ceo*

the magazine for decisionmakers. october-december 2004

China. Swiss managers and CEOs report on their experience.
Caran d'Ache. Pencils in the black. A phenomenon with a rich tradition.
Cablecom. Successful turnaround. Taking stock of a difficult transformation.
Circus Knie. On precision and managing animals and staff.

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Markus R. Neuhaus,
CEO PricewaterhouseCoopers, Switzerland

Globalisation is rightly expected to bring changes for the better. Companies play an important role in the life of a society, and as such also have responsibilities that go way beyond their economic and individual objectives.

The debate on globalisation is generally much more sober these days. It has become very clear that the globalisation of the economy is an irreversible reality and not an end in itself. Globalisation is rightly expected to bring changes for the better. Companies – and the business world in general – play an important role in the life of a society, and as such also have responsibilities that go way beyond their economic and individual objectives.

What benefits can a global economy bring the worldwide community? There are many examples where human rights have apparently been reinforced, living standards improved and prejudices between people of different nationalities reduced in the wake of the activities of global companies. This requires organisations that see themselves as corporate citizens, leaders who combine managerial prowess with human qualities, plus the watchful and critical eye of those NGOs that seek to ensure constructive transparency on the extent to which global companies are meeting their social responsibilities.

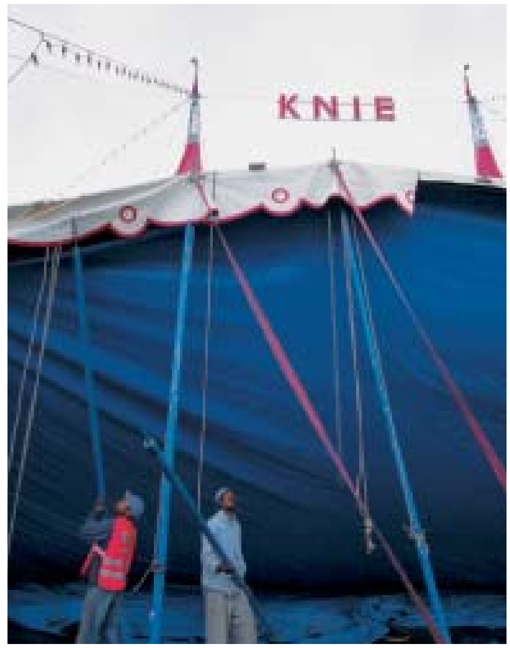
Few markets are creating so many waves throughout the world as China. But what does it take not only to have a presence in this market, but to really operate profitably there as well? As by far the largest auditing and advisory firm in China, PricewaterhouseCoopers often finds itself confronted with this question. Our sister firm there – most of its partners and staff grew up and have firm roots in China, but were educated abroad – knows just how strategic objectives formulated by companies in Europe and overseas must be implemented in the Chinese market in order to achieve the desired results.

With this example I am trying to illustrate the way we see ourselves as a global organisation: a worldwide network built on the stable foundation of national firms that are firmly based in their own market or systematically geared to it. An example is the way PwC country organisations are emerging in certain emerging markets, often with the help of foreign managers who train local employees with the aim of handing over responsibility within a few years. This might not be a new approach to globalisation, but I believe it is one that will serve us well in the future.

Globalisation is an abstract concept. In the final analysis, however, it also boils down to very concrete relationships between human beings. More and more companies are at home in many different markets, employ people from all over the world, and compete for the favour of customers on all continents. Nevertheless, every company has a history that is closely tied to its origins. All these different aspects are embodied by people who have some place they call home. This creates a fascinating tension, which this issue of ceo magazine attempts to illustrate with the views of two personalities from the world of business.

I wish you an enjoyable and stimulating read.

Markus Neuhaus



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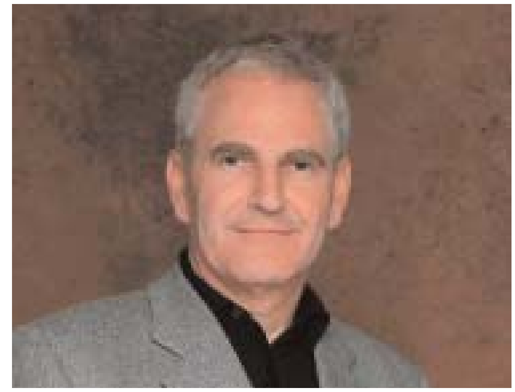


Oscar J. Schwenk, CEO of Pilatus Aircraft in Stans: A healthy business is like a healthy tree. Its strong local roots are the basis for its stability.

Oscar J. Schwenk (59) has been CEO of Pilatus Aircraft in Stans for more than ten years. His company, a global niche player and leading manufacturer of military training and business aircraft, generated sales of CHF 436 million in 2003 with a staff of 1,300 worldwide.

How can a small central Swiss company that employs around 1,100 of its 1,300 people in this country and generates only six per cent of sales in Switzerland survive in such a tough global market? I like to explain this with an example from nature: A healthy business is like a healthy tree. Its strong local roots are the basis for its stability, and are anchored firmly in the experience of staff who identify with the company. These employees are like a tough tree trunk that has survived all weathers and supports a crown that gathers sunlight and air from all over the world. However, our "trunk" in Stans is more "Switzerland plus" than pure Switzerland. At our headquarters we employ people from 19 nations, and a quarter of our managers are not Swiss. Components that we buy in from foreign suppliers account for a good fifty per cent of our finished aircraft. Pilatus is local and global. This international mix is crucial in our business, as is the culture we actively embody in our company. To develop a new aircraft like the PC-21, we brought the best experts to Stans. We need the best, otherwise we have no chance in such an expensive location. Nowadays no one is prepared to pay more for a product just because it's made in Switzerland. If we are to offer top quality that adds value for our foreign customers, we have to have the top people. We are proud of our aircraft, and not afraid to show it. So we invite our customers to visit us in Stans. We want them to experience how we work for them – to give them, if you like, a sample of the Pilatus spirit.

When we take on someone new we also take care to ensure their private circumstances are right as well. If new employees aren't able to get properly settled in they'll leave after a few months. We have a kind of mentor system to help our people integrate. Two thirds of my discussions with staff are in English.

All Pilatus employees are also co-owners: 15 per cent of EBIT is distributed according to a transparent formula. Everyone knows what factors are key to the success of the company and how they can help influence these factors. We don't "hire and fire" like our American competitors, but we do demand a great deal of flexibility when it comes to working hours. If necessary we also work Sundays – without an extra allowance for overtime. Our people are prepared to do this because they know that to compete globally we can't simply put our prices up. To retain our production facilities in Switzerland we work two hours more a week for the same pay.

I can't imagine that our model would still work if, for example, we were to relocate the 130 engineers in our R&D team to India. At first glance it would appear to be much cheaper, but here in Stans we constantly exploit important synergies between our development and production teams, and these would be lost. If an international company wants to succeed, it has to adapt culturally. When we set up our business aircraft arm in the United States, initially we had only American managers. But that didn't work for us, because the mentalities were too different. The business only took off when people from Pilatus in Switzerland were added to the management team there. Completely giving up our Swiss facilities would change our organisation radically. You can't just uproot an entire tree trunk and plant it somewhere else. While our staff are very flexible and prepared to work for longer periods abroad, they still need a place to go back to where they feel at home. As long as the dollar, the key currency in our business, doesn't fall below one franc, we should be able to stay in Stans. On the other hand you have to realise that a one-swiss-cent fall in the exchange rate cuts CHF 800,000 off our bottom line.

I myself spend a good thirty per cent of my time travelling abroad on business, and have many friends in many different places. We often talk about what "Swissness" means. Anyone who sees what's going on globally realises that Switzerland will have to make many changes! We tend to get too lost in the details and try to start everything from scratch again, and all this against a backdrop of political concordance and complex industry association structures. Often only a crumb of vision survives, and we lose our room for manoeuvre. Being an entrepreneur means being enterprising. In Switzerland, for example, there's no chair for aviation engineering. In future Switzerland will have to learn to take more risks and give people more room for manoeuvre.

Photo: Markus Bertschi

Paola Ghillani, CEO of the Max Havelaar Foundation Switzerland: Ultimately we're all human beings who share the same planet. We need global competition with fair rules of play.

Paola Ghillani (40) has been CEO of the Max Havelaar Foundation Switzerland for the last six years. A trained pharmacist with a wealth of management experience, she has helped steer her global labelling organisation to annual growth rates of thirty to forty percent. Ghillani has dual Swiss and Italian citizenship.

The Max Havelaar Foundation in Switzerland provides a bridge between consumers in the North and producers in the South. In future, however, this emphasis should change, with more and more fair trade initiatives originating in the emerging nations themselves. Mexico is now joining our international network, and Brazil and other countries have expressed an interest as well. We are also getting enquiries from Swiss farmers who would like to have the Max Havelaar label for their products. In Switzerland we benefit from a cheap distribution structure via the two industry leaders Coop and Migros, which account for around seventy or eighty per cent of sales of Max-Havelaar-labelled products. Last year total Swiss sales came to CHF 156 million, and for years we have been seeing growth of between thirty and forty per cent a year. This market penetration puts Switzerland at the top of the international rankings, something that's only possible because Swiss consumers are humanitarian-minded and put their money where their mouth is when it comes to fair trade. They are keen to see the application of social and environmental standards which also directly benefit workers in the third world. On average these producers receive thirty per cent more than they would for conventional produce.
Economic developments in recent years, with a widening income gap between management and those lower down the pay scale, have contributed to the success of Max Havelaar. People want to send out a signal, and buy fair trade products out of conviction. Polls show that as many as 78 per cent of Swiss consumers are aware of the Max Havelaar label. And the demand is there. Coop, for example, has stopped working with a major banana supplier and now sells only Max Havelaar bananas.
Since the principle of fair trade can also be transferred to other areas such as insurance, investment funds and tourism, there is huge potential for the future. As a labelling organisation which does not engage in trade itself, we can remain neutral and credible.
The explosive growth of the last few years has been a tremendous challenge for us. We are having to adapt our internal processes without affecting quality. Trust is our capital, and here there can be no compromises. We feel an immense pressure of expectations resting on us. With only twenty staff in Switzerland, I often get the feeling that our resources are massively overestimated.
My team has a good international mix, and many of our people have spent considerable time living in the South. You need to be culturally open to be able to understand the specific needs of producers and suppliers. I'm Swiss and Italian, but view myself as a citizen of the world. This was an important factor in my appointment as CEO of Max Havelaar. I travel a lot. For me, encountering people from different cultures, origins and positions has something magical about it. Ultimately we're all human beings who share the same planet.
This means we need global competition with fair rules of play for everyone. Switzerland is no paragon of virtue. Take an example from sport: sooner or later, anyone using illegal substances will be caught and banned, but we're still a long way from this situation in global trade. The North shields itself with subsidies worth billions and protectionist trade tariffs. This encourages overproduction, and the markets are flooded with subsidised agricultural produce at artificially low prices. We at Max Havelaar are calling for a system with fair rules of play, which means ensuring that world trade is sustainable in social and environmental terms. This is not just the responsibility of countries in the North. There is much to be done on the domestic level in many third world countries to break the power of large clans to the benefit of the general public.
So far only just over one per cent of global trade meets fair trade criteria. So we're 99 per cent away from our goal, and have a long way to go before our standards are mainstream and we're no longer needed. While we're still small fry for large corporations, they're becoming increasingly aware of us. I get invited to give presentations all over the world, and our voice is also getting heard at the WTO (World Trade Organization). Fair trade is the fulfilment of a great dream shared not just by small farmers in Africa and South America, but by managers in large corporations too. We've gone some way to proving that fair trade works, and that gives us encouragement to go on.

Photo: Martin Stollenwerk

trend. team spirit

How to surround yourself with people you can build on.

Management consultant Werner Troxler[1] on the importance of quality relationships, true corporate culture and the art of **asking yourself the right questions.**

Interview: Franziska Zydek

ceo: Werner Troxler, it used to be that anyone wanting to make their way in business needed connections. Is this still the case?

Werner Troxler: Less and less. While until a few years ago it was unthinkable to progress in your career without old established networks such as the military and the guilds, these have now lost in importance. Nowadays most companies search for and evaluate executives in Switzerland and abroad, and hire top managers on the strength of their track record. Since the 1990s, old-fashioned values such as personal connections, close relationships and family have no longer been relevant.

What in your opinion are the economic factors underlying this development?

Swiss companies used to be geared primarily to healthy, sustainable growth. Temporary failures were not enough to jeopardise the position of a boss or owner of a business. These people were supported by a network of relationships, family connections and social norms, and spent a great deal of time nurturing relationships. The advantage of this way of doing things was that it gave everyone involved a degree of security and stability. But we have also experienced the downside, for example with the collapse of traditional family firms and the Swissair grounding, where the mutual backscratching went on for too long until it was too late.

And now...

...companies are under immense pressure from the media and shareholders. It's now all about jobs and returns rather than effective long-term value creation. Managers have to be successful, because if they fail they will be replaced. These mechanisms leave their mark on human qualities: top managers are groomed to be egotists.

Do you believe these top managers are just out to get what they can, with the insurance of a golden parachute?

Leaders nowadays are under enormous pressure to succeed. Ultimately the severance pay paid to top managers is an indication that they themselves no longer believe that it's possible to survive long term in their job. Most managers are not characterless and unscrupulous; they merely make sure from the moment they sign their contract that their departure is properly covered as well. To be successful, these managers ultimately have only two options: they can pass on the pressure to someone else, or they can build up a team of capable people all pulling in the same direction – in other words, they can spread the pressure.

Does this mean that CEOs have to build up their relationship network as and when required?

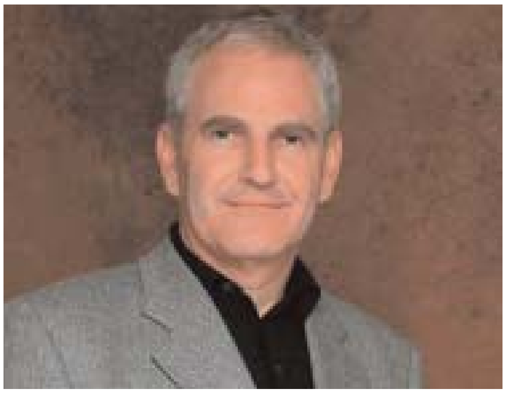
The short periods over which managers are measured mean that they do not have time to build up relationship networks organically. Teams are put together on an ad hoc basis from the best people available for each task. So rather than having management teams where structures emerge naturally, the whole team-building process has become incredibly dynamic. A CEO looks for people who can do the job, and in most cases can no longer take their personal needs and requirements into account.

When does a management team reveal its true qualities?

It's most striking when a team has to deal with a crisis. You know that relationships within a team are really working if the entire team concentrates on a real, common objective, if everyone is fully committed to

[1] Werner Troxler holds a PhD and has been a management consultant for 24 years. He is the founder of Integral-Training, a Zug-based company that offers management training and coaching for top managers internationally. Werner Troxler is also co-owner of Zug-based publishing house Hirschi + Troxler GmbH and the author of various books, including Führen heisst... ("Management means…") and Verkaufen heisst... ("Selling means...").

absolute transparency with respect of objectives, strategies and processes, and if the members of the team really do work together in a spirit of collaboration. A team that fulfils these three requirements will be effective and resilient even when the going gets tough.



“The short periods over which managers are measured mean that they do not have time to build up relationship networks organically. Teams are put together on an ad hoc basis from the best people available for each task. So rather than having management teams where structures emerge naturally, the whole team-building process has become incredibly dynamic.”

What’s more important for a team: a common goal, transparency, or cooperation?

If a team is to function properly, it’s crucial to have a common goal. Defining objectives can help resolve contradictions between business and private interests. Things get difficult if one member of the team is secretly more interested in furthering his or her own career than in working towards the common goal. In this case they will no longer communicate absolutely honestly, and sooner or later trust within the team will suffer. Ultimately members will no longer be cooperating properly, and everyone will be looking out for their own interests and paying only lip service to the common goal the team has defined.

How can CEOs tell if there are problems within their management team?

By asking whether they fulfil the criteria I just mentioned: Do I have the same goal as my staff? Am I communicating openly and honestly with all members of the team, or do I favour certain individuals? Do I really mean what I say – and act accordingly? Do I trust all the members of my team equally? How well do I cooperate with other people? The acid test of the quality of relations within a team is each individual’s attitude to it. CEOs should start with themselves. If they don’t have a good feeling, there’s a good chance something’s not right with the team either.

Is there one particular question CEOs should be asking themselves?

Yes: When was I last openly criticised by my staff? Do I get honest feedback? Bosses who surround themselves with yes-men will ultimately not be able to rely on their team. The ability to take criticism is key if you want quality relationships. Nowadays there’s not a company around that doesn’t profess openness and the ability to deal with conflict as part of their corporate culture. But the crucial question is how this actually works in practice. To create a true corporate culture, the boss has to set the tone from the top – consistently, over many years. This is the only way of creating a climate of trust, creativity and innovation.

Do you believe there is a correlation between a good corporate culture and the success of a company?

I’m convinced there is. Work is a part of our existence which takes up a large part of our waking life and helps give it meaning. The more complex work becomes, the more people have to allow themselves to become involved in it at all levels – and this extends to the ability to create and maintain quality relationships. Mutual commitment is a cornerstone of value creation, and thus a key factor in the success of a company. Ultimately it’s a more effective way of making the most of your people’s potential than a culture that assumes that your staff are merely there to deliver on demand.

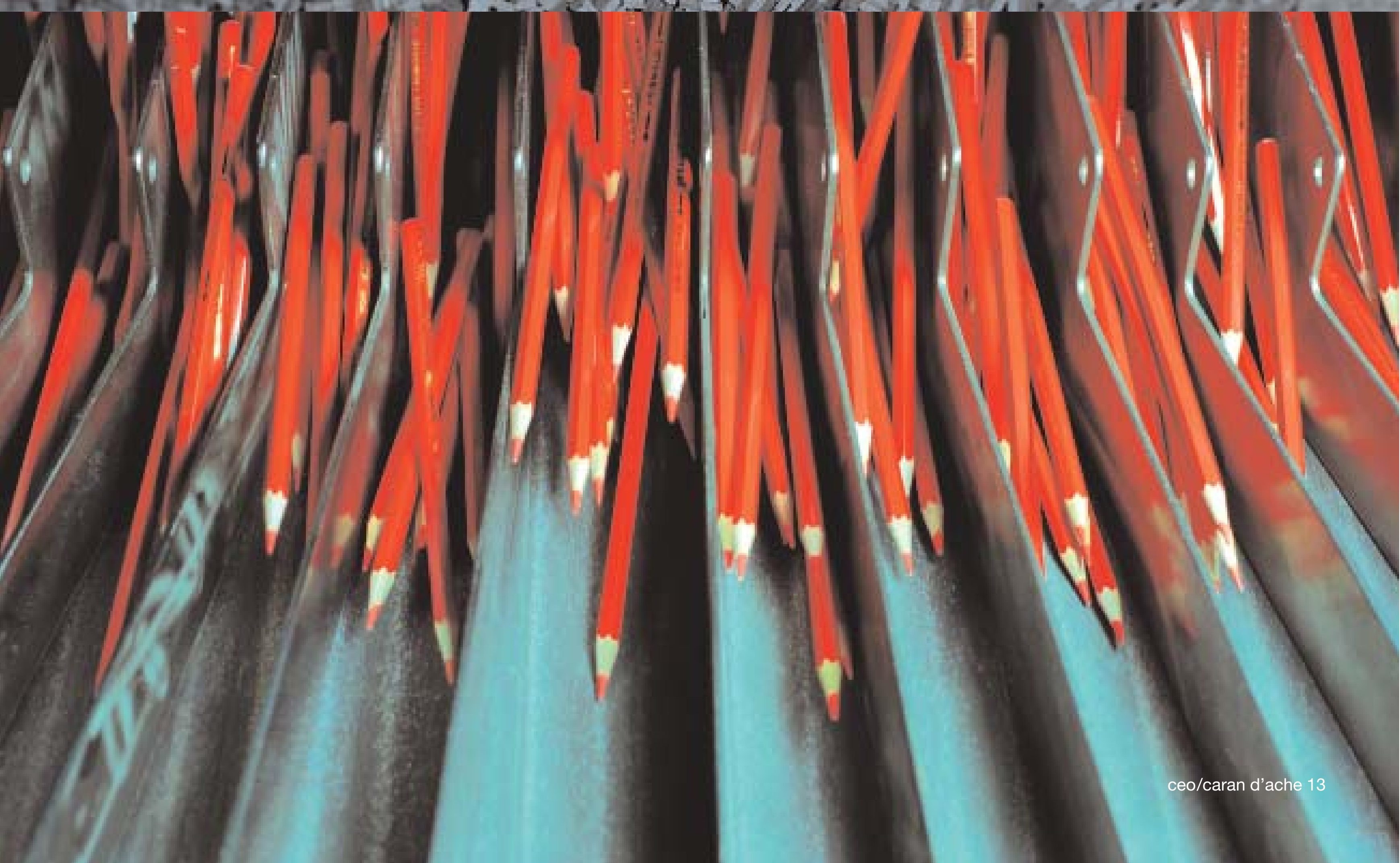
Can future CEOs learn how to implement value systems?

In principle they can. One thing I particularly regret, though, is that MBA schools place too little emphasis on managing relationships as a success factor. While they cite ethical values such as trust and good faith, in my opinion they fail to see the full importance of these values as a component of effective management. But I’m optimistic about the future: more and more people in management teams are sensing that dependable relationships are absolutely vital if companies are to resolve the complex issues they face nowadays. //

Caran d’Ache

Pencils in the black.

How can it still be possible to manufacture a simple product like a pencil profitably in Switzerland? Caran d’Ache shows how.



“A handwritten message,” says Silvio Laurenti, “shows emotion.” The boss of Caran d’Ache would rather use his Ivanhoe fountain pen than send an e-mail.

Text: Kaspar Meuli
Photos: Luca Zanetti

All too many of this country’s flagship products have lost their last vestige of Swissness. Toblerone? It has belonged to US multinational Philip Morris for more than ten years. Ovomaltine? Taken over by Associated British Foods. Sugus? Made in France. One Swiss icon, however, remains true to its origins: Caran d’Ache. The manufacturer of the legendary coloured pencils and pens remains firmly in Swiss hands, and produces exclusively in this country. Not only this, but the aura of the traditional Caran d’Ache brand is as strong as it ever was. Last year consumers even ranked it the most highly regarded Swiss brand, forcing Migros into second place.
Why, of all products, have the coloured pencils from Thônex near Geneva remained Helvetic through and through? Is it down to the luck of the dice, fortunate circumstances, or vision? Silvio Laurenti, the energetic general manager of Caran d’Ache, leans back in his chair and answers without hesitation: “We’re independent and not reliant on banks. We are able to finance investments ourselves because we’ve always generated sufficient cash flow. This, plus the fact that we’ve managed to keep our know-how in Geneva, is thanks to the board of directors.”

Vision of the future: luxury writing instruments

The main thanks must go to chairman, main shareholder and long-time boss of the company Jacques Hübscher, a media-shy “patron” of the old school who ensured that Caran d’Ache flourished for decades while remaining one of the most discreet companies in Switzerland. The company still keeps its figures secret. The business press estimates the sales generated by the firm’s 300 or so employees at between CHF 80 and 100 million, and every year Bilanz magazine lists the Hübscher family in its rankings of the rich.
Owner Hübscher took on Ticino-born Silvio Laurenti in 1999 as the second manager hired by the company in quick succession. Laurenti, who had previously worked in various management positions for French biro multinational Bic, brought a new lease of life, surrounding himself with a dynamic team and not shying away from redundancies where necessary. But most of all, he laid down the company’s future course: “I want to make Caran d’Ache into one of the world’s leading brands for luxury writing instruments!” In other words, alongside the traditional pencils, crayons and fibre-tip pens, the company’s future will be built on exclusive fountain pens and other luxury articles. Laurenti concedes that even before his time the Caran d’Ache range had included luxury products, it’s just that no one had believed they could be successful. “We, on the other hand, are convinced!” The new management team’s belief in the luxury potential of their brand is already paying off. Since 2001, exports of writing instruments have been growing ten per cent a year despite the difficult economic situation.
Visiting Caran d’Ache in Thônex means seeing the world through the eyes of a child. As you go through the 1970s production halls, you’re tempted to jump in and give a hand yourself – for example when you see the huge kettles where pigments and kaolin are stirred together to form the basis of the writing cores before they are pressed out of the extruder like a never-ending string of spaghetti. And how on earth do they make all the holes in their coloured pencils? Communications officer Renate Stern has two answers at the ready, a poetic one: “We’ve got an army of woodworms, fat ones and thin ones, depending on the size of the lead,” and the more prosaic version: the writing cores are sandwiched between two wooden slats in one of dozens of steps from preparing the mixture for the writing core to the last check on the tin boxes full of pencils. This final quality check ensures that each pencil really does leave the factory with the writing face up.

Success through semi-automated production

Even though many processes are carried out by state-of-the-art machinery, production at Caran d’Ache still relies on dozens of pairs of agile hands. How is it possible that production was not shifted long ago to a cheap location in the South or East? How can it still be possible to manufacture a simple product like a pencil profitably in

From mass products to luxury writing instruments, each Caran d'Ache is subject to systematic quality assurance.

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Caran d'Ache production facilities may be in Geneva, but it thinks and operates globally: Logistics and Purchasing Manager Anouk Ferrario with boxes of pencils.

Caran d'Ache's decision to keep production at the company's place of origin makes it unique in the industry. Competitors have shifted their production facilities to Brazil, Malaysia or Indonesia.

Switzerland? Silvio Laurenti smiles and explains that the company continues to do very well with its cost structure, saying that the key to success lies in semi-automated production. "We resolved to keep our production facilities in Geneva, in future too. If we were to manufacture anywhere else in the world, we would no longer be different from other manufacturers. 'Swiss made' is still a key selling point – not just for our luxury products, but for our coloured pencils as well."

Caran d'Ache's decision to keep production at the company's place of origin certainly makes it unique in the industry. Competitors such as German companies Faber-Castell, Staedtler and Schwan-Stabilo have all shifted their facilities to Brazil, Malaysia or Indonesia.

But if you take a closer look you realise that even Caran d'Ache has not been immune to the effects of global outsourcing. On the production line for coloured pencils we see cardboard boxes in which the best California cedar wood is delivered – they bear the legend "Made in China". The answer to this riddle is that although the cedars are grown and felled in certified sustainable forests in California, the wood is then sent to China to be processed into slats. "It's crazy in environmental terms," concedes Caran d'Ache's Logistics and Purchasing Manager Anouk Ferrario. But she says that in today's world you have to live with ecological contradictions even if you take care to ensure the highest environmental standards at your own facilities. And she points out that only one of three California suppliers sends the wood to China for sawing.

Trend to unusual materials

Back to the office of MD Silvio Laurenti, the man who believes in the written – handwritten – word. At seminars, Laurenti encourages his staff to send each other handwritten messages rather than communicate by SMS or e-mail. "A handwritten message," he says, "shows emotion." He himself prefers to write with an Ivanhoe fountain pen. This pen, one of Caran d'Ache's most popular creations, has a coat of mail in homage to the romantic hero whose name it bears. Ivanhoe represents a new generation of Caran d'Ache writing instruments. The aim is to whet the appetite of a tired audience with a selection of unusual materials, from natural rubber and rosewood to laque de Chine. Silvio Laurenti admits that "there was a lack of novel features to attract consumers."

Caran d'Ache is increasingly a company that operates in two product segments that have little to do with each other: coloured pencils, Neocolors, gouache and watercolours for children and artists on the one hand, and fountain, fibre-tip and ballpoint pens in the luxury segment. Silvio Laurenti stresses that he spends the same amount of time on each segment. Each segment still makes the same contribution to the top line, although this is set to change because future growth will have to come from the exclusive side of the business. It is telling that Laurenti's business card bears only one of the two possible Caran d'Ache logos – the one that graces the company's luxury writing instruments.

The only thing is that the luxury business hasn't simply waited for Caran d'Ache to come along. Brands such as Montblanc, Parker and Waterman have long since penetrated the market, and for years have been operating successfully in a field the Geneva family firm has only just decided to take on: diversification into accessories ranging from diaries to leather belts. This does not seem to bother Silvio Laurenti: "We have the name, the quality, and the products. I'm convinced we'll be able to position ourselves in this segment."

In India, at least, the Caran d'Ache brand already enjoys prestige in abundance. According to the magazine India Today, the Swiss manufacturer is to luxury writing instruments what Rolls-Royce is to cars. Caran d'Ache sees considerable potential in the growing middle classes in India and China, and is conducting a careful search for the right distribution partners. The company is convinced that the best place to sell luxury writing instruments is in prestigious watch dealers.

Part of what it means to be Swiss

Caran d'Ache's factory certainly almost has the feel of a watchmaker's. The exclusive instruments are assembled and polished by qualified staff – specialists who maybe used to be on the payroll of Rolex or Patek Philippe, or who may one day be poached by a Geneva watchmaker. The standard of quality assurance also bears comparison with the watch industry. For example, photo cells monitor the precision of ballpoint pen tips, which are manufactured to tolerances of two thousandths of a millimetre. And automatic writing machines check whether Goliath cartridges really do write the promised 600 A4 pages before they need to be replaced. All impressive facts. But while your average Swiss will certainly know Caran d'Ache very well, they're unlikely to be aware of this technical mastery. At least it's hard to explain the first place in the brand charts in these terms. Why is Caran d'Ache still so popular? "I really can't say," admits Silvio Laurenti almost apologetically, "even though I often ask myself the same question."

It certainly has little to do with advertising. Apart from brief campaigns at the beginning of the school year and in the run-up to Christmas, the company does not do a great deal to actively draw attention to itself. It's as if the usual principles of marketing don't apply to Caran d'Ache. Somehow – and this is what makes this success story so special – the brand must draw its power from the collective memory of the Swiss. From all those memories of our first day at school, and of proudly taking our Prismalo pencils home in a tin box with a picture of the Matterhorn. //

Writing pencil history

Caran d'Ache was founded exactly eighty years ago by industrialist Arnold Schweitzer, who chose the transcription of the Russian word for pencil as the name of his company. Nowadays Caran d'Ache, based on the edge of Geneva, makes more than 4,500 different products – or different shades of these products. Switzerland is still the most important market for the company's traditional wares, especially coloured pencils, accounting for 45 per cent of sales. Its remaining revenues are spread over another ninety countries. In future Caran d'Ache increasingly wants to establish itself as a manufacturer of luxury articles. It has made this intention very clear with products such as the Modernista Diamonds fountain pen, which at a recommended retail price of CHF 630,000 has made its way into the Guinness Book of Records as the most expensive writing instrument in the world.

Almost crushed by debt and slated for appalling customer service, Cablecom has seen some hard times. But thanks to innovation and a large measure of fighting spirit, the company has emerged stronger from the crisis.

Text: Bernhard Raos
Photos: Thomas Eugster

Who wants to read e-mail on their TV screen? This question really brings Rudolf Fischer out of his shell. The forty-eight-year-old head of Cablecom, Switzerland's leading cable provider, jumps out of his seat, reaches for his remote and displays his e-mail on screen with the touch of a button: "Look how easy it is!" Fischer counters the sceptics by quoting the statistics: while only 6 per cent of the 3.2 million or so households in Switzerland use digital TV, in the UK the quota is 42 per cent. Cablecom wants to tap this potential with its 1.5 million own connections and another 500,000 people who subscribe to partner networks. Fischer is convinced: "Digital TV is one of the drivers that will power our business in future." He outlines tomorrow's TV scenario: instead of zapping your way through hundreds of channels, you'll enter the type of programme you want to watch using your remote control, and a list of channels currently showing your preferred genre – whether it's a thriller, sports or news programme – will display on your screen. Or you'll be able to record programmes on your set-top box's hard disk and watch them later. This box will direct digital traffic in your home. If you're still not satisfied, you'll be able to choose from specialist

COO Rudolf Fischer takes stock:

"Today's Cablecom is a completely different company from what it was three years ago."

channels offering everything from children's programmes to erotic films. Do we really need several hundred channels? "No," says Fischer, who watches very little TV himself. "But with à la carte TV, everyone will be able to create their own programming." And there will also be access to services such as e-banking, e-mail and online gaming.

Refinancing gives company new lease of life

Cablecom is running at full throttle. "We're the innovative trendsetter in the Swiss market," explains Fischer confidently, pointing out that the company was the first to offer digital TV and broadband Internet, and has now put together a digital telephony package for subscribers that is "revolutionary" in terms of both price and technology. This was not always the case. Only a year ago debts of CHF 3.8 billion threatened to crush the company, with net debt running at 15 times operating profits. British-American owner NTL, which at end-1999 had bought Cablecom from former owners Swisscom, Veba and Siemens for the inflated price of CHF 5.8 billion, only added to the mountain of debt. Once the Internet bubble burst, any existing business plans had to be binned. The syndicate of 38 creditor banks understandably got nervous.

Fischer, however, who before joining Cablecom spent seven years as a consultant at Arthur D. Little (where among other things he worked on turnaround projects for telecoms), always took a somewhat less dramatic view of the situation: "Nobody had an interest in seeing the company grounded. Liquidation dividends in such cases are very low. I was always sure we'd manage." What really bothered him was the way ailing firms are treated in Switzerland: "In this country, a crisis immediately means the company has no future." He maintains that what Switzerland lacks is the belief that you can approach a difficult situation constructively and emerge from it stronger. In the case of Cablecom, the official all-clear was sounded last autumn when the restructuring of the company's debt was formalised contractually after months of negotiations. Fischer and his team had pulled it off. The key player in the deal with the banks and investors was managing director Bruno Claude. The banks waived claims to reduce Cablecom's debt from CHF 2.1 billion to CHF 1.7 billion, receiving 49 per cent of the company's shares in return. The remaining 51 per cent of shares went to Apollo Management, Goldman Sachs & Co. and Soros Private Equity Partners, who all contributed fresh capital. The involvement of these three investment companies, which also operate elsewhere in the telecoms industry, has raised speculation that Cablecom will soon go public. But Zurich denies the rumours.

Once the financial restructuring had been agreed, Cablecom had to convince its investors and creditors that it had costs under control and would be able to successfully launch new products. This was no easy task, as the company had not exactly had a reputation for thrift in the past. For example, it took years before it could deliver on the promise of stable digital technology. And no sooner was the technology sorted out than customer services were making the headlines for all the wrong reasons, with reports of lost subscriptions and cancellations, inaccurate billing, and the unreasonable demands made on the patience of people calling the Cablecom hotline.

Statistics point to improvements

In the last ten months Cablecom has revamped its service organisation, hiring new managers and around sixty new staff for its customer services team. Statistics point to improvements. While in January callers to the digital telephone support hotline had a fifty per cent chance of their call not being answered, five months later the figure was only five per cent. More than eighty per cent of calls are now answered within sixty seconds. "That's a good figure by industry standards," says Fischer. However, he does not gloss over the problems: "We haven't yet got to where we want to be. We're only halfway down the path from pure cable network provider to full-service telecoms provider." He claims that the public has not yet perceived the full extent of the cultural change that has taken place, saying that "today's Cablecom is a completely different company from what it was three years ago."

Change means applying pressure

In an environment where today's revolutionary technology is tomorrow's trash, there's no time to stand still. Anyone engaged in the business of providing telecom and TV services has to be prepared for change. For this reason, internal communication is especially important. Fischer personally informs top and senior management on a monthly basis. The idea is to ensure that everyone sees things in the same way and that the company will be able to deliver on the promises it makes to customers. But this is not just a matter of talking nicely to staff. One of the Cablecom boss's management principles is that if you want change, you have to apply pressure. Constant reorganisation in a company employing 1,450 staff also means that people have to be fired as well as hired. On balance Cablecom has created around 230 new jobs in the last two years.

Fischer – who has an MBA in addition to a degree in electrical engineering from the Swiss Federal Institute of Technology – loves to talk about one topic in particular: triple play. By this he means offering television, Internet and telephony through a single cable via a single provider. For this

Facts and figures

In 2003, Cablecom posted sales of around CHF 653 million. It did not publish profit figures, but did confirm the turnaround following financial restructuring and budgeted figures for 2004. The company's operations are managed by a chief operating officer and a managing director rather than by a CEO. COO Rudolf Fischer represents Cablecom both internally and externally, and is responsible for the company's entire business operations. Managing Director Bruno Claude's job is to nurture contact with the investors and the financial markets. In addition, both sit on the board of directors of Cablecom Holdings AG, which also includes Zurich attorney and banking specialist Rolf Watter (Chairman) and Walter Bosch, who sits on the board of directors of the airline Swiss.

Digital phone by Cablecom

The cable modem gives subscribers access to up to two analogue phone lines, and if desired can provide simultaneous broadband Internet access via a PC or LAN/router. Subscribers can continue to use their existing analogue telephone equipment, although ISDN equipment is not yet supported. Digital phone offers familiar fixed network telephony options such as caller number display, voice mail with notification by SMS, and remote message retrieval via the phone line. Users can transfer their old phone number to Cablecom.

“We haven’t yet got to where we want to be. There are some exciting steps remaining on our path from cable provider to full-service telecom.”

reason, despite its awkward financial situation, Cablecom has invested around CHF 1.5 billion in infrastructure in recent years, and has made large stretches of its 130,000-kilometre cable network two-way capable.

In the broadband Internet business, Cablecom is engaged in a bitter duel with Swisscom subsidiary Bluewin to offer higher-speed surfing – at ever lower prices. In the past it has been Cablecom that has set the pace for its ADSL competitors, much to the delight of consumers. But there’s still a long way to go: in Japan and South Korea, turbo-surfing at eight megabits per second is already reality, while Swiss surfers have to make do with a mere three megabits.

“It all boils down to investment in the network. If we were to reserve the entire data loop to end-users exclusively for the Internet, 2.5 gigabits would already be theoretically possible,” explains Fischer. The extent to which the broadband business can stir up competition is illustrated by a comparison with Germany. There, Telekom has a virtual monopoly on broadband. In Switzerland, where both Cablecom and Swisscom have direct access to households, the broadband Internet market grew around four times as fast in 2003.

Digital telephony set to power growth

Cablecom now also wants a larger slice of the telephony cake. With an estimated 80,000 digital telephony subscribers by the end of 2004, the company is still a dwarf by comparison with Swisscom. But it’s a dwarf with the potential to grow. Swisscom still generates almost ninety per cent of total revenues in Swiss fixed network telephony, a market worth more than CHF 3 billion a year. Until now, Internet telephony has been seen as a technology for people who are not bothered by bad sound quality and frequent interruptions. But thanks to broadband Internet access, these teething troubles are all but a thing of the past. A great future is predicted for voice over IP (VoIP), the widespread term for Internet telephony. By February 2004 Cablecom had reached a situation where pilot subscribers were calling for support less than once a year. The official market launch took place in June, with a fanfare that echoed throughout the media: Cablecom subscribers pay a monthly charge of CHF 20 and three cents per minute for VoIP calls within the Swiss fixed network. And calls are free between 7 p.m. and 7 a.m. on weekdays and all day at weekends. Will Cablecom’s free calls be the ruin of the telecoms industry? COO Fischer thinks not: “Our strategy is sustainable. After all, we have invested billions in our infrastructure, and will continue to do so.” Price war is declared.

Swisscom has also joined the fray, countering Cablecom’s move by entering the TV business. In mid-2005, following a pilot phase, Swisscom is to launch a service with up to 500 programmes. According to Swisscom, with appropriate investment it will be technically possible to upgrade nine out of ten phone lines to ADSL broadband and make them TV-compatible. Cablecom boss Fischer is resolute: “We have a more powerful network, more mature technology, and can respond flexibly to customer needs.” He claims that competitors offering alternatives via the phone line still have to demonstrate that their technology is capable of handling mass traffic. But here too, competition is livening up the business.

Anyone who preaches free market economics shouldn’t complain if the market really works, says Fischer. On the other hand, he does have problems with regulatory barriers. For example, the questions of how network access is to be regulated and which content providers are granted access to network infrastructures on what terms are still open. Take the example of Teleclub. The monopolies commission ruled that the film channel could use its own boxes with the cable network. The result is that Teleclub subscribers need an extra box if they want, for example, to watch Cablecom digital TV. But now that the federal courts have overruled the monopolies commission, Teleclub has to adapt its technology to the Cablecom platform. Precisely how this is to be done is still the subject of negotiation. Eternal optimist Fischer remains true to form: “We’ll find a solution here as well.” //

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Financial reporting in accordance with IFRS: Only for companies that want to tap the international capital markets!

From 1 January 2005, the main market of SWX Swiss Exchange will admit only companies reporting in line with RRV-EBK, IFRS or US GAAP. Around 20 per cent of listed Swiss companies are faced with the choice of either moving over to IFRS or US GAAP, or switching to the "SWX Local Caps" segment.

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Of the 270 or so Swiss companies listed on the SWX Swiss Exchange, just over half currently report in accordance with internationally accepted standards. Another 20 per cent of SWX-listed companies must decide whether to move over to International Accounting Standards Board (IASB) or US Financial Accounting Standards Board (FASB) reporting, or stay loyal to Swiss Generally Accepted Accounting Principles and thus switch to the SWX Local Caps segment by 1 January 2005.

Swiss companies preparing consolidated annual financial statements must adhere to the generally accepted accounting principles (GAAP) issued by the IASB (International Financial Reporting Standards or IFRS), the FASB in the United States (US GAAP) and the Foundation for Accounting and Recommendations (Swiss GAAP FER). In Switzerland, banks are still bound by the accounting rules laid down by the Federal Banking Commission (RRV-EBK), which consist of many Swiss GAAP FER standards in addition to bank-specific rules. Figure 1 below contains an overview of the accounting standards used by Swiss companies listed on the SWX Swiss Exchange.

Given that from 1 January 2005 companies listed on the main segment may report only in accordance with RRV-EBK, IFRS and US GAAP, around 20 per cent (61 companies) face the choice of either moving from Swiss GAAP FER to IFRS or US GAAP, or switching to the SWX Local Caps segment. Companies which have only bonds listed are not affected by the changes in the SWX financial reporting rules.

Unlike the SWX, all companies in the European Union with shares listed on the stock exchange will have to publish IFRS-compliant annual financial statements from 1 January 2005; companies with listed bonds will have to do so from 1 January 2007. Not only this, but from 1 January 2007 US GAAP will no longer be permitted. Reporting in line with IFRS is a great challenge for everyone using the standards.

For one thing, IFRS is being developed constantly – the changes will relate primarily to disclosure, and will make things more complex. The next foreseeable step is likely to be the disclosure of sensitivities (for

[1]Daniel Suter, Partner, Assurance, Basel.

Figure 1: Overview of accounting standards used by Swiss issuers listed on the SWX Swiss Exchange.

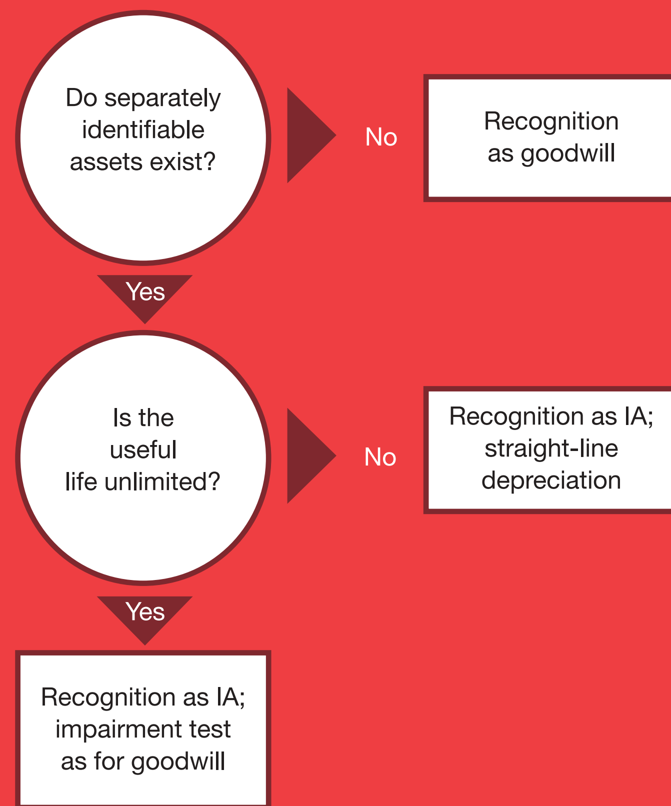
	Total	Banks	US GAAP	IFRS	Swiss GAAP FER
Main Market	193	18[1]	15	99[2]	61
Investment Companies	37		1	34	2
Real Estate Companies	10			6	4
SWX Local Caps	30	5		6	19
Total	270	23	16	145	86
In %	100	8	6	54	32

[1]Of which 3 have the note "Banking Act and Swiss GAAP FER"

[2]Of which 7 show a reconciliation to US GAAP (Leica, Novartis, Roche, Serono, Syngenta, Temenos and UBS)

Source: SWX home page, end May 2004

Figure 2:
In the event of an acquisition, all separately identifiable assets must be recognised and valued as intangible assets (IA).



example in connection with impairment). For another thing, small and medium-sized enterprises (SMEs) in Switzerland must ask themselves whether they want to make the effort necessary to move over to the highly complex IFRS system. Companies should only take on such a challenge if they really want to tap the international capital markets. The IASB's promised standards for SMEs are likely to differ from IFRS only in terms of disclosure rather than valuation, and therefore cannot be seen as a real alternative.

With a view to the European exchanges' switch to IFRS, the IASB has promised to set up a stable accounting platform. To this end it completed a number of projects between the end of December 2003 and the end of March 2004. Alongside changes to existing standards, it has also introduced an industry-specific solution for insurance companies.

All these standards will come into force on 1 January 2005. Companies that switch from their current accounting standards to IFRS must comply with IFRS 1, issued back at the end of 2002, on the first-time adoption of IFRS. Apart from a number of exceptions, this standard requires first-time adopters to present their financial statements as if they had always reported in line with IFRS. Naturally two comparative financial statements must always be presented: for example the FY2004 statement has to appear alongside the FY2005 statement by way of comparison. To enable all comparative statements, namely the income and cash flow statements, to be prepared, the opening balance sheet for the first year must be restated retrospectively in line with the new standards. In our example this would be the opening balance sheet as at 1 January 2004.

For companies that already prepare their annual financial statements in accordance with IFRS, the amendments bring a number of significant changes too. Since some standards did not appear until 2004, most users will not want to implement the changes until 2005. However, many of the amendments are designed in such a way that retrospective restatement is necessary. For companies that have already adopted IFRS, the IASB's stable platform thus leads to a restatement – an adjustment in line with the currently valid standards – of the 2004 financial statements.

The changes likely to have the greatest implications are the recognition of share- or option-based payments as expenses in the income statement (IFRS 2), and new rules on the treatment of business combinations (IFRS 3). These two standards replace the disclosure requirements previously set down in IAS 19 (employee benefits) and IAS 22 (business combinations).

IFRS 2, which must be applied retrospectively, could well have major implications for employee participation schemes in future,

Figure 3: In future we can expect to see lower goodwill for comparable transactions.

Old standard	TCHF	New standard	TCHF
Purchase price	100	Purchase price	100
Book value of net assets acquired	40	Book value of net assets acquired	40
Market value adjustments - primarily fixed assets	20	Market value adjustments - primarily fixed assets - identifiable intangible assets (IA)	 20 15
Goodwill	40	Goodwill	25
Depreciation of goodwill, (often over) 20 years	2	Depreciation of goodwill	0
		Additional depreciation of IA, max. 5 years	3

since share- and option-based payments can increase the volatility of net income. IFRS 3 allows retrospective application in only very limited circumstances, and is thus applicable only prospectively to acquisitions since 31 March 2004. The prohibition of amortisation of goodwill anticipated by many companies will only take effect in financial statements for the 2005 calendar year. As of 1 January 2005, the historic cost of goodwill from a previous acquisition will be newly defined net of historic cost less all planned amortisations and less all impairment losses. Companies must subject this new historic cost to an annual impairment test. Ordinary depreciation will no longer be permitted.

Under the new rules, all separately identifiable assets must be recognised and valued as intangible assets of the acquired entity, and a corresponding useful life must be defined (see Figure 2, above left).

In future we can therefore expect to see lower goodwill for comparable transactions, and this goodwill will be treated as goodwill from previous transactions. Since intangible assets such as trademarks, licences, recipes, cooperation agreements, R&D projects, etc., may possibly be depreciated over shorter useful lives than goodwill as defined in the previous standard, we may see larger annual charges to the income statement in future (see Figure 3 above).

These changes will not only force companies to start thinking about these types of intangible assets during negotiations, but will also necessitate expensive and complex valuations of the acquired entity.

Other changes to existing standards include, for example, the additional requirement to disclose estimates (for example the classification of financial assets as “to be held to maturity”) and uncertain estimates with potential implications for future financial statements (for example the method of calculating the impact of aging technology in a company’s inventory).

Conclusion:
Given the growing challenges, companies should think very carefully indeed about their motivation for adopting IFRS. IFRS is not merely a set of standards: in their entirety the rules imply a way of thinking which the company must adopt if it wants to present a true and fair view of its financial position, its results of operations and its cash flows. This means that adopters must have adequate resources, and must be prepared to subject themselves to monitoring of the application of financial reporting that is becoming ever more stringent in Europe as well. //

You will find more information on this topic in the brochure “International Financial Reporting Standards: Ready to take the plunge?” You can order free copies from sonja.jau@ch.pwc.com.

Initial public offerings (IPOs) on European exchanges in the second quarter of 2004.

Stock exchange	IPOs Q2 2004	Volume in EUR in Q2 2004	IPOs Q2 2003	Volume in EUR in Q2 2003	IPOs Q1 2004	Volume in EUR in Q1 2004
London Stock Exchange[1]	65	2,464	15	767	39	1,116
Euronext	10	1,691	3	-	10	3,616
Greek Stock Exchange	2	5	-	-	-	-
Deutsche Börse	3	1,766	-	-	-	-
Swiss Exchange	1	85	1	-	1	132
Borsa Italiana	2	1,345	1	381	-	-
Austrian Stock Exchange	-	-	1	-	1	7
Copenhagen Stock Exchange	-	-	-	-	-	-
Oslo Børs	1	-	1	-	1	292
Dublin Stock Exchange[1]	1	385	-	-	1	296
Madrid Exchange	2	1,176	1	417	-	-
Stockholmsbörsen	4	30	-	-	1	60
Warsaw Stock Exchange	5	166	-	-	3	17
Total	95	8,728	23	1,565	56	5,240

[1] Two companies dual listed in Dublin and London.

IPO Watch:
European IPO activity is more lively than in years.

According to the IPO Watch Europe Q2 report by PricewaterhouseCoopers, Europe's stock exchanges have recorded a strong second quarter.

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Between April and June, 95 companies staged an initial public offering (IPO) on European exchanges, compared with only 23 offerings in the same period of 2003 and 56 in the first quarter of 2004.
The total offering value of European IPOs in the second quarter was EUR 8.7 billion, more than five times as much as the EUR 1.6 billion in the like period of 2003, and also well up on the EUR 5.2 billion figure for the first three months of this year. This is explained in large part by three high-value IPOs during the latest quarter: Deutsche Postbank (raising EUR 1.4 billion on the Deutsche Börse), the electricity company Terna (EUR 1.3 billion on the Borsa Italiana) and aerospace company Snecma (EUR 1.2 billion on Euronext). Together they accounted for close to half of the total offering value on all European exchanges. In Switzerland, Austria Microsystems raised EUR 85 million in an IPO.

[1] Dr Philipp Hofstetter, Partner, Advisory, Zurich.

Poland's exchange active

London's 65 IPOs accounted for 68 per cent of total offerings by volume in the last quarter. In value terms its IPOs increased to around EUR 2.5 billion from EUR 767 million in the second quarter of 2003. London's Alternative Investment Market (AIM) for smaller growth companies continued to dominate, with 56 of the 65. Euronext saw ten IPOs, up from three a year ago, and an increase in offering value to EUR 1.7 billion from raising no money in the second quarter of 2003. The amount raised was, however, well down on the first quarter of 2004, which saw the flotation of the Belgian telecoms company Belgacom, the biggest in Europe for three years. Dublin saw its second IPO of the year – indeed only its second since 2001 – with the drinks company C&C Group raising EUR 385 million in a dual listing with London. Among the new member states of the European Union, it was again Warsaw that showed signs of promise with five IPOs in the second quarter, two more than the previous quarter. The Polish market also has seven IPOs in the pipeline. In addition, the Prague stock exchange saw its first IPO for more than a decade with the dual listing (also in London) of the pharmaceuticals company Zentiva. Copenhagen, Helsinki and Luxembourg are all yet to have an IPO this year.

Two sectors at the forefront

From the sector point of view, support services and real estate saw the largest increases with ten and nine IPOs respectively in the second quarter of this year. Electronic & electrical equipment went from just one IPO in the first quarter of this year to seven in the second quarter, while utilities experienced a drop in the number of IPOs from three in the second quarter of 2003 to one in the second quarter of 2004. //

Salary statements:
Why correctly processing information is the responsibility of the boss.

Incorrectly or inaccurately filled out salary statements can cost a CEO dearly. This is because CEOs are not just responsible for their companies' products, but for the accuracy of all documentation as well. We take a closer look at taxable ancillary benefits and expenses.

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The salary statement is the most important document used to determine the taxation of employees. The information it contains determines to a large extent the amount of tax each individual has to pay and the job-related expenses they can deduct. This also applies to management, including the CEO and board of directors.
Often, too little attention is paid to the salary statement, because most companies view it as a purely administrative document. The salary statement is the end product of the payroll-accounting process, and for it to be accurate, all information must have been processed correctly, and all factors taken into account, during the whole year. People rarely, if ever, check their own salary statement, in the belief that it has been drawn up correctly by competent people. But the departments responsible, such as payroll and financial accounting, often take no special steps to ensure that salary statements are error free.

[1]Brigitte Zulauf, Partner, Tax & Legal, Zurich,
Tony Brey, Tax & Legal, Zurich.

The buck stops with the CEO

It is only recently – in the wake of an increasingly public debate – that people have become aware that salary statements have often been, and continue to be, filled out incorrectly. Strong political resistance has repeatedly foiled attempts to pass and implement definitive legislation on a newly designed salary statement. Regardless of when the new salary statement is introduced (definitely for 2006 income onwards), companies should realise that the 1995 guidelines on filling out salary statements and the basis for the accurate and complete recording of all compensation are already applicable.
In the interests of tax equity, in future we can therefore expect the tax authorities to check salary statements more frequently. In the case of smaller companies, this will be done by the tax auditor as part of the overall audit. In the case of larger companies, the checks will be made in a special audit conducted by auditors specifically trained for the task.
Basically the CEO is responsible not only for the products his or her company makes or sells, but also for the correctness and accuracy of all the company's administrative processes. This means that the CEO's remit also extends to documents, for example salary statements and with them the legally defined declaration of employee remuneration. In other words, a CEO must ensure the proper internal processing of information. One additional option open to the CEO is to seek support from external specialists.

The CEO's duties include the following:

1. Reviewing the current situation in the organisation

The current situation regarding the company's salary statements must be reviewed by either the person responsible within the organisation or by external specialists on behalf of the company. While the auditor checks salary expenses and the way they are booked in the course of its work, it does not check the accuracy of individual salary statements. This means that the auditor's report should not be taken as approval of the company's salary statements.

2. Taking steps to minimise or avoid risks

Errors that were made in the past must be completely reappraised. Subsequently the decision must be made as to how to remedy these errors. Then staff and the authorities must be informed accordingly. To avoid mistakes in future, new procedures for preparing salary statements should be defined and the necessary control mechanisms implemented.

3. Careful planning of the compensation of all staff (including ancillary benefits and expenses)

The impact of tax and social security regulations on the taxes and contributions paid

by employees and the employer should be reviewed on a regular basis.
One challenge is designing compensation to make the proper distinction between taxable income from employment and expenses. “Excessive” expenses, unlike tax-deductible job-related expenses, are part of the employee’s remuneration and must be added to his or her taxable income. To ensure that the company does not make any mistakes, it is advisable to submit expense regulations to the tax authorities for approval; this creates clarity on the payments to staff that are taxable, and those that are tax free. Until now, the rates approved by the taxman have also been recognised by the social security authorities. Regulations of this sort also release the company from the obligation to state the actual expenses paid to management or sales staff on their individual salary statements. Benefits should be reviewed to ensure that they are worth the administrative work necessary to process and state them correctly in the salary statement. Tax-optimised benefits such as company cars, lump-sum expenses and pension schemes should also be taken into account.

4. Clear internal communication

Compensation is an extremely sensitive issue, meaning that timely and proper communication is vitally important.

5. Checking the accuracy of your own salary statement

The tax authorities expect a CEO to be informed about his or her own salary statement and its content, and that he or she can confirm that it is complete and accurate.

Salary statements: old and new.

The current salary statement form has been around for some thirty years. Alongside the federal form, various cantonal forms are also valid at present. The authoritative 1995 guidelines summarise the regulations currently in force. Many things are not described precisely in these guidelines, and open questions and unclear definitions remain, for example concerning excessive expenses, benefits in kind at market value, and salary-like payments.
The new rules are supposed to create greater transparency for companies. In future they will be able to differentiate more clearly between compensation that is liable to tax or possibly social security, and things that do not have to be stated in the salary statement. The new regulations should be formulated more clearly to make it easier for companies to prepare accurate salary statements and avoid mistakes.
Taxable ancillary benefits will be defined more clearly.[1]
Even so, the new salary statement also brings with it certain risks. For example, because it is more transparent, past errors will be easily apparent.
Added to this, the new rules and improved transparency will enable the social security authorities to ascertain more quickly what types of compensation are or are not liable for social security payments. Under certain circumstances this could mean additional expense for both employees and employers.

[1] PwC has researched the trends relevant to the new salary statement.
You can order a free PDF copy of the findings from sonja.jau@ch.pwc.com.

Risks for employees and employers

In principle every employee is obliged to check the completeness and accuracy of his or her salary statement. Even so, the same requirements do not apply to everyone: if specialist or managerial staff fail to query an error in their salary statement, this omission may be treated more seriously than for ordinary members of staff. Ignorance, however, is no protection.

If, as the result of incomplete salary statements, the tax authorities initiate additional or even penalty tax proceedings against an employee, experience has shown that the people affected will initially turn to the company. They will assert that they are not responsible for the problem, that they have always trusted their employer and, moreover, that they do not have the knowledge or expertise to check their salary statement. If additional or penalty taxes are levied, most employees will ultimately accept additional tax, but not penalty taxes or a fine. This can mean that a company has to pay penalty taxes and the costs of proceedings on behalf of its employees. But this compensation in turn constitutes salary that is subject to tax and social security, leading to even higher costs. In addition, the firm may face fines for tax fraud (issuing false documents).

Conclusion:
Do not underestimate the time required for the review and implementation of new guidelines.

Strive to design a consistent compensation policy without special rules and exceptions.

Implement clear expense regulations.

Consider reviewing your existing expense regulations.

Have your payroll administration function, including ancillary benefits, audited by qualified specialists. //

The 5-minute expert: Topical business terms illustrated with examples from research by PricewaterhouseCoopers

Private equity

Private equity is private capital used to finance companies that are not (or not yet) listed on the stock exchange. In 2003, 40 per cent of the overall volume of technology investment in Europe was made at the buyout stage. Over the same period, private equity investment in the European technology industry rose 2 per cent to EUR 5.4 billion, of which EUR 125 million was invested in Switzerland. In total there were 4,811 investments made in the technology sectors, representing 46 per cent of total private equity investment in Europe. Source: PwC Money for Growth 2004: The European Technology Investment Report 2004

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Flash reports

Fifty-three per cent of business leaders in Europe and 55 per cent in the United States want to increase the quality of their financial information by improving their closing and reporting procedures. The majority believe that this would give them more time to analyse and review important information, and enable them to make decisions in a more timely and accurate fashion. Seventy-five per cent of US business leaders, and 46 per cent of their European counterparts, use “flash” reports (executive summary reports) to gain an early indication of financial performance before their books are closed. Source: Management Barometer

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Media deals

M&A transaction values in the media industry rose sharply last year to EUR 16.8 billion from EUR 11.5 billion in 2002. Deal volumes increased from 78 to 85. However, the real pick-up in megadeal activity did not come until the second half of the year, marking the return of mergers and acquisitions to the boardroom agenda as a key strategic instrument. Source: PwC Media Insights

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People policy

According to the PwC study Sustaining value through people, a written, transparent people policy has a significant impact on a company’s business performance. Companies whose people strategy is aligned with their business strategy perform better. Not only this, but people policy must be geared to different stakeholders and address their interests. Source: Sustaining value through people

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Corporate governance as a competitive advantage

Financial services companies are falling short of reaping the potential strategic advantages of good corporate governance. Improved corporate governance can lead to better management and greater stakeholder trust. Sixty-nine per cent of financial services companies have implemented more systematic internal risk management in the last two years, and around 60 per cent say that management now places greater emphasis on corporate governance. Source: Governance – from compliance to strategic advantage

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Business drivers

Local business development

Skills transfer

Career development

Cost management

Skills shortage

Globalisation

Mobility types

Traditional expatriate

Local transfer

Permanent transfer

International hire

Commuter

Virtual assignment

Business trips

Short term

"International Mobility Evaluator"[1]

OPERATIONS

Talent management

Reward management

Process management

STRATEGY

Value opportunities

Talent management
- Clear link to business needs
- Assignment success measurement
- More effective ROI on assignments
- Effective selection/sourcing framework
- Reduce attrition rate with effective career management/succession planning

Reward management
- Strategic alignment of reward with business drivers/optimise performance of employee
- Flexibility of reward strategy to support business needs
- Competitive and cost-effective reward packages

Process management
- Reduced operational costs
- Effective process delivery
- Optimise technology resources
- Reduced legal/regulatory compliance risks

[1]An "International Mobility Evaluator" is used to compare strategy and actual implementation in three areas: talent management, overall compensation and processes.

Mobility:
International assignments – expense or added value?

It is increasingly important for organisations to assess whether their programmes for internationally mobile employees are aligned with business strategy.

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In the current economic climate, many organisations consider international assignments to be an added cost. As a consequence, additional benefits defined in the international assignment policy are often cut back or headcount is reduced. The strategies, principles and processes for internationally mobile employees are seldom reviewed for congruence with business strategy. A structured approach would be wise here, as this could harness the international mobility programme to the needs of the business.
Before making a large investment, it is normal to conduct a cost-benefit analysis.

[1]Per Melberg,Tax & Legal, Basel,
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When it comes to internationally mobile employees, however, decisions which have far-reaching financial consequences are often made without considering how the return on investment is defined or how it can be measured. It is increasingly important for organisations to identify the value of their programmes for internationally mobile employees, to demonstrate the benefit, and to ensure that the international experience of employees is reintegrated in the organisation once they return. Only when the programme and processes within the scope of international mobility correspond with the business strategy can the investment in the internationally mobile workforce ensure a payback and generation of a real value increase. An integrated approach covers all aspects of the international mobility strategy from employee selection and performance management (during and after the foreign assignment) to the relevant reward strategy and the supporting processes.

Reasons for reviewing programmes for internationally mobile employees:

- Change of business strategy (e.g. growth by acquisition and resulting integration of new countries, markets or cultures)
- Change in the business leadership
- Undesirably high fluctuations in the expatriate population
- New, more flexible types of assignment arising which are still based on the principles of existing guidelines and processes
- Higher total costs and/or insufficient budgeting of assignment costs

Long-term or short-term assignments?

The analysis in question is based on a structured interview process with the business decisionmakers. The identified value propositions will be reinforced and quantified through an analysis of internal processes. In the case of assignee selection, for example, it should be determined on what grounds an employee should be assigned. In this way a (more costly) international employee might be consciously selected ahead of a local employee for a vacant position abroad, because the desired result is to transfer expertise from head office to the foreign branch. A short-term assignment with the aim of building up local expertise and ensuring succession planning may be preferable to a traditional long-term assignment.

Selection and performance review

Further areas of the analysis include the selection criteria, the method of performance review, as well as the effect of a foreign assignment on the future career path of the individual. The aforementioned aspects are highlighted through quantitative measures. In this way conclusions can be drawn from the number of assignments ending early or the frequency of unwanted assignment extensions when it comes to selection of assignees and HR planning. This enables the cost savings potential in a number of areas to be determined.

Direct value for the organisation

As a result of the process outlined above, the potential for increased value in all aspects of the international mobility programme is shown. This allows the organisation to set aims in respect of the desired goals, such as:

- Increasing the value contribution of international assignments through the alignment of the mobility programme with the precise needs of the business
- Improved cost transparency and budgeting
- Reduction of fluctuations in the expatriate population
- More efficiently designed processes
- Optimised use of technology

Conclusion:

In the end, the perennial question of whether costly international employees are needed is not the question that needs to be asked. Rather, the analysis reveals the type of international mobility that is necessary or appropriate to optimise the value from the internationally mobile workforce and thus contribute to business success. //

What's the value of value-added tax?
VAT survey polls 600 companies on their experiences.

The key finding of a PricewaterhouseCoopers study: Swiss companies believe the risks connected with VAT are disproportionately higher than for direct taxes.

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The greatest challenges perceived by companies in connection with value-added tax (VAT) lie in the formal requirements related to input tax documentation, entering revenues under the right codes, and storing and archiving records. These are the findings of the first study conducted by PricewaterhouseCoopers on VAT. The report, "Wie viel ist die Mehrwertsteuer wert?" (What's the value of value-added tax?), is based on a survey of the current VAT situation of around 600 Swiss companies. Seventy-five per cent of those polled rated their relations with the tax authorities as good to very good.

Since the introduction of VAT, around one third of companies polled have been audited by the Swiss Federal Tax Administration (FTA), and for almost one third this has led to a substantial additional VAT burden.

However, there are significant differences from industry to industry. Because they do so much business abroad, capital goods manufacturers are often confronted with VAT issues related to cross-border transactions. Banks and financial services companies, by contrast, face major challenges when it comes to calculating input tax reductions and to the purchase of services from enterprises with their place of business abroad. The construction industry sees the greatest problems in diminution of consideration and issues related to self-supply in connection with real property.

The study also shows that 50 per cent of companies opt to pay VAT on rental income from commercial real property and assert the subsequent right to deduction of input VAT. The main reason for not opting is the administrative work involved and not – as expected – the possibility of incurring taxes on self-supply.

Almost ten years after the introduction of VAT, it is clear that this is a complex business that creates considerable administrative work for companies. The Swiss Federal Council has taken the first step to improve the situation by creating a consultative body to accompany the development and implementation of VAT. But if the situation is to improve, we need to have as comprehensive an understanding as possible of the way VAT is handled by companies. Until now there has been little publicly available information on the subject. PricewaterhouseCoopers' aim in conducting the first study of Swiss value-added tax has been to help gather the necessary data.

VAT consulting popular

Most companies name the FTA and its home page as their most important sources of information. Almost one half of those polled also seek professional advice on VAT matters. They do not change advisors often, and customer satisfaction in terms of perceived value for money is fairly high.

In addition, more than two thirds of companies prefer to seek VAT advice from the firm that audits them. The main criteria for choosing an advisor are the person and the quality of advice. It is interesting to note that more than three quarters expect their VAT situation to be reviewed as part of the regular audit. However, in most cases this has not been done, a fact which leads to the assumption of the existence of an expectation gap. //

[1] Niklaus Honauer, Partner, Tax & Legal, Basel.

Free copies of the brochure "Wie viel ist die Mehrwertsteuer wert?" (German and French only) can be ordered from sonja.jau@ch.pwc.com.

Mortgage rates:
The imputed rental value stays. What's the best way of financing your home now?

When Swiss voters rejected the package of tax reforms, they also threw out the new rules on the taxation of residential property. Now it is clear that nothing will change in the next few years as far as the taxation of the imputed rental value is concerned. What's next? For homeowners, it's worth analysing the situation.

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Capital market rates have fallen steadily in the last three years. One upshot of this is that short-term loans have become a very attractive way of financing long-term property investments. With interest rates looking set to rise again, however, it's worth taking a critical look at the situation. For example, calculating costs for different interest rate scenarios (say for both a moderate and a sharp rise in rates) can make it easier to choose between a Libor and a fixed-interest mortgage.

A five-year fixed-interest mortgage costs around 3.7% at the moment compared with around 1.8% for a Libor mortgage. If interest rates firm by 0.5 percentage points per annum over the next five years, the Libor mortgage will cost 3.8% in the fifth year. That's 2.8% on average, i.e. still 0.9 percentage points less than the fixed-interest mortgage. This means that a CHF 500,000 Libor mortgage is CHF 22,500 cheaper over five years. If interest rates rise one percentage point a year, however, a fixed-interest mortgage will be the better bet. Anyone who is pessimistic about the economic situation and believes that interest rates will remain low should stick to short-term financing.

Fixed-income assets

Expectations of rising interest rates don't just raise question marks about financing. They also affect investments, where basically the same considerations apply as to loans, only the other way round. If you're currently considering ways of protecting your loan against rising interest rates, it also makes sense to review the maturities of your bond portfolio. This would entail hedging durations by replacing long-dated bonds with shorter-dated issues, or by means of interest rate derivatives.

Save tax by means of indirect repayment

In terms of taxation there is a difference between direct and indirect repayment of a mortgage. Direct repayment involves paying the same amount back each year. This reduces the debt on the mortgage and the tax-deductible mortgage interest payments. In the case of indirect repayment, annual payments are not used to repay the mortgage, but instead are used to accumulate separate savings as part of a bank or insurance scheme. If this is done within the framework of a tax-privileged retirement savings scheme, these deposits can also be deducted from your taxes. After a certain period of time the mortgage is repaid by means of a tax-privileged lump-sum repayment of these assets (under federal legislation designed to promote home ownership). The tax benefits for the mortgage interest are effective throughout the entire deferred repayment period.

Conclusion: Any taxpayer planning how to finance their home should take their whole income and asset situation into account. It is advisable to analyse your personal circumstances with a private tax and financial planner as the basis for deciding on the right steps. //

[1] Marcel Widrig, Partner, Tax & Legal, Zurich.

In this example, repaying the mortgage indirectly results in considerable savings.
Example: Taxpayer A, resident in Zurich, has a taxable net income of CHF 250,000 (current marginal tax rate 40%). He has taken out a mortgage of CHF 1,500,000 to finance his home, to be paid back over 20 years at CHF 25,000 p.a.

	Direct repayment	Indirect repayment
Amortisation vs payment into tax-privileged occupational retirement savings scheme (pillar 2b or 3a)	500,000	500,000[1]
Mortgage interest at rate of 4%	1,010,000	1,200,000
Tax difference on income taking account of progression[2]	75,238	-187,093
Total outlay	1,585, 238	1,512,907
Additional liquidity after 20 years		72,331
Mortgage	1, 500,000	1,500,000
Repaid after 20 years	500,000	593,564[3]
Remaining mortgage	1,000,000	906,436
Additional repayment of mortgage after 20 years		93,564

[1] Accumulation of tax-privileged retirement assets (pillar 2b or 3a) at 3% interest p.a.
[2] The benchmark is the overall tax burden if no money is repaid
[3] Pillar 2b or 3a including interest, net after deduction of special tax on lump-sum repayment

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Publications:

Study: "Wo steht die Leistungsbeurteilung in der öffentlichen Verwaltung?" (How well are staff performance reviews established in the public sector?)
Staff performance reviews are fully institutionalised as a key management tool in the public administration sector. But in other public services such as education, the police, healthcare and transport, use of the performance review as a management and communications tool is less widespread. Added to this, in practice the quality of performance reviews and the consistency with which they are applied vary from service to service and administration to administration. There is still a lack of systematic monitoring and management of the objectives agreed with employees in reviews. These are the core findings of a study conducted by PricewaterhouseCoopers: "Wo steht die Leistungsbeurteilung in der öffentlichen Verwaltung?" (How well are staff performance reviews established in the public sector?). Its findings are drawn from a survey of 25 cantonal and municipal authorities in German-speaking Switzerland and the federal administration. The study (available in German only) can be ordered as a PDF from sonja.jau@ch.pwc.com.
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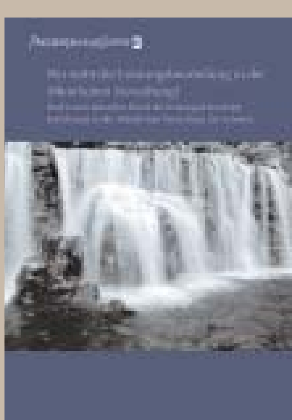

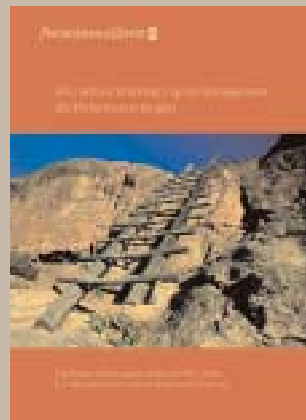

Study: "Wie aktives Working Capital Management die Performance steigert" (Active working capital management boosts performance)
There is a significant correlation between reductions in working capital and improvements in the profitability of a business. This is the finding of a long-term analysis of listed companies in Switzerland. The companies that achieved the greatest reduction in their working capital ratio between 1997 and 2002 improved their EBITDA margin by 7.7 per cent. Reducing working capital enables a company not only to boost free cash flow and hence company value, but leads to a decline in expenses such as interest, inventory management and receivables management costs.
The study (available in German only) can be ordered as a PDF from sonja.jau@ch.pwc.com.
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PricewaterhouseCoopers events:

InnoVATion 2004
Basel: 25 to 28 October 2004 at the Ramada Plaza Hotel/Trade Fair Tower.
Lausanne: 25 to 27 October 2004 at the Hôtel Lausanne Palace.
Geneva: 28 October 2004 at the Mandarin Oriental Hôtel du Rhône.

Half- and full-day workshops on the topic of value-added tax. There is a maximum of twenty participants per workshop.
Fee CHF 750 for half-day workshops, CHF 1500 for full-day workshops.
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Half-day afternoon seminar under the banner "New business strategies and challenges in the context of China's admission to the WTO".
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Upswing, XXL size.

Economic output, exports and infrastructure – in China everything's growing faster and more spectacularly than anywhere else on the planet. No other country is attracting so much foreign investment. But the emerging phase is over, and China is now the fourth-largest trading nation in the world. This has led to growing challenges of its own. Is the end of the boom in sight?

Photos: Jan Siefke (China),
Niklaus Spoerri (Switzerland)
Text: Janis Vougioukas

In October 1949, when Mao Zedong declared the People's Republic in Beijing, the country entered a kind of time warp. The nation became lethargic and slid back into the stone age. Mao died in 1976. Then along came a small man named Deng Xiaoping with phrases like "it's honourable to be rich," and "it doesn't matter whether a cat is black or white as long as it catches mice." What Deng really meant was that whether it's capitalism or communism, the most important thing is that you get what you want. And what China wanted was to get rich.

In the meantime China has surpassed Japan – once the economic powerhouse of Asia – in terms of trade with Europe and the United States. China's entry into the World Trade Organization (WTO) will merely accelerate the trend. According to the US textile trade association, when the last trade barriers are removed in 2005, three out of four garments sold in American stores will originate in China. China no longer produces only toys and clothes; it has moved into machinery, microchips and computers as well. In 2003 Chinese exports were up 34.6 per cent, and have doubled in less than four years. Last year, per capita GDP reached the magic thousand dollar mark for the first time. This seems like peanuts compared with Western industrial nations. But one has to picture China as a pork chop: while a large part of the country is dry and bony, the east coast, where the lion's share of economic production is concentrated, is a thick, succulent strip of fatty meat. Here one hundred million Chinese now enjoy near-Western standards of living. A country whose public buildings still bear the red flag has become the sixth-largest economy and the fourth-largest trading nation in the world.

No other country attracts so much foreign investment. In June the Beijing ministry for the economy counted 486,965 companies with foreign capital.

"The risk of not being there is greater than the risk of being there," is how Siemens boss Heinrich von Pierer sums up the mood. Few global companies can afford not to invest in China. No one wants to miss out on the chance of being part of the biggest expansion programme in the world.

Chinese companies have created a stir on the international stock markets in recent months. China Life Insurance, the country's largest life insurer, raised USD 3.46 billion when it went public in December in the biggest IPO of 2003. Shanghai online portal Ctrip.com did something that no company had managed in three years, seeing the price of its shares double within hours of being listed on New York's Nasdaq technology exchange.

Huge government infrastructure projects are creating the foundation for the country's expansion and modernisation. The equivalent of CHF 42 billion has been earmarked for infrastructure investment in the long-neglected western part of the country in the next five years. Since the completion of China's first motorway in 1988, the network has grown to more than 20,000 kilometres, making it the second longest in the world. The country's rail network has almost reached the 80,000-kilometre mark. Within the space of some fifteen years, China has created an infrastructure that took most Western industrial nations a whole generation to build.

Boomtown Shanghai: no city in the world has grown faster.

To better market energy resources such as coal and natural gas that are found in the west of China, the government plans to build a 4,200-kilometre-long pipeline between Xinjiang in the far west and Shanghai. And the course of China's rivers is not to be left completely to nature either; the problem of providing hundreds of millions of people with drinking water has to be solved. Three canals are planned to divert almost 50 billion cubic metres of water a year from the Yangtze River to the arid north. The largest water management project in the world, worth CHF 80 billion, is due for completion by 2050. Swiss companies are also profiting from efforts to expand the infrastructure. They include ABB, which is supplying voltage transformers for the southern Chinese grid and the Three Gorges Dam.

China is now the largest market for mobile phones in the world. Car sales grew seventy per cent last year. China has become a strategic market for luxury manufacturers Maybach, Porsche and Ferrari, even though their vehicles sell for almost twice the price they would fetch in the West. Versace, Prada and Armani outlets grace the shopping miles of Chinese cities.

The Chinese are not yet a rich population. But they intend to catch up, and have been busy saving. With a savings rate of 24 per cent, China's urban population is close to the top of the world rankings. Now the Chinese are ready to spend. By the end of last year, the population of Shanghai came to 20 million. In one decade the boomtown has built more skyscrapers than there are in the whole of Manhattan. The city's freeways form five-storey-high intersections. Shanghai will soon supersede traditional Asian centres such as Singapore and Hong Kong. In June, General Motors announced the relocation of its Asian headquarters to Shanghai, and every month, mayor Han Zheng welcomes yet more multinational companies to his city.

"Most of the big companies are already here," says Nicolas Musy of the Swiss Center Shanghai. Until fairly recently you could count the number of small and medium-sized enterprises from Switzerland on the fingers of one hand. But now more than twenty new companies are arriving every year, and more than 580 Swiss firms are trying their luck in China. There's no sure-fire recipe for entering the market, but one approach usually works: "The safest strategy for a medium-sized company is to first buy parts in China for export; this enables you to get to know the market while earning money at the same time. Only then should you consider setting up local facilities to manufacture parts for export. The third stage is generally selling in China itself," explains Musy.

The upswing has created new problems of its own, for example with energy shortages. The capital, Beijing, threatened to pull the plug on luxury hotels if they failed to cut electricity consumption by twenty per cent. Many newly built apartments in Chinese cities stand empty, and the real estate bubble could burst. China is well aware of the risks of an untrammelled investment boom which could result in overcapacities and speculation-driven bubbles in many areas of the economy. In early May, prime minister Wen Jiabao announced "drastic measures" to cool the economy – and the world quaked in its boots. If China suffers a hard landing, the whole of Asia could be dragged into crisis. But only a few weeks later such concerns seem to have evaporated. "If you define a soft landing as a slight slowing in economic growth, then I think it can be managed," says Ma Jun, senior economist at Deutsche Bank in Hong Kong. Ma expects growth to slow by two or three per cent. "In recent years we have seen the economy overheat on occasion. These were extremely chaotic situations coupled with high inflation," explains Wang Jianmao of the China Europe International Business School. "This time it's a different situation, where there has been overinvestment in a small number of economic sectors." The experts concur: the Chinese economic miracle is not over yet. //

Zhang Jun[1], China Center for Economic Studies:

“We have developed economically, but have hardly changed at all in structural terms.”

A Chinese economic expert talks about economic cooldown, bad loans and pending reforms – and the impact of the one-child policy.

Interview: Janis Vougioukas

Mr Zhang, the recent bankruptcy of investment conglomerate D’Long marks the demise of one of China’s most prominent private companies. Do you view this as the beginning of the end for the Chinese economic miracle?
It looks as if our economy is now returning to cyclical patterns not seen since 1993. But China still has a great deal of potential. A large part of our population is still on the development path. Our per capita GDP is a mere one third of the US figure, so there’s definitely potential for growth. The question is whether we can keep up the pace.

[1]Zhang Jun studied economics in Shanghai, London, Sussex and Washington. For the last two years he has directed the China Center for Economic Studies, a government economic research institute in Shanghai.

It’s precisely the pace of Chinese growth that has fascinated people in the West until now. Will this continue?
Investment generates almost half of Chinese gross domestic product. That’s typical for the Chinese economy, where more than 62 per cent of investments are controlled by the government. Any time our economy has boomed, for example in the early 1990s, the growth has been due to investment. This means that in reality it’s artificial growth.

What should the government do to avoid overheating?
The supply of land must be monitored as a matter of urgency. Almost all new investment depends on new land, and the land belongs to the government. The second important step is to reduce the volume of new bank loans. Anyone who wants to build a steel factory in China needs credit and new land from the government – the government has to be more sparing.

What are the implications for foreign companies?
There is still a large volume of foreign capital flowing into China, and I do not believe a cooling in the economy would have major implications for international investors. But there will be victims too. One example is the automotive industry, which saw a marked decline in sales in May. Now Western automakers have engaged in a price war. This could hit companies that want to sell their products in China particularly hard.

At no time in its long history has China been so much an integral part of the global economy. What impact would slower growth have on the rest of the world?
If the Chinese economy cools down, imports will certainly also decline...

...which could have catastrophic consequences for many Asian economies. Growth in Korea, Japan and many other nations is due above all to rising Chinese imports.
I also think there is a risk there. For many Asian economies, trade with China is more important than trade with the United States. Even so, I don’t see any great danger for the West.

Is it possible to predict how the situation in China would be at the end of an economic cooldown?
The whole debate on overheating does not really worry me. I’m more interested in other questions. Will discussions on the right measures change the long-term prospects and power of our economy? Bad loans have led to huge problems in China, and have even put the government in jeopardy. Beijing is paying a great deal of attention to the issue, but has not really started reorganising the banking system in earnest. It’s as if the whole economy has been artificially pumped up with loans from state banks. Some day a spark could cause the whole edifice to blow up.

The overheating debate leaves him cold: Zhang Jun in his Shanghai office.

Does Beijing lack the courage for really fundamental reforms?
In the 25 years since our economy began opening up, almost all the really fundamental changes took place in the 1980s. Since then a large amount of foreign capital has flowed our way and we have become part of the world economy. We have developed economically, but have hardly changed at all in structural terms.

What do you see as the greatest structural problem?
In the long term I believe that the declining savings rate and our aging population will be problematic. By 2020 or 2025 the proportion of old people could outstrip the working population.

That's a result of the one-child policy. Almost all Western countries have the same concerns!
But for China this is a financial rather than a pensions problem. If our population ages, the savings quota will fall to a low level. And if there is no change in our growth model, we'll need a high savings rate to finance our development. So our main problem is not the fact that people are getting old, but the result of this development: namely that people use up their savings when they get old!

China faces many other pressing problems at the moment, for example the shortage of energy. Shanghai has now ordered 2,100 companies to run at night to avoid overloading the grid. Is this any way to solve China's energy problem?
Energy supply is certainly a big issue too. But I think we can solve this problem by means of liberalisation. The market can sort it out – at least to a certain extent. The government is still very cautious when it comes to opening the public utilities market. This could change if the energy crisis intensifies. At the same time we should consider shutting down companies that don't use energy efficiently. //

Hans Jakob Roth[1], Swiss Consul General:

"If there are differences, make sure they don't show!"

Switzerland's official envoy in Shanghai on Western and Eastern thinking – and mistakes to be avoided in negotiations with a Chinese delegation.

"The way Chinese people think and behave can't be explained by social density alone. It's got more to do with the lack of privacy and emotional and psychological space in this type of social environment. Chinese people have no distance from the things that are going on around them. At the same time they are close to events in a way that we are not, and are always part of what is going on around them.
In behavioural terms this means that in the social environment in which they operate, Chinese people's antennae are always set to receive.

Born into a network
What do the neighbours think of me? Is my behaviour socially acceptable? These are questions that people in a collective society like China are constantly asking, and the means by which they steer their behaviour. As a result they have a highly developed sense of consensus and harmony – but only in their normal day-to-day environment. This constant attentiveness requires so much mental and emotional energy that outside their normal day-to-day environment, where nobody knows them, Chinese people display totally uninhibited behaviour. Their love of nature is largely restricted to a love of the nature in their own courtyard or garden. The great protection and security that a Chinese network provides stands in stark contrast to the hardness Chinese people display in dealings with people, animals and objects that are not part of their own group. Because people are extremely close to their social environment, they tend to make a much sharper distinction between their own group and outsiders than people in individualistic European societies would do.

Lack of personal space
The fact that Chinese people are never mere observers of what is going on around them has also had a heavy influence on patterns of thought. Chinese thought has never proposed a division between subject and object. In this country people see opposites, which we in the West generally view in terms of either/or, as a unity – as the symbol of yin and yang clearly illustrates. This symbol also shows very clearly the way reality is seen as a flux – a different way of looking at things with which we in the West have great difficulty. We do not think in terms of processes the way the Chinese do. They perceive reality like a film. We observe reality from a greater distance and thus see it as a series of snapshots.
This Western distance means that a lot of information gets lost. The disadvantage is that we never perceive things as precisely as the Chinese; the advantage is that it forms the basis of the analysis and abstraction that underlie our rational way of thinking. Chinese thinking is comprehensive, but it is still very concrete and pragmatic, and has little in common with rational thinking in the Western sense.
Closeness and distance are thus the factors that have permanently influenced, and will continue to influence, Eastern and Western modes of behaviour. Even a modern Chinese person will not have the same physical space as a Westerner. The development of greater individual freedoms will therefore remain a problem in China – regardless of the form of government.
You see the effects of these differences in many different areas of business. In contractual negotiations, for example, you can assume that the Chinese delegation's observations of its Swiss counterparts will enable it to assess the situation much more accurately than the Swiss delegation. So Swiss negotiators must prepare very thoroughly and systematically for such discussions, and above all must avoid letting any differences within the group become visible. For example, every single member of the Swiss delegation must know what the price limits are, and stand firmly behind them. The Chinese will be quick to pick up on any differences within the group. To give another example, at management level this pattern

Studied economics in Beijing: Consul General Hans Roth.

Christian Gürtler, Chairman of the Swiss Chinese Chamber of Commerce.

of thought means that a manager will never have the feeling of operating in a secure environment.

Everything is in constant flux
Nothing can be taken for granted. This means that managers have to be extremely tolerant of ambiguity, be emotionally and mentally able to cope with unclear situations, and have the patience to wait until a suitable situation presents itself before making decisions. You have to combine decisiveness with a great deal of patience – something that Western business schools don't prepare you for. Working in China is thus an incredible opportunity to experience two modes of cultural behaviour and see your own behaviour through new eyes. The real relevance of a spell in China has less to do with getting to know China, and more to do with getting to know our own culture through this Chinese experience!" //

[1]Dr Hans Jakob Roth studied economics in Geneva, Beijing and Rome, and gained a doctorate in economic history from the University of Basel. In 1982 he entered diplomatic service with the Swiss Federal Department of Foreign Affairs, and in August 2001 was appointed Swiss Consul General in Shanghai, the People's Republic of China.

Christian Gürtler[1], SwissCham China:

"To build trust, the CEO must nail his own colours to the mast. China has to be the responsibility of the boss."

An expert on Swiss-Chinese business on the risks and opportunities for Swiss companies in China – and pitfalls that should on no account be underestimated.

Interview: Franziska Zydek

Christian Gürtler, is the end of the boom in China in sight?
Christian Gürtler: We are seeing a flattening out in overheated sectors, but overall, China is on the up and up. If there is any break at all, I believe it will not come until after the 2008 Olympics and the 2010 World Expo, when most major projects have been completed. But China will continue to grow even beyond this period.

How do you rate the market potential?
China is indescribably different from anything that we know in Europe. When we talk of China, we mean the developed regions in the east of the country, overlooking the huge, as yet undeveloped interior. Beijing, Hong Kong and Shanghai are springboards to this enormous market. Added to this, a billion Chinese in the hinterland are putting pressure on the big cities: motivated workers in numbers we cannot even imagine.

Is China still an attractive proposition for Swiss companies?
China has a huge domestic market. If you build up a business in China, you can use it to enter this market. That's a great incentive for small and medium-sized companies. But you need to prepare very thoroughly indeed to get a foothold in China.

What should a CEO who wants to invest in China watch out for?
You have to remember that the market does not consist of 1.3 billion Chinese! You have to take away a good many zeroes to get an accurate picture of your target group. Assessing the market incorrectly can have disastrous consequences. People wanting to do business in China should ask the following questions: Where is the market for my product? Do I want to exploit cost

advantages or actually enter the market? Or both? Once you have answered these questions, you need a clear strategy and the right organisational structure – and you have to be aware of how much time and money you'll have to commit. If you do all this, it's certainly possible to make money in China.

Many joint ventures go wrong. Why?
Companies are often ill-prepared when they go to China. It's hard facts that determine the success or failure of a joint venture: Can your Chinese partner guarantee you a market for your product? Will this market still be there if your partner leaves? Joint ventures only have a chance if both partners see a clear benefit.

How predictable and secure is China from a legal point of view?
Since 1979, China has created entire legal codes from scratch. The fact that the legal system is being developed on an ongoing basis means that things are getting more predictable and secure. However, jurisdiction is not independent of the Party, and this can lead to problems for foreigners. When all's said and done, though, China's well on the way. Since the beginning of this year, private property has been anchored in the constitution.

Do you need contacts to gain a foothold in China?
Everyone talks about Guanxi, the almost proverbial relationship networks that exist in China. But very few foreigners have any real experience in these matters. This is something people often only realise when there are problems. Then you need experts with a real network of contacts to unravel the mess.

How important is personal contact?
The Chinese place greater emphasis on personal relationships than we do, which is something that managers often neglect. You don't win the trust of the Chinese overnight. The CEO must nail his own colours to the mast. China has to be the responsibility of the boss. //

[1]Christian Gürtler studied economics in St Gallen. He was responsible for building up Chinese businesses for Sandoz and SKW, and is Senior Advisor of Asia/Pacific Degussa. Alongside his involvement with the Swiss Chinese Chamber of Commerce (SwissCham), he is Chairman of the Swiss Center Shanghai.

report2. business in china

How can companies successfully participate in the largest growth market in the world?

Swiss managers and CEOs report on their experience.

Calvin Grieder, CEO of Bühler AG:

"Don't think for a moment that you can conquer China with third-rate technology."

Uzwil-based technology group Bühler has been operating in China since 1920, and intends to double sales in the next few years.

Text: Corinne Amacher

The Chinese economy grew nine per cent last year, and this year looks set to be just as impressive. Calvin Grieder is not the sort of manager to lose his head over such an exciting prospect. When the CEO of technology group Bühler speaks of China, it is with astonishing calm. He can afford to be composed. The Uzwil-based company had entered this huge Asian market long before everyone else jumped on the bandwagon. In 1920 it delivered its first machines to China, in 1984 it opened a sales office in Beijing, and in 1993 it commenced production at its own facilities. To this end Bühler founded a joint venture with its largest Chinese competitor in the southern Chinese city of Wuxi. The rationale behind this move was that the Chinese partner would give the Swiss access to its extensive distribution network in return for Swiss plant and process know-how.
Bühler started out by manufacturing grain milling machines for the Chinese market. Now one third of its product range is produced in China, and this proportion is growing.
With sales of CHF 100 million – 7.5 per cent of group sales – China has advanced to become the company's third-largest source of revenue after the United States and Germany. Bühler's Chinese business has always been profitable. "But we're a long way off our goal," explains Grieder. "If we do it right, we can double sales in the next three to five years."

Accept the situation in China
A group of staff with many years of experience in China, known internally as the China Team, has helped write Bühler's Chinese success story. This Uzwil-based team manages and supports the management in China. Of the 700 or so people working for Bühler in China, only around twenty are from Switzerland. "Our Swiss mentality doesn't get you far in China," says Grieder. "The best thing is to work with staff who are very familiar with the local situation." Among other people he can rely on the

Bühler's business in China has always been profitable: Calvin Grieder.

Sees great pent-up demand in China: GF business planner Helmut Elben.

support and proven Chinese expertise of Erwin Schurtenberger, a member of the Bühler board of directors who was formerly Swiss ambassador to China. Schurtenberger is part of the delegation in important negotiations with Chinese partners.

Make your mark with innovation

"If you can't negotiate hard, you're better off staying out of China," says Grieder. The Chinese are famous for their unerring ability to profit from a situation. No sooner have contracts been signed than they're being renegotiated – or quite simply ignored. Grieder is used to having to constantly come to terms with new situations. Once the authorities told Bühler that the Wuxi works would henceforth be supplied with electricity for four days rather than five. Bühler was able to negotiate a compromise. Now they'll need their negotiating skills again: the government wants to rezone the site of the Wuxi factory, and there's a risk the whole operation will have to relocate. Grieder is not one to sit in judgement on China. Instead he endeavours to understand the different mentality. "There's no such thing as an old and a new world," he explains. In terms of education and technological know-how, he claims the Chinese have now caught up with us: "Don't think for a moment that you can conquer China with third-rate technology!"

Externally, today's Chinese-made machines are hardly distinguishable from Swiss precision engineering, and even sales brochures are faithfully copied down to the last detail. Patents do not offer complete protection from imitations. "It's still best to make your mark with innovation and the best products and services," says Grieder. His theory is about to be put to the test: the joint venture with the Chinese partner has been dissolved, and Bühler has taken full control of the Wuxi facility. Diverging interests led to conflicts that made management difficult. "Now we have the power to go to the market ourselves. If you don't have this strength, you have to make compromises." Grieder reckons the Chinese partner will start up on its own as Bühler's competitor again – as it was before.

China has seen two decades of uninterrupted growth. And Calvin Grieder does not believe that the government will want to show even the slightest sign of weakness before the 2008 Olympics. //

Helmut Elben, Georg Fischer AG:

"Sooner or later we'll also be doing R&D in China."

The growing appetite of Chinese consumers should help fill the order books of all three business units of the Schaffhausen-based Georg Fischer Group.

Text: Iris Spogart

Helmut Elben, head of business planning and member of the management board of Schaffhausen-based technology group Georg Fischer, has three spontaneous statements on the subject of China:

1. China is full of opportunities.
2. But local presence in China won't solve the problems a company has in its established markets.
3. Problems in established markets will be inevitable if a company is unable to make its way in China now.

The group delivered its first orders to China in the early 1990s from its existing facilities in Schaffhausen and elsewhere. Now GF employs more than 1,000 people at eighteen locations in China. Number nineteen is just being built: "A number of GF Automotive customers have long been putting pressure on us to supply them directly from China rather than from Europe," explains Elben. In Suzhou, GF's Automotive division is building a new factory which among other things will manufacture complex alloy steering system components for Thyssen Krupp Presta – an order worth CHF 200 million spread over a number of years.

Demand set to grow for decades to come

"In China there's a great deal of pent-up demand in all our core businesses," says Elben. It's a market consisting of 1.3 billion people, many of whom are striving for a Western lifestyle. All three GF business units are set to profit from this trend: GF Automotive from growing demand for Western cars, GF Piping Systems because it supplies the booming construction industry, and GF Machine Tools (Agie Charmilles Group) thanks to the increasing appetite of Chinese consumers. Agie Charmilles makes systems for tool- and mould-making, the basis for so many different mass-produced products such as toothbrushes, mobile phone housings and PET bottles – a booming market: "Nowadays one in five Chinese has access to these types of goods and the financial means to buy them," says Elben, "and demand looks set to continue growing for decades to come."

As head of business planning, Elben is also currently looking at the question of how to support and push the anticipated growth and the company's expansion plans in China more systematically than at present. "The challenge is to use group-wide synergies," he explains. Under the working title "Growing Great in China", in the next few months the company is to set up a regional HQ, a kind of corporate centre, in China. This will ease the administrative burden on the individual GF Group facilities and give them access to support in human resources. "Our colleagues in China are operating in a growth market, and they shouldn't have to worry about organisational and administrative matters," says Elben.

Putting competitiveness to the test

Twelve years in China yield a wealth of experience. For example, you learn that in negotiations it's important to be able to seek advice from a neutral Chinese person who is familiar with both cultures. This is the only way of avoiding misunderstandings. You also learn to make better use of the strengths of your Chinese joint venture partner in Western markets. And finally, you learn that while Chinese managers have fully mastered the rules of business, their style is quite different from the Western approach. There is a basic difference in mentality between the Chinese and the Swiss: "In business we're direct and performance-driven, while the Chinese pay much more attention to interpersonal issues."

The Swiss and the Chinese are also very different when it comes to copying. "They don't see anything wrong in it," explains Elben. The best protection against the Chinese love of imitation is innovation. The second-best protection is caution. "We're still very selective in terms of what we produce locally," says Elben. For example, Agie Charmilles still manufactures its top-of-the-range systems in Switzerland and exports them, producing only less specialised machines locally in China. This strategy puts GF in direct competition with Chinese manufacturers, who themselves are making progress in the value chain. "We're constantly putting our competitiveness to the test" is how Elben describes the challenge his company faces.

However, the strategy of ensuring that the transfer of know-how from Switzerland to China occurs in carefully controlled doses has only limited potential for the future. "Increasingly we will manufacture in China," believes Elben, "and sooner or later we'll also be doing R&D there." //

Christoph Leemann, Union AG, and René Frei, Embrex AG:

Direct competitors in Switzerland, partners in the same joint venture in China.

When their customers started to build factories in China, the two embroidery specialists followed suit.

Text: Iris Spogart

"If you can dream it, we can make it." This is the slogan joint owner and CEO Christoph Leemann uses to promote his company, Stickereifabrik Union AG in St Gallen. A specialist in embroidered fabrics for ladies' underwear, Leeman supplies brands such as Victoria's Secret, Chantelle and Triumph.

In 1992, the eastern-Swiss businessman travelled to China for the first time with plans of setting up a factory there. This wasn't his idea; it came from his largest customer, Triumph, which was at that time shifting part of its production to the Far East. Within two weeks, Leemann had decided to set up a branch in the port of Quingdao. His decision was not just driven by the prospects of low wage costs. These are not the most important consideration in a business where the major cost factor is embroidery machines costing several hundred thousand francs each. "I decided to build a factory in China to be close to our customers," explains Leemann, adding that "unlike in Switzerland, in China we are operating in what is still a very promising domestic market."

Everything more straightforward than in Switzerland

One of the things Leemann has learned in China is the shadow side of extreme specialisation: "No finisher in China can provide the quality we need." In Switzerland, finishers are key players in the embroidery industry. Their know-how stretches

A huge learning process: joint venture partners Frei (left) and Leemann.

from dyes to the mechanical and chemical processes used to soften and harden fabrics, reduce shrinkage and increase tear resistance.
Now Leeman has managed to solve this problem as well. Since May of this year, the Swiss Finishing Co. Ltd. has been responsible for finishing. The company is a joint venture between Leeman, Vorarlberg-based finisher Fussenegger and embroidery specialist Embrex in Au. Like Union, Embrex specialises in high-end embroidered fabrics for well-known lingerie labels such as Marks & Spencer and Simone Pérèle. Co-founder and chairman René Frei freely admits that it was “a huge learning process” to embark on this Chinese adventure with direct rival Leemann. He was prompted by the same insights that had originally driven Leemann to China: “Most of our large customers are building factories in China,” says René Frei, “and for cost and logistical reasons we have to shift too.” The main reason for the decision to join forces with arch-rival Union is that both companies would be too small to finance and fully utilise a finishing works in China on their own.
The joint venture was signed in spring 2003, and the facility has been in operation since May 2004. “It’s very impressive the way the Chinese deal with foreign investors,” says Frei. Both he and Leeman agree that buying land, building a factory and getting started is very easy in China: “Everything’s more straightforward than in Switzerland!”

Optimistic about the future

The Chinese authorities are doing everything in their power to keep the great interest from the West alive. Foreign investors are treated like VIPs in so-called industrial zones. They are allotted their own personal contact who looks after everything from the start of a project to its conclusion, from buying land and building to taking care of energy matters.
Both Frei and Leeman are optimistic about the future of Swiss Finishing. The CEO of their joint venture is a young Swiss business graduate with a Chinese wife. The technical manager of the company is a Vorarlberg master dyer whose job includes passing on his expertise to the Chinese team. But not everything he knows: “There’s a tiny nugget of know-how in the dying and manufacture of high-quality embroidered fabrics that cannot be copied, even though most processes are carried out by machines,” explains Frei. “We have to exploit this to our advantage.” //

Peter Schmid, PricewaterhouseCoopers: “China’s not a practice ground.”

The pioneering phase is over. Anyone seeking success in China has to realise that you can only achieve your objectives there with thorough planning and sound preparation – and consistent implementation. Many small and medium-sized companies do not have the resources to cope with such a mammoth task alongside their daily business. Getting hold of the relevant information is a difficult and time-consuming task, and SMEs generally don’t have sufficient know-how, manpower or specialist staff. This means that during the preparatory and implementation stages they need a partner who is familiar with the terrain – and preferably in both places, China and Switzerland. In this respect we at PricewaterhouseCoopers are in a very comfortable position. A worldwide firm with a network of outstanding contacts, PwC is the largest professional service firm in China and Hong Kong, with eleven offices and around 6,000 staff in the country. A great advantage in our work is that we share the same technical language: to be able to put our ideas into practice in another culture, we need a common linguistic basis. This enables us to communicate ideas in such a way that our colleagues can implement them effectively in a way appropriate to the Chinese market. Many of our partners in China have also studied in Europe and are familiar with both worlds. This is an immeasurable advantage in terms of our work and the objectives of our clients.

Peter Schmid, Partner, Tax & Legal, St Gallen, and Leader SME Ambition Switzerland.

All show?

Far from it: Circus Knie ticks with the precision of a Swiss watch.

On finances, the will to lead, similarities between dealing with animals and staff, and other secrets of successful management.

Text: Werner Catrina
Photos: Roth und Schmid

The crowd gives the artistes from China, North Korea, Ukraine, Uruguay, France, Italy and Switzerland a final standing ovation. Circus director Franco Knie says “auf Wiedersehen!” and thanks them for their applause on behalf of the family. He can count on many more delighted spectators in the coming months before the tour ends on 5 December in Lugano after a total of 375 shows. And hundreds of thousands more are sure to come to the big top in 2005 to leave their everyday life behind in the arena of dreams.

Planning and finance

The desk of artistic director and internationally acclaimed horse trainer Fredy Knie Jr is piled high with videos where artistes from all over the world present their work. The composition of the tour programmes is worked out many years in advance by Fredy Knie Sr. To track down new attractions, the circus management works with international agents as well as scouring artistes’ festivals – for example in Paris and Montreal – for outstanding acts. Most world-class acts generally have to be booked two years in advance, and financial guarantees provided. Knie was quicker than other circuses to forge contacts with the scene in China, and in 1984 became the first Western circus to hire a Chinese troupe. Since then, acrobats from the famous Chinese circus schools have regularly appeared at the Swiss national circus. On the 2004 tour, 15-year-old Zhan Fan delighted crowds with virtuoso rope acrobatics. The relationship of trust in the Chinese has been strengthened through years of contact, which has also made it easier to contact the North Korean National Circus, whose spectacular airborne acrobatics feature in the current programme.

The price of world-class acts is determined by a market fought out by major European and American circuses, plus the wealthy casino theatres of Las Vegas. Knie has a strong hand in this game, because a season with Knie has now become something of a prestigious seal of quality for international artistes. Not only this, but the Swiss circus offers artistes an eight-month tour with one or two shows a day (artistes are paid per show) plus an outstanding infrastructure, comfortable caravans, good food and punctual payment of fees – not to be taken for granted in this enigmatic business.

In 1919 a family of German emigré tightrope workers formed “Gebrüder Knie. Schweizer National-Circus” (The Knie Brothers. Swiss National Circus), and only a few years later it was touring the country in a special train with trapeze artistes, clowns, horses and elephants. Now the sixth and seventh generations of successful artistes and business people are leading the family firm. Their company, Gebrüder Knie, Schweizer National-Circus AG, is a business with sound finances. There’s no need for bank loans: investments are systematically paid out of the company’s own funds. “Our ancestors did business on the basis that you shouldn’t spend more cash than you have in hand,” explains chairman and technical director Franco Knie. “We still adhere to this principle, and it has served us well.” The parents of the generation currently at the helm also founded a real estate company, financing a residential development on the central grounds of the circus’s old winter quarters in Rapperswil as a second pillar of the business. The family firm does not release figures; even the


KNIE
KNIE

number of guests who come to the 2,500-person big top during the tour is kept secret.

Art and management

Fredy and Franco Knie manage the circus, an organisation with 180 staff. Even so, they are not managers in the usual sense. “First and foremost we’re artistes, not managers,” stresses fifty-year-old Franco Knie. His cousin Fredy Knie, eight years his senior, has an international reputation as an artiste working with horses, while Franco works with elephants. Circus life has moulded both of them, like all members of the Knie family. After secondary school in Rapperswil, Franco did his apprenticeship at the circus under the tutelage of father Rolf Sr and uncle Fredy. From them he learned how the circus really operates: through team-

> “Our ancestors did business on the basis that you shouldn’t spend more cash than you have in hand. We still adhere to this principle, and it has served us well.”

work with defined tasks and responsibilities. Franco Knie never had formal management training, something he occasionally regrets. The organisation is split into an artistic division led by Fredy Knie Jr, and a technical division headed by Franco Knie. Both bosses rely on the support of experienced senior staff. CFO Erna Anderhalden, for example, stays in Rapperswil during tours but keeps in daily contact with management. For the last thirty years marketing has been the responsibility of Herbert Scheller. A huge amount of organisational work is required to get a tour up and running. Since the circus is in competition with many other events, grounds must be reserved one or even two years in advance. Knie’s commercial office negotiates contracts with local authorities and landowners.

Management and partnership

The media response to Knie’s programmes generally ranges from benevolent to enthusiastic, and thus provides the circus with a good amount of free advertising. Recently, however, there have been an increasing number of reports on the way circus animals are treated. Elephants would be banned from the circus completely if the Swiss animal protection organisation, the STS, had its way. “In southern Asia elephants have lived in the care of humans for many generations, serving as working animals and religious symbols,” argues Franco Knie. “It’s true we take away the animals’ main activity, searching for food, but in return we give them other purposes in life.” Knie is convinced that the size of the

Fredy and Franco Knie (photo left, from left to right) lead an organisation with sound finances. Investments are paid out of the company's own funds.

area in which the animals are kept is less important than how this area is structured and how much stimulus they receive during the day.

The elephants share an almost symbiotic existence with their keepers and trainer, and respond to the tiniest changes in mood: "If I'm not on good form, the animals get restless. Elephants want a partner with whom they feel safe and secure." Every morning at 7.30, Franco Knie takes his seven Indian elephants through the current act and additional tricks for the next tour. The trainer never lets them slack, and issues strange-sounding orders when he wants them to repeat moves. Elephants are smart, and know that in the show itself they won't necessarily have to repeat the bits they mess up. This is why they sometimes cheat in front of the audience. But in rehearsals there's no quarter. Franco Knie – whom his animals view as the leader of the herd – combines the will to manage with care and understanding. "I've learned an awful lot in my work training elephants," explains Knie, "especially about how to control myself and think before I act or react." Does Franco Knie see similarities between managing elephants and managing his staff? "The animals' feelings and reactions are direct and immediate, and force me to deal with them honestly. You also achieve more in your work if you treat people with honesty and respect."

"The animals' feelings and reactions are direct and immediate, and force me to deal with them honestly. You also achieve more in your work if you treat people with honesty and respect."

The staff of 180 has members from twelve different nations, many of whom have been working for Knie for many years or even decades. The Moroccan stage hands who prepare the ring and pitch and strike the tents are already in their second or third generation at Knie. In Morocco they're prosperous, and some even own blocks of flats. Many managerial positions are held by Swiss, while most of the assistants and manual workers come from abroad.

Planning and timing

Although the circus is organised hierarchically, there is scope for individual staff to take responsibility. Two dozen team leaders, from the stable master to the master joiner and workshop chief, make sure that the complex procedures run smoothly. Thirty-two-year-old Ralph Schmid, is head of the caravan fleet and transport. He leads a team of eight drivers and is responsible for transporting animal feed and disposing of dung at nurseries and farms. He and his people accompany the chef to the wholesaler to buy food for the staff, and bring it back to the circus kitchens. Schmid is also responsible for waste disposal. On the

The circus performs two shows a day for eight months a year, without a break. It takes 6½ hours to set up the tents, and two hours to dismantle the big top.

circus's last day at a particular ground, he and his team drive the caravans to the new location. In the afternoon and during the evening performance, everything that's not needed is taken and loaded onto two special trains or taken by road. When the audience streams out of the big top at around eleven o'clock in the evening, all the other tents have been taken down and the caravans have disappeared.

Tent master Alain Berthier and his 35-strong team can take down the big top in only two hours. The 57-year-old Frenchman has worked at many other circuses, but he proudly notes that Circus Knie, which he joined in 1991, runs "like a Swiss watch". Everything is organised, he says, right down to holidays and pensions, and every member of staff knows exactly what he or she has to do. As tent master he regularly checks that the seating and poles are in order. The circus used to have to plan for costly days off without a show because the distance between venues was too great, but nowadays it performs without a break, even when there is only one show at a particular location. These days a show is cancelled only once every few years, for example if the ground is too boggy to set up the village of tents.

All-round leadership

Generally, however, building work at a new ground starts early in the morning and lasts six-and-a-half hours. Forklift trucks are used to bring the poles and erect them on plates fixed to the ground. Then ropes are used to raise the big top. Has the way the circus is organised changed over the decades? Franco Knie says the procedures are basically very similar, as they were always very well structured and organised, although the circus now works more rationally and makes greater use of technology. The Knies encourage their staff to speak their mind and even criticise their bosses. In line with this culture of openness, the two directors are easily accessible for everyone. Like the stagehands, tradesmen and artistes, the co-owners also live in a caravan during the tour. With everyone living wall to wall, there's no such thing as real privacy, and nobody denies that this sometimes leads to conflict. But thanks to a healthy mixture of know-how, common sense, continuity, solid finances, and bosses who set high standards for themselves and work in the ring on a daily basis, the whole business functions. Knie's corporate culture has long included social commitment, and every year the circus gives free shows throughout the country for 30,000 handicapped people and needy pensioners. Franco Knie: "We want to give society back some of the goodwill that it shows to us." Safety is also top of the agenda: Knie was the first circus in Europe to employ a qualified safety officer, and already meets the future legal requirements. "We want to be the leader in everything we do," says Franco Knie. //

The malaria-ridden district of Ceibita in Honduras is destroying the breeding grounds of malarial mosquitoes by systematically cleaning up wetlands.

Honduras: Global partnership in the war against AIDS, tuberculosis and malaria.

Honduras, which has a population of 6.6 million, accounts for fifty per cent of all HIV infections and forty per cent of all cases of malaria in Central America. Tuberculosis is endemic. At the end of 2001, some of the country's leading health specialists and politicians sent a Mayday to the United Nations. The response was immediate: the Global Fund (GF) pledged USD 41 million for a five-year programme to tackle all three diseases.

Now 2,100 of the country's AIDS sufferers are receiving antiretroviral therapy at nine medical centres, and well over 12,000 malaria victims have been given treatment. In the ten largest malaria-endemic areas in Honduras, a comprehensive programme is under way to tackle the problem, ranging from information events and teaching in schools to efforts to destroy the breeding grounds of malarial mosquitoes. In addition to this, money from the Global Fund has been used to set up 34 tuberculosis treatment stations. Programmes developed by Honduras now serve as a model for the whole of Central America.

"In the past Honduras, like many other countries, did not have the means to successfully combat malaria, TB and AIDS," explains Delmin Cury, a doctor who is the WHO's representative in Central America. "Money from the Global Fund has now enabled many programmes to be implemented in record time – not least because those responsible in Honduras knew exactly what had to be done."

PricewaterhouseCoopers and the Global Fund of the United Nations

The Global Fund, established in 2001 on the initiative of the United Nations, is a public-private partnership involved in the worldwide effort to combat AIDS, tuberculosis and malaria. The GF is a funding organisation that supports existing projects and strategies initiated by governments and relief organisations within the countries themselves. To ensure that the money is channelled properly and that financial transactions are monitored and documented, the fund has appointed local fund agents (LFAs) all over the world. PricewaterhouseCoopers acts as LFA in Honduras, and works on behalf of the Global Fund in another eighteen countries. The firm's global network, good local coverage and credibility make it the ideal partner for GF. Its involvement is coordinated by PricewaterhouseCoopers in Geneva, where the Global Fund also has its headquarters.

Photo: John Rae/Global Fund

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PricewaterhouseCoopers

Oscar J. Schwenk
"If necessary we also work Sundays at Pilatus – without an extra allowance for overtime. Our people are prepared to do this because they know that to compete globally we can't simply put our prices up."
06

Paola Ghillani
"We at Max Havelaar are calling for a system with fair rules of play, which means ensuring that world trade is sustainable in social and environmental terms."
08

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