's exchange-traded carbon credits, these companies are world leaders in emerging areas.

Even giants such as Nokia and Danone ([DANO](#)) must make constant leaps of innovation to stay competitive in brutally competitive industries. Please enjoy our [special report](#), including slide shows on top European inventors and innovation hot spots.

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