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EUROPEANBUSINESSLEADERSCONVENTION

EUROPE IN CRISIS
Is There a Way Out?

2–4 July 2009
Conclusions

Compiled by
Laura Palotie

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EXECUTIVE SUMMARY

The European Business Leaders' Convention was held on July 2–4, 2009 in Helsinki, under the theme 'Europe in Crisis: Is There a Way Out?' All discussions took place under Chatham House rules.

MAIN CONCLUSIONS

- The crisis is not over, and no-one can predict when and where the recovery will start. Europe could be facing economic difficulties for a long time; the U.S, meanwhile, is expected to fight its way out of the recession a bit faster.
- Faced with a lack of affordable credit from struggling banks and a widespread sense of uncertainty, many European companies are in waiting mode. Yet, there has never been a better time for innovative entrepreneurship.
- Russia's announcement not to join the WTO has left many participants worried that the country is isolating itself further and not making sufficient efforts to modernize its economy.
- The EU has dealt with the crisis fairly positively. It reacted swiftly to the banking crisis in late 2008 and was able to coordinate economic policy reactions. It has also avoided protectionism.
- In the future, European business needs a strong Europe with a functioning single market and a predictable regulatory framework. Although some politicians look to tighter regulations as a solution, these are both costly and inefficient. Europe is in need of better regulation, not more of it.
- Instead of resuscitating struggling industries, governments should invest their energies in education and R&D. In order for Europe to dig its way out of the recession, new innovations are crucial—after all, new business models can only rise from an environment that fosters innovation.
- The latest generation of employees possesses a profound knowledge of social networks and mobile technologies, and is bringing this skill set to the workplace. As a result, employees are now educating executives, not the other way around.

DISCOVERING EUROPE'S VOICE

It has been stated that while the United States is living in an era of "Yes we can," Europe has resigned to an attitude of "Yes we should." Fittingly, the U.S is expected to climb out of the crisis before Europe. In order to emerge from the current recession, Europeans need to drop their risk-avoidant attitude and strive for a brighter, unified vision. Europe is at risk of losing its relevance as a global power, and fragmentation would only further weaken our position at the world table.

Europe represents more than 30 percent of the world's economy. It is responsible of more than half of the world's development aid and has tens of thousands of diplomats stationed around the world. Global issues like climate change could hardly be addressed without Europe's active role. Yet, Europe lacks a coherent voice.

Passing of the Lisbon treaty could help Europe maintain its relevance alongside the US and emerging powers such as China and India, as it would allow the EU to articulate a unified position to the rest of the world more clearly it is currently able.

While some argue that the EU didn't provide sufficient assistance to smaller countries like Iceland (a non-member) and Latvia (a member), others have been satisfied in its ability to coordinate economic policy and to stay away from protectionism.

The present recession, unlike that of the 1930s, hasn't been met with widespread unrest on the streets, but lack of trust in existing institutions. The lack of trust is manifested in the fact that 60 percent of eligible voters did not participate in the European elections this summer.

One can only hope that as politicians map Europe's way out of the crisis, they can momentarily forget about scoring votes in the next election and focus on initiating positive change in the present.

CAN THE CRISIS CREATE OPPORTUNITIES FOR BUSINESS?

As a burdened Europe pulls itself out of the financial crisis, many companies continue to be cautious about new investments. Struggling banks are no longer able to hand out affordable credit, and this combination of expensive loans and an uncertain economic future is causing companies to proceed with extreme caution. Estimating an end point to the recession can be risky, and some experts ask companies to expect tough times until at least 2011. Nevertheless, companies and governments alike would benefit from viewing this economic slump as a starting point for new opportunities.

Ideally, government bailout packages shouldn't aim to salvage a system per say, but invest a country's way out of a recession. The post-financial crisis world will be in dire need of enthusiastic, innovative entrepreneurs and governments that allow them to thrive. Although governments can feel tempted to raise taxes and focus on their domestic economies, both are short-sighted approaches, and will only push businesses to move to geographic areas with less regulation. So far, Europe has hardly made enough effort to make itself a more competitive region for businesses.

Flexible movement of talent should be encouraged, and companies should make research and development their priority. The Lisbon Agenda instructed all EU countries to invest three percent of their GDP into research and development by 2010, but so far only Finland and Sweden have met this goal.

What many call a 'transformational crisis' is bound to change the business landscape, causing financial institutions to rethink their approaches and some previously powerful businesses to disappear from the map. But as the 1980s saw the emergence of Apple and the 1990s the birth of Vodafone and Nokia, the upcoming decade may witness the birth of an entirely new era of innovation.

MOTIVATING EMPLOYEES IN AN EVOLVING WORKPLACE

The global recession has caused a permanent shift in our financial systems, but combined with an unforeseeably connected world and an aging population, its effects are also beginning to trickle down to the average European workplace.

Employees of the new generation value creative challenges over hefty bonuses, stay connected through mobile technology and social networks, and expect transparency and accessibility of their employers.

As companies navigate their way out of the ongoing crisis, they are going to be faced with an entirely new challenge: a shortage of talent created by a retiring group of baby boomers. Even if one were to factor in a 3.5 percent increase in eligibility and participation rates, more than 24 million workers could be missing from Europe by 2060. As early as 2020, Finland, Italy and Japan will have a larger segment of their populations retired than working. Recruitment will pose a challenge to companies seeking to fill their executive positions, and some governments are already preparing for the drought by conducting more intensive talent mapping.

But although the pool of candidates will be smaller in the future, it will also be highly educated, more globally interconnected, and have demanding career expectations. Where baby boomers valued loyalty, the incoming generation prioritizes motivation and is prepared to change jobs frequently (an average of 14 times by the age of 38). Members of this demographic are able to simultaneously catch up on the news, update their twitter pages, send SMS messages to coworkers and listen to a presentation in real time. Entering the workplace with a profound knowledge of new technologies, this generation now has the responsibility of preparing their employers for the future.

Companies like Google have effectively tapped into this expectation, inspiring employees to spend more time at the workplace by offering unique perks like free meals and massages and allowing workers to spend a fifth of their time on personal pet projects. Facilitated communication allows for easier collaboration and also drives employees to expect transparency and openness from company executives.

Companies should also boast mission statements that demonstrate their willingness to contribute to the world rather than simply exploit it; encouraging employees to spend time on meaningful pro-bono work is one way to win the approval of a critical new workforce.

That young workers rank inspiration over short-term cash bonuses should give companies additional motivation to invest in research and development. Instead of pouring money into struggling industries, governments should support research initiatives that cater to the demands of the new workforce and develop industries that will dominate the business landscape of the future. Furthermore, flexible immigration policies will allow talent to move where the work is and support today's mobile, interconnected world.

HOW EUROPE'S HARDEST-HIT COUNTRIES ARE COPING

The worldwide crisis has left no-one unaffected, but for a multitude of reasons, a number of countries—both inside and outside of the EU—have taken particularly harsh hits to their economies. While Iceland's stumble was arguably the most widely publicized, Croatia, Ireland, Estonia and Latvia have also seen their economic landscapes dramatically change.

Iceland

Following the collapse of its three largest banks and a staggering public sector debt, Iceland has seen its currency drop to less than half of its original value and has witnessed more than 60 percent of its corporations enter bankruptcy. Some financial experts have begun referring to Iceland as "the Lehman Brothers of Europe," claiming that the mistake Europe made in letting the Icelandic economy collapse is comparable to the U.S Government's decision to let Lehman Brothers fail. These individuals point to the fact that hard-hit countries like Hungary and Latvia would not be in as dire of an economic shape if Europe had interfered more aggressively with Iceland and not forced it to resort to taking out an expensive IMF loan.

The opposing side has pointed out, however, that Iceland should be held responsible for its current situation; its banks were run aggressively with shaky assets, made acquisitions at staggering prices and consequently turned the country into an enormous hedge fund. Furthermore, the rules of the European Union do not allow individual countries to be bailed out.

Latvia

Like Iceland's, Latvia's small economy is currently under the IMF program. Like the United States, Latvia suffered from over-inflated real estate values and unsustainable, debt-fueled growth. The EU member currently has no room to stimulate its economy, and is consequently focusing on reallocating European structural funds to areas of priority. With a chunk of its population losing unemployment benefits in September, Latvia's pressures are growing. Its current goal is to become part of the Euro in 2013 and thus earn much-needed stability to its economy.

Estonia

Estonia, similarly, is hoping to bring its budget deficit to below three percent in order to join the Euro. A small, open economy whose currency is tried to the Euro, Estonia couldn't prevent the flow of money in and out of its banks before the present crisis hit and was vulnerable to the impacts of the recession; former Hansabank's requests that other banks would stop lending to Estonians were met with shakes of the head. Some speculations have been made about possible devaluation of the Estonian Kroon, but because it is tied to the Euro in a closed system, doing so is not an option. The country is also hesitant to borrow money in order to bridge a gap in incomes, as adding to its deficit could be risky for its planned transition into the Euro.

The citizens of Estonia have reacted with relative calmness, however. Some Estonians factor the absence of riots to the fact that locals have seen their fair share

of political turmoil, and compared to 1940 or 1991, the country is going through a secure period.

Ireland

Ireland, a country whose vote will decide the fate of the Lisbon Treaty, is currently combating a large-scale fiscal crisis caused by a surge in unemployment (the number of unemployed jumped from five to more than 10 percent in 2008) and a collapse in tax revenue. The government has imposed a 7.5 percent cut in salaries and wages in the public sector, and a wage drift has resulted. Despite rejecting the Lisbon treaty, Irish citizens have displayed a comparatively positive attitude towards the EU—in fact, it has remained fairly stable over the past ten years. Current opinion polls predict that Irish citizens will vote 'yes' on the treaty when they decide on the second referendum of the document.

HOW RUSSIA IS COPING

If Europe's attitude in the face of a recession can be summarized with 'yes we should,' many claim Russia to put forth a spirit of 'no, we should not.' The country's business structures and practices are often described as archaic, while its inexperience with capitalism and widespread corruption hardly help its cause.

The Russian government managed to salvage the country's banks for a price tag of 200,000 million Euros and maintain an overall economic stability, but the social implications of the global recession have nevertheless been visible. In April of this year, 7.5 million Russians (10.2% of the economically active population) were unemployed, and The World Bank expects the country's economy to shrink by eight percent during 2009.

Not everyone buys the concept of Russian isolationism—its younger generation actively explores educational opportunities abroad and its population as a whole takes EU seriously—but many make it clear that the country needs to move beyond its tendency to fixate on security issues and consider its relationship with other countries purely on a one-on one basis.

Furthermore, after a 16-year push to join the WTO, the country pulled its application in June of this year and has no plans to reapply until it has launched a new customs union with Belarus and Kazakhstan in 2010. With both its imports and exports down, many assume that the country has fallen back on protectionist tendencies and has slowed down its plan to modernize its economy. Even Russia's successful push to

bring stability to its economy doesn't count for much if its business models remain outdated.

Many point out that government funds in Russia shouldn't be used to carry businesses to the end of the fiscal year but to modernize businesses and educate employees—this is true for the rest of the world, and especially true for a country whose methods of conducting business are notoriously out of date. Many view the new EU commission as an opportunity to bring much-needed clarity to the relationship between the EU and Russia and initiate a new conversation about the WTO.

Somewhat surprisingly, more than half of Russia's citizens consider the country to be on the wrong track while president Dmitry Medvedev maintains approval rates in the mid-to high 70s. Some have described these figures as contradictory, and compared them to the process of "driving two horses in opposite directions."

PARTICIPANTS

CONFERENCE DELEGATES

Mr Esko Aho
Executive Vice President,
Corporate Relations and Responsibility
Nokia Corporation

Mr David Arkless
President
Manpower Corporate Affairs

Mr Ali Babacan
State Minister and
Deputy Prime Minister
of Turkey

Mr Horst Bacia
Editor-in-Chief
Die Gegenwart, Frankfurter Allgemeine
Zeitung GmbH

Ms Barbara Barrett
U.S. Ambassador to Finland, 2008-
2009
Former CEO
American Management Association

Dr Craig R. Barrett
Retired CEO/Chairman
Intel Corporation

Mr Ferdinando Beccalli-Falco
President and CEO
GE International

Mr Erik Belfrage
Senior Adviser to the Chairman
SEB

Mr Simon Beresford-Wylie
CEO
Nokia Siemens Networks

Dr Roland Berger
Chairman
Roland Berger Strategy Consultants

Sir Winfried Bischoff
Former Chairman
Citigroup Inc.

Mr Kurt Björklund
Co-Managing Partner
Permira Advisers LLP

Ms Alexandrine Bouilhet
Chief editor
Le Figaro

Dr Anu Bradford
Assistant Professor of Law
The University of Chicago Law School

Mr Travis Bradford
Founder, President and Director
Prometheus Institute for Sustainable
Development

Mr Svein Richard Brandtzaeg
President and CEO
Norsk Hydro ASA

Ms Catherine Burger
Deputy Head, Chairman's Office
Credit Suisse

Mr Tom Burke
Founding Director
E3G

Mr Tahar Canatan
Deputy Chief Of Cabinet
Turkish Prime Ministry

Dr Valerie Caton
British Ambassador to Finland

Mr Anatoly Chubays
CEO
Russian Corporation of
Nanotechnologies

Mr Christopher Clarke
President and CEO
Boyden World Corporation

Mr Paul Corcoran
Financial Director
Nord Stream AG

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Worldwide Managing Director
McKinsey & Company

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McKinsey & Company

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E. Öhman J:or AB

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Advisor to the Prime Minister of Latvia

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Croup Managing Director
Richard Lewis Communications Ltd

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Main Presenter
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Centre for European Reform

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Parliament of Iceland

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Les Échos

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El País

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Metsäliitto Group

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EUobserver

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European Commission

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Isamaa ja Res Publica Liit

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Componenta Corporation

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Booz & Company B.V.

Mr Mark Leonard
Executive Director
European Council on Foreign Relations

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Director
The International Centre for Defence Studies

Mr Edward Lucas
Correspondent
The Economist

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Il Sole 24 Ore

Mr Neil C. McArthur
Senior Vice President
Booz & Company B.V.

Dr Dominique Moïsi
Special Advisor
French Institute for International Relations

Mr Alexey A. Mordashov
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Severstal

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CEO UK and Ireland, Leader of Northwest Europe
Alcatel-Lucent

Mr Matthias Nass
Deputy Editor-in-Chief
Die Zeit

Mr Lars Nyberg
President and CEO
TeliaSonera AB

Mr René Nyberg
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East Office of Finnish Industries

Mr Damien O'Brien
CEO
Egon Zehnder International

Mr Jorma Ollila
Chairman
Nokia Corporation

Mr Peter Oppenheimer
Managing Director, Chief European Strategist
Goldman Sachs International

Mr Mayur Patel
Director of strategic assessment and impact
John S. and James L. Knight Foundation

Mr Timo Pesonen
Head of Cabinet
Cabinet of Commissioner Olli Rehn
European Commission

Mr Wim Philippa
Secretary General
The European Round Table of Industrialists

Mr Antti Pitkänen
Director, Helsinki
McKinsey & Company

Mr Gideon Rachman
Chief Foreign Affairs Columnist
The Financial Times

Mr Goran Radman
Dean
VERN' University of Applied Sciences

Mr Stanley Reed
London Bureau Chief
Business Week

Mr Olli Rehn
Commissioner for Enlargement
European Commission

Mr Seppo Remes
Chairman
EOS Russia

Mr David Rennie
EU Correspondent
The Economist

Mr Lars Rohde
CEO
ATP

Mr Sebastian Sass
Head of EU Representation
Nord Stream AG

Mr Björn Savén
Chairman
IK Investment Partners AB

Mr Tøger Seidenfaden
Chief Editor
Politiken

Dr Lilia Shevtsova
Senior Associate
Carnegie Endowment for International Peace

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Professor
UCD Geary Institute

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International Herald Tribune

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President of the Supervisory Board
POLPHARMA SA Pharmaceutical Works

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CEO
Danske Bank Group

Mr Alexander Stubb
Minister for Foreign Affairs of Finland

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Member of the Cabinet of Commissioner Meglena Kuneva
European Commission

Mr János Takács
CEO
Electrolux Lehel Kft.

Mr Yoichi Takita
Senior Staff Writer, New York
Nikkei

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Executive Director
BBLF

Mr Michael Treschow
Chairman
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President
Amstelbridge Group

Mr Daniel Vernet
Director of International Relations
Le Monde

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Managing Director
Goldman Sachs International

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Turkish Prime Ministry

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Oxford Analytica

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Tieto Corporation

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TeliaSonera Finland

EBLC ORGANISING COMMITTEE

Mr Georg Ehrnrooth
Chairman
EBLC Organising Committee

Dr Sixten Korkman
Managing Director
Finnish Business and Policy Forum EVA
Research Institute of the Finnish Economy ETLA

Dr Risto Penttilä
Secretary General
EBLC Secretariat
Director
Finnish Business and Policy Forum EVA

Mr Risto Siilasmaa
Chairman
F-Secure

Mr Veli Sundbäck
ex. EVP, Member of the Group Executive Board
Nokia Corporation

OBSERVERS

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Reporting and Research Officer
UNICEF Turkey

Mr Hans Enocson
National Executive Nordic Region
GE

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Senior Partner
Boyden Finland

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Egon Zehnder International Helsinki

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Suomen Kuvalehti

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Prime Minister's Office

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Helsingin Sanomat

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CEO
Danske Bank Group

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Ericsson

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CHAIRMAN

Mr Georg Ehrnrooth
Chairman
EBLC Organising Committee

MEMBERS

Dr Sixten Korkman
Managing Director
Finnish Business and Policy Forum EVA
Research Institute of the Finnish Economy ETLA

Dr Risto Penttilä
Secretary General
EBLC Secretariat
Director
Finnish Business and Policy Forum EVA

Mr Risto Siilasmaa
Chairman
F-Secure

Mr Veli Sundbäck
ex. EVP, Member of the Group Executive Board
Nokia Corporation

SECRETARIAT

GENERAL CONTACTS

Mailing address:
Yrjönkatu 13 a, FIN-00120 Helsinki, Finland
Tel: +358 9 686 9200
Fax: +358 9 608 713

SECRETARY GENERAL

Risto E.J. Penttilä
Tel: +358 9 6869 2032
Mobile: +358 50 366 2395
E-mail: risto.penttila@eblc.org

CONFERENCE MANAGER

Milla Uusi-Pietilä
Tel: +358 9 6869 2045
Mobile: +358 46 851 0510
E-mail: milla.uusi-pietila@eblc.org

CONFERENCE COORDINATOR (MEDIA RELATIONS)

Maiju Karsikas
Tel: +358 9 6869 2031
Mobile: +358 46 851 0512
E-mail: maiju.karsikas@eblc.org

CORPORATE PARTNERS

TeliaSonera

NOKIA

Fortum

Nordea

KONE

OP-Pohjola

KONECRANES
Lifting Businesses

OUTO
KUMPU

-Säätiö

ruukki

PEAN

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RS

ENTION

YRJÖNKATU 13A FIN-00120 HELSINKI TEL+358-9-6869200