

## Interview with Vijay Govindarajan

«Europe needs to concentrate on technology and choose the four or five areas where it wants to be strong»

MAR JIMÉNEZ

Innovation, finance serving the industry and short, medium and long-term vision. This is the recipe by **Vijay Govindarajan**, who is considered one of the world's leading experts in strategy and innovation. To him, obsession for the short term, setting aside any other consideration, has been one of the causes for the crisis. This obsession has been the common denominator at Western companies, which in the next years will need to compete with powerful companies coming up in emerging powerhouses. In the new geopolitical order, India, China, Brazil and Africa will compete with the USA. If Europe does not apply any solutions, it will be a mere observer.



**You say that the success of a company depends on having a strategy for the present but also for thirty years. Could we state that one of the causes of the crisis has been obsession with immediacy?**

In the current crisis, companies have basically looked at the short term, the present and forgot about the future. This has turned out to be a really bad practice.

**Short-term thinking not only has affected projects but also benefits.**

Exactly, it has been a mistake. I've studied the recessions in the last hundred years, and there are patterns that are always repeated: after a recession there is always a period of expansion, which is much longer than the preceding crisis. I've calculated that expansive periods are three times longer than contraction periods. The **Great Depression** started in 1929 and lasted until 1932. Afterwards, there were ten years of ongoing growth. Just look at the dotcom crisis. It lasted sixteen months and the ensuing growth period stretched over seven years. So we can infer that expansion is much longer and robust than recession.

**«The best moment to prepare for growth is precisely during a crisis. If a company develops appropriate capacities and goes for innovation during recession, it will be in a very good position once the economy recovers.»**

**So risks are despised...**

This is precisely the second thing I wanted to mention. Recessions basically change the landscape of every industry. When the dotcom recession was over, 30% of companies had disappeared, 60% simply survived and 10% became stronger. The question is: what did this 10% of companies having consolidated do the rest didn't? And here we come to a third and last aspect: the 10% of companies that have been able to excel during the crisis did so because they paid attention to the short, the medium and the long term also during this period. The best moment to prepare

for growth is precisely during a crisis. If a company develops appropriate capacities and goes for innovation during recession, it will be in a very good position once the economy recovers.

**With the crisis still around, do companies go for innovation?**

Most don't. Companies doing so are only 10%. And they will be very powerful after the crisis. The problem is that 90% of companies aren't doing it!

**In the United States, President Obama is encouraging a new economic paradigm that has been called the **Green New Deal**. Is the Administration setting the foundations of sounder growth?**

In the US, the economy is led by the private sector and the government supports it...

**This is the way it has been so far.**

The recession has changed things. The government is now certainly taking on a very important role. But you need to consider that it's not the government that has to create incentives, it's the private sector that has to innovate! The government provides the finance sector with money so it can give loans.

**But the government can be innovative on the institutional side.**

And it is, with the creation of a setting encouraging business activity. The Obama Administration is doing a good job. It innovates on the institutional side and sets its focus on three key sectors: education, energy and health.

**Now it's up to the companies to work.**

Exactly, and not all companies are doing things well. Many set again their priorities on short-term benefits.

**They haven't learned the lesson from the crisis. Do you think they will survive?**

We'll see much change. There will be a new class of winners and losers.

**Could you expand on this?**

Many good companies will come up in India, China, Brazil, Africa...



### Vijay Govindarajan

*The Wall Street Journal* and *Business Week* once defined Vijay Govindarajan as «one of the great thinkers» of the present. The director and founder of the Global Leadership Centre at the Tuck School of Business of the Dartmouth College, Govindarajan, considered one of the world's innovation gurus, did his PhD and MBA at Harvard University, being included on the Dean's Honor List. Recently appointed chief innova-

tion consultant at General Electric, he says that the opportunity he had of having access to education in his native India has allowed him to become a consultant to big multinationals.

#### **So we're going to see a new world economic map.**

The geopolitical map won't change tomorrow, but it will in the next twenty-five years.

#### **So we can infer that companies from emerging countries do take the right decisions to improve?**

The reason for this is that companies from developing countries aren't looking for the sort of success companies from developed countries are pursuing.

#### **They aren't obsessed with the short term.**

Exactly! A company from Brazil hasn't made as much money as an American yet, and it has all the future ahead! But companies from the US and Europe have been the dominators, and this is perhaps their big problem.

#### **So it's a problem of mindset, of values.**

Most US companies were created after World War II! The world has changed completely! Look at Spain: it has a big population, it's a big, rich country, but economic growth has been badly managed.

#### **With a very weak growth basis that didn't change in times of prosperity.**

Political leaders need to think with a future vision of 25 or 30 years and take according decisions. But as elections are every five years, they look after the short term. They depend on votes and set their attention on matters that are not

strategic for the economy. Look, I oppose the attitude of politicians to that of the great artists Spain has produced: Picasso, Gaudí... Gaudí imagined a different world. When he was thirty, he was ordered the Sagrada Família, and from the very beginning he said: «I'm not going to see it completed in my lifetime.» He died at 74! This means that he was creating a thing that was in his mind, a project of more than 44 years duration! That's very exciting! But this is not the way people think today...

#### **Why do you think that companies from emerging countries are able to look beyond the short term, whereas this is more difficult in developed countries?**

If we look at India, the place where I was born, I can tell you to summarise that it's because we have nothing. And if you have nothing, you're starving! If you can get good education in India, you can get a very good job.

#### **And it's in this context in which initiatives like Grameen Bank by Nobel Prize winner Muhammad Yunus can be created, which you mention as an example. A bank of the poor with micro-credits for those having nothing would be unthinkable in developed countries.**

There's nothing to lose. And therefore risks are taken, there's free thought. In a certain way, a part of the history of these countries is characterised by the ability to change, to adapt. And another important thing is youth. I've been for one week in Spain now and I've seen many elderly people. In India, there are young people all over, the average age is 24! You need young people to think in a fresh, less corseted way.

#### **With this demographic situation, what can Europe do to adapt to a new paradigm, to the innovation culture?**

It needs to concentrate on four or five industries in which it can win. Europe can't win in everything! Germany and Switzerland are very powerful countries in green technologies. Let's focus on these sectors! What doesn't Europe have that India, Brazil or China do? It has neither population nor natural resources, so Europe needs to concentrate on technology and choose the four

or five areas where it wants to be strong to build global platforms. You create the technology and then, if you want, move your factories to Brazil or India to sell to the world.

**The world you're sketching out relies on two big poles: the United States and emerging countries.**

We could come to this situation. The ageing of Europe is certainly not just a cultural issue. It is also a problem of lack of workforce. And now, high life expectancy translates into huge expenditure in pensions and health. This is why the key is technology with population not producing GDP.

**«Without optimism there's no innovation, because innovation is to try and do things without knowing if it will be successful, there's uncertainty. This is why you need to think positively and have trust.»**

**And productivity.**

With technology you don't need much population. If I had to give advice to Europeans, I would tell them: act together, unite your force and concentrate on four or five technologies in which you can be world leaders.

**Let's come back to innovation. You recommend the post-crisis world to be optimistic and innovate.**

Without optimism there's no innovation, because innovation is to try and do things without knowing if it will be successful, there's uncertainty.

**So optimism and trust are needed.**

Exactly. Optimism means to think positively, to focus on success. You'll never be successful in 100% of cases, but if you're optimistic, good things will eventually come.

**After the crisis, innovation has settled in many people's minds as associated with the finance sector. How can innovation recover its reputation?**

We've misinterpreted innovation. We thought we could create wealth by innovating the finance sector. I'll give you an example: when I got my MBA at Harvard in 1982, 6% of GDP came from the finance sector. Just before the crisis, it was 42% in the United States! That's ludicrous! No wealth is created with financial innovation! Innovation needs to be applied to the industry.

**So we need to return to the real economy.**

We need to have a strong finance sector serving the industry.

**MAR JIMÉNEZ**

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Journalist and columnist at the *Avui* newspaper. A regular collaborator in different media, among which *TV3* and *Catalunya Ràdio*. She has been in charge of technical support and coordination of the cabinet of the Minister of Economy and Finance of the Government of Catalonia (2003-06).

