Towards a barrier-free Transatlantic Market

Despite the political and diplomatic tensions between the US and Europe in recent years, the economic relationship between the two is the world’s largest, deepest and most successful. “In no area”, said Niall FitzGerald KBE, Chairman of Reuters, of The Conference Board and Co-Chairman of the Transatlantic Business Dialogue, “has the relationship remained stronger than in the commercial ties that bind our people, our companies and our economies together.”

Niall FitzGerald was speaking at the annual business briefing hosted and organised by the Paris Chamber of Commerce and Industry on 10 March. He was joined on the speaking platform by: Pierre Simon, Chamber President; Richard Cavanagh, President and Chief Executive Officer, The Conference Board; Gail Fosler, Executive Vice President and Chief Economist, The Conference Board; Bertrand Collomb, Chairman, Lafarge Group; and Baudouin Prot, Chief Executive Officer, BNP Paribas. All put forward their views on different aspects of the transatlantic relationship in a lively debate. An audience of around 200 leading figures from French business, government, media and academic circles attended this event.

Mr FitzGerald drew the audience’s attention to some important facts. The transatlantic economy accounts for 60% of world GDP and more than a third of world trade; a billion dollars a day. It represents 20% of the world’s foreign direct investment and supports more than 12 million jobs. Not only is it the single most important economic relationship but also the key driver of the global economy.

1. Niall FitzGerald, Chairman of Reuters, of The Conference Board and Co-Chairman of the Transatlantic Business Dialogue speaking at the Paris Chamber of Commerce and Industry in March.
“There is much more that unites America and Europe than divides them”, Mr FitzGerald observed. So why the need for change?

The fact is that the bigger and more integrated the transatlantic market becomes, the more obvious and apparent are the barriers that prevent it from reaching its full potential – barriers such as different legal systems, incompatible regulations and conflicting standards. “This is not a free-trade area,” said Mr FitzGerald, “but a market free of the barriers that add cost and complexity and stifle innovation and growth.”

The Transatlantic Business Dialogue has put forward a series of recommendations aiming for a barrier-free transatlantic market. Niall FitzGerald believes this goal is achievable, providing there is the political will to make it happen.

US Political Outlook
Welcoming participants and speakers, Pierre Simon observed that President Bush’s visit to Europe early this year indicated the opening of a new era in transatlantic relations. Despite the different approaches to current challenges, “we are sure that we remain united on the broad goals we wish to achieve”. He underlined Mr FitzGerald’s remarks about the substantial commercial exchanges and direct investments between the US and Europe.

Insights into some of the thorny issues facing the US administration were given by Richard E. Cavanagh, President and CEO of The Conference Board. He observed that President Bush made the “war on terror” a central part of his electoral campaign and this continues to be a top priority for the government.

Reducing the budget deficit is a major challenge. The deficit figure of $350 billion does not include the sums of money set aside for the war in Iraq, the war on terror, or for the reform of the social security system. Richard Cavanagh estimated that the true figure was probably in the region of $1000 billion, equivalent to 4% of GDP. Last year the US borrowed $700 billion and this trend is likely to continue.

Economic Imbalances
Gail Fosler – recently named by The Wall Street Journal as one of America’s top two economists in inflation forecasting over the last three years – offered a more cautious view of the US economy than in the past. She professed to being “deeply disturbed” by the trade deficit, viewing it as the symptom of a much more serious problem – that of excess liquidity circulating globally and some fundamental distortions in the global economy.

Ms Fosler predicted that the first half of 2005 would be a good period for US growth, but it will then start to decelerate, driven by a slowdown in consumer spending. In the environment of slower global growth and potentially greater financial risk, the weakness of the dollar will subside. The dollar will be neutral in the short term, but it could strengthen sharply.

Current Uncertainties in Europe
Bertrand Collomb, Chairman of Lafarge and Global Counsellor of The Conference Board, believes that Europeans should recognise that the United States is not responsible for Europe’s own difficulties such as weak economic growth and continuing structural problems. He spoke of a certain lack of optimism, combative spirit, vision and vigour in Europe at present – at least in the “old Europe”. Uncertainties in the US such as the budgetary and trade imbalances and the outlook for the dollar add to the current lack of confidence among Europeans.

An international industrial company like Lafarge, which has a major presence in the United States, benefits from the dynamism of the American economy,” said Bertrand Collomb. It is also “very aware of negative reaction to US political and economic supremacy around the world and feels its effects in many countries where it operates.” However, he feels that Europe should begin to solve its own problems before lecturing the rest of the world. He hoped that Europe would play a calm, stable and constructive role in its discussions with the US and work purposefully towards successful globalisation and world development.
New Research

Managing Talent to Drive Business Growth

A Banker’s Viewpoint
Baudouin Prot, Chief Executive Officer of BNP Paribas, said that the bank had invested more than $6 billion to build its presence in the western states of America. He spoke of the dynamic society in that region, largely a result of the growing number of immigrants from central America, matched by a dynamism in the creation of new businesses.

Mr Prot believes that the long-term economic outlook for the United States is promising, partly for demographic reasons. However, he is troubled that the US current account deficit is so high. Many companies in Europe are uncertain about how things will develop in the medium-term and so are holding back on their transatlantic investment decisions.

Keys to Effectiveness
Talent management executives agree on the importance of the following:
- Identifying potential successors
- Sharing talent management measures with boards of directors
- Comparing numbers of people in key positions who are promoted from within versus those who are hired from outside
- Developing and communicating the specific expected behaviours to all levels of employees
- Evaluating employees annually on both performance and potential
- Informing employees of possible career paths that will benefit them and the organisation
- Using talent management to embed workforce diversity
- Having at least 15% of employee satisfaction ratings tied to year-end goals and financial rewards
- Identifying quantifiable opportunities for improvement

Lynne Morton concludes: “Talent management is a business approach that embodies the emotional intelligence of organisations. It’s not a fad, and will continue to evolve into an intrinsic, critical part of business.”

6. Baudouin Prot, Chief Executive Officer, BNP Paribas.

Identifying, developing, and hiring top talent is a priority for a growing number of leading companies and their chief executives, according to a new Conference Board report, Talent Management Value Imperatives: Strategies for Successful Execution. It shows what major companies are doing to develop talented employees, what processes are working and not working, and what impact talent management programmes are having on company performance.

“While the talent mindset must be present throughout an organisation, it must also cascade from the top with the CEO as the driver,” says Lynne Morton, the report’s author.

Walking the Talk
The Conference Board report reveals a large number of CEOs in major companies are personally involved in the quest to develop talent. It provides case studies of initiatives underway at American Express, Pitney Bowes, and Cisco Systems.

The report is based on in-depth interviews with 22 companies working in the talent management area and input from 19 member companies from The Conference Board’s Talent Management Working Group.

In most firms, talent management processes are still evolving, with no single measure being universally used to measure this activity. “Some talent practitioners are still viewing its value as intangible or obvious,” Morton observes. “Some believe, quite simply, that if the company stock price goes up, TM is working. Others look at the value of specific initiatives and at ways those initiatives bring in cost savings for the organisations.”
New Research

Offshoring – Risks and Rewards

Most experts see no end in sight to the offshoring trend, as growing numbers of companies seek the cost savings and competitive advantage that offshoring promises. But with an estimated half of all offshoring operations destined to fall short of expectations, companies are under increasing pressure to calculate the risks – not merely the rewards – that offshoring entails, according to an on-line Executive Action report by The Conference Board.

The report, Thinking Offshoring Through: A Framework for Decision Makers, reveals that unless corporate leaders address the full spectrum of offshoring challenges, underperformance will only grow – and the impact on corporate operations will be significant. It is a summary of an extensive study The Conference Board is releasing in instalments over the next three months, which comprehensively examines the complex issues surrounding offshoring. It is designed to add reason, substance and perspective to an often emotionally-charged issue.

“Companies now need a comprehensive decision-making framework to help senior executives rationally and systematically assess the risks and rewards of each offshoring decision,” says Ton Heijmen, Senior Advisor to The Conference Board.

Where do companies typically go wrong?

A wide variety of bad moves can sink an offshoring effort, according to the report, from poor project management and inadequate communications to ill-conceived transition plans. While many companies tend to focus on security risks, a whole host of other risks, both at home and abroad, loom large: reputation/brand, social responsibility, geopolitical, human capital, regulatory and legal. Any one of these can turn once attractive potential savings into a costly endeavour.

The report provides an objective assessment of the risks and rewards across the multiple dimensions of offshoring – organisational, operational, human-resource, and external:

- Beyond Costs: Financial and Operational Risks examines the hidden costs that can offset offshoring’s touted savings, as well as methods to analyse cost and value and the pros and cons of vendor pricing arrangements. It also explores the multiple facets of operations, from service delivery models to the location decision, along with the raft of operational risks decision-makers must weigh.

- The full ramifications of brand and market image and corporate reputation, environmental considerations and social responsibility are discussed in the instalment: The New Corporate Reality: External and Market Considerations.

Case examples highlight failures and best practices.

- Organising Offshore Operations: Management and Human Resource Concerns offers unique perspectives on the inevitably overlooked issue of organisational structure and management of the offshored operation. It includes a discussion of integrating offshoring into corporate strategy and structure.

The ultimate success of offshoring operations depends on successfully analysing the full spectrum of implementational and operational factors – location, process, scope, participating business units, etc. In making their decisions about where to offshore, companies must consider the trade-offs of cost, proximity, convenience, time to market, and depth of resources. They must survey all of their options in each available market, from the quality of vendors and staff (skills, language, motivation) to the business environment and the availability of government incentives.

The report endorses the use of a risk management framework for those organisations that decide to offshore – to manage the totality of risks effectively and conscientiously.

“Once a company outsources or offshores, it is on its way to creating a virtual corporation – a network of companies and operations that must work together and should act as if they were one integrated firm,” says Heijmen. “Beyond advanced IT and communications capabilities, this virtual organisation requires special approaches to organisational and behavioural management and the coordination of internal and external relationships.”
The Retail Revolution
Can Europe Match US Productivity Performance?

A comprehensive study by The Conference Board shows that more than 50% of America’s productivity growth lead over Europe is due to gains in retail and wholesale trade, which have been the major drivers of US productivity growth since 1995.

Between 1995 and 2004, US productivity growth was 2.5%, while the pre-enlargement EU managed 1.5%. The importance of retail and wholesale trade in developed economies (typically 10% of GDP and 15% of employment) means that these sectors are the most important in the widening productivity gap.

“The marriage of new technologies and organisational change is at the heart of America’s growing productivity lead over Europe. European firms have not changed as rapidly as US companies, and the regulatory climate in Europe, especially its constrictions on land use, has been a major burden,” says Dr. Robert McGuckin, Director of Economic Research at The Conference Board and one of the authors of the report.

The study reveals that labour productivity growth among US retail firms jumped to 7.4% between 1995 and 2002, up from 2.6% between 1980 and 1995. Wholesale trade firms showed productivity growth of 3.5% since 1995, compared with 4.1% from 1980 to 1995.

In contrast, European productivity growth stalled in these sectors, with firms in Belgium, France, Germany, Italy and Spain posting extremely slow gains as productivity growth decelerated in both retail and wholesale trade in each of these countries in the 1995-2002 period. Among these countries, only in Spain did productivity growth improve, from -0.5% in 1990-95 to 0.5% between 1995 and 2002. The Conference Board study shows that among these countries productivity growth in retail trade ranged from 0.2% in Belgium to 1.6% in France. The UK did better, with growth of 4.1% in 1995-2002.

The figures for wholesale trade show similar but larger differences in performance between Europe and the US, with Germany and Belgium showing 1.6% growth and Italy a -0.1% decline. The UK figure was 2.6% growth.

Dr Bart van Ark, co-author of the study, observes: “Despite its slower start, Europe has enormous potential to reduce the productivity gap in these sectors. Many European firms are applying the new technologies efficiently, operational regulations are easing within many countries, and competitive incentives for change are increasing as obstacles to cross-border operations diminish. Some of the slow productivity growth of the late 90s may in fact be due to the actual adjustments being made.”

Innovation Driving US Gains
While change is underway in Europe, the pace of organisational transformation and technological adoption has been much slower compared to the US. Specifically, five factors explain Europe’s lag:

- **A head start:** While retailers on both sides of the Atlantic have followed suit in adopting innovations like bar codes, US retailers had a substantial head start over European firms in making the changes required to exploit these technologies successfully.

- **Regulatory obstacles:** Europe’s regulatory environment has slowed trade productivity growth through two channels—regulation within individual countries restricts competition, and differences in regulation across countries inhibit smooth cross-border operations in retail and wholesale trade and the associated gains from scale. One example: although France actually has more hypermarkets for size of population than the US, the establishment of new stores has been highly regulated. This has made it difficult for foreign hypermarkets to move into the French market and compete with local firms. Local zoning regulations have been a major roadblock.

- **Scale:** Since information and communication technology in these trade sectors is a technology of centralised management, information processing, and analysis, reduced opportunity for cross-border scale has lowered the incentive for investment in Europe relative to the US.

- **Slower complementary change:** Europe’s road transport industry was deregulated only in the mid-1990s, meaning many of the shipping adjustments being made in the US are less far along in Europe.

- **Culture and change:** Differences in language and culture make it more difficult to streamline operations across Europe, but this may become less of a factor as Europe’s economic and cultural integration proceeds.

European retailers and wholesalers have been investing in information and communications technologies at similar rates to US firms in recent years. But the IT share of overall investment is lower in Europe relative to the US. The growing markets of the new EU members and declining cross-border barriers to business operations indicate Europe should catch up with the US in the retail and wholesale trade sectors sometime in the near future.

The Retail Revolution
Can Europe Match US Productivity Performance?
Report R-1358-05-RR
In the series “Perspectives on a Global Economy”
Berlin, Germany  
24-25 February  
*Hosts: Dresdner Bank and Allianz AG*

As this meeting was held in Berlin, it was natural that the German pensions scene would be a prime focus. Axel Heitkamp, Managing Director of AON Consulting, explained trends in Germany from employer financing to employee financing, from Defined Benefit to Defined Contribution, the increasing flexibility and responsibility for employers, and funding alternatives.

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Council News

### Human Resources

**Outsourcing**

Antwerp, Belgium  
3-4 March  
*Host: General Motors*

Speakers from General Motors, DuPont and Bank of Ireland shared their experiences of outsourcing from their different industries. They described why they decided to move from being an internal supplier of all services towards a position of either shared services or total outsourcing of traditional HR services. They gave insights into how this was achieved, how well it worked and the key learnings.

On the second day, Mike Theaker, Senior Consultant, Technology & Operations Practice, Mercer Human Resource Consulting reviewed “Research Information on HR Transformation and the Role of Outsourcing in this Process.” He demonstrated the importance of having a robust process to determine which activities to outsource.

“How can we deal with outsourcing in a way that maintains employee engagement?” This is one of the dilemmas currently being faced by member companies. Members had an in-depth discussion about ways of working towards reconciliation.

The next meeting of the *European Council on Human Resources* will be in Vienna on 16-17 June. Members will discuss how HR can support the businesses in their innovation and business renewal objectives.  

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### Health and Safety

**Focus on Health**

Utrecht, The Netherlands  
2-3 March  
*Host: Sara Lee/DE*

The tone for this meeting was set by an excellent presentation from Pieter Starrenburg of Sara Lee/DE on how the company manage illness-related absences. The members’ discussion highlighted how practices vary across Europe.

Council members were then challenged on how prepared their companies were to respond quickly and effectively to the rapid spread of global epidemics – pandemics. The number of potential problems appears to grow each year and companies need to have their plans in place to cope with everything from Asian bird flu to tuberculosis.

The next day attention became much more focused on the individual. The presentation and discussion centred on problems of travelling in hostile environments. Lead speaker Rob Todd (formerly with the BBC) illustrated his points by describing some very difficult and dangerous situations he had experienced.

The approach changed again for the last main presentation. Dr. Lajos K. Fábián of Medicover showed how medical cover varied enormously between Western and Eastern Europe. He uncovered considerable differences in approach and funding.

The next meeting of the *European Council on Health and Safety* will be in Rome on 1-2 June. The theme will be stress management. Members have completed a questionnaire how their companies deal with problems of stress and the findings of the survey will be discussed and compared.

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The meeting kicked off with a round-table discussion on recent compensation and benefits developments in the various countries represented. This led to a presentation by Simon Gilliat, Partner, Watson Wyatt, on “The Current and Changing Scene in Western Europe”. Simon reviewed the present and changing position in eleven countries, both in the government/public and private sectors. Factors examined included the ever-growing movement away from Defined Benefit schemes, increasing longevity, changes in retirement ages, possible age discrimination aspects of Defined Contribution contributory rates, the increasingly critical nature of pension fund shortfalls when acquisitions, mergers or a company sale are under consideration, and the arguments for central management of a company’s pension policy.

Elena Oriani, Country Manager in Italy of Mercer Human Resource Consulting, reviewed “Current Reward Issues” in her country. Among the many interesting points which she made were the high salary increases for senior management in the 2003 actual – 2005 forecast period, the relative weakening and parallel relative elasticity of trade unions, and the Italian preference for fixed rather than variable pay.

Council chairman Clive Wright turned his attention to “Compensation & Benefits Skills – What they are and how they are acquired?” As the chairman and very active member of the Compensation Forum of the UK’s Chartered Institute of Personnel and Development, Clive was able to describe work undertaken to identify key skills and knowledge areas in the C & B field and thereafter to launch an Advanced Certificate in Reward Management. He then went on to complement this major initiative with information on the analysis of needs, which constitutes the basis of “The World at Work” and Hay Group training courses.
**Upcoming Conferences**

Two important conferences will take place in June 2005. Council members from Associate companies benefit from a 50% discount on the registration fee.

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**Deriving the Best Results**

**2005 Shared Services Conference**

Barcelona, Spain  
9-10 June  
*Sponsors: The Amherst Group, TPI*

As Shared Services continues to evolve and mature, attaining best-in-class results is becoming more difficult and challenging. New approaches, such as offshoring, outsourcing and process assurance, are being adopted, but many organisations are questioning what these approaches are achieving and the impact they are having on the bottom line. At the same time, there is increasing concern about the future of Shared Services and how it is likely to be transformed in coming years.

Given limited resources in most organisations for pursuing too many new initiatives, it is crucial that Shared Services practitioners select and deploy the best means for realising higher and sustainable performance levels. Participants at this conference will discuss:

- Different approaches and techniques to benefit the organisation
- Whether there are proven change management programmes that can help overcome internal resistance and obstacles
- If bottom line results demonstrate value added beyond cost reduction
- How to continually improve the experience of Shared Services customers
- What is required to become among the best-of-the-best in Shared Services, today and in the future

To view the complete agenda and register for this conference, visit:  
http://www.conference-board.org/686shared.htm

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**The Next Generation of Corporate Leaders**

**4th Women in Leadership Conference**

Prague, Czech Republic  
21-22 June  
*Sponsors: IBM, GE, BP, Goldman Sachs, Pfizer*

In upcoming generations, who is in the pipeline? Will corporations have a large enough pool of executives for future needs? What are the values and work ethic of the next generation, particularly women? How important will work-family issues be to these executives?

Topics will include:

- Understanding experiences across different generations of corporate culture
- The effect of forthcoming demographic changes on the European workplace
- How succession planning can be used to ensure that high performing women executives are in the running for top leadership positions.

To view the complete agenda and register for this conference, visit:  
http://www.conference-board.org/683women.htm