2006 will be a year of slower growth, both for the United States and the rest of the world, stated Gail Fosler, Executive Vice President and Chief Economist, The Conference Board, in her annual address to French business leaders, economists and experts invited by the Paris Chamber of Commerce and Industry on 14 March. Welcoming participants, Chamber President Pierre Simon observed that the annual briefing and debate has become something of a tradition – Gail Fosler’s economic forecasts are received with great interest and regularly attract a large audience.

Gail Fosler noted that the current investment boom, especially in the US, is not supported by a strong consumer sector. “The fundamental question is ‘Can the world continue to sustain economic growth, while the US is experiencing a slowdown?’ I believe the answer is ‘No!’” She forecast a growth rate of around 2.8% for the US in 2006.

Also taking part in the debate were: Craig Roberts Stapleton, US Ambassador to France; Daniel Dewavrin, Chairman of the Union des Industries et Métiers de la Métallurgie, France; and Edmond Alphandéry, former minister and current Chairman of the Supervisory Board, CNP Assurances.

1. Gail Fosler, Executive Vice President and Chief Economist, The Conference Board, taking questions during the economic debate organised by the Paris Chamber of Commerce and Industry in March.
Ambassador Stapleton, explaining the notion of America’s “economic patriotism,” noted that foreign investments are the engine of global economic growth, leading to higher living standards and ultimately a more secure world. He called on France to be more forward-looking and less defensive during the Doha round of negotiations for a world trade agreement.

Daniel Dewavrin noted that France was performing less well than other EU countries as far as exports to the US were concerned. High social costs in Europe meant that western companies were shifting production to less costly production sites elsewhere, and the Europe and US were competing for new markets. He would like to see this economic competition give way to better political cooperation, with France and the US working more closely together in the field of R&D.

Edmond Alphandéry believes that Europe had nothing to fear from the US economic slowdown in 2006, but, looking ahead, the world economy must adapt to a rise in long-term interest rates, and that would be a painful process.
IT Governance and Strategy
IT as an Integral Part of Successful Innovation Management

Geneva, 13-14 March

During its last two meetings, the IT Council examined latest thinking and best practices in innovation and discussed how IT adds value to successful innovation across all levels of the business architecture.

A joint session with colleagues from the Innovation Council in Brussels last autumn brought members up-to-date with the innovation framework – processes and success factors. In Geneva, the Council had the rare opportunity to see creativity in action at Procter & Gamble’s Innovation Centre, where customers and consumers jointly invent the future products and shop in virtual stores. P&G radically changed its Research & Development to open innovation with a “Connect and Develop” strategy.

Members learned how DuPont uses its superior knowledge and obsession with workplace safety and operational excellence to develop a multi-million dollar business. Its IT Group supports the constantly changing business portfolio with a flexible IT architecture. At Volkswagen, the network of virtual reality labs allows access to suppliers, research institutes and universities to accelerate VW’s development and production processes.

The IT Council will next meet in Dublin on 29-30 June. The topic will be: “Shared Services and IT.”

Human Resources
People-Related Risk

Brussels, 2-3 March

The main aim of this meeting was to identify those people-related risks that could have a significant financial impact on companies. Opening the discussion, Ron Collard, Partner, Human Resources Services, PricewaterhouseCoopers, reviewed a possible process to assess “People and Organisational Risks”. He described three types of risk:
• People risk
• HR risk in policies and processes
• Risk in the HR function

DHL hosted the meeting and supplied an interesting case-study in managing “people risk.” Thomas George, DHL’s Managing Director Integration and Business Development, talked about the huge task of integrating over 20 different companies in different parts of Europe. To achieve this, numerous project teams of various scope and complexity were formed. Thomas George indicated that it was necessary for DHL to acquire a new competency in project management. Failure to do this would have had a significant financial impact on the success of their integration process.

Two more case-studies – by John Harker of Citigroup and Geoff Taylor of Nike – revealed how the effective management of people risk had contributed to company success. The final presentation was from the European Commission. Fernando Vasquez, Legal and Technical Advisor to the Director-General for Employment and Social Affairs, gave his perspective on the implications of restructuring. In the discussions that followed, it was suggested that demographics, pensions and employee legislation were some people-related risks that were important from a European perspective.

The focus of this Council’s next meeting, in Dublin on 14-15 June, will be Talent Management:
• Managing talent at different levels
• Attracting, developing and retaining young people
• Identification and development of Top Talent
• Development and motivation of middle managers.

Bank of Ireland will host the meeting and the bank’s CEO, Brian Goggin, will open the discussion on why talent management is important. Also participating as session leaders will be Cathy Dunn of BP and Geoff McDonald of Unilever.

From left: Hans-Joachim Juntermanns, Director Human Resources EMEA, DuPont de Nemours International; Luis Santana, Leadership and Change Management Practitioner; Ron Collard, Partner, Human Resources Services, PricewaterhouseCoopers LLP.

Jaap de Vries (left), Vice President Human Resources, Borealis, with John Harker, Head of Human Resources Europe, Citigroup.
Council News

Strategic Risk Management
Managing Risk in an Interconnected World

Amsterdam, 22-23 March

To sustain their levels of profitability, banks need to grow and to take on more risks. Addressing the European Council on Strategic Risk Management Tom de Swaan, Chief Risk Officer, ABN Amro, said that, while the number of banks able to compete on a large scale has declined, the risk of significant defaults could easily rock the markets and have a negative impact on interest rates. Markets are so intertwined globally that large problems could shake the global banking and financial system. While credit risk is the largest risk of the bank, the largest potential risk to ABN Amro is reputational. Banks cannot survive without a sound reputation. Tom de Swaan explained how ABN Amro has instituted enterprise risk management to look at all of its risks. His colleague Pieter Klanssen talked about the value of risk metrics – how they help drive transparency and provide a platform to allow comparison of risks across the enterprise.

A discussion of corporate responses and preparation for avian flu led to an exchange of experiences on how companies develop processes for crisis management and business continuity. It was clear that any planning must take into account not only one’s own business but also how every business may be affected by a major pandemic. No company is affected in a vacuum; in the event of a pandemic, the entire supply chain is significantly impacted.

Council members discussed the paralysing role that fear plays in any crisis. Eight hundred people died from SARS, but the economic impact was estimated to be somewhere between US$30 to 50 billion. Companies must educate people on ways to protect themselves and their families, but executives must also understand the impossibility of covering every aspect of the risks. Members agreed that it makes sense for every company to have plans for this kind of crisis and agreed to share them as much as possible.

Corporate Strategy
Role, Structure and Challenges of the Corporate Office

London, 9-10 February

Opening presenter Michael Goold, director of Ashridge Strategic Management Centre, presented research on the fundamental role of the corporate centre in adding value to the performance of business units. He argued that the corporate centre creates value only under a limited set of circumstances: the business has a “parenting opportunity” (for example, a purchasing department); the parent has relevant capabilities or resources; the parent has sufficient understanding of each business to avoid inadvertent value destruction.

Michael Goold identified the three different roles of the corporate centre: governance and compliance; value-added parenting: and shared services. These themes were developed in the subsequent sessions.

- Governance and compliance. Tobias Becker, Head of Corporate Strategy, ABB, focused on the corporate office’s success as a “strategic architect” in bringing down overhead costs in a sustainable manner, as well as its progress toward an “Execution Champion” role. Michel Washer, Director of Corporate Development at Solvay, explained how corporate governance is organised at Solvay in line with the Lippens code of corporate governance guidelines in Belgium. He discussed the challenges faced by the corporate parent when instilling changes in legal and value norms through its many business units.

- Value-added parenting. Ian Christmas, Secretary General, International Iron & Steel Institute, and Hein Schreuder, Vice President, Corporate Strategy & Development, and chairman of the Council, illustrated the concept of value-added parenting with examples. He described how the parent can identify portfolio capabilities across the company. It can then map which capabilities may be leveraged across the businesses completely, partially or not at all.

- Shared services. Prof. Dr. J. Strikwerda from the Business School-Universiteit van Amsterdam, presented his research on the challenge of shared service centres (SSC) to concepts of operating models, internal governance and corporate strategy. He illustrated his concepts with three case studies from postal services, financial services and the high technology sector.

Goal setting will be the theme of this Council’s next meeting, which will take place in Paris on 22-23 June.
Compensation & Benefits
National Trends Compared
Barcelona, 16-17 March

An update on national developments in Compensation & Benefits is a regular feature of this Council. Members noted a continuing trend away from stock options and an increase in deferred and year-end bonuses. Where share options are continuing, they are increasingly linked to performance. Several members reported that their companies are reviewing their job/evaluation/grading systems and, in parallel, moving to a performance management organisation. This issue was explored by Jim Matthewman, Worldwide Partner, Mercer Human Resources Consulting, who addressed the question “How effective is job-grading in multinational organisations?” His detailed review of organisations’ current and changing practices led into a workshop session, where three groups considered a number of related issues including governance, obstacles to effectiveness and role progression.

Health & Safety
Legal Update and Compliance Issues
Brussels, 15-16 March

Thierry Dumortier of the environmental, health and safety consultancy, ENHESA, gave an update on existing and pending European legislation. He focused particularly on impending legislation in noise and chemical classification.

Eddy Linclau of Procter & Gamble described how the company’s approach to legal compliance changed over the past few years to cope with the variety and complexity of new legislation/regulation. The areas of responsibility are now much more clearly defined. In the break-out groups, members agreed that each company needs to develop a system that fits with the type and size of the operation, and is adapted to the individual country.

The meeting also included a round-table discussion on substance abuse led by Hans Jørgen Hegg of Norsk Hydro. Among the questions debated: Are employees regularly screened? How many companies carry out random checks? When substance abuse is suspected, what action do companies take?

Gisela Erler, Co-Director of the European Council on Work-Life & Diversity, has received the Elisabeth-Selbert-Prize for her longstanding commitment to the development of progressive gender and equal opportunity policies. The prize, awarded by the German Region of Hesse, is named after Elisabeth Selbert (1896-1986) – one of the few women in Germany’s post-war constitutional assembly – who is credited for the inclusion of gender equality as a basic principle of the constitution. The ceremony, which took place at the University of Kassel on 19 March, is organised by Hesse’s Ministry for Social Affairs and this year’s prize was presented by the Minister herself, Silke Lautenschläger. Gisela Erler, CEO of pme Familienservice GmbH, a leading work-life-balance service provider, has donated half of the prize money to ‘Manos Abiertas’, a charity organisation working with street children in Ecuador. She is pictured here with her husband, Dr. Warnfried Dettling, political consultant.

To receive upcoming agendas for any of the European Councils, contact: brussels@conference-board.org
Webcasts

Following the European launch of the webcast programme in February, two more webcasts were held in early April, linking audiences on both sides of the Atlantic.

Leadership and Change

6 April, 2006
Presenter: Prof. Malcolm Higgs of Henley Management College, UK

What makes an effective leader? Despite extensive research over the last 50 years and numerous books on the topic, we still do not have a clear and compelling view of what it takes. The more leaders we learn about, the less clearly we are able to identify a common pattern of characteristics or behaviours. Some of the most successful leaders are outgoing and charismatic, while others are quiet, humble and reflective.

There is a strong business imperative to understand the nature and requirements of effective leadership. We see this specifically in terms of the leaders’ role in ensuring that organisations can successfully change and adapt to meet the competitive challenges of a volatile and complex business environment. The last annual Conference Board CEO survey revealed that Speed, Flexibility and Adaptability to Change remains the top challenge for European chief executives, but research continues to demonstrate that as few as 30% of change initiatives are successfully implemented.

So, if 70% of change initiatives fail, what makes change work? Malcolm Higgs identified framing change and creating capacity as the two successful leadership behaviour sets. Within the first set, the leader’s role is to establish the case for change and create a “container” within which others were enabled to contribute. The leader’s role in creating capacity is focused on developing individual capacity and creating appropriate networks and relationships to enable capacity to be developed across the organisation.

Professor Higgs observed that, in much of the leadership research so far, judgement of effectiveness has focused on achieving specific results, often financial. An on-line poll conducted during the webcast confirmed this. He believes it is more productive to examine the nature of effective leadership viewed through the lens of building capability and a legacy rather than a focus on short-term results. If this is done, five common behavioural patterns emerge:

1. Envisioning: Working with others to create a clear vision of the future
2. Engaging: Ensuring that everyone in the organisation understands the vision and is committed to its achievement
3. Enabling: Creating the conditions and support to enable all to contribute to performance and realise their personal potential
4. Inquiring: Being open to input and ideas from others and asking genuine questions to build understanding
5. Developing: Investing time and effort in developing the capability of others.

In the words of Mahatma Gandhi: “The most powerful legacy in life is to enable others, to let them be the best they can be.”

See also Executive Action report No. 178, “What Do We Really Know about Effective Leadership in Change Management,” by Professor Malcolm Higgs.

Eliminating Microinequities

4 April, 2006
Presenter: Brigid Moynahan, President, The Next Level, Inc. with contributions from Kathy Marvel, Senior Vice President and Chief Diversity Officer, Chubb Corporation; Joy Bunson, Senior Vice President, Head of Corporate Development, JP MorganChase; Anne St. Clair, Vice President Human Resources, Basell North America; and John Sequiera, Senior Diversity Advisor, Global Diversity and Inclusiveness Practice, Royal Dutch Shell.

Microinequities are subtle barriers that undermine diversity, engagement and innovation. Some common examples are: failing to acknowledge people and their ideas in meetings; not giving people full attention; regularly holding video-conferences in English to the disadvantage of participants for whom it is not their first language – the small things we do each day that either bring in people or wall them out.

There is a powerful business case for eliminating these barriers to inclusion. Brigid Moynahan referred to Gallup findings which show that inclusion creates higher employee engagement which in turn leads to better retention, satisfaction, loyalty and increased productivity and profitability. Secondly, inclusion creates high performance: diverse teams outperform homogeneous ones, provided they learn to value and include differences. Thirdly, inclusion breeds innovation. Our natural tendency is to move away from difference and toward similarity, yet new and original ideas often occur at the intersection of differences.

Speakers described how they are building cultures of inclusion within their organisations. Training people to be aware of microinequities is sometimes resisted by individuals who either feel blamed or think that the focus is too US-centric. John Sequiera said that a challenge for Shell in Europe is overcoming resistance from those who believe that this is unique to the United States.

See also Executive Action report No. 151, “Go Ahead: Sweat the Small Stuff,” by Brigid Moynahan.
Spain’s Productivity Record Gives Positive and Negative Signals

There is both good and bad news concerning Spain’s productivity record, according to Professor Bart Van Ark of the University of Groningen and Director International Economic Research at The Conference Board. He was speaking at a business briefing in Madrid in March, organised in cooperation with the Confederación Española de Directivos y Ejecutivos, and hosted by La Caixa.

The good news is that:
• Employment creation has been strong
• Human capital has risen sharply
• The physical capital-labour ratio has recovered somewhat
• Manufacturing cost competitiveness is still strong
• There has been a moderate recovery in market services

The bad news is that:
• Labour productivity in Spain has declined markedly, creating a strong trade-off with employment growth
• Total factor productivity growth is negative and the skill rise has not been exploited to strengthen it
• Industries that do not use ICT intensively are most hurt.

According to Professor Van Ark, the key to revive growth in Spain, as in the rest of the EU, is to create not only more jobs, but more productive jobs, and primarily in industries in which the country has a competitive advantage. A more competitive environment is needed, which requires reforms that are primarily focused on stimulation and a reallocation of resources to the most productive firms in each industry. In addition, more productive use of ICT is crucial: innovation needs to go beyond high-tech manufacturing activities and also target services.

Additional speakers included Barbara Reno, Vice-President & Managing Director Europe & India, The Conference Board; Antonio Garrido-Lestache, Regional Representative for Spain and Portugal, The Conference Board; Carlos Mallo Rodríguez, Chairman of the Accounting Committee, CEDE; José Luis Madariaga, President of PricewaterhouseCoopers España; Jordi Gual, Deputy Director General of La Caixa; and Luis Lada, President of Telefónica.

12. José Luis Madariaga, Chairman of PricewaterhouseCoopers España.
13. Professor Bart Van Ark in conversation with José Luis Madariaga.
14. From left to right: Jordi Gual, Deputy Director General of La Caixa; Antonio Garrido-Lestache, Director for Spain and Portugal, The Conference Board; Professor Bart Van Ark of the University of Groningen and Director International Economic Research, The Conference Board; Luis Lada, President of Telefónica.
CEOs and HR Executives know that attracting, developing and retaining talent is a top business imperative. Yet talent shortages are looming in Europe, US, China and India. Now is the time to re-think talent management assumptions, programmes and processes.

Plenary sessions will examine Talent Management from these angles:
• As a Business Imperative (Keynote speaker, Brian Goggin, Group Chief Executive, Bank of Ireland)
• Whose Responsibility Is It? (Individual, line management, HR department or top management?)
• Unspoken Barriers

In addition, there will be workshops on:
• Managing Talent in India, China and Central Europe
• Dealing with Cross Cultural Challenges
• Managing a Maturing Workforce

For agenda and registration details, visit: www.conference-board.org/Eutalent.htm

European Research Working Groups

The Conference Board will launch two European Research Working Groups this spring. These are networks of about 15 senior executives from leading organisations. Members focus on a defined project and present or publish the results of their research.

The first of these will examine Corporate Responses to Humanitarian Disasters. It will look at the critical steps for companies in building successful links with humanitarian organisations, and seek to identify good management practices. The inaugural meeting will be in Paris on 15-16 June.

The second, entitled Mature Workforce Challenges, aims to integrate strategies for successfully managing the mature workforce into overall talent management. Results will be shared with a comparable Research Working Group underway in the United States. The inaugural meeting will be in Brussels on 19-20 June.

For more information, contact serena.uberti@conference-board.org