

Northern Light 2013: Conclusions

The tenth anniversary meeting of the European Business Leaders' Convention took place in Helsinki from 4 to 6 July, 2013. This year's theme was "Europe's New Normal: What Does it Mean in Banking, Business and Politics?" All discussions took place under the Chatham House Rule.

Executive Summary

A "new normal" indeed exists in European banking, business and politics, and is likely to persist for several years. However, each one of these fields is also about to undergo a major transformation.

The new normal in business and banking is defined by slow growth, more regulation, volatility, continued deleveraging and uneven availability of corporate funding. Especially small and medium businesses are likely to hurt in the new business environment.

The transformation of business and banking will be driven by the need to adapt to the new normal. On the other hand, it is also driven by technological change (such as big data and "fracking") and a change in consumer behaviour. Many industries will be transformed by digitalisation and social media, and all industries have to meet higher expectations in sustainability.

The new normal in European politics is characterised by Germany's dominant position, a weak Commission and the European Union's crisis of legitimacy.

The transformation of the European Union is driven by a populist sentiment, weak public finances, lack of competitiveness and rising unemployment figures, especially among Europe's youth.

Five years from now, the European Union will likely be very different from the way it is today. Three options are on the table: a more federal Europe (which seems unlikely, given the limited appetite for it among European voters), a partial break-up of the Euro (which might make sense but would be vastly difficult to realise) and "muddling through." The least risky option might be "muddling through plus" – that is, a series of ad hoc fixes supplemented by improved governance and better institutions.

The state of businesses and business culture

European companies urgently need to revive their entrepreneurial spirit and prepare for the rapidly approaching day when the middle classes of emerging economies will form a major new

consumer base for a host of products and services. Europe could, and in many cases already does, excel in providing several of these services, including in environmental protection and energy efficiency. A demand for European products also exists in emerging economies such as China.

Leaders stress the gains in innovation and competitiveness that can be reached via a true completion of the EU's still unfinished Internal Market. They also call for the rapid conclusion of the planned EU-US Trans-Atlantic Trade and Investment Partnership.

Europe's diverse economies offer unique opportunities for growth in creative undertakings. These include areas such as public health, education and online services. One recent success story is the Finnish mobile gaming sector, which continues to show impressive growth. Some successful entrepreneurs deplore the prevalence of low self-confidence and lack of ambition in Europe, despite its highly educated population. Companies must adopt a more customer-oriented approach and push for growth.

A call for better gender balance

Within corporations, the percentage of women in upper management remains low. Among Fortune 500 companies in the US, only about 4 per cent of CEOs are women, while in Europe one in eight top companies have a woman CEO. Although women outpace men at the university level, a gender inequality in favour of men persists after women reach mid-level positions.

Women in corporate life are subjected to subtle biases, the most notable being the misconception that those who cut back on working hours to care for their families are less committed to their careers. To reduce gender gap at the executive level, companies have to overhaul their leadership culture. Both men and women should be given the flexibility to work part-time or re-enter the workforce after a hiatus.

Digital trends

Mobile and IT technologies have permanently changed the landscape of European business and blurred established borders, especially in the cyber security domain. Perpetrators of cyber attacks in today's digitally addicted societies fall into three categories – criminals, activists and governments – each with their own distinct motivations and carefully conceived operations.

Companies both small and large must presume that they will sooner or later be targeted, and prepare for specific courses of action the day this happens. Convincing large corporations of the importance of cyber security may be easy, but smaller businesses

are often not aware of the risks they run. A large share of the online security discussion centres on the confidentiality of cloud services.

In some cases, governments are teaming up with corporations to develop cyber security. The British government, for example, has recently partnered with large defence and telecom companies. Meanwhile, the question of governments going on the offensive in cyber attacks has come to the fore in a highly visible way following disclosures of US surveillance. The situation has become a matter of international diplomacy.

Among European leaders, a cyber-intelligence system is seen as valuable, provided that it is for the public good. Cyber defence, rather than offense, ought to be their focus. Leaders also call for more coordinated international action to battle cyber attacks. That approach has been successful in uncovering fraud in the credit card industry.

The question of privacy also arises in the discussion on big data: The European Commission regulates the use of big data in order to protect customer privacy, but faces the challenge of reconciling the aim of innovation with that of confidentiality in an increasingly complex environment. The US is ahead in innovation, but faces a less trusting consumer base.

Successes and quandaries in digital publishing

Another area of debate concerns the transition from print to digital. Digital book publishers are thriving while the news industry struggles to remain afloat. Readers are willing to pay for digital editions of books, and the corresponding platforms make distribution fast and painless. The experience at newspapers with so-called 'paywalls' – implying privileged access to content – has, however, been mixed.

A debate is also under way about the need for editorial supervision and the ever-shorter attention spans of news consumers; if people are increasingly turning to bare-boned snippets of citizen journalism on sites like Twitter, some wonder whether traditionally edited publications can retain their role in news gathering. Others say that quality journalism will always have a readership.

The new normal in European energy

Leaders point to Europe's rising energy dependence and unfavourable cost situation, which in some geographical regions is already hampering growth; greater energy independence would be necessary in order for Europe to maintain its overall cost-competitiveness.

Progress has recently been made toward a Unified European Energy Market, including in natural gas, and nuclear energy is expected to hold its own, not least thanks to the introduction of new, safer technology. The same holds for renewable energy, which leaders view as progressively more capable of competing even in the absence of subsidies. One area of further energy interest is the Barents Sea region, with its riches in gas, oil and minerals. Proactive infrastructure development, including new transpolar routes, will open up further opportunities.

The US, meanwhile, has achieved technological breakthroughs in the extraction of gas and oil, but this is not likely to be a fundamental game-changer in an increasingly energy-craving world.

Europe on the world stage

A tectonic shift in world economic dominance is under way in the direction of a host of rising economies. The most predominant of these, China, still faces formidable challenges in reforming its economy and finding the right path away from excessive reliance on exports and toward higher domestic consumption. To avoid the emergence of a 'middle-income gap,' China will have to build up its social safety net, improve people-oriented investments, and fight unemployment. The risk of a property and banking bubble is also real.

China's relations with the Western world are still a work in progress. The US has yet to pay China its rightful attention, while Russia has still not outwardly articulated its policy regarding its southeastern neighbour. China, meanwhile, appears to view Europe as mainly an economic, if waning, outlet.

Russia, which has not faced significant depreciation of its currency following the global financial crisis, is still viewed as somehow apart by much of the rest of the world. Its privatization plan has been delayed, and political, jurisdictional and administrative barriers put a damper on the competitiveness of Russian business. The political landscape is split between conservative internal policies and more liberal economic policies.

Russia's middle-class is rapidly growing, however, and the country has become the second-largest market for cars in Europe. To many, the way to further Russian economic growth is not to be found only in oil and gas, but increasingly in advanced manufacturing and services.

The EU also has to take a close look at its relationship with the US, which has been faster to climb out of the recession. As the balance of world power shifts to emerging economies, shared cultural values and ways of working would militate in favour of even closer cooperation between the EU and the US. There is considerable mutual incomprehension across the Atlantic, however, as well as a fair amount of navel-gazing. Luckily, American and European companies are coming closer to each other. Europe has much to learn from US derring-do and entrepreneurialism – as well as from its less rigid regulatory framework.

Crises on Europe's doorstep

Business leaders view with great concern recent developments in Egypt following the de facto military coup d'état in that country - fearing that these events might eventually lead to a generalised Middle East conflict. They also recognise the extremely complex background to the different recent crises in the region – ranging from sharpening ethnic and religious antagonisms to exploding population growth. In addition, many of the regimes in question have failed to achieve political and economic development, including employment for the young – the notable exception in these regards is Turkey. Some question if Turkey should even be counted in this category of conflict countries, in view of its comparatively advanced political and economic situation.

Leaders diverge sharply on what the West, including Europe, should now do, especially in regard to Syria. Some favour a limited military intervention to protect civil populations in exposed areas, and arming selected opposition groups where feasible. Others point to the growing confusion on the ground and to the involvement of militias inimical to Western interests; some argue that any military intervention should have been undertaken long ago. But all leaders agree on the overriding importance of reaching a long-overdue negotiated settlement to the conflict.

Challenges for Europe's financial sector

Although all parts of European society need to push for leadership and innovation in the coming years, a special role accrues to the financial sector, which should proceed from its present

'crisis management' mode to one focusing on growth. Europe's financial institutions have to become more resilient against crises of the 2008 kind, and, via de-leveraging, again become capable of fulfilling their central function of providing financing toward economic development.

The financial sector will have to focus on growth while simultaneously engaging in a number of painful processes. These include a much-needed 'build-down' of debt through inner structural reform in order to bring down operational costs, as well as a more complete adaptation to the digital era. These changes will have to occur within a much stricter regulatory environment, where market volatility and external shocks can be expected to intensify due to a variety of sources, including climate change, possible pandemics, and social and political stress.

Recent commitments within the EU, and notably the Eurozone, are welcomed, such as those for the establishment of a Single Supervisory Mechanism and a Recovery Resolution. Leaders call for an impact study of banking reforms undertaken thus far, and for ways to eschew undue fragmentation of a sector in great need of becoming more European in scope.

The Economic and Monetary Union under strain

Leaders largely agree that the travails of the EMU are far from over, with some participants even calling for a major rethink of the project's validity as such. The idea of some countries being allowed to temporarily leave the Eurozone under orderly, pre-prepared conditions has also been raised. Much-needed structural reform could then take place under less restrictive circumstances.

However, the fact that EMU members are currently making efforts to remedy the project's structural shortcomings is generating optimism among some leaders. They hope that the further easing of the debt burden of the crisis countries will make further reform and growth possible. Another reason for optimism is the continued solidarity shown by the economically stronger Eurozone economies and the international community at large.

The Eurozone seems to be facing three main and potentially complementary courses of action as it seeks to preserve the currency: resolute progress toward a political, including fiscal, federation; a change in Eurozone membership in the event of prolonged difficulties; and a series of successive fixes to the system. A credible 'narrative' explaining the way forward will at any rate be needed to ensure support from the public.