Businesses across the world are managing exchange rate risk by concentrating exposure in a handful of “universal” currencies such as the dollar and the euro, finds a new, far-ranging study from The Conference Board. Foreign exchange rate issues have become more important in recent years, especially in emerging markets, but businesses appear to look through exchange rate volatility to focus on key market opportunities.

The study was prompted by concerns about the economic costs of exchange rate volatility expressed by Paul Volcker, former chairman of the Board of Governors of the US Federal Reserve System. Based on a survey of nearly 400 CEOs and CFOs in 38 countries in every major region of the world, the report looks at the key drivers of global business investment by multinational companies, the impact of exchange rates on these decisions, and differences in the strategies that businesses in different global regions use to manage these risks.

“Almost two thirds of the responses indicated that exchange rates were somewhat important in their investment decision, but global businesses appear to seek profitable markets first and manage the exchange rate risks that come with the territory,” says Marina Whitman, of the University of Michigan, who chaired the academic panel that advised The Conference Board on the study.

Probably one of the most surprising findings is the extent to which businesses do not feel bound by their home currency in international transactions. Over 50% of non-US companies use the dollar in pricing and sourcing and 25% of non euro-zone companies (mostly in Europe) use the euro. (Notably, the Japanese yen is almost never used by other than Japanese companies). Gail Fosler, Executive Vice President and Chief Economist of The Conference Board, and co-author of the study, observes that “Businesses, not countries, make trade decisions, and they do not appear to feel bound by their home country currency.”
Novozymes is a bio-tech based world leader in enzymes and micro-organisms. Steen Riisgaard, the company’s president and CEO, welcomed Council members and brought along a shopping bag of groceries to demonstrate how enzymes are used in the production of everyday items ranging from bread, beer, and wine, to toothpaste and washing powders. Introducing the meeting theme, *Communications and Human Resources working together to deliver Value to the Organisation*, he explained that during the demerger of Novozymes from Novo Nordisk, and during the development of Novozymes’ brand and vision, it was particularly important that HR and Communication issues were a fully integrated part of top management decisions. The two corporate functions are closely linked – both are members of Novozymes’ Executive Management - and collaboration between them is key to success in times of change. Anne-Marie Skov, Novozymes’ Vice President, Shareholder Communications and Sustainability Development, explained that a close link between the new external brand and internal culture was the way to a strong Novozymes. The strategy was a combination of “top down and bottom up”: management visibility and employee involvement.

The need to involve the communications function at the very beginning of the change process was emphasised by several speakers. “*Early wins build momentum*”, observed Nancy Helledie, Communications Director of Borealis, a leading supplier of enhanced polyolefin plastics. She explained that the company had to restructure to remain competitive, reducing the number of full-time employees by 20%. It was necessary to clearly communicate to the workforce why change is required, who and what is changing, what the consequences of the change will be, and the consequences of not changing. Similarly, in a joint presentation from Coloplast, Jens Steen Larsen, Director of Corporate Communications and Investor Relations, and Bente Laurson, Director of Human Resources, explained that well-planned communication and systems for handling employees whose jobs would be cut, was paramount after the divestment of Coloplast’s consumer products division, Compeed, to Johnson & Johnson.

Norsk Hydro has recently undergone major changes in many areas: management, branding, logo, mission statement, cultural development and business structure. Cecilie Ditlev-Simonsen, the company’s Senior Vice President, Corporate Communications, talked about the challenges these changes posed for the communications function and how good cooperation with HR colleagues was vital during this time.

**Employee surveys**

All employees in the Volvo Group participate in the annual attitude survey, explained Charlie Nordblom, the company’s Vice President, Internal Communications. The survey is a platform for critical and open dialogue. The “Communicative Leadership Index” is a selection of results which provides each manager with feedback about their ability and willingness to communicate. Top management attaches a lot of importance to the index and uses it as a basis for promotion.

Sue Dewhurst, Director of Internal Communications at ntl, a leading provider of telecommunications services in the UK and Ireland, said that the high response rate of the quick and simple pulse survey of employee satisfaction is due to the fact that it is not seen as “owned” by internal communications but by the leaders of the company’s businesses. She also described changes to ntl’s intranet to mirror its new decentralised structure.

The next meeting, to be held in Amsterdam on 14-15 October, will focus on developing key messages and ensuring they are adhered to throughout the organisation.
Pensions
Trends in Russia
St. Petersburg, Russia, 6-7 May

This was the first time that one of our European Councils has held a meeting in Russia. Members of the Pensions Council benefited from the occasion to focus on local trends. Larisa Muravska, Director for Russia and CIS, Mercer Human Resource Consulting LLC, spoke specifically about employer-sponsored pension plans. An overview of the Russian market for corporate pension provision was given by two executives from ING Bank: Wil Olsthoorn, General Manager and Vassiliy Chekulaev, Head of Marketing and Sales.

How do you develop a pensions strategy in a changing environment? Frank Flynn gave some useful pointers based on his experience as Group Chief Pensions Officer of the Bank of Ireland. Members also heard about BP's risk budgeting process from Mark Roberts, the company’s Benefits Advisor.

Work-Life and Diversity
Different approaches across the Atlantic
Bonn, Germany, 29-30 April
Host: Deutsche Telekom

This was a special occasion for the European Council on Work-Life and Diversity as the group was joined by members of the US Diversity Council. A key subject on the agenda was a comparison of the US and European approaches to diversity. How similar or different are they? How could corporate headquarters on one side of the Atlantic build understanding of the issues and employee attitudes on the other side? Among the speakers were representatives from Deutsche Telekom, Sun Microsystems, Air Products and Deutsche Bank.

From the animated discussions it was clear that, for both sides of the Atlantic, diversity includes gender, nationality, ethnicity, religion, race, sexual orientation, age, disability, and lifestyle. Yet the way Europeans and Americans approach diversity differs importantly.

The European presentations illustrated that their current focus prioritises equal opportunities for women, and then age, sexual orientation, and disability. Underlying all of their diversity efforts across the 48+ countries of the European continent is their practical need to enable people of different national cultures and languages to work together effectively.

The American participants were surprised to hear the lack of emphasis on racial equality. The Europeans explained that while race is an important issue, it is not a dominant one here. Race fits into the whole array of diversity - one of the many aspects of true inclusion that we want to promote. The moral case belongs to society as a whole. To motivate senior managers in Europe to act on diversity within the companies they direct, they need to grasp the business case for that company.

Plant Managers / Health & Safety
Building a Safety Culture in a Plant
Vevey, Switzerland, 2-3 June 2004
Host: Nestlé

This joint meeting of the Plant Managers and Health & Safety Councils addressed the question of “How to build a safety culture in a plant?” Providing a plant manager’s view, Philippe Roodhooft shared his experience at the Borealis polymer plant, and there was lively discussion on the issue of how to deal with unsafe behaviour of on-site contractors. This was recognised as a universal problem needing special attention.

One of the key “take-aways” of this meeting was that, without a global safety and health policy underpinned by the same worldwide standards and measures, there will inevitably be a large variation in plant safety and health performance around the world. Whilst this might seem obvious, many global companies are still taking a somewhat local approach to Health & Safety.

A regular feature of both Councils is a plant visit and this was no exception. Members enjoyed a fascinating tour of Nestlé’s oldest, though now well modernised, chocolate plant.
A diverse industry representation - in size, sector and geographical situation – resulted in a rich opening round-table discussion for the European council on Research, Development and Innovation. The theme was "The Innovation Paradox – how to stimulate Innovation?"

Funding for Innovative Projects
Looking at government funding for innovative projects, members remarked upon varying national approaches within Europe. George van Os, Chairman of the Executive Board and Managing Director at the Dutch Polymer Institute, described the situation facing many governments (particularly in The Netherlands): they help to fund innovation only to find that the R&D and manufacturing of products and new jobs subsequently move overseas.

Although supporting mid-sized companies instead of corporations could be a helpful approach, smaller companies that have developed the know-how often experience difficulties in absorbing the manufacturing process and taking an innovation to market. In Battelle’s experience, said Dr George Outterson, Vice President Market Development, Europe, this may be a European cultural attitude, where it seems to be more difficult to continue with a project after an initial failure. In the US, start-up venture capital often goes to small companies that have tried an idea more than once but failed. He argued that Europeans need to learn that it is OK to fail.

Company case studies
Dr Giancarlo Grasso, Senior Vice President Product Policy at Finmeccanica, Italy’s largest hi-technology industrial group, explained the background to Finmeccanica and its fairly recent evolution into a privatised organisation with nine divisions, over 46,500 employees and revenues of €8,646m. Dr Grasso shared with the Council his work in assessing how best to use the vast range of technologies available in the separate divisions to maintain Finmeccanica’s position as the Italian leader in high tech.

Dr. Philippe Janson, Senior Technical Staff Member, IBM Academy of Technology, said that invention is the lifeblood of the company, and IBM is proud of its transformation into a company delivering innovative solutions to customers. In the 90’s, a strategy was developed to pull new technology from customer needs, and Innovation Teams were set up for key outsourced accounts. Barriers to innovation are identified and investigated and all projects compete for funding within the company.

On the second day Council participants enjoyed a very interesting visit to Agusta/Westland’s helicopter assembly plant. Dr Roberto Garavaglia, Marketing Director, gave an overview of the company and its history. Dr Giuseppe Pagnano, Head of Research & Technology Innovation Co-ordination, described the product range, programmes and technologies, including examples of innovation processes, before leading a tour of the assembly plant and testing facilities. Participants were treated to an aerial display by one of the test pilots, and visited the Transmission Centre of Excellence and test rigs, and the structural test laboratory.
As shared services strategies evolve, companies are closely examining insourcing, outsourcing and offshoring to decide which approach delivers the best support services at the lower costs.

Companies participating in The Conference Board’s Annual Shared Services Conference agreed that there is no single formula for success in shared services. What emerged from this event, which took place in Brussels on 10-11 June, were a variety of approaches for delivering the highest-value services at the lowest cost to internal customers.

By adopting shared services many large organisations have dramatically improved the effectiveness of their internal support services. They have found that streamlining, standardising and consolidating common, non-core functions like finance and accounting, human resources and information technology can deliver double digit cost reductions, even in the best-run global companies. Now they are exploring the next steps that will lead to further savings and better services.

Among the most popular options being considered are offshoring (relocating shared services centre activities to low cost countries), outsourcing (offloading some shared services to a third party) and simply applying the shared services model to more functions such as procurement, legal, facilities management and property management. The route adopted depends to some extent on the company’s starting point.

Typically, companies progress on the shared services journey by simplifying and standardising processes and systems, and then centralising service delivery, initially by country, then by region and finally globally. In the early stages, shared services centres are often located at existing company sites; greenfield, lower-cost locations are assessed later. Outsourcing also tends to be examined later, once companies have a better understanding of their support services and the associated costs.

Company case studies revealed a variety of successful approaches:
- In only four years Procter & Gamble has created a global shared services business, parts of which it has recently outsourced. Savings so far amount to $500 million a year.
- Over roughly the same period, Shell has developed a shared services operation for HR that is globally insourced. The company is adamant that, for the time being, it is not interested in outsourcing or offshoring.
- Philips has recently moved its finance shared services business to a low-cost location and is using the savings to improve processes.
- Henkel is doing the opposite. It is standardising its finance processes and then moving to a low-cost location. Double digit savings are forecast.
- Hewlett-Packard has reduced costs by more than 80% for some processes by offshoring to India.

### Top Ten Shared Services Success Factors

1. Executive management & sponsorship
2. Quality of shared services leadership
3. Standardised processes
4. Clearly defined scope of services
5. Quality of shared services personnel
6. Well-defined business strategy & objectives
7. Communications & training
8. Solid technology platform
9. Change & journey management
10. Well-defined vision & mission

China loses manufacturing jobs
As reform process proceeds

As part of its integration into the world economy, China has undergone massive restructuring of its industrial enterprises and has granted market access to foreign and private domestic firms. While these changes have led to enormous productivity gains, they are also closely linked to an important side effect - China is rapidly losing manufacturing jobs. To be sure, the “offshoring” of developed countries’ jobs to China has aided growth. But, as a new Conference Board report demonstrates, China is losing many more manufacturing jobs than the developed world (including the United States) - and in many of the same industries where the developed world has seen the greatest declines.

China lost 15 million jobs between 1995 and 2002 – 15% of its total manufacturing employment. The data for large and medium firms, included in this report, show that the loss was widespread, with 26 of the 38 major Chinese industries showing negative job growth in this seven-year period. Some of the industries with the greatest job losses were textiles (1.6 million), steel processing (557,000), machinery (588,000) and non-metal products (429,000). These job losses can be traced to restructuring and rapidly advancing domestic productivity – the driving factors behind international competitiveness.

While China’s service sector has been growing, the gains have not yet been sufficient to offset the massive downsizing in manufacturing. Moreover, China has yet to seriously attack modernisation and reform in the agricultural sector, which still employs 50% of the population (as opposed to 2.5% in the United States and 4% in Europe).

As in the developed world, when productivity rises over the long term, so do wages and spending power. The major challenge for business will be shifting from an export strategy to focus more closely on serving the growing demands of China’s one billion consumers.

EU Enlargement Forum

Following the historical enlargement of the European Union on 1 May 2004, a forum identifying the key business and legal challenges for the enlarged Europe took place in Warsaw on 13 May, hosted by law firm White & Case. Senior executives from old and new member states discussed major opportunities, risks and trends likely to influence trading patterns.
Listed here are some forthcoming Conference Board events for European members.

If you would like to receive an invitation to any of them, please tick the appropriate box, supply your name and company details, and send the form to:

The Conference Board Europe, 130 Chaussée de La Hulpe, box 11, 1000 Brussels, Belgium
Alternatively, fax the form to 32.2/675 03 95

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Location/Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>9-10 September</td>
<td>European Council on Research, Development and Innovation</td>
<td>Brussels, Belgium</td>
</tr>
<tr>
<td>14-15 September</td>
<td>European Council on Corporate Strategy</td>
<td>Heidelberg, Germany</td>
</tr>
<tr>
<td>16-17 September</td>
<td>The Pensions Council</td>
<td>Edinburgh, Scotland</td>
</tr>
<tr>
<td></td>
<td>European Council on Sustainability Reporting</td>
<td>Amsterdam, The Netherlands</td>
</tr>
<tr>
<td>21 September</td>
<td>Joint meeting:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Polish CEO and CFO Councils</td>
<td>Warsaw, Poland</td>
</tr>
<tr>
<td>23-24 September</td>
<td>European Council on Corporate Learning, Management Education and Training</td>
<td>Ermatingen, Switzerland</td>
</tr>
<tr>
<td>27-28 September</td>
<td>European Council on Global Supply Chain</td>
<td>Calais, France</td>
</tr>
<tr>
<td>30 September - 1 October</td>
<td>European Tax Executives Council</td>
<td>Paris, France</td>
</tr>
<tr>
<td></td>
<td>European Council on Investor Relations</td>
<td>London, UK</td>
</tr>
<tr>
<td></td>
<td>European Council of Financial Executives</td>
<td>Ghent, Belgium</td>
</tr>
<tr>
<td>5-6 October</td>
<td>Middle East Council</td>
<td>Muscat, Oman</td>
</tr>
<tr>
<td>7-8 October</td>
<td>Joint meeting:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>European Council on Mergers &amp; Acquisitions and European Council on Legal Affairs</td>
<td>The Hague, The Netherlands</td>
</tr>
<tr>
<td>11-13 October</td>
<td>European Council on Work-Life and Diversity</td>
<td>Concurrent with the</td>
</tr>
<tr>
<td></td>
<td>5th European Work-Life and Diversity Conference</td>
<td>(12-13 October)</td>
</tr>
<tr>
<td></td>
<td>European Council on e-Procurement</td>
<td>Budapest, Hungary</td>
</tr>
<tr>
<td></td>
<td>European Council on Shared Services</td>
<td>Warsaw, Poland</td>
</tr>
<tr>
<td>14 October</td>
<td>The Conference Board Annual Meeting and Dinner</td>
<td>New York, USA</td>
</tr>
<tr>
<td></td>
<td>5th Polish Business Forum</td>
<td>Warsaw, Poland</td>
</tr>
<tr>
<td>14-15 October</td>
<td>European Council on Corporate Communications</td>
<td>Amsterdam, The Netherlands</td>
</tr>
<tr>
<td></td>
<td>European Council on Corporate Governance and Board Effectiveness</td>
<td>Frankfurt, Germany</td>
</tr>
<tr>
<td></td>
<td>European Council on Purchasing</td>
<td>Budapest, Hungary</td>
</tr>
<tr>
<td></td>
<td>European Council on Compensation &amp; Benefits</td>
<td>Nice, France</td>
</tr>
<tr>
<td>19-20 October</td>
<td>European Council of Controllers</td>
<td>Brussels, Belgium</td>
</tr>
</tbody>
</table>
China's Experience with Productivity and Jobs
As part of its integration into the world economy, China has undergone massive restructuring of its industrial enterprises and has granted market access to foreign and private domestic firms. This study reveals that, while these changes have led to enormous productivity gains, they are also closely linked to an important side-effect: China is rapidly losing manufacturing jobs, and in many of the same industries where the developed world has seen the greatest declines.

Performance 2004: Productivity, Employment and Income in the World’s Economies
This annual report, which is based on a comprehensive and regularly updated statistical database that now covers 97 countries and extends back several decades, covers economic performance through the end of 2003 by comparing productivity levels and growth rates of national economies. It also presents measures of average per capita income, and explains why, despite comparable levels of productivity, many countries are behind the United States on this key measure of economic strength and prosperity.

Establishing Value for HR Technology
Looks at the impact of HR technology initiatives on overall corporate business strategies and how these innovations are helping companies create value. The study also discusses a number of important HR technology concerns, including strategic planning, the overall effectiveness of new procedures, rates of utilisation (actual and planned), and the performance metrics made possible by these new processes.

Do Exchange Rates Matter?
This unique report provides insights into whether - and how - exchange rate volatility shapes business investment decisions and risk management practices, including differences among different global regions. It indicates that many important economic effects of exchange rate volatility may come not only from the direct macroeconomic impact of this volatility on countries’ economic performance, but also from the incentives that companies have to narrow their exchange rate risk by limiting the number of currencies in which they deal and/or abandoning their home currency in favour of a multinational medium of exchange like the dollar and/or the euro.

Making Innovation Work: From Strategy to Practice
Survey responses from 100 firms in the United States and Europe suggest that, even in the current tough economic climate, executives are making the business case for greater innovation, responding to cultural issues, creating support mechanisms, organising teams, and measuring success.

HR Outsourcing: Benefits, Challenges, and Trends
Continuing a project that began with “HR Outsourcing Trends” in 2002, this study provides an updated snapshot of outsourcing procedures. Overall, the report reveals that outsourcing is now a firmly embedded component of HR service delivery and that, for most functions, companies which outsource report higher levels of satisfaction than those which do not. It explores the factors contributing to the decision to outsource and shows how companies currently manage their outsourcing relationships.