ceo*

The magazine for decision makers. dec. 2006

European vision. Why the economic region has a sparkling future.
European market. Where Arbonia-Forster, Conzzeta and Emmi are investing.
European neighbours. Business opportunities for Swiss companies.

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Europe’s strengths could possibly lie in the very fact that it constantly manages to strike a particularly fine balance between thinking and acting. In most cases, tradition is often a strength rather than a relic of the past.

Dr Markus R. Neuhaus,
CEO PricewaterhouseCoopers, Switzerland

“The proof of the pudding is in the eating” and “Think before you leap” – both are common sayings, and there’s always truth in popular wisdom. “Everything in its own time” is the third expression that may provide an answer to understanding the notion of “thinking and doing”. Opinions on this topic from three figures of such calibre as “NZZ” editor-in-chief Markus Spillmann, lawyer Ellen Ringier and LeShop CEO Christian Wanner make enthralling reading. Thinking and acting are more or less the cornerstones of a consultant’s business model. We assist with both by helping our clients to undergo an extensive process of reflection and to put the ideas that they develop into practice – until a tangible result is achieved. The consultancy market has undergone radical change over the past five years. It is time to reflect on the situation today, and where PwC stands with its services in this market. In this issue of ceo*, our Management Board member and head of the Advisory division describes today’s consultancy market.

Another market that apparently no longer needs any explanation and which everyone believes they know all there is to know about is the European market. In this ceo*, however, a broad range of articles and examples from the business world and perspectives on Europe seem to suggest that BRIC euphoria may well be blinkering us to a possible scenario in which the real champion of the next decade is a belittled, yet very familiar face – Europe.

Europe’s strengths could possibly lie in the very fact that it constantly manages to strike a particularly fine balance between thinking and acting. In most cases, tradition is often a strength rather than a relic of the past. This has been proven by many successful companies, and we are proud to count ourselves among them. A hundred years ago, we marked the beginnings of the auditing industry in Switzerland. Over the decades, the course of our development has consistently been adapted to meet new market requirements. This has been done with a sense of proportion and only after considerable reflection. Yet, once decisions are made, they are resolutely implemented. We are embarking on our next century with the same principles. As with other companies, our success, too, depends increasingly on whether we are able to fulfil our role in society, our role as citizens. And it also depends on how well we manage to offer our employees opportunities to become well-rounded personalities.

Our global “Ulysses” programme is a small, but for us important, contribution on both counts. PwC partners join a development aid project for three months and put their specific skills to beneficial use in a totally different environment. At the same time, they have a unique chance to reconsider their strengths and weaknesses, their actions and contributions to business and society away from everyday life, and to broaden their horizons. Reports on experiences in the “Ulysses” programme will provide the closing article of the magazine in the forthcoming issues of ceo*. In this issue, our Swiss colleague Stefan Räbsamen reports on his experiences in Madagascar.

New perspectives, fresh thinking and decisive action are not only the basis for success but arguably also for satisfaction in all areas of life. I wish you contentment over the coming weeks and a stimulating read.

Markus R. Neuhaus

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Dossier Europe.

Topics & opinions:

Business experiences

Markus Spillmann: The focus is often no longer on the question “Why are we doing this?” but rather “How do we do this?”. Such situations force thinkers to respond more like Cassandras than rainmakers.

Markus Spillmann is editor-in-chief of the “Neue Zürcher Zeitung” (“NZZ”) and chairman of the Executive Board at NZZ AG.

The question of which came first – the thought (or thinking) or the deed (doing) – is a bit like asking whether the chicken came before the egg, or vice versa. In the history of creation, for instance, God appears to us in the First Book of Moses as a “doer” who doesn’t stop to ask himself whether what he is doing is worthwhile, but who rolls up his sleeves and knuckles straight down to the task of creating the universe. Only on the seventh day does he take a breather to think about his activity over the past six working days – and concludes that what he has done is good.

In his “Principia philosophiae” of 1644, Descartes took a different tack. “Cogito, ergo sum” (“I think, therefore I am”), he declared, thus enshrining thinking as the characteristic that defines mankind. Goethe, on the other hand, postulated in “Faust” that “the deed is all”. Friedrich Nietzsche, too, gives doers precedence over thinkers with his concept of “will to act”. Are these two perspectives irreconcilable? According to stereotype, a man, or for that matter woman, of action has a very hands-on approach, but can be overly hasty, whereas the thinker (male or female) is clever, though often slow to make decisions and act. Yet aren’t there doers who think and thinkers who act? Perhaps one difficulty in combining the two characteristics lies in the fact that we increasingly fall prey to a mania for doability. The focus is often no longer on the question, “Why are we doing this?” but rather, “How do we do this?”. Such situations force thinkers to respond more like Cassandras than rainmakers. And although they might not always be well thought through, gloomy prophecies of impending demographic and ecological catastrophe, of entire countries thrown into poverty, of wars over water and oil, and of the collision of cultures are often the only counterpart to the lust for action of the doers of this world.

In the world of media as well – and I am writing here as one of its representatives – the conflict between doers and thinkers is not new. Nor is the idea that media content must also frequently serve a purpose. Such content has little to do with journalism in its truest sense, but a lot to do with commercial considerations. The topic becomes secondary. What matters is the way it is done, that is the packaging, and above all whether it has the desired effect on the target group. In contrast, even if an article is well researched, it is unlikely to attract attention without good newspaper skills – whether simply because it has a boring title, inappropriate illustrations or is stuck in a side column on the back page. That is why modern understanding of the media is designed to maintain a careful balance of both aspects. In the process, the weighting may be distributed quite differently, depending on the product. A daily with a high level of quality consciousness such as the “NZZ” demands a different standard of “packaging” than a free newspaper or a fashion magazine.

It is important that doing and thinking not be mutually exclusive but promote each other for their common benefit. Time is also a factor, and one we shouldn’t underestimate. Because thinking – particularly intelligent thinking – needs time. In the second Iraq war, the “embedded journalists” installed TV cameras on advancing American armoured vehicles, and these transmitted the campaign without delay into the living rooms of TV consumers. That good packaging – even if it was journalistic reporting on events in world history from the perspective of the tank driver in a sandstorm, with a visibility of 30 metres. There was no time or space for analytical thinking. The speed of technological development means that it takes increasingly less time to produce most any kind of publishing content. Doing becomes quicker; thinking, however, remains relatively slow by comparison. This poses great challenges for the media world. Irrespective of how important prompt action may seem to be, and despite the fact that “doing” is becoming more important in meeting the requirements of changing patterns in usage, a basic principle remains: a good journalist should think before he or she writes, produces a film or reaches for the microphone. //

Photo: Mathias Braschler

Ellen Ringier: Only "doing" in the form of a socially relevant change to a particular social situation, an individual or a large number of people is evidence of action. That is what really counts!

Dr Ellen Ringier is president of the charitable foundation Humanitas and the elternsein foundation, publisher of the parenting magazine "Fritz und Fränzi", as well as a member of the board and association chairman of numerous NPOs.

Trained at the city's grammar school for girls in Lucerne, I threatened to take Descartes' dogma to heart: "Cognito, ergo sum" – ("I think, therefore I am").
The real world made me change my mind! Do, act, be active, in brief – the activity verbs create social reality! That is why I say today: I act, therefore I am!
For me, an act is a release of energy, a visible, audible, tangible or general action – an intervention in an existing state of affairs that is perceived by other people. Thought alone is not action but at best the preparation of the act. Thoughts do not interfere with life. Thoughts remain locked within a person and on their own are unable to achieve anything without the (subsequent) action.
Consequently, I advocate "doing" right from the start, shaping the world in which we live. Too many people do not get further than the thought: "Thoughts do not cost anything!" They have considered everything, thought of everything and changed nothing. If they had at least expressed their thoughts and at least encouraged others to act! No, they may (possibly) have thought the right thing, but they didn't do anything and nothing happened. The history of mankind is littered with actions that people failed to take. Thoughts do not require moral courage, but action does!
The history of mankind is also the history of people who shaped and changed the course of events, of doers. Every advance, every invention, every historical fact, every measurable performance ultimately comes down to the doers.
Why bother to think then, if action is more important? Reply: "You might think you are thinking, but you only think you are thinking!" Anything worthwhile "doing" is dependent on serious thinking, on considering the significance of the action. If only people put that much into thought! (Worthwhile) action follows thinking about the (worthwhile) results of the action.
So, think first, then talk, then act. Only "doing" in the form of a socially relevant change to a particular social situation, an individual or a large number of people is evidence of action. That is what really counts!
Would you like an example? I think that something needs to be done against the increasing lack of solidarity in society. I think that more wealthy people need to stand up for more poor people. Unfortunately, no one pays their medical insurance premium, no family pays its rent, no dentist puts a brace on a child's teeth, no state awards a sick worker disability, nobody pays anyone anything based just on thought, without obligation. Nothing, absolutely nothing happens, because it is well known that if you don't do anything (do not act) nothing happens (no action)!
What does that mean for me and perhaps, or hopefully, for you as well? It's no good having the most noble of thoughts if you can't convert them into action. Worthwhile actions that create greater social justice involve doing something, donating! Donating time, donating money.
My thoughts are directed here at entrepreneurs, that is typical doer types. They aim to direct thoughts not only to the company's own commercial success or that of the shareholders but also to participants in the economy who are less successful. And then, yes, to act accordingly, "to make a difference"!
Dear entrepreneurs, dear doers! Your time has come; it's time for the doers! It is time to take an active part in shaping society, eradicating deficits, creating social balance. It is time to act beyond purely commercially oriented activities and put a stop to people simply taking what they want. It is time to support a civil society that campaigns with all its nonprofit organisations for the good of all members of society. Good intentions are just thoughts, and they are not enough! Action as evidence of your good intentions, for example, donations, is what's required! In my opinion, only those who act (do) are really doers. All the best in your good work! //

Photo: Markus Bertschi

Christian Wanner: A businessman needs to be a doer, in particular when things don’t go according to plan. A situation like that calls for prompt reaction rather than inertia.

Christian Wanner is the CEO and co-founder of LeShop. Today, an 80 per cent stake in the Swiss market leader in the online grocery trade is held by Migros. LeShop employs 140 staff and in 2006 grew by more than 40 per cent for the third year in a row.

I tend to be more of a doer type: I need to see the results of what I am doing. For instance, writing a dissertation wouldn’t be the ideal task for me. Much too boring! But I don’t actually see a CEO as having just a doing or thinking role. Both dimensions are closely linked to one another – they form an equilibrium – that can nevertheless shift at any time.

When you are setting up a company, the focus at the beginning is on thinking. It’s all about assessing the value proposition for the customer. What do we want to do? Is this really worthwhile? It is mental work, but also an exchange of ideas. Because often there is already experience in other countries or industries that shouldn’t simply be cast to the wind. You also need a bit of humility.

Situations where you suffer a setback occur on a regular basis. For instance, we wanted to offer ordering by SMS on mobiles, a typical male idea that we in the LeShop management thought was great. However, our customers are primarily female and distinctly pragmatic when it comes to the organisation of their daily lives. A survey revealed that women consider improvements in service to be much more important than new options for ordering. That was two years ago. Since then, a new survey shows that SMS orders have also been well received by women – we were simply a bit too early with our idea. During the development of LeShop, around 80 per cent of our hypotheses have proven to be wrong – but as long as you realise that you were wrong and react quickly, this is no big deal.

If I had known what awaited me, however, I would never have embarked on the adventure with LeShop. Because what we are doing really doesn’t have that much to do with e-commerce. We are much closer to mail order than, for example, to an online travel agency. For a long time, our biggest challenge was coming to grips with the logistics. Every Friday, the weekday with the most sales, we send out 150 tonnes of groceries. This equates to more than six kilometres of shopping trolleys! Of the 30 best-selling products in LeShop, 24 are fresh produce. We win the battle for customers in the fruit and vegetables section. People need to get exactly the tomatoes they require, not too ripe and not too green. In the early stages, we returned up to 20 per cent of the goods to our suppliers. They hated us for it! We recruited a farmer especially for the quality check, and he knew precisely when vegetables are fresh.

A businessman needs to be a doer in particular when things don’t go according to plan. A situation like that calls for prompt reaction rather than inertia. In December 2002, our main shareholder at the time, the Bon appétit Group, announced the closure of LeShop at the end of that year. We were really up to our necks in it then. But we had more energy and fighting power in those days than ever before or since! We were convinced that we could save the company. In such a situation, it’s no good harbouring any doubts. For then you start to wonder, What’s going to happen to my mortgage? How will I be able to support my family? What about my career?

A genuine doer can only be a person who manages to convey his vision and his enthusiasm to others. If I have learned anything from my experience with LeShop, it is that I cannot achieve much on my own. For me as a CEO, being a doer means releasing energies in other people. We are currently building a second dispatch centre. I will not be monitoring the construction of this warehouse myself. Nor will I be programming the IT for it myself or introducing new marketing measures. My task is to motivate employees and partners properly at the right moment.

Nowadays, one of the biggest challenges is the constant battle against interruptions. That is why I try to work one day a week from home, in the Lavaux vineyards above Lake Geneva. No mobile, no e-mail! Even the BlackBerry stays switched off. This is the best way for me to tackle important topics. I devote myself to one single thing for eight hours without any interruptions. Where I can think best? In the shower – I take very long showers! //

Photo: Matthias Willi

Europe. Treasure of diversity.

No other continent has so many people living so closely together. Nowhere else is the number of nations and ethnic groups greater. And in no other economic region do more young people acquire a cross-border education.

University of London: Its 150,000 students make it the largest university in Europe.

Europe. El Dorado of quality.

Even in an era of global competition, Europe’s astonishing skills in manufacturing high-quality products help it to keep pace with its rivals. A fine example is the German automotive industry, which both creates top-notch products and sets new standards in the service sector.

Master craftsmanship: At Porsche
in Stuttgart, objects of desire are developed for
customers worldwide.

Europe. Economic region with potential.

From an economic perspective, the EU's 25 countries have varying levels of development. This fact will be accentuated even more by the accession of Romania and Bulgaria. The eastern countries are not only the workbench of the western states, but also sales markets with strong rates of growth.

Banking quarter in Tallinn, Estonia: the backlog demand in the eastern countries offers European industry lasting opportunities for expansion.

Five arguments in favour of Europe. And of Switzerland.

People who speak of “China’s century” and of Europe as the loser are committing at least two errors: they are forgetting the many unknowns of the global economic equation and ignoring the strengths of the European continent and the potential they offer, writes Bruno Affentranger[1].

A manager recently confessed to me that he is fed up with Europe. “Nothing happens. Forget Europe. Europe is dead,” he said to me on the phone. He was speaking about eurosclerosis, the nagging inability of governments to rejuvenate their nations and solve their problems. He had packed his bags and left. He phoned me from Hong Kong where he now lives. The aspiring economic giant China is on his doorstep. Our discussion left a few issues unanswered: Is Europe really in a vegetative state? What is there to counter the growth forecasts for China and India, without lapsing into a ridiculous-sounding euphoria about Europe? Consider the following five points:

[1]Bruno Affentranger (40) has been deputy chief editor of the business paper group CASH since 2005, and his responsibilities include the macroeconomics, politics and society departments. He also advises publications and editorial boards abroad. Before that, the Lucerne-born journalist with a special interest in Central and Eastern Europe and the Near East worked in management positions and as an author for Swiss and German media.

1. The myth of linear development, or: It can also turn out differently.

Jonathan Story recently gave a talk about the future at a discreet meeting of so-called high-net-worth individuals. What the assembled audience hoped to hear from the professor of international political economy at INSEAD in Fontainebleau was where the best investment opportunities will be in the future. The China specialist predicted that China’s gross domestic product would overtake that of the largest economic power, the USA, between 2040 and 2050 – and forgot to mention Europe. The audience listened attentively to the engaging speaker and at the end of the talk agreed on one thing: that’s exactly what it will be like. However, in a smaller group over dinner, the professor cautioned people not to draw any simplistic conclusions from the statistical series that he had presented. He admitted that it could all turn out quite differently. Why was that? For one thing, there could well be border conflicts between China, where some areas are overpopulated, and Russia, where the population is in decline. Today, there are already entire areas of Russian territory with a strong Chinese influence and where only Mandarin is spoken. Russia, however, will not tolerate a creeping takeover and will lay claim to its territorial rights. Another issue is that the entire Asian region is marked by neighbourly differences and irritations that could easily turn nasty. It is far from being a homogeneous region; a common economic zone remains a pipe dream. The remarkable and historically unique migration within China should also not be forgotten: 300 million people are on the move. That causes social tensions, and differences between rich and poor are growing.
What’s more, ecological concerns continue to be ignored, and China will pay dearly for it – possibly to a Europe of the future that will provide the technologies for ecological atonement.
There are too many unknown factors in the equation that takes China’s century for granted, that sees the USA being overtaken and that refers to Europe as a geopolitical wasteland. A linear development is nothing more and nothing less than an assumption that does not necessarily have to be proven correct. Nothing is clear.

2. The myth of the disadvantage in size, or: Europe is bigger than we think.

If we must take sheer size as an indication of who has the loudest voice in the global market of the future, then we should be certain of the figures. Europe’s current existing economic area incorporates 460 million inhabitants. From the beginning of 2007, following the accession of Romania and Bulgaria, this figure will rise to 490 million. That is more than the USA has to offer (300 million) and represents the third-biggest population after China and the subcontinent of India. Around 150 people per square kilometre live in Europe, far more than in the USA or in China. Such a high population density promises short transportation routes and lower sales costs, for instance in marketing. This is, and remains, Europe’s opportunity as a market.
A brief glance at the GDP of the different economic zones also reveals some pleasant surprises. According to Global Insight, in 2005 the 25 EU countries had a 30 per cent

share of the total. The USA manages 27 per cent, and the up-and-coming BRIC states (Brazil, Russia, India and China) 10 per cent. The remaining 33 per cent is shared among the rest of the world. The Old Continent performs extremely well, even when viewed from a dynamic perspective. The Central and Eastern European states have growth rates that are among the highest in the world and comparable to those of the so-called tiger states in South-East Asia.

3. The myth of reproducibility, or: Europe can do more than it thinks it can.

An entrepreneur from the Zurich Oberland enthuses about the quality of the small, complex individual parts for tools produced by his staff. The workers process the parts with a proficiency that could not be learned in just three years of apprenticeship. Tiny feats of precision are gauged with the naked eye, he says. The workers grind and polish the parts with millimetre accuracy, parts that would hold up well in a computer-assisted quality check. "You need decades to acquire this skill," says the entrepreneur, and then adds: "We can be proud of it because it can't be copied that easily."
I'd like to say that the businessman is right. In view of impending mass production in low-wage countries, people tend to cling hopefully to the high-quality niche products and services that Europe's production sites will offer in future. That pleases people and reassures them.
But it will not be enough. It is not the niche that will be the place of the future. Because a niche is not a promising starting point for brilliant new developments but a dark, dusty corner where people definitely won't notice if you invest in an obsolescent model. Only in a competitive environment can innovations be generated; only there can Europe's lauded and genuinely remarkable skills stay ahead of those of its rivals. The German automotive manufacturer Porsche is a fine example of a European company that produces a top product without having to shun competition and that also sets standards in the service sector.

4. The myth of limited expansion, or: Europe still has potential for growth.

Europe is a continent of different speeds. From an economic perspective, the 25 countries are at different levels of development. This will be accentuated even more by the accession of Romania and Bulgaria. Comparisons with the old core Europe of France, Germany and the Benelux states are striking. This is not a bad thing, because the attempts to catch up and the progress made in Central and Eastern Europe are evident. If you visit, for instance, Bucharest, the capital of Romania, on a regular basis, you will see houses springing up out of the ground, roads being laid and shopping centres being built in the space of just a few weeks, where previously there was only wasteland or a dumpsite full of cannibalised, junked cars.
Europe must grow further. It's not primarily about acquiring new consumption or production markets or about merging with the China of Europe, with the rapidly growing low-wage countries. That is a pleasant side effect. More important is the idea that Ukraine, Moldavia, Georgia and the entire Balkan region are part of European culture, indeed, that they have significantly shaped it over the last few decades. Europe's centre does not lie in France or Germany but in the territory of the old Habsburg empire. The view to the East and to Russia as one of the BRIC countries is promising for Europe.

5. The myth of discord, or: Europe is a treasure of diversity.

On no other continent do so many people live in such a small area. Nowhere else is the number of nations and ethnic groups greater. Europe is the home of SMEs; nowhere else in the world are there so many entrepreneurs. Competition – if it could take place without all the fetters that distort the market – would be hard but would promise greater prosperity. There is much evidence of this, for example the innovative spirit of the multi-ethnic continent that is stimulated by the proximity between one's own country and others and by spiritual proximity to the world. Many innovations are generated through cross-pollination and competition among ideas.
Unfortunately, these are frequently brought to market maturity by others. Just one example to illustrate this: the groundbreaking technology MP3 was produced in Germany and is currently being developed further at the Swiss Federal Institute of Technology in Lausanne. The iPod that is based on it, however, is being turned into a best-seller by the Americans. When it comes to management and marketing, the Americans have a head start on their European colleagues.
Yet this apparent weakness of Europe, and its literal discord in many issues and projects, the linguistic barriers that exist and the differences in mentality that are the price of the aforementioned proximity, all these factors can be turned to Europe's advantage. For a multinational company, the biggest challenge today is to respect the diversity of cultures, mentalities and languages of the stakeholders, and at the same time to make profitable use of these.

Switzerland – a mini-Europe.

Europe is seen more than ever as a popular location for headquarters or secondary headquarters of multinational companies. It is only logical and consequential that the Confederacy as a mini-Europe is particularly attractive. Nowhere else on the continent can you find so many different groups and ethnic communities in such a small area at such advantageous conditions (tax benefits, security, stability). Switzerland offers the ideal training location for companies and can be seen as a political success story. For instance, IBM, Google and eBay are researching and developing their future here – with employees that come from all over the world.
The manager I mentioned earlier, however, has gone to Hong Kong to make his fortune. I cannot blame him for doing that. However, this and a few other spectacular cases, plus the rampant craze over China and India, are apparently sufficient to feed Europe's fears for the future that permeate our everyday life. Difficult to comprehend really. //

Conzzeta CEO Heinrich M. Lanz with ByVention, the smallest laser cutting system for metal sheets – a global innovation from Bystronic. (Photo: Roth und Schmid)

Conzzeta Group: Quality as potential for the future.

For sophisticated products, Heinrich M. Lanz, CEO of the Conzzeta Group in Zurich, puts his faith in the innovative power of European specialists. And invests in new markets.

Today, only the two “Z”s in the name bear witness to the group’s original business. The Conzzeta Group developed out of the former Zurich brickworks, the “Zürcher Ziegeleien”. The transformation from a company producing building materials into an industrial group with an international presence and a broad strategic positioning was initiated in the 1980s and is now complete (see “Milestones” box).
“The so-called old Europe is currently very young and full of life,” enthuses Heinrich M. Lanz, who has been CEO of the Conzzeta Group since 2002. Business is going well in the core sales area of the European Union. With the opening and acquisition of new sales companies in the United Kingdom and

“Specialist staff who are well trained in their profession are a typically European potential that facilitates the basis for the manufacturing and servicing of sophisticated products. A potential that is lacking not only in the USA but also in most Asian countries, where the margin between a degree and auxiliary work is even greater.”

Sweden, respectively, the group’s market presence in the sector of sheet metal-processing machines has been strengthened. Over the past few years, the Mammut Sports Group has been able to enhance its market position not only in Switzerland but also in Germany, Austria and Italy. And investments are also being made in the new EU member states. The first Mammut shop in Prague has opened its doors to the public, and in Russia and Poland new sales companies have been set up for mechanical and plant engineering.

Manufacturing for defined markets

For all five business divisions, Lanz sees Europe as an interesting market of the future – without losing sight of the Asiatic region and its attractive rates of growth. “We mustn’t focus solely on Europe,” says Conzzeta’s CEO. The manufacture of products with a high proportion of manual processing – for example, clothes and shoes for the Mammut Sports Group – will continue to be transferred to low-wage countries. “We are already in Asia,” says Lanz, “and what we are still producing in Europe today, for example in Romania, will probably be relocated entirely to Asia in the long run.” The holding is increasing its commitment in the USA too. The company Cox Automation Systems was added to the group’s portfolio in September 2005. Nevertheless, the CEO doesn’t dismiss the potential of Europe in the production sector: “In my opinion, we are gradually reaching the limits of any worthwhile relocation options to China and other Asian countries. I think that the focus will increasingly shift to another model: manufacturing will be done in Asia for the Asian market, in the USA for the American market and in Europe for the European market.” This applies of course primarily for those divisions that produce high-quality products with high value creation and a high level of complexity – such as, for example, the mechanical and plant engineering division at Conzzeta. “One of our most successful products is the ultramodern series of lasercutting machines from Bystronic. This is where we are posting the strongest growth. These machines continue to be produced in Switzerland – something that we are proud of.” This success is only partly attributable to the good tradition of “Swiss quality”, he explains. Much more important is the fact that in Switzerland, as in most European countries, you can offer constant product innovations that meet customers’ requirements. Lanz sees a healthy potential for other industries as well: “Europe symbolises high-quality industrial goods, complex plant engineering, modern technologies such as nano- and biotechnology, financial services and other sophisticated activities that are difficult to copy.”

Development impeded by a plethora of legal regulations

Positive aspects are the legal security and political stability in Europe as well as the geographical and historical ties between the peoples. “The EU members are closer and

The Conzzeta Group in figures

Conzzeta is an industrial holding listed on the SWX Swiss Exchange with a diversified portfolio of activities. In the 2005 financial year, the group increased its net sales by 13.8 per cent to CHF 1.2 billion. Group profits amounted to CHF 63.6 million. This positive development continued in the first eight months of 2006: the Conzzeta Group increased its sales by 12 per cent and Group profits by 62 per cent compared with the corresponding period of the prior year. The Conzzeta Group employs more than 3,280 staff, almost half of these outside Switzerland.

easier to understand for us than, for example, China, which historically and linguistically has not been easily accessible to us," says Lanz.
From experience, the CEO appreciates another strength of European countries: the solid vocational training of specialist personnel. Bystronic glass, for instance, produces a complex system for the manufacture of insulating glass that has been used very successfully by customers in Europe. This system is also supplied to customers in the USA – with disparately high support requirements. "It took a while for us to understand why," says Lanz. "The machine has 270 parameters that can be set. A skilled German worker with solid vocational training and years of experience can do that. In America, however, where people work at McDonald's one day and in a glass factory the next, it is too much to expect of the operator that he will be able to handle such demanding technology. We had to simplify the machine for the USA."
For Lanz, specialist staff who are well trained in their profession are a typically European potential that facilitates the basis for the manufacturing and servicing of sophisticated products. A potential that is lacking not only in the USA but also in most Asian countries, where the margin between a degree and auxiliary work is even greater.
What irritates the Conzzeta boss about Europe as an economic location is the increasingly bureaucratic approach. For instance, China had scarcely become a member of the WTO (World Trade Organization) before the EU reacted with protective duties for Chinese imports – as was the case with shoes. Lanz believes this is no longer about legal security but more about protectionism. Brussels also produces a vast quantity of regulations and directives. The plethora of legal regulations – in Switzerland too – is an expression of an attitude that he doesn't share: "That the state regulates everything and is responsible for everything goes against the very idea of entrepreneurship. We have to fulfil regulations, some of which are nonsensical, and it leads me to believe: We've simply got it too good!"

Broader geographical diversification

For the Conzzeta Group, with headquarters and numerous production sites in Switzerland, coping with European legislation and regulations is an everyday task. Conzzeta generates the biggest part of its value creation in mechanical engineering in Switzerland and Germany. With foams, Germany and Switzerland hold roughly the same position; in the automation sector, however, most of the value creation is generated in the USA. Mammut, in turn, develops in Switzerland but produces the majority of its products abroad, in particular in Asia. A common feature of all business divisions is that they operate an international business with a global group of customers.
In future, the Conzzeta holding intends to invest more in the markets of Asia, Central and Eastern Europe and the USA. However, it also intends to expand its position throughout Europe and to become more geographically diversified within Europe. In the mid-term, this should reduce the dependency on the small Swiss market and the economic juggernaut, Germany. The CEO currently sees potential for growth and expansion in the European market for the mechanical engineering division in Russia, Poland and the Czech Republic, in addition to the core markets in Western Europe. In the consumer goods sector, expansion is under way in Spain, Italy and France, just as it is in the East, where the backlog demand from the population is high. Lanz sees the contrasting economic and social circumstances in the individual countries as a characteristic of the European market and as a definite opportunity for business: "The different stages in development within Europe can be used, for instance, to offset the effects of cyclical business." //

Milestones

Conzzeta today focuses on five business divisions. Bystronic, the biggest and most important division – which generated sales of CHF 490 million in 2005 – produces machines for the cutting and bending of sheet metal, followed by Bystronic glass (systems for glass processing) with sales of around CHF 200 million. The Conzzeta Group also includes the brands Mammut, Raichle, Toko and Ajungilak under the name Mammut Sports Group, with overall sales of CHF 145 million. Conzzeta posts sales of CHF 135 million in the speciality foams business division (FoamPartner), which includes numerous applications such as mattresses, packaging, insulation, filters and so on. The newest division, ixmation (automation systems), was established in September 2005. The companies of the holding generate 85 per cent of their sales abroad. Europe accounts for around 75 per cent of Conzzeta's overall sales.

Opportunities for Swiss business in the wider Europe.

The new European emerging markets are an indispensable factor in Swiss economic growth, writes Jean-Daniel Gerber[1], director of SECO, the Swiss State Secretariat for Economic Affairs.

The fall of the Berlin Wall in 1989 is undoubtedly one of the most significant of the radical changes that swept Europe in the second half of the 20th century. The dismantling of the wall triggered the development of the former Eastern Block countries to the point where they could enter the European Union. It helped bring about a new period of political stability in Europe, and created new and unexpected economic prospects for the continent. Who, even only 20 years ago, would have thought that the EU would now comprise 25 nations with a population of almost 460 million? And the process leading to this new-look European alliance is nowhere near complete: Bulgaria and Romania are set to join the EU in 2007, and membership negotiations with Croatia and Turkey have been under way since 2005.

In the wake of globalisation, China and India have attracted most attention

The efforts of European companies to conquer the East and seize the new growth opportunities emerging there have been accelerated by the admission of new Eastern European members to the EU in 2004 and the gradual adoption of free-market principles by Russia and the former Soviet states. The enlargement of the EU has given this development a boost, and has undoubtedly had a positive impact on Switzerland too: this country is benefiting from improved conditions in these new markets, and pan-European competition is forcing Swiss companies to adapt and become more competitive. But in the wake

[1] Jean-Daniel Gerber (60) has been director of the Swiss State Secretariat for Economic Affairs (SECO) since 1 April 2004. Before that he spent six years as director of the Federal Office for Refugees at the Department of Justice and Police. Trained in economics, Gerber has spent 30 years in government service, including serving as Swiss delegate to the WTO, Chief of SECO's Development Policy Service, head of the Economic, Financial and Commercial Office at the Swiss Embassy in Washington, and executive director at the World Bank Group.

of globalisation it is China and India that have attracted the most attention. Are Swiss companies even aware of the opportunities on their own doorstep in the new Europe? Are they giving sufficient thought to the risks and opportunities, especially given that the Asian markets are so much farther away?

Europe is the world's biggest economic power, the EU the biggest investor

The first point to remember is that Europe is the world's largest economic power, and will remain so for years to come. The nominal gross domestic product of the EU comes to more than USD 13 billion, topping the rankings ahead of the USA, Japan and China. The EU is also the biggest investor in the world, with foreign direct investments totalling more than USD 5,190 billion, compared with USD 2,018 billion for the USA and USD 444 billion for China. Another important point is that the EU is the biggest consumer market for Swiss companies, accounting for 62 per cent of our exports and more than 80 per cent of imports. Our most important trading partner is still Germany, which accounts for over a quarter of our foreign trade, followed by Italy (9.8 per cent) and France (9.3 per cent). In other words, growth in Switzerland depends to a very large extent on growth in the rest of Continental Europe.

If you look at the situation in terms of economic growth, two different Europes emerge: on the one hand, Switzerland's traditional trading partners, the pre-enlargement EU of 15 (EU-15); on the other, the 2004 entrants, in particular the CEEC-8 countries in Central and Eastern Europe: Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Estonia, Latvia and Lithuania. Since 2000, economic growth among the EU-15 has averaged around 2 per cent, while the CEEC-8 nations have averaged close to 4 per cent. Together, these 8 countries have a population of 75 million people. They are only a few hundred kilometres from the Swiss border, and are a major engine of growth in Europe, expanding 4.7 per cent in 2005 compared with the EU-15's modest 1.5 per cent. Growth forecasts for the EU-15 are running at 2.2 per cent for 2006 and 2.0 per cent for 2007; growth in the CEEC-8 is expected to be double this: 5.2 per cent for 2006 and 4.6 per cent for 2007.

> "The enlargement of the EU has undoubtedly had a positive impact on Switzerland too: this country is benefiting from improved conditions in these new markets, and pan-European competition is forcing Swiss companies to adapt and become more competitive."

Transition countries are paid too little attention by Swiss companies

According to research conducted by SECO in 2005, in the CEEC-8 Switzerland has lost market shares to its main EU competitors in terms of both foreign trade and direct investment: with annual growth of only 6 per cent between 1996 and 2003, Swiss exports to the CEEC-8 developed much more modestly than exports from Germany (11.2 per cent), France (12.7 per cent), Italy (8.5 per cent) and Austria (7.8 per cent). Over the same period, foreign direct investment in CEEC-8 countries totalled EUR 119 billion, of which a mere EUR 2.3 billion originated from Switzerland. Compared with Austria (EUR 9.6 billion) and the Netherlands (EUR 9.1 billion), this is a very modest figure indeed. And according to a survey of 8,000 Swiss companies published by Osec in March 2006, Swiss interest in this region does not seem to be picking up[2]: only 30 per cent of the 966 companies that responded had had business relationships with the CEEC-8 before 2004, and only 4 per cent had invested in these countries. And of those companies that do not yet do business with CEEC-8 countries, a mere 7 per cent envisage doing so.

Swiss companies are obviously not yet giving the new European emerging markets the attention they merit, even though these countries are once again returning to the cultural and free-market values of Western Europe. There seems to be an exaggerated perception of risks in these markets, especially by comparison with their counterparts in Asia (China and India): thanks to EU membership, conditions for doing business in the European emerging markets are constantly improving, a fact reflected in the growth in foreign investment they are experiencing. If Switzerland wants to remain competitive in the international arena, it must step up its involvement in these countries. Otherwise its market share will dwindle even further by comparison with its EU rivals.

Swiss companies presumably know how to go about seizing the opportunities that are arising in the new European emerging markets. These countries are increasingly a key factor in European growth, and could also serve as a bridgehead on the way to conquering the markets in Russia and the former Soviet states.

[2] "Zwei Jahre EU-Erweiterung: Eine Bilanz der Schweizer Unternehmen" ("Two years of EU enlargement: taking stock of Swiss companies"), Osec Business. The Osec Business Network Switzerland actively supports Swiss and Liechtenstein SMEs in building and expanding international business relationships.

ceo3/06. pwc expertise

Advisory and consulting: New structures are creating new opportunities – if you know how to exploit them.

Since the demise of the New Economy, the advisory business has gone through difficult economic times. During this period the market has undergone a fundamental shake-up. Now it's clear what types of advice are called for, and what will be needed in future.

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After the apparently boundless growth of the advisory business in the 1980s and early 1990s, the bursting of the e-bubble also saw the bubble burst for consultants. Even though there was never a lack of demand for advisory services, many a company resorted to "consultant bashing", making great currency of the fact that they were no longer hiring advisors. But this period also had a positive spin-off: struct-ures that had worked in the past were questioned, and some of them were abandoned. There was a shake-up in the market, with clients and advisors restructuring and going back to focus on their core business.

In the meantime, advisors' order books have returned to normal thanks to pent-up demand. Once again companies are turning their attention to medium- and long-term planning. But the advisory and consulting business is no longer the same as it was five years ago.

A new situation has arisen for advisors because many companies have hired ex-consultants as permanent employees in recent years. It is not uncommon for businesses with sales of CHF 150 million upwards to set up their own business development centre. This means that the business has become highly professional, with clients now bringing a lot more know-how of their own. It has also prompted a trend towards joint teams: while it used to be common to bring in whole teams of advisors from outside, today's project-specific task forces often require external advisors to work with the client's staff.

Kurt Hausheer, Head of Advisory, Zurich

Professional business required

Advisory clients have redefined their requirements and have become much more demanding and sophisticated. They demand greater expertise and experience, expect quicker results, and increasingly want to be able to measure the return on consulting. They're no longer content with analytical findings, strategic recommendations and great wads of paper. Nowadays consultants are usually required to deliver results that can be put into practice and share responsibility for implementation. In other words, the focus has shifted to the fruits of the process that organisations undergo with their external advisors. Consultants are expected to take responsibility and act as a coach to ensure that the measures they come up with are successfully implemented as quickly as possible. Given the increasingly cutthroat competition faced by all companies these days, every business has to position and differentiate itself more individually. In many cases you have to be number one worldwide in your business, or at least in your niche, if you want to remain successful, and you have to keep a close eye on competitors who are breathing down your neck. In this environment standard advice and schematic solutions that could just as easily come from a competitor have no prospect of success. And the solutions you do come up with have to come quickly. While the classic textbook model of business development is growth followed by consolidation and then restructuring, these days companies often have to do all three at once.

Market segmentation and strategic issues

Changes in the needs of companies have also led to changes in terms of the way the advisory market is segmented. The classic segmentation into strategic and organisational consulting, process and systems integration and outsourcing is still justified. But we are also seeing the emergence of alternative models with three segments: management consulting, project consulting and so-called body leasing. Under this segmentation, strategic consulting is still kept separate, but project-oriented advice – including IT – is brought together under one segment, and a third segment is created: “lending” staff.

The reason for this new segmentation is that the borders are becoming blurred. People who work on process improvement have intimate knowledge of an organisation. And someone who is restructuring a business also has to know a lot about IT. Even so, rather than jacks-of-all-trades working in isolation, the trend is towards having specialists focusing on specific fields, with clients looking to put together a team of the top people for each project.

With the work becoming increasingly complex and clients expecting a growing degree of specialisation, consulting firms must endeavour to be number one in every field in which they operate. This places huge demands in terms of specialist knowledge of particular issues, industries and regions. The international orientation of most companies these days also makes consulting a highly complex business. The challenge of reconciling the legislation or taxation systems in different countries is a prime example of this.

Positioning financial and business consulting

We believe a third type of segmentation makes most sense from the client’s point of view: segmenting according to the original competence or origin of the advisory firm. This approach also results in three different segments: IT consulting, strategic consulting and, in the broadest sense of the word, financial and business consulting. However, financial and business consulting increasingly encroaches on the other segments, as large financial consulting firms especially have the advantage that they can build up the other competences from their core business and thus cover the entire value chain.

Nowadays, the biggest driver of new orders in consulting is internationalisation. Offshoring production is high on the agenda of many companies, including SMEs. While the main offshoring destination used to be Portugal, followed by Eastern Europe, the focus is now shifting to Asia – especially China and India – as well as Brazil, Russia and, still, Eastern Europe. What is new about this outsourcing is that the candidate regions have now become extremely attractive consumer markets in their own right as well as offering favourable conditions for production.

Global expansion confronts companies with some highly complex issues. The usefulness of a consultant can be measured in terms of how quickly and effectively they can work with the client to find solutions to these issues – and not just individual components of the issue, but the entire issue in all its complexity. And the consultant must be able to do this not only at the client’s home location, but locally wherever the company itself operates, and everywhere to a consistently high quality. The requirements of today’s companies – and we’re now talking SMEs as well as multinationals – have led to pronounced differentiation within the consulting industry. There are very few consulting and advisory firms that can offer a range of multidisciplinary services all over the world. And there are even fewer who can offer top-quality services in all the individual disciplines and all the different regions. But today’s clients expect precisely this, and are merciless – and rightfully so – if this expectation is not met.

Besides internationalisation, clear market differentiation and the ability to innovate are also top priorities for today’s companies. In an environment of mounting risks, for example risks related to the liability of non-executive directors, a growing number of organisations are seeking outside opinions to cover themselves. Other more recent advisory issues are corporate responsibility and the whole range of issues relating to corporate reputation and legitimate ways for companies to act in public. Nowadays, organisations are less worried about models of how they will be organised in the future than with the question of whether they will even survive that long in the first place.

Consulting by PowerPoint gives way to relationships, insights and implementation

Trust is the key consideration for companies choosing a consultant. They are looking for someone to whom they are glad to entrust responsible tasks and who they can easily envisage as their coach. More than in the past, advisors are expected to act as a sparring partner, tell unpleasant truths when necessary, and save the company from itself when it threatens to exaggerate the upside, gloss over the risks or fail to recognise them in the first place. Given the job requirements, it’s not surprising that people with experience are back in demand again.

Consultants must also be good at dealing with team members and the client’s project staff. Those who lack the basic ability to build lasting personal relationships cannot expect to survive long in today’s market.

The ideal type is also someone who has the courage of his convictions, is a good communicator, and who is above all a good listener. It’s not sufficient to have outstanding knowledge which you then offload on the client. First you have to clearly recognise the factors that drive the value of the business and make these clear to the client.

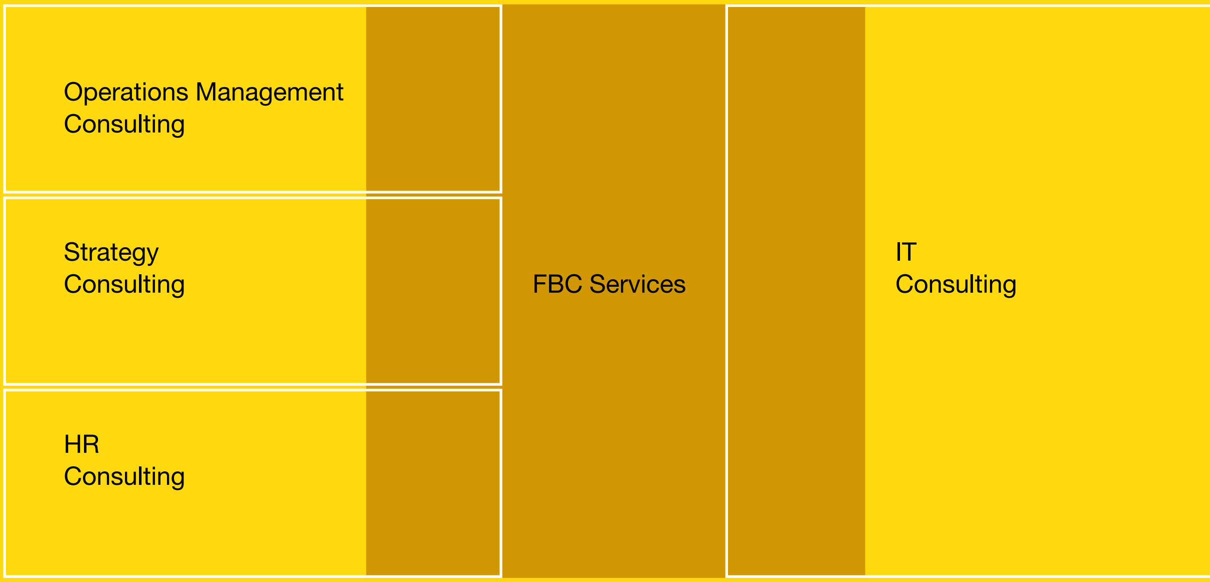
Advice only has lasting value when you succeed in applying your own knowledge to these issues and bring this across to the client in a way that enables him to reach his own insights. The client has to be able to “follow” you in the truest sense of the word.

The consultant has to give his client the starring role, taking him on a journey that always revolves around his business. After all, if the consultant gets to the destination all allone, he hasn’t really reached it. This of course also means making sure that once you have come up with tailormade, multidisciplinary solutions, they are implemented efficiently and effectively as well. Without a tangible result, everything that went before has no value.

The classic three-way division: efficiency, experience and expertise

The extent to which a consulting firm and its staff can meet these expectations is another differentiating factor. In his book “Managing the Professional Services Firm”, David Maister talks of the “three Es”: efficiency, experience and expertise. The degree to which each of these attributes comes into

Relationship of financial & business consulting services to other consulting services



play will depend on the type of advisory engagement. If a client wishes to boost efficiency, standardised advice is often sufficient, and can be provided by younger, less experienced staff at a lower hourly rate. The more complex the engagement, the more experience and expertise – or even thought leadership – will come into play. The rates billed by consulting firms also reflect this three-way division. For this reason clients should be clear abour what type of advice they are buying. It is hardly possible for a firm to cover the entire range of advisory services and still maintain a differentiated profile. So the equation for multidisciplinary advisory forms is as follows: less sharp profile for more client benefit. We firmly believe that client benefit is what determines the market success of a professional services firm. Our strategic orientation is therefore clear.

Summary

Companies want to be permanently challenged by their advisors. The issues are becoming increasingly complex, requiring a multidisciplinary approach. Solutions are no longer delivered at a single location, but on more than one continent simultaneously, which means that advisors have to be embedded in an international network of a consistently high quality. Today's clients demand a radical outsider's view, and count on the opinion of experts whose analysis does not have to take account of internal power struggles and dependencies. Companies hire advisors to keep them alert. And staying alert is crucial.

Offshoring in India: Tax and legal aspects of direct investment.

India has a great deal going for it as an offshoring destination. Nevertheless, CEOs considering direct investment there should take a very careful look at the risks as well as the opportunities.

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India's gross domestic product grew 8.1 per cent over the 2005–06 financial year, and the economy is expected to continue expanding at between 6 and 8 per cent a year. This trend began in 1991 when the then finance minister Manmohan Singh (now prime minister) introduced economic reforms designed to boost foreign investment in India. These reforms continue to bear fruit. The country has amassed foreign currency reserves of USD 144 billion, and is investing massively in the infrastructure to ensure that this rapid economic expansion continues.

Indian tax system in constant flux

In the wake of globalisation, more and more Swiss companies are opting to shift part of their business to lower-tax locations abroad. With a huge pool of highly qualified low-cost labour, India is an ideal candidate for offshoring, and has been particularly successful in attracting companies seeking to offshore administrative, accounting, engineering, software development and manufacturing functions.
However, the Indian tax and legal system is very complex, and is subject to constant change and alteration. Companies considering foreign direct investment (FDI) in India are faced with a raft of legal issues right from the planning stage.
All foreign investments undergo an approval procedure laid down by the state. Direct investments in certain industrial and service sectors such as defence or rail transport are prohibited entirely or – as in the case of retail – highly restricted. In other sectors, investments are subject to the approval of the Foreign Investment Promotion Board (FIPB). On the other hand, in the wake of the new policy of liberalising and deregulating foreign direct investment, a fast-track automatic approval process is applied in most industries.
The following options are open to foreign companies wanting to offshore to India:
- Establishing a branch
- Establishing or acquiring a subsidiary
- Setting up a joint venture with an Indian company
- Outsourcing

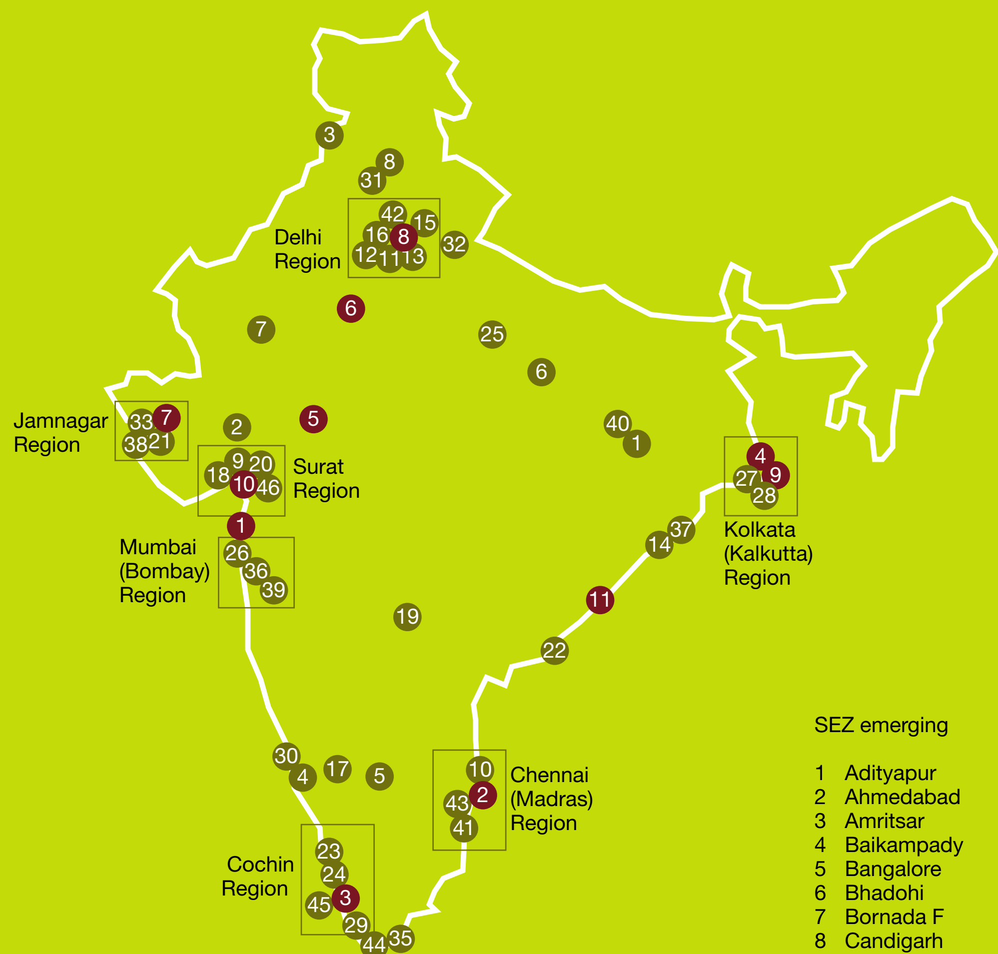
Tax advantages and special rules

Some investments are given preferential tax treatment provided that they involve exports and – in certain cases – are located in specially designated regions. A foreign direct investment can be part of a Export Oriented Unit (EOU), a Software Technology Park (STP) or a Special Economic Zone (SEZ).
Until 31 March 2009, EOUs and STPs will offer various tax advantages such as duty-free imports and full tax relief on all export earnings.
SEZs permit the export of goods and services in a type of free-trade zone considered as a designated duty-free enclave to be treated as foreign territory for trade operations and duties and tariffs. Companies located in a SEZ are therefore not subject to the usual import duties. A sliding-scale exemption is granted on direct taxes for a maximum of 15 years.
Tax exemptions are only possible for software technology parks and export oriented units under certain conditions. They only apply to new business entities (i.e., they exclude units resulting from spin-offs or the restructuring of existing entities), and there are restrictions on the existing plant and machinery that may be taken over. The tax exemption is limited to export earnings. Non-export profits are subject to tax at the rate of 41.82 per cent (2006), comprising a 33.66 per cent tax on corporate profits and an additional dividend distribution tax (DDT).
Like all Indian companies, FDI is also subject to additional restrictions such as foreign exchange restrictions and various

Emerging Markets Revenue Improvement

Monica Cohen-Dumani, Head of the India Desk Switzerland, Geneva

Existing and emerging Special Economic Zones (SEZs) in India



SEZ existing

1 Anderi
2 Chennai
3 Cochin
4 Falta
5 Indore
6 Jaipur
7 Kandla
8 Noida
9 Salt Lake
10 Surat
11 Vishakhapatnam

SEZ emerging

1 Adityapur
2 Ahmedabad
3 Amritsar
4 Baikampady
5 Bangalore
6 Bhadohi
7 Bornada F
8 Candigarh
9 Dahej
10 Ennore
11 Faridabad
12 Garhi Harsaru
13 Ghaziabad
14 Gopalpur
15 Greater Noida
16 Gurgaon
17 Hassan
18 Hazira
19 Hyderabad
20 Ichapor G
21 Jamnagar
22 Kakinada I
23 Kakkancherry
24 Kalamasserry
25 Kanpur
26 Khopate
27 Kolkata
28 Kulpi
29 Kzhakuttom
30 Mangalore
31 Mohali
32 Moradabad
33 Mundra
34 Nagpur
35 Nanguneri
36 Navi Mumbai
37 Paradeep
38 Positra
39 Pune
40 Ranchi
41 Sedarapet-Karasur
42 Shastri Park
43 Sriperumbudur
44 Trivandrum
45 Vallarpadam
46 Village Vanj

indirect taxes, in particular on the manufacture, sale and import of goods and the provision of services (VAT, CENVAT, central sales tax, basic and special excise tax, Octroi Duty, R&D tax, service tax, etc.). On the bilateral level there is a double taxation agreement in force between Switzerland and India. This contains a most-favoured nation clause providing for renegotiation of the agreement if India grants more favourable conditions to another OECD nation.

New special economic zones being set up

The tax exemptions granted by India to foreign investors under the STP and EOU schemes only apply until 31 March 2009. In the future, companies seeking tax incentives are likely to look to the special economic zones. In the 2005–06 financial year, SEZs exported goods and services worth USD 5 billion. But their role looks set to become even more important in future, as there are currently around sixty special economic zones at the approval stage or in the process of being set up (see map). The tax and legal aspects of these zones are regulated in the SEZ Act, 2005, and the SEZ Rules, 2006. Applications can be made via a single window clearing system, where a single administrative unit processes applications at both the central and state level. //

Investing in China: Intuition, empathy and knowledge of the markets are a must.

China is reckoned to have more growth potential than virtually any other country in the world. It's not just multinationals that hope to tap into this emerging market – small and medium-sized companies want a slice of the action too. To invest in China you need to know the market, the culture, and the mentality of the people.

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Since China joined the WTO in 2001, an average of USD 60 billion in real terms in foreign direct investment has flowed into the country annually; in terms of contract value, this figure comes to double that at CHF 120 billion. For many companies, especially those in the manufacturing sector, the key motivation for investing in China is the favourable production conditions it offers. Others have China's huge consumer market in their sights: 1.3 billion potential customers for their goods and services. But these companies too have to decide whether they can serve this market from other locations, or whether they should set up their own production facilities in China.

But the need to safeguard markets from Chinese competitors or take legal measures to prevent product imitations means that sooner or later, China becomes an issue even for companies that neither export nor produce there.

Doing business in China requires a well-thought-out strategy. Once a company decides to invest in China, it has to look into the legal ramifications, clarifying what type of company it is possible to establish, and looking into the implications of doing so. The choice of business model is not just relevant in operational terms. It also has tax and legal implications. Not all business models common in the West can be successfully exported to China. Principal structures with a Chinese contract manufacturer and a Chinese distribution company, for example, are problematic. And a business licence is always needed to do business in China.

Post-WTO, however, the situation has been improving steadily. One example is that since 2004, foreign companies have been permitted to sell products they have produced abroad themselves in China via their own distribution company, a so-called Foreign Invested Commercial Enterprise. Another example is that legally distributable earnings can be repatriated as long as all the necessary formal requirements, for example the registration of documents, have been met.

The service sector is also being gradually opened up to foreign investors.

Only once the necessary legal clarifications have been made can the next step, setting up operations, be embarked upon. This can be very difficult indeed if investors do not understand the local mentality and culture, and especially if they are not familiar with the mechanisms of the Chinese labour market.

Emerging Markets Strategy

Dr Ralf Schlaepfer, Head of the China Desk Switzerland, Zurich

Penetrating the market

The path from establishing your own company to the point where you have covered the major Chinese population centres is a long one, especially when you consider the logistical challenges involved in covering a country that with an area of 9.5 million square kilometres is as big as the whole of Europe.

For this reason, buying an existing company is a quicker and, generally, more straightforward alternative. Note, however, that the word "straightforward" is relative, as acquisitions involve various obstacles of their own. Negotiations in China are different than in Europe or North America, and in most cases will involve representatives of various political authorities in addition to management. These officials, however, can often be pursuing their own, quite different aims and interests, such as tax revenue, growth policy, and reducing state ownership of companies.

Continued page 34

5 minutes: Business information and research by PricewaterhouseCoopers.

Trends in human capital

Despite rising profits the profits per employee fell in Europe during the 90s. Revenue per Full Time Employee increased in the USA in 2004 by 11.7 per cent. In Europe as a whole the average growth was 8.2 per cent, in Western Europe only 7.9 per cent. Companies in the USA and Europe believe that, because their employees are not mobile and flexible enough, they cause up to 10 per cent additional costs and that they have to spend up to 10 per cent for lack of performance. Nonetheless, salaries and wages in the USA are increasing much more than in Europe. In the USA the average wage of 70,090 EUR is about twice as high as in Western Europe at about 38,340 EUR. Further information on the subject can be found in the study “Important trends in human capital – A global perspective 2006”.
www.pwc.ch/press

Arbitration is called for

The use of arbitration to settle cross-border disputes is strongly supported by international enterprises. 73 per cent of the companies’ internal counsels prefer the international arbitration procedure to cross-border legal actions. 44 per cent of these internal counsels perform international arbitration procedures combined with mediation. Switzerland is one of the most popular arbitration locations. These are the findings of the Pricewaterhouse-Coopers study “International arbitration: Corporate attitudes and practices 2006”.
www.pwc.ch/press

Internal controls with gaps

The asset management industry will in the coming years have to struggle worldwide with enormous challenges in the fields of investment success, sales organisations and staff recruiting and retention. This is shown by the study “Global Investment Management Survey 2006” by PricewaterhouseCoopers. The study also shows that 91 per cent of the asset managers lack adequate internal controls, which does not permit effective risk management. 89 per cent of asset managers have up to now not performed a comprehensive risk analysis.
www.pwc.ch/press

The customer as focal point

Providers of financial services should make customer needs their top priority, if they want to win the battle for growth share. Competition among financial institutions will in future revolve mainly around three areas: technology, efficient employment of information and recruiting, training and motivation of customer advisers. This is the finding of the new study “Winning the battle for growth: Building the customer-centric financial institution”, compiled by PricewaterhouseCoopers in collaboration with The Economist Intelligence Unit (EIU). The results show, however, that numerous financial institutions still concentrate their efforts on the development of products and services and pay too little attention to their customers’ needs. Each year financial institutions lose between 5 and 10 per cent of their customers, because they are not adapting enough to the changing needs of their customers.
www.pwc.ch/press

Given the greater number of stakeholders involved, the delegations sent to negotiations by the Chinese are generally larger, and the personal component is much more important. All this leads to long-drawn-out negotiations, often subject to interruptions, conducted at a pace that will not be familiar to most people used to doing business in the West.

In many cases procuring information can be a very difficult process. In China there is usually a lack of publicly accessible information and reliable historical corporate data, either quantitative or qualitative. Added to this, Chinese companies often have a number of different sets of books for different purposes, which are rarely kept or audited in line with international standards. This means that due diligence must always be conducted at the start of any transaction.

Tax-related errors and other common misconceptions

Contracts have a different character in China. Often a contract is seen not as a definitive agreement, but as a declaration of intent that may be – indeed will have to be – subject to subsequent negotiation.

The tax system is riddled with uncertainties. Many foreign-controlled companies currently enjoy reduced rates of taxation, while domestic businesses are basically subject to a 33 per cent tax on earnings. This system of incentives for foreign investors has been put in question by the overheating of the Chinese economy. There is also a certain amount of pressure from Western countries threatened with the closure of facilities on their own turf. On the other hand, the need to attract know-how from abroad means that China still has a vested interest in retaining incentives for foreign investors.

It is still unclear as to when tax reforms will enter into force, what precisely they will entail, and what impact they will have on competition. But whatever the consequences of these reforms, there are likely to be interim rules to mitigate their immediate impact.

The huge importance of knowing and understanding the Chinese market is clearly illustrated by the mistakes companies have made in the past. Production costs are often higher than anticipated. A rule of thumb is that they will be around 80 per cent of costs in this part of the world. Companies should take care to factor in other costs in addition to wages; customs and duties, taxes and fees, and transport costs should not be underestimated.

Companies often also wrongly assume that they will be able to keep know-how, particularly development know-how, at home. The truth is that especially in the longer run, development and production usually end up happening at the same place.

Going to China with PwC

PricewaterhouseCoopers regularly offers its clients the opportunity to find out about the Chinese market for themselves. In May this year, the PwC China Desk Switzerland joined forces with the Swiss Organisation for Facilitating Investments (SOFI) to organise a one-week business trip to China. The managers and entrepreneurs who took part visited the urban centres of Beijing (including the Beijing Economic-Technological Development Area, one of the capital's most important special economic zones) and Shanghai, plus the emerging inland cities of Chengdu and Nanchang. Nanchang is the location of the National High-tech Industry Development Zone, a special economic zone that is not yet so well known in the West.

The business trip gave participants a first-hand insight into the rapidly growing world of Chinese business and the operational and strategic peculiarities of the market. They had numerous opportunities to make personal contact with state and semi-state officials from both China and Switzerland. They also were able to visit many companies and discover what day-to-day business is like in China and talk with high-ranking company representatives.

Summary

Despite many challenges, there are good reasons for companies – including medium-sized ones – to invest in China. The market offers attractive niches with excellent business opportunities for smaller enterprises as well. If you're planning to invest in China, you should make sure you find out all you can about the Chinese market, culture and mentality. And you should also make sure that if you opt not to invest in China, this decision is also made consciously and on the basis of strategic considerations.

Corporate reporting: Many opportunities are still open to enterprises.

Value-based management and reporting creates trust with stakeholders and enhances the credibility of management. A recent study reveals that enterprises base their internal management and external reporting primarily on actual values. Accordingly corporate reporting still contains for many enterprises great potential for differentiating themselves and creating value.

Andreas Aebersold@ch.pwc.com

Information is the basis for every decision taken. Empirical studies, including many by PwC, provide evidence that investors and financial analysts, as well as other stakeholders, are dissatisfied with traditional corporate reporting. They demand in addition to the financial figures also non-financial and forward-looking information. These should be embedded in a context and should provide information about the Key Performance Indicators, KPI, which management uses to direct the company. Management itself has an interest in having available as much information as possible in order to be able to perform its management function optimally. It should be interested in transparency, because it affords it credibility with the stakeholders and creates trust in the capital market. Scientific studies provide evidence that a more extensive disclosure of value-relevant ratios results in an increase in share value and a reduction in the volatility of the share price.

Actual amounts dominate internal management

The most recent survey among stock-exchange-listed companies in Switzerland, which PricewaterhouseCoopers conducted in collaboration with Kirchhoff Consult on investor relations und corporate reporting, provides information about what information is used for internal management and how much of it is communicated externally:

- The enterprises rely mainly on actual amounts. For internal management only in a few cases do they also adduce benchmarks; but in external reporting benchmarks are scarcely ever published. Targets and forward- looking information, although sometimes used for internal management, practically never flow into external reporting.
- One third of the companies use a model for the analysis of cause-and-effect relationships. The linking of key financial ratios – such as Economic Value Added (EVA) or cash flow – with the Key Performance Indicators at the operational level is not yet widespread. It must therefore be assumed that value-based management, which at the same time forms the basis for value-based external reporting, is capable of further development in numerous companies.
- Many enterprises link greater transparency to strict conditions. 57 per cent of the companies surveyed mention "proven positive effect" as a condition for making their external reporting more transparent. 40 per cent of the enterprises would however like to anticipate the information needs of their target groups and seek a dialogue with them.

Benchmarks and targets are important information for internal management; the more intensive and targeted use of these ratios can improve performance. In a further step, external reporting should be aligned ever closer with the internal management information. What information is to be published, depends on its relevance for the stakeholders and the willingness of the enterprise to report on it.

The survey results for individual reporting categories underline the need for action:

- Market environment: For internal management most enterprises attach the greatest importance to information about the competitive environment and the macro-economic environment. About two thirds of the information that they use for internal

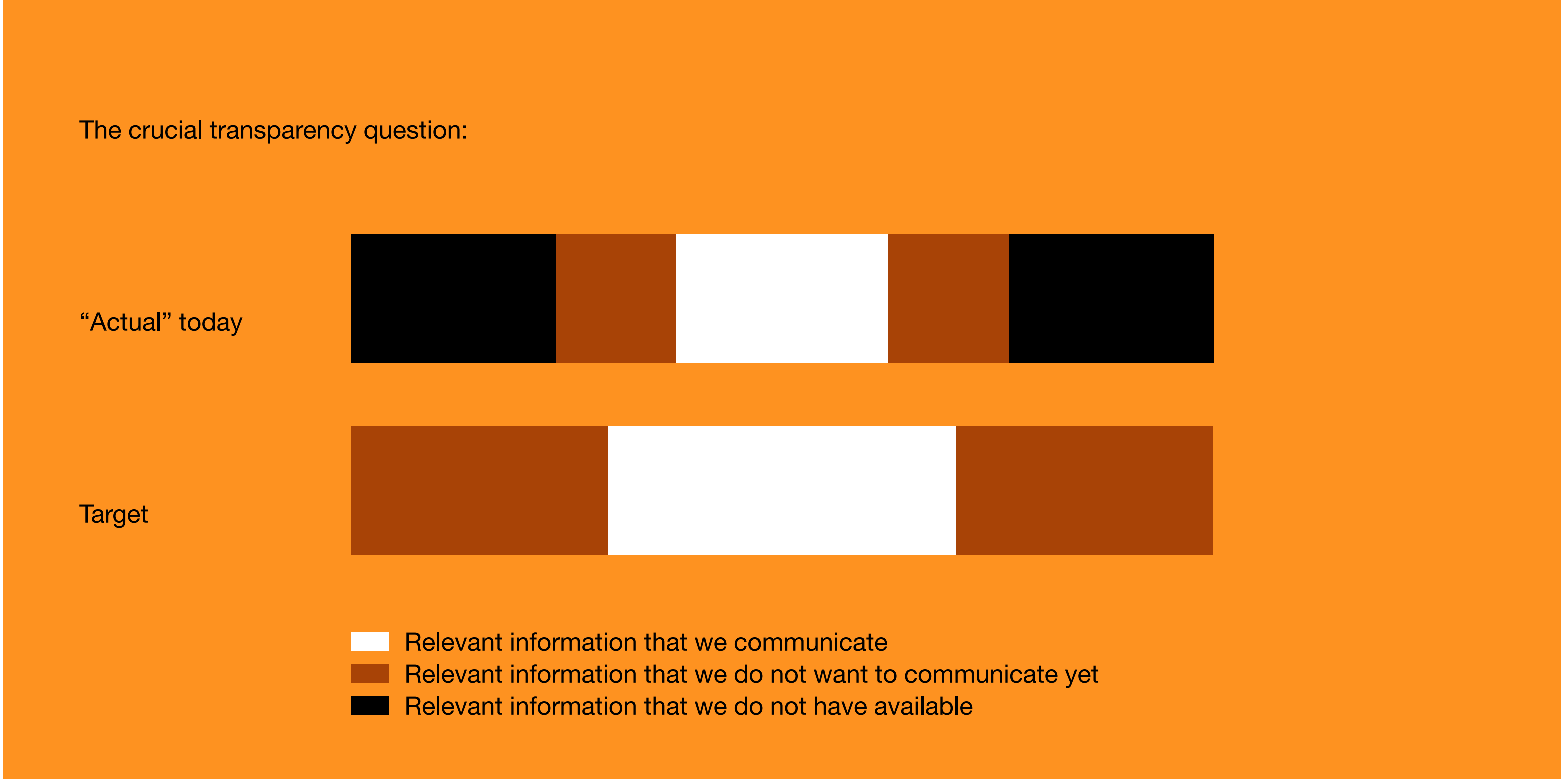
Good reporting saves opportunity costs – especially in the capital market.

Recommendations for determining the reporting content:

1. Ask your stakeholders! For stakeholders as a rule everything is relevant which is also relevant for you in managing the enterprise. Everything that for you is secondary is with great probability also not interesting for your stakeholders and can be left out.
2. Opportunism in reporting endangers trust, continuity enhances it.
3. Transparency gives the stakeholders more decision certainty. Transparency can (still) differentiate an enterprise and thereby represent a competitive advantage.

Market Value
Investor
Relations

Andreas Aebersold, Leader Value Reporting, Bern



How much and in what areas an enterprise wants to live transparency is a strategic decision. The basic rule is: Opportunistic communication awakes suspicion – continuity is a must.

management is also communicated by the enterprises externally.

• Value management: Individual KPIs such as the development of customer and employee satisfaction have in the internal management context a high value, but externally are scarcely ever communicated. Fewer than 50 per cent of the enterprises employ KPIs for their supplier relationships, their innovative strength, their brand or reputation for internal management. The use of target values or benchmarks in value management is even significantly less. These values – with the exception of expenditure on research and development – are as good as never communicated to the stakeholders.

• Performance: Just over half of the enterprises use value-based management amounts for internal purposes; about a quarter also publish the actual values externally. Actual Total Shareholder Return values are employed internally and externally approximately equally frequently. But none of the enterprises publishes externally a benchmark comparison.

The key question about value-based reporting is: "How can the business activity, the relevant value drivers and Key Performance Indicators be explained as comprehensibly and transparently as possible for the stakeholders?" The answer is to develop methods and standards that enable enterprises to explain to the stakeholders their complex business model and the relationships within the enterprise. Important is the principle of continuity: What was communicated in the prior year, must also be reported on in succeeding years. Only in this way does the reporting enable the stakeholders to follow the development of the enterprise.

Efficient and timely communication is for most enterprises their greatest challenge. Acceleration of the reporting process and selection of the right information, applying cost-benefit considerations, are for 40 per cent of the enterprises their core concerns. In addressing these challenges enterprises should be consistently guided by the needs of their stakeholders. Value-based reporting opens up to them the opportunity of themselves supplying investors and financial intermediaries with the information that they need to make decisions. With such an active programme enterprises avoid that these target groups continue to base their decisions largely on their own assessments and research, the results of which in most cases do not properly reflect entrepreneurial reality.

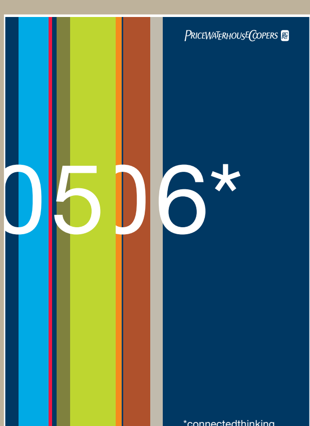
Summary

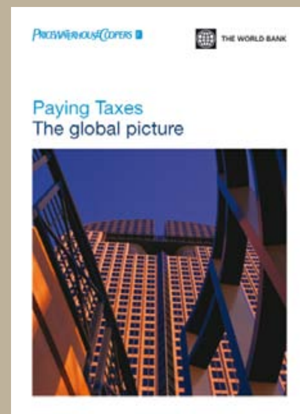
Corporate reporting geared to the needs of the shareholders and other stakeholders opens up numerous opportunities: It enhances the attractiveness of the enterprise for future, long-term investors and makes it easier to gain and retain (potential) employees, customers and business partners.

Events, publications and analyses.

PwC Annual Report 2005/06

PricewaterhouseCoopers Switzerland's Annual Report 2005/06 appeared in October. It celebrates a special event: the 100th. Anniversary of PwC in Switzerland. Chairman of the Board Edgar Fluri outlines the history of the auditing profession in this country since its birth and CEO Markus M. Neuhaus explains why PwC will be the Number 1 in the profession also in 2011. The past financial year built a sound base for this: with its project CLIENT FIRST PwC made clear that client relationships have absolute priority. Financially also the financial year was successful. Fee income increased by 10 per cent to 653 million CHF. The Annual Report in German, Italian, French and English can be ordered from: sonja.jau@ch.pwc.com





Paying Taxes – worldwide

It is now more important than ever for your company to understand its total tax contribution to society. The publication "Paying Taxes – The global picture» looks at the overall tax burden that companies face in different countries worldwide and will consider how corporates can gain more recognition for their total tax contribution and what various governments are doing to reduce the cost and complexity of compliance.
A free copy in English can be ordered from: www.pwc.ch/publications

Outsourcing – a successful recipe?

Experts from business and politic discuss the subject «Outsourcing – a successful recipe? ». The conference is a platform for a valuable exchange of views and offers the opportunity to make a factually based presentation and reflect on outsourcing in practice.

Date/location:
22 February 2007, Hotel Widder, Zurich
Further information and registration:
franco.monti@ch.pwc.com

International e-invoicing conference

Over two days will be shown what legal bases and compliance requirements for international e-invoicing have to be borne in mind both from the Swiss and international aspect. Participants have the opportunity to discuss with experts and corporate managers (CFOs, CIOs) their experience, the risks and the potential of e-invoicing.

Date/location:
30/31 January 2007,
PricewaterhouseCoopers, Zurich
Further information and registration:
carole.oppenheim@ch.pwc.com

Drinks for banks and securities dealers

The traditional platform for the banking industry provides an overview over the forthcoming regulatory changes and their impact and is designed for board members, CEOs, CFOs, heads of accounting, internal audit and compliance.

Dates/locations
15 January 2007, St Gallen
16 January 2007, Lugano and Zurich
17 January 2007, Lucerne
23 January 2007, Basle
25 January 2007, Bern and Geneva
Further information and registration:
sonja.schnueriger@ch.pwc.com

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Address: PricewaterhouseCoopers, ceo Magazin, Birchstrasse 160, 8050 Zurich, Switzerland.

The Arbonia-Forster Group: New markets for quality of life.

The core business of AFG Holding is top-class building equipment. CEO Edgar Oehler sees the backlog demand in many countries as an opportunity for Switzerland as an economic location.

In September 2003, Dr Edgar Oehler, owner and CEO of Steinacher Hartchrom AG, took over a majority stake in AFG Arbonia-Forster-Holding AG, which has its registered office in Arbon in the canton of Thurgau. One month later, he was elected president and delegate of the board of directors. Since then, things have really been happening (see "Milestones" box).
The charismatic boss is pursuing a clear strategy: "One Building – One Stop". Oehler's goal is to become the leader among suppliers of classical building equipment. And to do so in key areas that represent living quality and quality of life in public

CEO Edgar Oehler in the factory building at Hartchrom AG. Next to him, a picture of Forster Unico, the new profile system from Arbonia-Forster made entirely of steel that will be introduced onto the market in January 2007. (Photo: Roth und Schmid)

“When you see how people live today in Ukraine, for instance, then you can assess what they will need in future. And once their basic needs are met, they’ll then want comfort!”

buildings, at home and at work. The four divisions of AFG Holding – heating technology and sanitary equipment, kitchens and refrigeration, steel technology, and doors and windows – have now been put on the right path. In the first half of 2006, the group only just failed to double its profits.
The boss sits relaxed in his modern study, which is furnished almost like a lounge, in Steinach am Bodensee, and looks out through an impressive frontage of windows onto meadows with fruit trees and peacefully grazing cows. The room underlines Oehler’s vision: “We don’t want to sell windows. We want to sell a view,” he says. “We are also selling comfort, rather than heating pipes; lifestyle instead of kitchens; and wellness rather than shower cubicles.” To highlight this philosophy as an overall concept, an apartment in Arbon has currently been completely furnished with AFG products. Not as a showroom but rather, you might say, as a “feel room” for prospective clients and business partners who are invited into the apartment. In this way, they are supposed to feel for themselves what is important for Oehler: feeling good – at a top-class level.

Expanding internationalisation

The complementarity of the AFG products is a basic prerequisite for implementing this strategy – as is the cross-divisional, higher-than-average quality. “In my opinion, you are more successful if you supply everything in your area – and this requires a broad range of products.” The self-made man who did his doctor’s thesis on “People’s rights in the canton of St Gallen” is anticipating future growth for his holding of between 8 and 10 per cent. In the 2005 financial year, around 80 per cent of sales were generated in the two domestic markets of Switzerland and Germany. At the shareholders’ general meeting in April 2006, the CEO promised shareholders additional success milestones thanks to intensive internationalisation. A quote from Oehler: “The touchpaper has been lit.” He sees great potential for the companies in his group primarily in the Near and Far East – that is in the new EU countries, Russia and China.
“In all these countries, there is a huge backlog demand in the building and residential sector,” says Oehler. “When you see how people live today in Ukraine, for instance, then you can assess what they will need in future. And once their basic needs are met, they’ll then want comfort!”
Strategically, AFG Holding is ideally positioned to meet the growing requirements and demands for quality. For 10 years, Kermi has represented the heating technology and sanitary equipment division in Russia. “We do not intend to wait here in Switzerland and watch what the others do,” emphasises Oehler. “We will produce for these new markets and sell in these markets. Furthermore, we will develop production sites there – for when the quality

Milestones

At the beginning of 2004, AFG acquired Bruno Piatti AG, and shortly afterwards EgoKiefer AG. With the acquisition of Piatti, with its registered office in Dietlikon in the canton of Zurich, the company became the biggest manufacturer of kitchens in Switzerland with a market share of some 20 per cent. The takeover of EgoKiefer with company sites in Altstätten (St Gallen) and Villeneuve (Vaud) made the group the biggest window and door manufacturer in the country. In September 2005, Edgar Oehler announced his third coup in the space of 18 months: the acquisition of Miele-Küchen in Germany. The new subsidiary means that the company has secured a sales system for itself that incorporates 50 important markets. Overnight, AFG was also in a position to build and sell kitchens outside Switzerland and Germany. And even better: with the combination of the three labels Forster, Miele and Piatti, the company has become a rival to be taken seriously by the established brands on the global market.

increases in these countries and they start to produce for the global market themselves, we want to be a part of it." In October 2004, the new modern tubular radiator factory in Stribo in the Czech Republic began operation. Together with the paint plant that is one year older, this factory is strengthening the market position of AFG.

Putting their faith in strong labels

For Oehler, expansion into the new EU countries and beyond in the direction of Russia is merely an "extension" of the company's scope of activity so far. The common history, similar school systems and comparable goals in life are criteria that mean strong ties between the countries in the European region. "As long as the trend goes in the direction of our labels being seen as a symbol of prosperity, our market position here in Switzerland is secure," says Oehler, adding with a smile: "Where people buy Mercedes, Audi and BMW, there will also be a demand for Forster, Piatti and Miele kitchens."

Although the group is growing more strongly abroad than at home, Oehler abides by Switzerland as an economic location. "We need to have a strong home base," he emphasises. In Switzerland, employees are well trained and motivated, the relationship between employees and employers is relaxed, and the dual education system is a considerable advantage – today you need university graduates and craftsmen in equal measure. With the rapid growth of the holding, the need for a common headquarters also grew. In summer 2006, the foundation stone was laid for the new, ultramodern corporate centre that is being built in Arbon. Hartchrom AG in Steinach, which Oehler bought in 1998, is a kind of economic barometer for the former CVP member of the Swiss Parliament. The company, which has been overhauled at typical Oehler speed and rechristened Surface Technologies International Holding AG (STI), is successful around the world in the areas of paper and printing, general industries and defence technology. For instance, STI delivers ultramodern printing rolls, some of which are nano-coated, to many printing machine specialists, including Heidelberger, MAN and Koenig & Bauer. "We are currently working 24 hours a day, seven days a week," declares the boss with satisfaction. His rule of thumb is that high printing volumes lead to high advertising volumes and ultimately high levels of consumption. "The capacity at STI makes me more willing to invest."

AFG Arbonia-Forster-Holding AG in figures

The leading integrated building equipment supplier is listed on the SWX Swiss Exchange and employs around 5,000 staff. The group is active in 80 countries worldwide and has production sites in Switzerland, Germany and the Czech Republic. With its four divisions (heating technology and sanitary equipment, kitchens and refrigeration, steel technology, and windows and doors) AFG generated sales of CHF 1.1 billion in the 2005 financial year and a group profit of CHF 51.5 million. In the first half of the 2006 financial year, all key profit ratios were increased. The EBIT (earnings before interest and taxes) amounted to CHF 22.2 million, corresponding to an increase of 95.7 per cent over the previous year.

Becoming attractive for the capital market

For Oehler, investing in new markets means becoming active himself. It's easy to believe him when he says he knows about all the divisions in his holdings in detail at all times. Because the boss does business in person. For instance, last year he visited all 50 sales companies of the newly acquired Miele-Küchen – and soon noticed where action was needed. As a negotiating partner and decision maker, he is accountable for his companies in all important business transactions abroad. "This is the only way to generate trust," he says with conviction. "Trust is the concrete foundation on which business is based." His political and military past is of particular benefit to him in the Eastern countries. In politics he learned how to negotiate convincingly; the army speaks a similar language all over the world and a joint basis is soon found. To date, at any rate, the formula "24 years member of Parliament and colonel of the Swiss Army" has not failed to get the desired effect.

Oehler is bursting with energy and ideas. Sometimes he has to slow himself down so that he doesn't ask too much of the people around him, he says. At the same time, he creates order, sets the course. In the 2005 financial year, with the exception of Miele kitchen furniture production, for the first time all acquisitions from the prior year were incorporated into the consolidation over the full financial year. At the same time, the conversion to accounting based on International Financial Reporting Standards (IFRS) was completed. This was done with an eye to the planned internationalisation of the Group – Oehler is convinced that if you want to be attractive worldwide not only for the sales market but also for the capital market, you need to fulfil the IFRS requirements to be comparable. AFG is currently also expanding its internal control system and is in the process of implementing a system for risk management.

The 64-year-old boss has thought about slowing down. Recently, with a view to the future, he even became a member of the Bad Ragaz golf club. He has never played, he says with a wink. But that's not to say that things might not change in the future. //

The unification of Europe: from dream to reality.

The availability of clean and reliable sources of energy, economic prosperity that promotes employment, and greater security will definitely be on the agenda, writes Christine Lagarde[1], French Minister Delegate for Foreign Trade.

The Swiss writer Denis de Rougemont (1906–1985), wrote in "Twenty-Eight Centuries of Europe": "Europe is much older than its nation States. Europe has played both a universal and universalising role since its birth. It has shaped the world. A united Europe is not a modern expedient, but an ideal supported by the very finest minds for over 1,000 years."

It's true that European unity is not a recent idea. It is a deep-rooted, human dream that has, on occasion, come true but which has always been destroyed by dynastic rivalries, popular revolts and government crises.

The unification of Europe as we know it is of a completely different order: it enjoys the support of the peoples of Europe, it has not been forged through conquest or annexation but by consent, it respects the sovereignty of its member nations. We now live in the Europe people have dreamed of, wanted, desired.

Europe can boast a number of major achievements:

Peace: founded on the hopes of its inhabitants who longed for reconciliation in the wake of the disastrous Second World War, the unification of Europe provided a guarantee of peace and fostered the birth of a European identity among its peoples, thereby neutralising the rivalries and resentment to which national pride occasionally gives rise. The feeling of being European, as one might feel French, Czech or Irish, weakens the grip of xenophobia. Montesquieu (1689 – 1755) wrote in his "Pensées" that "Europe is a state made up of several provinces". Europeans share a single culture, values, ambitions and dreams that go beyond the nation state and provide the foundation for a European identity, without posing a threat to each individual's sense of national identity.

Economic prosperity: the figures who provided the inspiration for Europe chose free trade as the driving force for European integration from the very start. This policy

[1] Christine Lagarde (50), Minister Delegate for Foreign Trade of France.
Christine Lagarde graduated from the University of Aix-en-Provence and from Paris University. Further more, she holds a Master's degree in English from Holton Arms School in Bethesda (USA). After lectur ing law at Paris X University, Christine Lagarde joined Baker & McKenzie in 1981, where she subse quently assumed the position of Chairman of the Global Policy Committee in 2004. Since June 2005, she has been Minister of Foreign Trade of France.

led to the creation of a common market, which is a source of growth and development for all of its members. The enlargement of the European Union, far from posing a threat, offers new commercial opportunities that will benefit its newest members in terms of development and prosperity.

Economic and monetary union: the launch of the euro was one of the most important events in our recent history. It strengthens the economic situation of countries within the euro zone by sheltering them from currency speculators and promotes the creation of a European identity.

These achievements allow us to see Europe not just as a dream, but as a concrete reality. However, the rejection of the European Constitution by referendum in France and in the Netherlands, a growth rate which is half that of the United States, and much weaker than Asia's, and the problems faced when trying to speak with a single voice on the diplomatic scene, challenge the existence of a European approach.

Is Europe starting to drift? Is it being carried away into a deep and prolonged sleep? I don't think that this is the fate that awaits Europe or, at any rate, I hope not. But it's true that Europe arouses a wide range of feelings, which can sometimes be contradictory.

We now need to make a concerted effort to inspire Europe once more:

To start with, Europe is based on a profound conviction held by its peoples – the certainty that unity is the guarantee of peace and security, and that this is the direction in which history is moving. Secondly, Europe represents an ideal for the many countries that are not members: although ten new members recently entered the Union, the number of countries hoping to join reveals the enormous sense of hope aroused by

> "Faced with competition from countries with lower labour costs, our economies will only retain their competitive edge if we stay one step ahead in the fields of innovation and technology."

Europe. Paradoxically, despite the keen interest shown in Europe, which is shared both by those who are part of it and those who wish to join, European institutions often give rise to incomprehension or even to hostility.

The complex nature in which Europe operates, the impression it gives of being detached from its citizens, and the lack of visibility of the heads of European institutions in the media, certainly explain the reticence felt by many European citizens. This reticence was probably a factor during the referenda held in France and the Netherlands, with the paradox that the treaty submitted for popular approval was designed to reform those very institutions. We should not overestimate the importance of the current slowdown in the pace of European integration: when placed in the context of almost fifty years of the existence of the Treaty of Rome, it is not particularly significant. We now need to make a concerted effort to inspire Europe once more. This inspiration should itself draw inspiration from Europe and the dream it now represents. So, turning to the future, what major challenges will we face over the coming decades?

Two issues, in particular, will emerge in the years to come:

The energy question: Europe will be confronted by the need to invest in ways of producing energy that meet the demands of an expanding market. It has also become essential to create interconnecting distribution networks for hydrocarbon, gas and electricity, as revealed by recent power cuts in Italy. The issue of energy should be dealt with at a European level in order to ensure the consistency of the production policies and distribution networks of its member countries, against a background of rising oil prices, which we have every reason to believe is a long-term phenomenon. We must implement a European energy strategy and plan for the major investment this will require.

The challenge of innovation and new technology: faced with competition from countries with lower labour costs, our economies will only retain their competitive edge if we stay one step ahead in the fields of innovation and technology. The jobs of the future will be based on our current research and development activities. We must explore the major scientific and technological challenges of the future at a European level and implement a strategy focused on a series of major programmes aimed at developing the knowledge and know-how on which our companies will rely to strengthen their position in the world economy.

Europe must dream if it wants once again to shape its dynamic to fit the current reality:

I believe, this dream must include a number of ambitious objectives that reach out to citizens in their daily lives:

Guaranteeing access to energy through a common production and distribution policy.

Guaranteeing our economic prosperity and, as a result, reducing unemployment by stimulating and coordinating research and technological innovation at a European level.

The wake-up call has already sounded, based on projects that enjoy wide support, and which are pragmatic and fit the needs of Europeans, who alone will enable Europe to shake off its current torpor. I very much hope that we can achieve this and rally to the call made by Winston Churchill sixty years ago: "Let Europe arise!"

Emmi CFO Reto Conrad with Lacto Tab. The performance drink with a completely new blend of vital ingredients was launched in 2006. (Photo: Roth und Schmid)

Emmi: Dairy products in line with market trends.

With its innovative, premium products, the largest Swiss dairy processor is primarily targeting markets in Europe and North America. And setting a rapid pace in the process.

You can only open up new European markets if you ask the right questions. Just like they did at Emmi, the largest Swiss dairy processor. In the past, raclette cheese was only sold on the domestic market. Why was that? After all, foreign guests like to put raclette slices on a Swiss cheese grill too. The problem was a lack of infrastructure: there are hardly any raclette ovens outside of Switzerland.

Last autumn, Emmi had a "candlelight raclette set" made – a small melting oven with candles and a portion of raclette cheese for just under EUR 10. The Emmi oven became a bestseller on the test markets of Germany and Holland. All 50,000 appliances sold within a few weeks, thus opening up a new sales channel for raclette cheese.

The headquarters of Emmi in the centre of Lucerne is a rather old and unremarkable administration building. "First we invest in innovations, production facilities and new markets," says the CFO at Emmi, Reto Conrad. The façade can wait. For 2006, Emmi is anticipating sales growth of 15 per cent – to around CHF 2.3 billion with a profit margin of a good 2 per cent. "This means we are on target," declares the CFO. The profit for 2006 has been slightly eroded due to the integration of Mittelland Molkerei AG. Conrad adds that over the longer term, improving the return on equity takes precedence over simply increasing the net profit margin.

The market leader in Switzerland ranks around tenth in comparison with its European rivals. Size alone is not important for the strategists at Emmi. They are consciously focusing on the premium segment. Although this segment is limited, it offers higher profits. Because the price pressure is greatest in the mass market – where Aldi, Lidl and Co. are making their presence felt. It is not surprising that Emmi and Aldi Switzerland have so far been unable to conclude an agreement.

Europe in their sights

Emmi intends to grow. In Switzerland, the company is reaching its limits. Consequently, it is pushing ahead with international expansion. Foreign sales are planned to increase by an average of 10 per cent per year and the export quota to grow from over 20 per cent today to 50 per cent. Here, Emmi has set its sights on the large European markets with high purchasing power such as Germany, Italy and the United Kingdom, as well as the USA.

Foreign business is being driven forward in a manner that ensures the equity quota does not sink below 40 per cent. The David from Switzerland cannot afford to take over a European dairy Goliath worth billions. "Big leaps are the wrong way to go about things; small steps will lead us to our goals sooner," says CFO Conrad.

For instance, in mid-2006, Emmi took over the North Italian yoghurt specialist Trentinalatte, a family-run business with 160 employees and sales of EUR 35 million. The aim is for the new subsidiary to boost sales of fresh produce in Italy. Emmi has a 20 per cent stake in its Spanish cooperation partner Kaiku, the Iberian number two in the premium sector of functional and lifestyle products. With Kaiku, the company is developing not only the Spanish but also the Latin American market. The company's own subsidiary in Sweden is strengthening business in Scandinavia. Emmi products are now available in 24 European countries, including the up-and-coming markets in Central and Eastern Europe.

Will developments continue at this pace? "We will not be acquiring new companies every six months," says Conrad, but adds that they are checking out every option. The company is also expanding across the "big pond" – where it is a well-known fact that the opportunities, as well as the risks, are high. A minority stake was acquired in the US company Roth Käse. Emmi hopes that this will position "Swiss cheese" more prominently in the US food business. Furthermore, a production partnership for yoghurts was agreed with Upstate Farms in the US state of New York. The yoghurt is made according to Emmi recipes with North American milk and basic fruit ingredients from Switzerland. The first American Emmi "Swiss recipe" yoghurts have been in the shops since August. It is a test run with a calculated risk. Reports from Emmi indicate that an expansion of the partnership to include other fresh dairy products should not be ruled out. The company in Lucerne leaves unanswered the issue of whether the US model – where the market is strongly insular in the fresh produce sector – will be transferred to Europe: "Our priority focus is on the raw material Swiss milk."

The trend for Caffè Latte

In the meeting room at Emmi headquarters, you cannot miss the advertising banner proclaiming: "So cool, it's hot: Caffè Latte." It symbolises a product that everyone here

In Switzerland, Emmi is reaching its limits. Consequently, the company is pushing ahead with international expansion. Emmi has set its sights on the large European markets with high purchasing power such as Germany, Italy and the United Kingdom and the USA.

is visibly proud of. The mixture of milk and specially brewed espresso is a fashionable drink throughout Europe. Already, one in two cups of caffè latte is exported. Emmi does not publish any sales figures for individual products, but the leader product was the engine for the 21.4 per cent growth (2005) in the international fresh produce business. It is anticipated that the newly launched Caffè Latte Ice Cream and the chocolate mix Choco Latte will also benefit from this impetus. Fresh produce offers higher margins.

To front the campaign, Emmi has recruited the services of three top-class figures who are known internationally and will address the individual target groups: tennis star Roger Federer represents sport and performance, 125-cc world champion Tom Lüthi appeals to the fans of high-speed racing and is intended to boost the petrol station shop business, while the task of DJ Bobo is to make milk attractive for teens. The marketing strategists at Emmi made a smart move with Federer in particular. When they first acquired the services of the two-time World Sportsman of the Year, he was number 11 in the world rankings. In the summer, the contract was extended, with an additional focus on foreign markets. The company does not disclose how much the number one in world tennis receives for his services. Only this much: Emmi spends around CHF 90 million on all its advertising and marketing activities.

Innovative premium dairy

"We intend to live up to our claim to be the most innovative premium dairy in Europe," the company states self-confidently in its last annual report. So the bar is high. Indeed, new products are launched at frequent intervals. For example, this summer's lifestyle drink Lacto Tab: the lactose-free drink is based on milk serum and is enriched with vital ingredients, vitamins and minerals. Two yoghurt drinks promise additional health benefits: Evolus is supposed to have a positive effect on slightly high blood pressure, and Benecol on cholesterol levels.

The best advertisement for functional foods like these was provided in 2005 by the Dutch medical insurance company VGZ. It reimburses its insurants to the tune of EUR 40 a year for cholesterol-reducing margarine. Switzerland is still biding its time in this respect.

Emmi is not only targeting wellness eaters and drinkers but also gourmets. In the Swiss cheese market, where it has been difficult to earn money over the last few years, premium cheeses are sold in addition to "price-oriented" products. Examples are the cave-ripened Le Gruyère and Emmentaler under the brand Kaltbach, or the new SwissAlp flavoured with herbs. Here, a new procedure makes it possible for the entire cheese to taste of herbs although only the rind contains the dried herbs.

The raw materials price – a political minefield

So everything's going swimmingly for Emmi? Where innovative strength, growth and pure production costs are concerned, the company has done its homework. However, Emmi has limited influence on the liberalisation of the markets and thus the most important production factor – the milk price. Two years ago, when CEO Walter Huber called for the price to be reduced by 25 per cent, it caused an uproar among dairy farmers. It is well known that the dairy associations are the majority shareholders in Emmi.

Calm has been restored, and the management at Emmi today has the necessary backing when it puts forward its arguments in the minefield of agricultural policy. Without in principle saying anything different: "Emmi is committed to Switzerland as an important production site and raw materials supplier. However, if we want to be successful abroad in the long term, we need competitive prices for raw materials."

And the maths are soon done. Milk costs around CHF 0.45 in Europe, and considerably less on the world market. Even if a "Swiss and premium bonus" of a maximum of 10 per cent is added to this, milk is still a good CHF 0.20 per litre too expensive in this country. Swiss dairy producers will have to reduce their prices at the latest when the borders are opened. Conrad is convinced that "the opening of the market offers more opportunities than risks." //

Emmi in figures:

The milk processor has been listed on the SWX Swiss Exchange since the end of 2004. Significant stakes are held by ZMP Invest AG (55.1 per cent as of 31 December 2005) and LODH Fund Managers AG, Geneva (6.3 per cent as of 31 December 2005). In 2005, the leading Swiss company for fresh milk products and cheese generated sales of over CHF 2 billion and a net profit of CHF 51.4 million. In the first half of 2006, sales increased from CHF 962 million to CHF 1.1 billion. Below the line, there was a net profit of CHF 20.5 million, compared with CHF 20.4 million in the same period of the previous year.

“Europe is growing closer together.”

If we all pool our strengths and use them properly, Europe will have a glittering future in a globalised economy – says Wolfgang Wagner, Senior Partner and CEO of the PwC Eurofirms.

Mr Wagner, what in your opinion does Europe represent?
Diversity and convergence. The openness of the borders is encouraging people from very different nations to move their place of residence from one country to another, and to profit from the advantages that this offers. Today, the European Union is already much more than a free-trade zone – it is a community with common values and principles. And it has contributed to the longest period of peace in our history.

What are the strengths of this community?
Its linguistic and cultural wealth is one of Europe’s greatest strengths. We Europeans have learned the art of international trade over centuries. This has honed our skills in dealing with different mentalities and cultures – and gives us an advantage at the global level when we open up new markets, for example in China or India. What’s more, we have young and motivated people throughout Europe who are acquiring an international education. At Humboldt University in Berlin, where I lecture, I am increasingly encountering multicultural and highly committed students.

Where do you see the need for action?
We have a high standard of education and prosperity, and we intend to maintain this, even in a rapidly changing environment. That is why we will need to stimulate processes of innovation even more purposefully in the future, create more incentives for entrepreneurship and invest more consistently in education. Today, large European companies – and increasingly small ones as well – are very flexible and becoming more international. Politicians need to learn to anticipate the consequences and to create improved conditions for business in general in this new environment. Currently, business is quicker than politics.

What are the great challenges for Europe as an economic region?
Demographic development is a major concern. A future-oriented approach is required here – but we also need to make use of the opportunities associated with an ageing population that the new domestic markets present. Above all, however, we need an intelligent migration and integration policy that creates an incentive for young and well-educated people to settle here and enhance our economic strength. For the young and future EU member states in particular, this offers great potential for rapid integration.

In Central and Eastern Europe, for instance, there are states with largely unsaturated markets. What are the decisive factors for investors?
Investment in Eastern Europe is driven by a stable political situation, healthy economic growth, low tax rates and a comparatively low level of wages. Increasingly, however, we no longer see the Eastern countries as the workbench of the Western states but also as sales markets with strong rates of growth. The new EU countries are positive additions to the economic region. Convergence is not only taking place in many industries; it is also happening in Europe as a whole. People are growing together and becoming stronger as a result.

What is the situation on the capital markets?
The EU has created the framework for a unified financial area with, among other measures, the Financial Services Action Plan, which has now been implemented. This has also encouraged the convergence of the stock exchanges and contributed to the development of a strong common financial market. We need this to ensure that the capital required for innovation and investment is tied to Europe. Investors recognised these advantages a long time ago. According to UNCTAD, almost half of all the direct investments worldwide in 2005 were made in Europe – Europe is attractive.

What help can PwC offer to companies that want to invest in Europe?
PwC helps companies and investors to implement their business models quickly and successfully by accompanying them as they enter new and mature markets. We have a particularly close network of experts in Europe. Our established position and experience in the local markets and cultures gives companies the certainty that they are making their decision on the basis of solid information and analyses, and are forging the necessary cultural bridges. //

Information. All-out.

Making connections is what the International Telecommunication Union (ITU) in Geneva is all about. Current Secretary-General Yoshio Utsumi[1] and his crew are working to ensure that the entire world is on board for the technological innovations of the future.

Mr. Utsumi, what do you mean by "information society"?

We have come to an age where what makes the world go round is information. It enables people to expand their minds. The key to this development has been a gadget, the PC. Anyone can use information. It has the potential to be a real societal leveller. But of course, people need a way to get the information.

What does ITU do?

The fact that you can use your mobile phone anywhere in the world is thanks to ITU. So is the ability to connect to the Internet. Faxes, aircraft navigation, satellite meteorology, children's radio-controlled toys – two examples of very current areas we are working in are digital broadcasting and cybersecurity.

What changes do you see looking five or ten years down the road?

Interestingly, in technology, being a latecomer has some advantages. Technologies are becoming cheaper and cheaper, so countries that might have missed out on the cutting edge of an expensive technology can now participate in the cutting edge of an inexpensive technology. That is the case, for example, with mobile phones in Africa. In fact, you might be surprised to know that the United States do not have the most advanced telecommunications network globally!

Can we expect that to be a trend, then?

Yes. Penetration of information- and communication technologies (ICT) will happen very rapidly in the developing world. A second trend is ease of use. When I was young, only an amateur engineer could use a PC. Now, anyone can. A third trend has to do with the human propensity to always go beyond the possible. A hundred years ago, the communication technologies we enjoy today would have seemed like magic.

What sorts of "magical" developments do you envisage for the future?

Imagine networking not just people anytime, anywhere, as we do now, but networking inanimate objects such as household appliances, and then networking the networks. That would enable new levels of artificial intelligence. One other area that is developing rapidly is electronic tags that read information. These so-called RFID systems are already being used in contactless smart card applications (such as public transport) and in medical applications. A future use of the tags will be to combine them with sensors, for example, in the tracking and quality control of food. The idea is to create systems that are more responsive to people's needs and actions.

What is the market for the technologies you describe?

Potential markets for interconnected communication systems abound. In 2005, in terms of mobile phones worldwide, we passed the two billion mark. Broadband technologies are also growing at a tremendous speed, bringing the Internet closer to more and more people on the planet. For RFID tags alone, the market for 2008 is predicted to be USD 2 to 7.5 billion. Owing to the ability to track and trace products,

[1]Yoshio Utsumi was born in 1942 and received degrees in law from the University of Tokyo and in political science from the University of Chicago. In his subsequent career in the Japanese government, he played a leading role in reforming the country's telecommunications. He was elected Secretary-General of ITU in 1998, and re-elected for a second term in 2002.

“Imagine networking not just people anytime, anywhere, as we do now, but networking inanimate objects such as household appliances, and then networking the networks. That would enable new levels of artificial intelligence.”

some of the biggest future prospects for this technology include security and healthcare. Robotics, both industrial and personal, is another area of new market growth, particularly in combination with network connectivity.

How are businesses adapting to fast-paced digital innovation?
It’s an issue, and one we are studying closely. Technology becomes obsolete incredibly quickly. That’s a particular problem for small and medium enterprises. How do you afford to stay innovative? How do you maintain a level of continuity between old and new? Also, information can seem like an assault on the senses. The question is how to distill it. That is why more and more ICT companies such as service providers are working on refining their tools to ensure that the results they generate are tailored to the individual user.

Are there risks to the information society in addition to the often voiced concerns regarding protection of data and privacy?
Yes. Up until recently, even if you had enormous curiosity, information wasn’t always available to you. Now, the information is all there. There is a very big risk that if we do not find a way of helping people to make the best use of the opportunities at hand, we will encounter even greater inequalities than in the past.

What are examples of the work of ITU?
One of ITU’s key mandates is to foster information and communication technologies in developing countries by advising on policy, providing technical assistance, and helping to mobilise resources. For example, even if people cannot have their own computer, at least they can have access through a community centre. At the World Summit on the Information Society organised by ITU in Geneva in 2003 and in Tunis in 2005, world leaders set targets to be met by 2015 and worked out an implementation plan for doing so.
ITU exists to solve practical problems. Its goal is to foster communication between people.

Since when does the ITU exist?
It began 141 years ago with the invention of the telegraph. Telegrams proved so popular that countries needed a protocol to establish international connections. Otherwise they would have had to deal with lots of different ways of sending telegrams. It was Napoleon III who called on 20 European countries to come to Paris and agree on a common system for sending and receiving telegrams. That was the origin of ITU. Today the organisation counts 191 member states and some 650 private sector members. It has an annual budget of over CHF 339 million, and 825 staff at Geneva headquarters and its regional offices.

What happens when the amount of information coming to us exceeds our ability to comprehend it or to simply deal with it?
I will tell you something. The oldest library we know of was the Great Library of Alexandria. It held many, many books and lots of information. In such a place, if you aren’t looking for specific information, it’s meaningless to you. You only see what you look for. It’s the same thing for the information that comes to us through technology. You just select what you need. So it’s no problem at all.

What specific technology are you most looking forward to personally?
The most convenient! //

Referee and coach – and demand continues to grow.

Professional services are gaining in importance. In the wake of globalisation and increasingly complex processes, the demands on auditors and advisors are growing all the time.

This year marks the 100-year anniversary of the auditing and fiduciary industry in Switzerland. The profession has changed a great deal in this time, and will continue to change (c.f. page 27). The public increasingly wants a business world in which it can trust, and this demand is set to become even more forceful in future. Building and maintaining trust will become a decisive factor in business success.
“External audits of company finances and the auditor’s report are a key link in the corporate reporting chain, whose aim is to create transparency and trust,” says Dr Edgar Fluri, Chairman of the Board of Directors of PwC Switzerland. “This means that the work of the external auditor will tend to become even more important.” In a world of growing complexity, Fluri also sees a growing market for specialised advisors working in an environment where tasks are delegated horizontally.
Complexity and globalisation confront today’s CEOs with major challenges. More and more companies – including a growing number of smaller enterprises – are expanding into new markets. PricewaterhouseCoopers operates in 148 countries and employs over 130,000 people worldwide. “This network is what differentiates us from purely local or regional competitors, who can’t draw on such an extensive pool of knowledge. In the future we will continue to do everything we can to network this distributed knowledge even more effectively. This will make us even more innovative and enable us to differentiate ourselves even more clearly,” explains Fluri.

The Emmi case: cross-border projects

The economic reality bears out Fluri’s belief: many companies call on advisors and tax specialists when they have too little management capacity or in-house expertise to tackle a project of limited duration. This is increasingly the case for cross-border projects requiring international experience and a corresponding network. A good example is Lucerne-based dairy manufacturer Emmi (c.f. page 44, which this summer made moves into the EU by acquiring northern Italian dairy Trentinalatte, supported by PwC in tax and legal matters.
Emmi believes its primary opportunities for growth lie abroad, particularly in “markets with significant potential in terms of fresh dairy products,” as Emmi CFO Reto Conrad explains. Last year Italians consumed 4.6 per cent more yoghurt, and there was also greater demand for kefir and dairy desserts. Emmi wanted to exploit this trend: Trentinalatte specialises in yoghurt and yoghurt drinks.
Conrad speaks of “an opportunity we did not want to miss”. The sale solved a succession problem for family business Trentinalatte, which operates profitably and is just the right size for Emmi’s portfolio. With sales of EUR 35 million last year, Trentinalatte counts as a niche player in Italy.
PwC was able to contribute its know-how in due diligence, deal negotiations, project management and tax structuring. PwC is also Emmi’s auditor. The question arises as to whether it’s possible to act as referee with responsibility for a company’s financial statements and at the same time serve as its coach for new acquisitions. Conrad, who used to be an auditor himself, has this to say on the matter: “There are clear regulatory guidelines as to which advisory services are compatible with the audit and permitted in law. We keep to these rules.”

Combine audit and advisory services where it makes sense

An independent audit lends credibility to a company’s financial statements. Auditors work on behalf of the shareholders. Their checks help build financial market trust in the client, which adds clear value for the company.
One person who takes a particularly close look at company annual reports is Dominique Biedermann, Executive Director of Ethos, the Swiss Foundation for Sustainable Development: “We investigate how independent auditors really are.” Ethos runs a fund that currently has 75 institutional investors on board. The yardstick for Ethos is the ratio between audit and non-audit fees. “If auditors bill more advisory fees over the years, it can cloud their independent view.” In such cases the audit committee should really declare the fact to the shareholders, says Biedermann. The new corporate governance guidelines issued by SWX Swiss Exchange specify that companies clearly state all fees paid to the company that conducts their audit.
For Dr Markus R. Neuhaus, CEO of PwC Switzerland, it makes sense – and is even imperative when dealing with certain issues – for an auditing firm to provide advisory services as well: “In the course of an audit, tough technical issues inevitably arise

100 years of auditing in Switzerland: a legacy of mergers

A hundred years ago, the Swiss auditing and fiduciary industry was born: on 20 September 1906, the then Swiss Bank Corporation founded the Swiss Trust Company (STG Schweizerische Treuhandgesellschaft) in Basel. PricewaterhouseCoopers can trace its roots back to this company, and to Schweizerische Revisionsgesellschaft (which later became Revisuisse), established in Zurich in 1912.
Developments in the English-speaking world go back further, to the middle of the 19th century, with the establishment of independent public accountants such as Samuel Lowell Price, Edwin Waterhouse and William Cooper. What followed was a series of new companies and mergers:
In 1937, the British firm Price Waterhouse & Co. established a subsidiary in Switzerland.
In 1960, Coopers & Lybrand and STG founded a joint subsidiary in Switzerland, Revisuisse, which gained independence in 1989 through a management buyout and went into partnership with Price Waterhouse. In 1997, Coopers & Lybrand and Price Waterhouse announced their intention of merging on a global basis. By 1998, the merger to form PricewaterhouseCoopers was complete. The merger put PwC in a very strong position. It is number one in Switzerland by a large margin, and has the critical mass to differentiate itself and specialise in many different ways. Today PwC Switzerland employs 2,380 people and generates sales of CHF 653 million.

Markus Kistler, Head of Group Internal Audit at ABB: “The project shows mercilessly where our organisation is too complex and expensive.”

where you have to call on specialists from advisory. To prevent the quality of the audit from being affected, you have to have this expertise in-house.” Last financial year, PwC’s gross fee revenues broke down as follows: 58.5 per cent Assurance, 25.5 per cent Tax & Legal, and 16 per cent Advisory. Edgar Fluri, Chairman of PwC Switzerland, and CEO Markus R. Neuhaus are both convinced that “the interplay enhances quality. If you’re familiar with an organisation, you can provide auditing and advisory services at a higher level.” Ultimately, they say, it is more efficient for clients if one company can provide all the core competencies.

The ABB case: a critical outsider’s view

Markus Kistler is Head of Group Internal Audit at technology group ABB. Since the end of 2002, he has been responsible for setting up an internal control system to meet the stringent requirements of the US Sarbanes-Oxley Act (SOX) – a must for companies like ABB that are also listed on a US stock exchange.
According to Kistler, it’s a project that requires “a lot of time and commitment from everyone involved”. But he believes it’s an investment that will have a lasting impact: “Better process controls enable us to reduce the sources of error, the time we spend correcting mistakes, and unpleasant panic measures.” During the 1990s, when the focus was on expansion, he reckons too little was done to set up efficient and effective control systems. “We’re now making up for lost time.”
From the outset it was clear to Kistler that a project of this type would require support from outside as well as inside the organisation: “Key to the success of the project was our ability to work with our advisors and external auditors towards the same goal of first-time certification – and be aware of the different roles played by these different people.”
ABB has built the various pillars of the project on a common foundation – literally as well as metaphorically. ABB staff, advisors from PricewaterhouseCoopers and auditors from Ernst&Young all work in adjacent offices on the same floor. They come together for meetings and use the same coffee machine.
What does Kistler expect of advisors in a process like this? On the one hand, he says, you want to be able to profit from the experience other advisory clients have had with SOX and thus avoid the cost of reinventing the wheel. What ABB also wants, however, is a critical outsider’s view to counter insiders’ inevitable tendency to be too lenient on themselves. Kistler also likes to expand his own horizons by hearing different suggestions as to how to solve problems: “We have no use for advisors who blindly go through the motions. What we want is people who quickly grasp the way we communicate at ABB and the culture that dominates our organisation, and understand when it’s necessary to apply pressure.”
ABB’s Markus Kistler takes stock of initial developments, and is encouraged. He says there are fewer errors, and understanding of processes and controls has improved. Added to this, he says that the project “shows mercilessly where our organisation is too complex and expensive”. Now processes are being standardised and inefficient structures simplified. Even though Kistler criticises some of the SOX requirements as being too detailed and complicated, he’s convinced it’s basically the right approach: “We have used SOX as a catalyst to get ourselves better organised as a business.”

PwC set to remain number one

How will things develop for PricewaterhouseCoopers? Where will the firm be in five years? “In five years’ time we will still be number one in Switzerland. We will lead the way in terms of size, but we also want to stay in front as a quality brand,” explains Markus R. Neuhaus. This, he says, applies equally to assurance and to areas of advisory that PwC has defined, including transaction advisory, performance improvement and forensic services. As far as tax services are concerned it applies to all aspects of corporate tax law, tax advice for private clients, and certain clearly defined legal services. “It is in these areas that our core competencies lie,” explains PwC’s CEO. //

“In terms of quality control, the role of an auditor is absolutely vital for investors.”

Heinrich Henckel[1], CEO SWX Swiss Exchange, foresees a strengthening of the auditor’s position in future.

Mr Henckel, what significance does auditing have for the capital market? What is its role?
An auditor helps to generate trust between the investor and the issuer and is therefore of considerable importance for the capital market. As the extended arm of the investor, the auditor checks the quality of the issuer’s financial reporting on the investor’s behalf. The submitted auditing report gives an indication of the credibility of the company’s external accounting. As an instrument of quality control, auditing also has a preventive effect.

What would be the consequences for the capital market if there were no auditing? What kind of uncertainties does an unverified annual statement of accounts harbour?
I would definitely advocate a critical check by an independent body (“dual control”), loosely along the lines of “trust is good, but control is better”. With quarterly reports, the financial data are not usually subjected to an inspection, and the publication of such figures does not necessarily have to be a negative signal. Here too, a trade-off needs to be made between the costs and benefits for the investor.

How do you see the significance of auditing in the future? What are the engines of change?
The strengthening of the auditor’s position, which was set in motion very recently as a reaction to the balance sheet scandals, will continue. In addition to growing demands for independence, requirements regarding quality and basic ethical standards will increase further. The consolidation process from the Big 8 to the Big 4 also needs to be critically examined in light of these requirements. Greater influence from the respective supervisory bodies should also be perceptible in future, such as, for example, from the Swiss auditing supervisory body that is currently being set up.

How do you rate the interaction between auditors and the other members of the reporting chain?
I believe that auditors, apart from their legal and statutory obligations, have a passive role. Furthermore, for the self-preservation of the auditing industry, I think that the communication of financial figures must very clearly be the responsibility of the company or the department in the company assigned with this task. However, in terms of quality control, the role of an auditor is absolutely vital for the company’s organs and the investors.

As a stakeholder, what can you expect from an auditing report? Is there room for improvement with regard to the information that an auditing report provides?
From the investor’s perspective, the expectation levels of the auditor’s report are obvious. It should reproduce the subject of the audit, the auditing activities and the auditing assessment, and do so based on the facts. Although these requirements sound modest, their content is not mundane at all, and in the past it would probably often have been better if the auditor had qualified his or her assessment or refused to give one at all. There is potential for optimisation in the disclosure of the auditing activities that are carried out. In line with the motto “The path is the goal”, greater transparency could be created for the investor.

How important are accounting standards (IFRS, US GAAP, Swiss GAAP FER) for the capital market?
In a world of increasingly globalised financial markets, international accounting standards are becoming ever more important and are facilitating a comparison of financial figures beyond national boundaries. From the investor’s perspective, it is pivotal that high-quality standards be applied. These must enable the investor to assess the actual asset, financial and revenue situation (“true and fair view”). In the process, it should not be forgotten that implementation of these standards, in addition to their application, is also of decisive importance.

From your perspective as a stock exchange professional: What would enhance certainty regarding the capital markets?
There is no absolute certainty, and there never will be! Risk and return are mutually dependent – and that is one of the basic conditions of the capital market. However, I am firmly convinced that the risk for an investor is easier to understand and thus easier to control if he or she is provided with the necessary transparency to make well-informed judgements. From the perspective of a stock exchange operator, one of the key issues is that investors be treated equally. I see the continuous development – which does not necessarily have to mean a tightening – of the corresponding regulatory requirements as one of the most important challenges for a functioning capital market. //

[1] Heinrich Henckel was elected to the Management Committee of the SWX Swiss Exchange in 1998 and has been its head since December 2000. He is also a member of the SWX Group Executive Committee. For three years until 1998, he worked as an attorney at Baker & McKenzie in Hong Kong, Jakarta and Zurich. Prior to that, he was on the legal staff at the Swiss Admission Office and at Credit Suisse.

A chance to put professional expertise to good use in a totally different environment: Stefan Räbsamen in Madagascar.

"Ulysses": A model for water supply in Madagascar.

One of the UN's "Millennium Development Goals" for the Republic of Madagascar is to supply its population with drinking water. The aim is to ensure that 64 per cent of the people have access to clean water by 2010. The figure today is 35 per cent. Madagascar is 14 times bigger than Switzerland and has a population of around 17 million. The island is characterised by its extreme geographical differences, from subtropical rainforests to desert. Water is available, but its distribution is a major problem. In many regions, it is the rural population who are affected most by the lack of water.

Stefan Räbsamen (41) is an assurance partner in Zurich. During his eight-week "Ulysses" stay in Madagascar, he developed a model with his «Ulysses» team colleagues Rani Sakaya Johns from Kuala Lumpur and Grant Hellwarth from Chicago to help social entrepreneurs and non-governmental organisations to optimise the supply of water in rural areas.

The model incorporates numerous aspects, including procedures, financing options, market and product analyses, as well as solutions to potential problems. After the project was completed, it was handed over to the UN and will now become part of the sustainability programme for Madagascar.

For Räbsamen, the three factors "listening", "investing time" and "empathy" were pivotal to the project's success and sustainability. In the first weeks, the PwC team conducted countless interviews with stakeholders, with authorities, NGOs, banks, private companies and so on, in order to understand the problems. "During the many interviews, it became clear that the most obvious problem is not always by default the main issue. People do not always necessarily want what we think they want." It is important to understand what the real issue is and then to formulate a solution together, says Räbsamen. A procedure that is becoming increasingly essential for developing long-term customer relationships too.

"Ulysses" is a leadership development programme of PricewaterhouseCoopers. The par-ticipating PwC partners have the potential for a management career and are nominated by their country organisations. In multicultural teams comprising three to four people, they spend two months in Third World countries, working together with social entrepreneurs, NGOs and international organisations. The selected projects are a challenge and offer the chance for participants to put their professional expertise to good use in a totally different environment.

During their work on the project, the PwC team realised that the task did not only involve understanding the current situation. To bring about long-term change, it was also vital to comprehend the overall context, to anticipate problems and to incorporate future developments. This broader perspective made a substantial contribution to generating interest among the local dialogue partners and to building up trust. "This is one of the most important tasks of a responsible consultant, irrespective of whether he or she is in Madagascar, or at home in Switzerland," says Räbsamen. //

* Choosing the right Accounting Standards
* Dealing with new Regulations
* Designing new Reporting Model
* Doing Deals
* Ensuring Effective Internal Audit Function
* Improving Business Performance
* Managing Assets
* Managing Complexity
* Managing People
* Managing Risk
* Operating Globally
* Realising e-Potential
* Reducing Cost
* Returning to Growth
* Strengthening Corporate Governance

ceo* forum/thinkers/doers

Markus Spillmann:
"It is important that doing and thinking not be mutually exclusive."

Dr Ellen Ringier:
"It is time to take an active part in shaping society."

Christian Wanner:
"For me as a CEO, being a doer means releasing energies in other people."

*connectedthinking