

ceo*

The magazine for decision makers. Sept. 2007

Swiss educational excellence: Why it's smart to invest in brainpower.
Argor-Heraeus: Where security and ethics are worth their weight in gold.
Neighbourhood assistance: Why services sometimes come free.



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Dr Markus R. Neuhaus,
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All CEOs need to have an overview of what is happening in their organisation and the market in which it operates. And at the same time they should have control over important details – not least because the legislator requires the CEO to be responsible for these details.

All CEOs need to have an overview of what is happening in their organisation and the market in which it operates. And at the same time they should have control over important details – not least because the legislator requires the CEO to be responsible for these details. But how a CEO goes about meeting these requirements is a very individual matter. In our Forum, four prominent figures from different fields give an insight into how they achieve this delicate balance.

Again and again this ambiguity also plays an important role in our different lines of service. Tax is a good example. To avoid risks, you have to know and understand the relevant laws and regulations in detail. And from a business point of view, you have to keep tax expenses to a minimum. At the same time, however, a company mustn't lose sight of either corporate considerations or the larger social context. Taxes constitute the basis of the economy, and companies are expected as a matter of course to make

an appropriate contribution to funding the state system. A company that is not perceived as a good corporate citizen risks incurring costs in the form of damage to its reputation. As a leading tax advisory company, PricewaterhouseCoopers has a particular obligation to show companies ways of meeting these – at times contradictory – requirements. Starting on page 27, Andrin Waldburger explains the significance of the total tax contribution in this context.

Taking social responsibility

Another article in this issue shows just how vulnerable the factor of reputation can make an organisation. Last year, Ticino-based company Argor-Heraeus came under enormous pressure due to accusations relating to gold suppliers in Africa. Since then, the accusations have been withdrawn in their entirety, and now the company is even more acutely aware of all the issues relating to social responsibility that affect every single link in the supply chain. In a business that is also very sensitive in environmental terms, Argor-Heraeus is an interesting example of how heavy industry is able to operate successfully in Switzerland.

Gold is for Argor-Heraeus what education is for our organisation, and indeed for the entire Swiss economy. So deciding to devote part of this issue of ceo magazine to a dossier on Switzerland as a centre of excellence in education was a matter of deliberate self interest. Over the last few months, PricewaterhouseCoopers has signed agreements with four universities to fund professorships. We hope that this commitment, which could be described as a form of sponsorship, will bring direct and indirect benefits for our organisation. But this type of commitment will also undoubtedly have benefits in terms of Swiss competitiveness and the Swiss public interest, especially given that we have deliberately decided to support tertiary educational establishments based in different regions.

I wish you a stimulating read.

Markus R. Neuhaus

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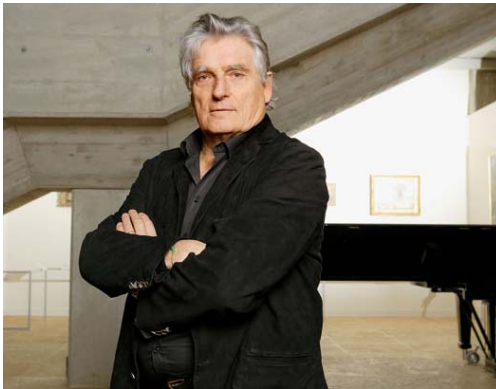
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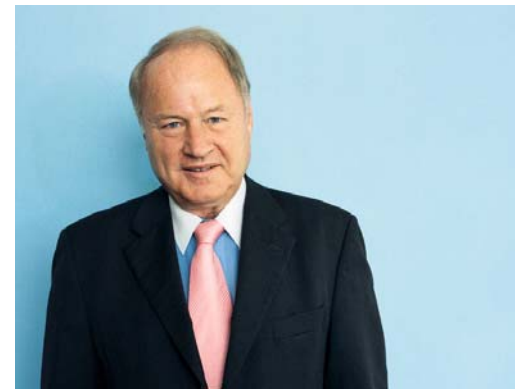
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forum1. the big picture/details

Matthias Remund: You need an overview to be able to think today about tomorrow and the day after.

Matthias Remund is director of the Federal Office of Sports (FOSPO) in Magglingen.

For me, keeping an overview is the most important thing of all in management. As a manager, you need to address the pivotal issues, things that you must never lose sight of. These involve the ongoing business. Primarily, however, it's about the future. You need an overview to be able to think today about tomorrow and the day after. Sufficient time and energy are required to gain this overview. Otherwise, you lose sight of the risks and you miss opportunities.

In key strategic areas, however, you need to be familiar with the important details to be able to ask the right questions. Ultimately, this applies at every level. You need to cultivate the details that help you to best carry out your own task.

Let me give you an example of how the gap between overview and detail is bridged in promoting exercise for children. First, I have an overview of the current situation in Switzerland and abroad compiled for me. This gives me a general understanding. Then it's all about analysing the latest results from research. Based on this, we define the need for healthy exercise: Children should exercise for at least one hour a day! The obligatory three P.E. lessons are

not sufficient. With the help of specific information, I can not only call for daily exercise for children but also substantiate its necessity in a credible manner.

For young people between the ages of 10 and 20, the FOSPO already offers the Youth+Sport programme, which is the best programme in Swiss sports promotion today: 550,000 children and young people are learning first-hand that sport and exercise entail more than just training your body. Every hour of sport is also of benefit to mind and soul. Sport has a positive effect on a person's cognitive skills; it provides a valuable contribution to integration and the development of social competences. If you play sports regularly, you boost your resilience, stress resistance and performance. Greater balance, motivation and ultimately a better quality of life are additional positive effects of sport and exercise.

Today, there is no suitable offering for younger children. Our solution is to reduce the age limit for Youth+Sport to five years. We are developing a specific programme of intervention that offers multi-sport exercise as part of voluntary sports at school and in clubs. A pilot project will now take place on the topic of the Euro 2008 tournament. I hope that this major football event in Switzerland leaves a legacy. This is the best gift I could imagine for young people – and the best investment in the future.

To flesh out this vision and achieve the political support for it, I need to be able to argue about the specifics as director of the FOSPO. I need to be able to substantiate

our applications and ideas as part of the political discussion. My direct superior, Federal Counsellor Samuel Schmid, as well as the Parliament rightly want to know how our vision is to be implemented and what it will all cost. I need to be able to check the business plan developed by my colleagues and provide detailed information: How many children do we intend to reach? How do we design the training for the leaders? What form will the introduction take? What happens if the offering finds little support or if we are overrun with people interested in it?

If you want to retain an overview of the overall picture as a manager, you need a loose rein. I have greatly restricted the group of employees who report to me directly and thus introduced a participatory and delegating style of management at FOSPO. I have seen generally that an obsession with details can be an obstacle to your personal development. If you don't know all the details, you haven't always got a handful of arguments at your disposal why something is not possible and why innovation or change is not feasible. //

Photo: Noë Flum



forum2. the big picture/details

Patrick De Maeseneire: If you want to eat an elephant, cut it in pieces.

Patrick De Maeseneire, CEO, Barry Callebaut AG. With annual sales of more than CHF 4 billion, Zurich-based Barry Callebaut is the world's leading manufacturer of high-quality cocoa and chocolate products. Barry Callebaut is present in 24 countries and employs approximately 8,000 people.

It's 8 pm, the end of an intense meeting at which a major strategic move for the company was discussed – lots of open issues, and lots of opportunities. Thoughts are whirling; it will take a while to wind down. Now is the time to take a step back and refocus.

As the head of a global company it is my responsibility to oversee the implementation of the group strategy. This means I need to have an overview of the company's business and its performance at all times. Every major decision taken by the management needs to be considered in light of how it affects the business as a whole. To see the big picture, we first need to analyse the details. We need to know what is happening on the ground, at our regional headquarters, in our factories and in the cocoa-growing countries, to draw the right conclusions on a group level.

The phrase “think globally, act locally” applies to many international companies. For us, as the leading manufacturer of high-

quality cocoa and chocolate products, this means we analyse the local operations to define a global strategy.

To do this, my chief financial officer and I travel to our European, American and Asian headquarters every three months to take a closer look at our regional operations. We meet with the managers and do what we call the quarterly operational reviews. During these meetings we evaluate the business performance in the different regions and discuss how to improve the operational set-up. It is important for us to see our colleagues in their working environment because this gives us a better feel for what is happening on the ground. We get the chance to meet the teams, who are much closer to the customer than we are at head office. During the two to three days that we spend in each region we try to go into as much detail as possible. We look at the investments, the stocks and receivables and the performance against budget. We talk to the people in the different departments, including sales, marketing, finance and human resources. If we find flaws in the system we isolate the problem, investigate it and define the necessary actions. If a region or business unit is particularly successful, we analyse the reasons for this success so that we can use the same approach in other regions and business units.

It is a matter of reviewing regional operations carefully and drawing the right conclusions to optimise the business on a group level.

After the quarterly operational review, we share the key outcomes with all our top managers at a management meeting. We discuss regional developments in a global context to find the right procedures to optimise our operations. This enables the managers to see their place in the overall success of the company and to put forward suggestions that go beyond their own operations. Their ability to add value increases if they have a big-picture mindset. It allows them to align their actions with the overall business goals of the group.

In a next step we condense the information into a summary for the Board of Directors. This process forces us to focus on the essentials to make and defend our recommendations. It also helps us to give concise and accurate information to our shareholders and the investment community. If someone requests details, we can deliver. Resources are always limited, and without understanding the problems and opportunities, thus without going into detail, we wouldn't be able to allocate them in the most appropriate way. You need to see the big picture. But to arrive at it you need to focus on the details. The motto being: if you want to eat an elephant, cut it in pieces. //

Photo: Markus Bertschi



forum3. the big picture/details

Professor Dr Susan Gasser: If you allow too many details to creep in, they completely consume you until you have no vision anymore.

Susan Gasser is the first woman to lead the Friedrich Miescher Institute (FMI) in Basel. Prior to taking on the post, in 2005, she led a research group at the Swiss Cancer Institute in Epalinges. Gasser was born in the USA and came to Switzerland 27 years ago to do her PhD in biochemistry.

In terms of details and the big picture, science and business are surprisingly similar. In running a big organisation, you have to have an overall vision of where you want to go. But in day-to-day operations, you think about individuals: about talking to this or that person, about this or that project. It's the same in science. The job of a scientist is to make sense out of many small details and facts. But the reason you collect all that information in the first place is always to answer a big question about how the world works.

The goal of the Friedrich Miescher Institute is to understand the workings of disease so that others can develop drugs to fight those diseases. We're funded by the Novartis Research Foundation specifically to carry out high-risk, exploratory research, in other words, creative research that other organisations and institutes have neither the time nor the money to do. We also serve as an education and training ground for young scientists.

Our priority is to make the FMI the best, most internationally competitive research

institute we can. And to make sure that what we discover is useful to Novartis. The way to do that is through scientific excellence. I usually describe the process at the FMI as one akin to controlled chaos: ideas going in all directions! That may sound crazy, but it works. The alternative is to focus all these smart, young minds on a single problem. You might reach a goal that way, but you won't find out anything you don't already know.

We want to find out things we don't already know. So the kind of research we do is exploration in its purest sense. And how do you manage that? Doing research is not just about one person following a good idea. It is a team effort, and often group leaders and scientists don't know how to deal with people very well. The guiding I do as director often involves helping scientists to connect and to get other people to accept their ideas. But I don't try to direct the ideas themselves.

If you allow too many details to creep in, they completely consume you until you have no vision anymore. So, for example, I delegate routine handling of legal questions, human resources, building management, information technology and so on to my administrative staff. We meet regularly to talk over problems. And I do insist on one-on-one interviews with all the laboratory heads and managers once a year. I think it's a mistake not to make time for people who have responsibility for others. You can't know every detail, but you do need a hierarchy of people you trust and who know that you count on them.

Another example of something that requires personal attention is external relations.

I came to the FMI from academia. And one of the biggest surprises was finding out how much of my time would be taken in dealing, for example, with nationwide research projects, the universities, the Basel government, Novartis, networks. It's not just sitting in meetings but understanding what all these relationships are. And understanding the position of the FMI vis-à-vis these other players.

I think there's a kind of tension between details and the big picture, and maybe that's good. I went into science because I wanted to use something concrete, and lots of details! But my interest in the details was to understand big questions. And maybe because I think about science that way, management is the same thing for me: it's details, but it's the big picture – the vision – that counts.

When it comes down to it, I have a healthy respect for details. But that doesn't mean I want to micromanage the institute. It means that I don't forget it's made up of individuals. People matter. If you focus exclusively on vision and you don't ensure that the infrastructure and people required – the fabric – are there, it won't work. You need a vision, but that's not the creative side. That's building the environment within which creativity can happen. Creativity itself you can't control. //

Photo: Andri Pol



forum4. the big picture/details

Léonard Gianadda: My meticulous style of management takes up a lot of time, but I don't think I get bogged down in details.

In 1978, Léonard Gianadda founded the Pierre Gianadda Foundation in his home town of Martigny, in memory of his brother. Today, the Foundation is one of Switzerland's most successful art institutes; crowd pleasers such as van Gogh, Rodin and Anker attract more than 350,000 visitors every year. Gianadda is a construction engineer by trade and made his fortune as a real-estate promoter.

I am obsessed with details and like to have everything under my control. That's simply what I'm like, and there's nothing anybody can do about it – it's a question of character. I deal with everything myself. This morning, for instance, I dictated the draft contract for a major endowment that a Zurich collector intends to make to the Foundation. A few hours later, we are now at the fifth version. I correct everything, down to the last comma. I dictate all my instructions on at least a dozen dictaphones which have the names of my secretaries, the accountant and others on them, and these people each then collect their cassettes from my office. I haven't just developed this love of detail since I've been active in the art world; I was exactly the same during my time in the real-estate sector. Right from the start. Back then, I founded an architect's firm with a friend from my university days. Over the years, we built more than 1,000 apartments in Martigny; in the 1970s when the town had

some 10,000 inhabitants, probably one in four lived in an apartment that we had built. I sold most of the properties, but I still own around 400 apartments that provide me with a comfortable income.

The meticulous style in which I manage my company and the Foundation takes up a lot of time, but I don't think I get bogged down in details. I gain perspective when I'm on a trip. That's when I always acquire the distance I need from my work. All the important things that I have done in my life have always started on my travels. Somewhere on a train or in an aeroplane. I compile a dossier on each of my trips – I made 61 of them last year – and I file everything in it: from business cards to opera tickets to restaurant bills. However, the most important thing is the detailed list of what I talked to people about.

With the exhibitions in the Foundation, I follow one rule: I only exhibit an artist if I can convince a first-class curator to participate. If possible, the best in the world. And that means of course that I have to hand over the reins. The specialist takes on the responsibility, decides on the selection of works, determines the exhibition concept and ultimately hangs up the pictures. But I also appreciate it when I am involved and when we discuss the exhibition together. I am doomed to succeed with the Foundation. We have a budget at our disposal of some CHF 10 million a year, and subsidies cover a mere 2 per cent of this. I therefore have to show artists that appeal to the public. But certain things I just do because I want to. For instance, we will be showing

Hans Erni in 2009 – he's a friend, so we're going to exhibit his works. It's as simple as that.

The Foundation does not have its own collection, but I have my own private one. I started off buying pictures by artists that I wanted to exhibit. This meant that I didn't have to spend so much time on convincing a collector to lend me a work. That is probably why my collection is rather disparate – but that's no big deal. I don't normally sell anything, but a few days ago I made an exception. I bought a Balthus – we are exhibiting this artist in 2008 to celebrate his 100th birthday. The drawing cost CHF 300,000. So I thought I would sell another drawing. I bought it in 1999 for CHF 40,000; I have now sold it for CHF 230,000.

Personal connections are vital when you want to put together works for a collection. In return, however, you need to be able to lend out your own pictures too. The most important qualities in fostering my network of connections are courteousness, loyalty and the ability to say "Thank you!". I have known many important people personally in the world's major art institutes. The problem is that all these people have now retired. And, after all, I'm 72 myself. I haven't got the energy to start all over again with the young ones. //

Photo: Julian Salinas



[dossier. education/switzerland](https://dossier.education/switzerland)





Utilising resources and investing in intelligence.

Politicians say that education has a price when they increase the budget. But is this enough? The economy demands far-reaching reforms so that Switzerland does not miss out on international opportunities. We evaluate the situation.



Beneficiaries of the “education investments” promised by the federal government are primarily ten cantonal universities, two federal institutes of technology and seven universities of applied sciences.

Texts: [Corinne Amacher](#), [Iris Kuhn-Spogat](#) and [Franziska Zydek](#)
Photos: [Stefan Walter](#)

Every four years the federal government allocates the funds to be spent on education – and they increase them each time. For the period 2008–2011, the Federal Council wants to increase the budget for education, research and innovation by 6 per cent per year. For the next four years, CHF 21.2 billion should be available from the federal government, which is 3.4 billion more than for the period 2003–2007. This is a new record in the history of the Swiss Confederation.

“Education has a price,” as the minister of the Federal Department of Economic Affairs, Doris Leuthard, is wont to say, and nobody would wish to contradict her. In the age of globalisation, education has become the basis of success par excellence, especially in Switzerland, which has only one commodity – intelligence. Only Iceland and Sweden have produced more Nobel Prize winners per head of the population. “Academic excellence and competitiveness in the area of research and innovation are the prerequisites for robust growth,” stresses the Federal Council on the subject of the

budget for education, research and innovation. The federal state government no longer talks about “education spending” but “investments in education”.

The greatest beneficiaries of these investments are the universities as well as the 160,000 students at the ten cantonal universities, two Swiss federal institutes of technology and seven universities of applied sciences, which have emerged from the amalgamation of around 70 technical colleges since 1997. These educational institutions are not only contending for financial bounty from the confederation, they are also touting for international recognition.

They are still battling well. In the league table of universities, published by the Shanghai Jiao Tong University, the Swiss Federal Institute of Technology (ETH) Zurich ranks as the 5th best university in continental Europe, the University of Zurich is in 14th place and the University of Basel in 25th

place. Worldwide, these three universities are ranked 27th, 58th and 81st. They are worlds apart from leading universities such as Harvard and Stanford in the USA or Oxford and Cambridge in Great Britain – and they are already in danger of being overtaken by Eastern European and Chinese universities.

“The worldwide university market is growing at a rapid tempo. Although competition has always reigned in the scientific sector, the universities are now competing too. They are coming under pressure, because education and research are products which have to be advertised on the market,” says Christian Aeberli, co-author of a study on Swiss universities, formerly an education expert at Avenir Suisse and now head of the elementary school division at the Department of Education, Culture and Sport for the canton of Aargau. Aeberli does not believe that the 6 per cent increase in education spending is sufficient to maintain the level of schooling.

A complex structure with unclear interfaces

How tough the competition has become is demonstrated by the conflict between the two renowned universities, ETH Zurich and EPF Lausanne – a contest which escalated at the end of May during the course of the election for the president of ETH Zurich. The self-assured head of EPFL, Patrick Aebischer, who wants to make his university the top in the country, was able to secure more funds, relatively speaking, for 2008 than his German-Swiss colleague. Not only was that an affront to the Zurich institution, but the dispute once again brought to light the complicated system of distributing funds.

This case is symptomatic of the Swiss educational system, which many reproach for its lack of efficiency. “The Swiss education and research system still remains a complex structure with many committees, commissions, working groups, etc., which is characterised by unclear interfaces. Therefore the cost of coordination is also very high,” criticises the *economiesuisse* association. The high level of bureaucracy was evident in the planned reorganisation of the departments of the Federal Council.

Contrary to advice from political theorists and management experts to focus education in its own new department, the government did not succeed in rearranging the responsibilities. The head of the Federal Department of Economic Affairs, Doris Leuthard, remains responsible for the universities of applied sciences, and the Interior Minister, Pascal Couchepin, for the universities.

Six per cent increase in federal funds is only “a solid base” inasmuch as it is linked to “structural and organisational adjustments”. The PISA surveys carried out in the OECD countries every four years show that a high degree of input is no guarantee of an elevated level of education. At 6.5 per cent of the gross domestic product (GDP), spending on education in Switzerland is clearly higher than the average of 5.9 per cent for OECD countries. However, educational policy makers are anxiously awaiting the next PISA test. This time the study focuses on natural science, which is not a strength of Swiss students.

More independence for the universities

Some proposals for reform are headed in the right direction, such as the formation of the universities of applied sciences (see page 20), or the introduction of the bachelor and master levels in line with the so-called Bologna Process. By 2010, 45 countries including Switzerland want to introduce the bachelor / master / doctorate model of study, a system of comparable university degrees that will be easier to understand. Introduction of the system in Switzerland has been successful, and since the 2006/07 winter term, more than 60 per cent of students have passed through the new, staged courses of study. The ECTS European credit point system was also introduced extensively, and this should facilitate mobility.

This has long been insufficient for the economy, however, and the economic sector demands deeper and further-reaching reforms so that Switzerland will not miss out on international opportunities. This includes

greater independence for the universities and more competition among educational institutions, as well as drastic improvements for students – more support, greater screening of students and higher fees. These requirements are set out in a 100-page reform paper on new approaches to university funding, advocated by Hans-Ulrich Doerig, vice-chairman of the board of Credit Suisse and member of the board of the University of Zurich (see page 22). Each year more students file into the lecture theatres. In order to achieve the ideal support ratio of 40 students per lecturer, several hundred professors would have to be recruited. With funds lacking, the option of limiting student numbers is all that remains. “A university can only assume responsibility for the success of students that it has selected,” states the reform paper for the Swiss economy. Some universities have already started to assess students in order to control student numbers. The University of St. Gallen, for example, selects foreign candidates on the basis of an application file and an additional examination before the start of their studies (see page 18). ETH Zurich has put in place measures for Swiss as well as foreign students to reduce the high quota of student dropouts in the first year – every third newcomer was abandoning their studies, resulting in annual costs of CHF 40 million. The Academic and Career Advisory Program (ACAP) briefs new students on what is expected from them in their studies. Candidates who wish to enrol in engineering or physics courses must take part in a workshop to test their suitability.

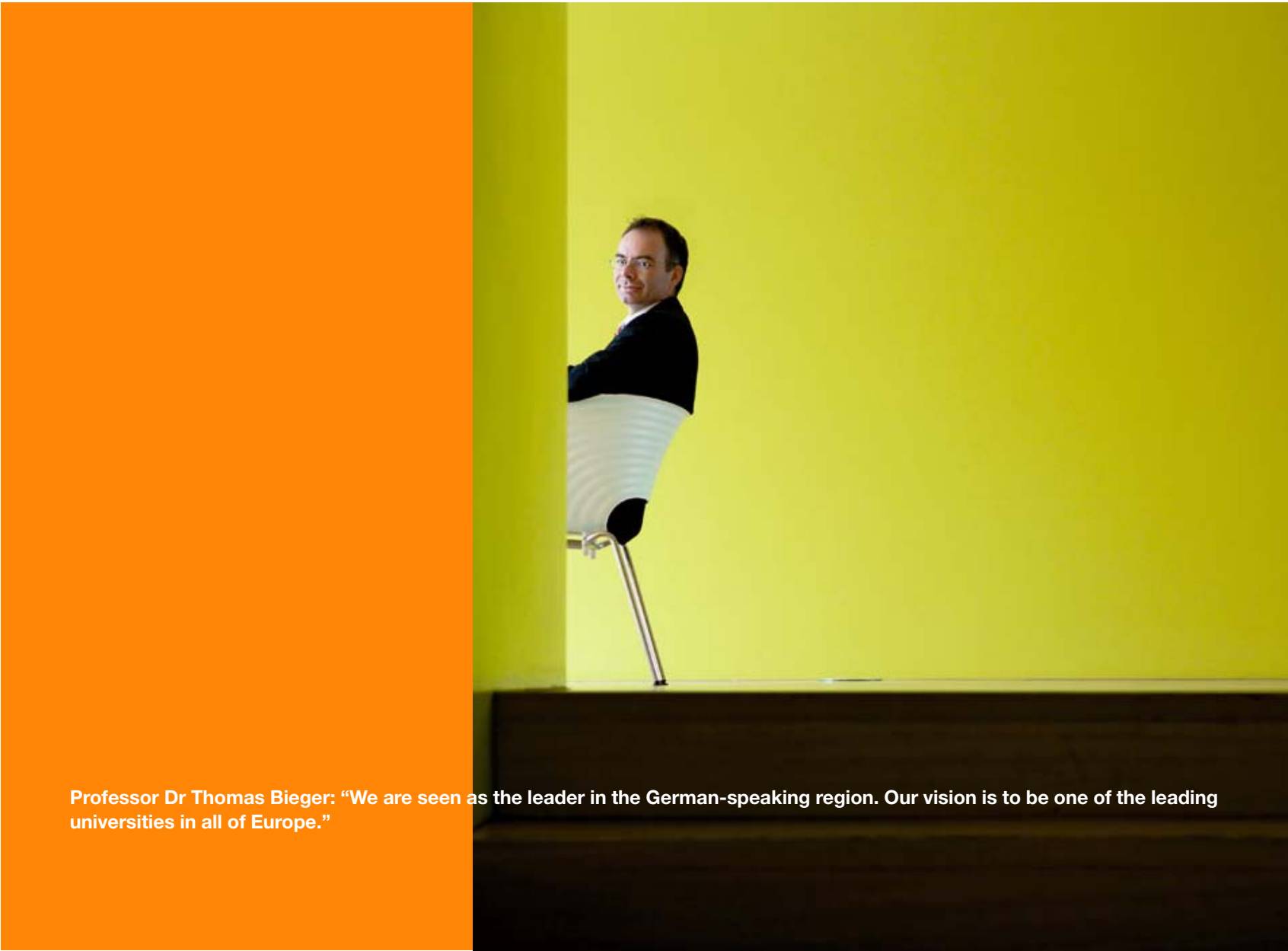
Tapping new sources of funding

Elite universities such as Harvard and Oxford have long recognised that the quality of a university relies upon the quality of its students. This is why they use methods for selecting their students. The foreign models show up something else – that the state should not have to fund universities single-handed. A student at a university costs the taxpayer CHF 50,000 per year, and at a university of applied sciences CHF 30,000. Students in Switzerland only have to pay 3 per cent of their fees themselves, whereas this is 66 per cent in the USA.

Increasing student fees is not politically viable; therefore, chancellors are trying to secure new sources of funding – for example from endowments, companies and private resources. The University of St. Gallen is already procuring more than half of its funds from non-state sources (see page 18). ETH Zurich has set up a foundation to gather private funds; however, after a brilliant start, the ETH Foundation came under fire on account of its unclear structures.

Cooperation between universities, the public sector and private companies is more promising: for example, Systems X, a joint venture between ETH Zurich and the Universities of Zurich and Basel, which is co-financed by the Basel pharmaceuticals group Roche; or the SAP Lab at the University of St. Gallen, which is financed by the SAP software multinational; or the Swiss Finance Institute at the University of Zurich, which is run as a cooperative venture between Swiss banks, the Swiss stock exchange SWX, the Confederation and universities. In 1997, the business administration chair was the first in Switzerland which was not funded by the state, since then sponsored professorships have proliferated. For example, the University of Basel already has 20 externally financed professorships and assistant professorships. Often it is established entrepreneurs who want the new generation of academics to share in their life's work. Klaus-Michael Kühne, majority shareholder at the global logistics group Kühne + Nagel, funds a chair for international logistics management at ETH Zurich to the tune of CHF 6 million over four years.

Under its “Sponsored Professorships” programme, PricewaterhouseCoopers is funding three professorships, providing full funding for one in Zurich and one in Basel, and partial funding for a third in St. Gallen. With this large-scale programme, PwC intends to strengthen collaboration between those working on the theoretical and practical sides. //



Professor Dr Thomas Bieger: “We are seen as the leader in the German-speaking region. Our vision is to be one of the leading universities in all of Europe.”

University of St. Gallen (HSG): Competing in the global marketplace.

How do you position yourself among the best in the world? By ensuring that you have an international profile. And opting consistently for quality.

The University of St. Gallen is seen as the top place in Switzerland for studying economics, law and social science. A fact underlined by two seals of quality: EQUIS and AACSB, which distinguish business schools around the globe for their excellence. They are the entrance ticket for cooperation with the best international partner universities. The only other educational establishment in Switzerland with these two seals of quality is the IMD in Lausanne.

“In our faculties, we are seen as the leader in the German-speaking region,” says Professor Dr Thomas Bieger, prorector in St. Gallen. “Our vision is also to be one of the leading universities in all of Europe.” This ambition is dictated by current times. The education market has become transparent and international, and competition among the educational establishments is tough. All of them want the best students and lecturers. They in turn only want to study or work at the best universities. That is why the University of St. Gallen is reviewing a fundamental issue: What needs to be done to position a university among the best in the sector? A strategy, consisting of four supporting pillars, is on the table: promoting



In St. Gallen, students can complete two out of ten master programmes in English and acquire double degrees at the master's level.

entrepreneurship, intensifying research, broadening the international focus, and creating top products and services for lifelong learning.

St. Gallen is known for collaborating closely with business. The courses are deliberately practice oriented; during the recruitment of students, attention is paid to attracting young people with entrepreneurial flair. The HSG itself is shaped by entrepreneurship. The total of 40 institutes, research departments and centres are organised as autonomous units and financed to a large extent by funds that they generate themselves. This income accounts for more than 50 per cent of the annual budget of CHF 150 million. The focus in the future will continue to be on promoting entrepreneurship. It will, however, be supplemented by additional focal areas.

“Traditionally, the focus has been on application-oriented research,” says prorector Bieger. “Now it is more and more about implementing the knowledge acquired through good industrial contracts by contributing to basic research – the HSG wants to be perceived as a research location that is shaped by relevance and stringency.” The reason behind this commitment is that competition is increasingly playing a part in research. One consequence is that research results not only need to be relevant for practical implementation but also noted internationally. In future, the HSG will increasingly have to publish research results in high-level international periodicals so that it becomes more visible outside of the German-speaking region. Furthermore, the aim is to achieve leadership in specific subjects through centres and focal topics in research – and this might involve cross-institutional cooperation.

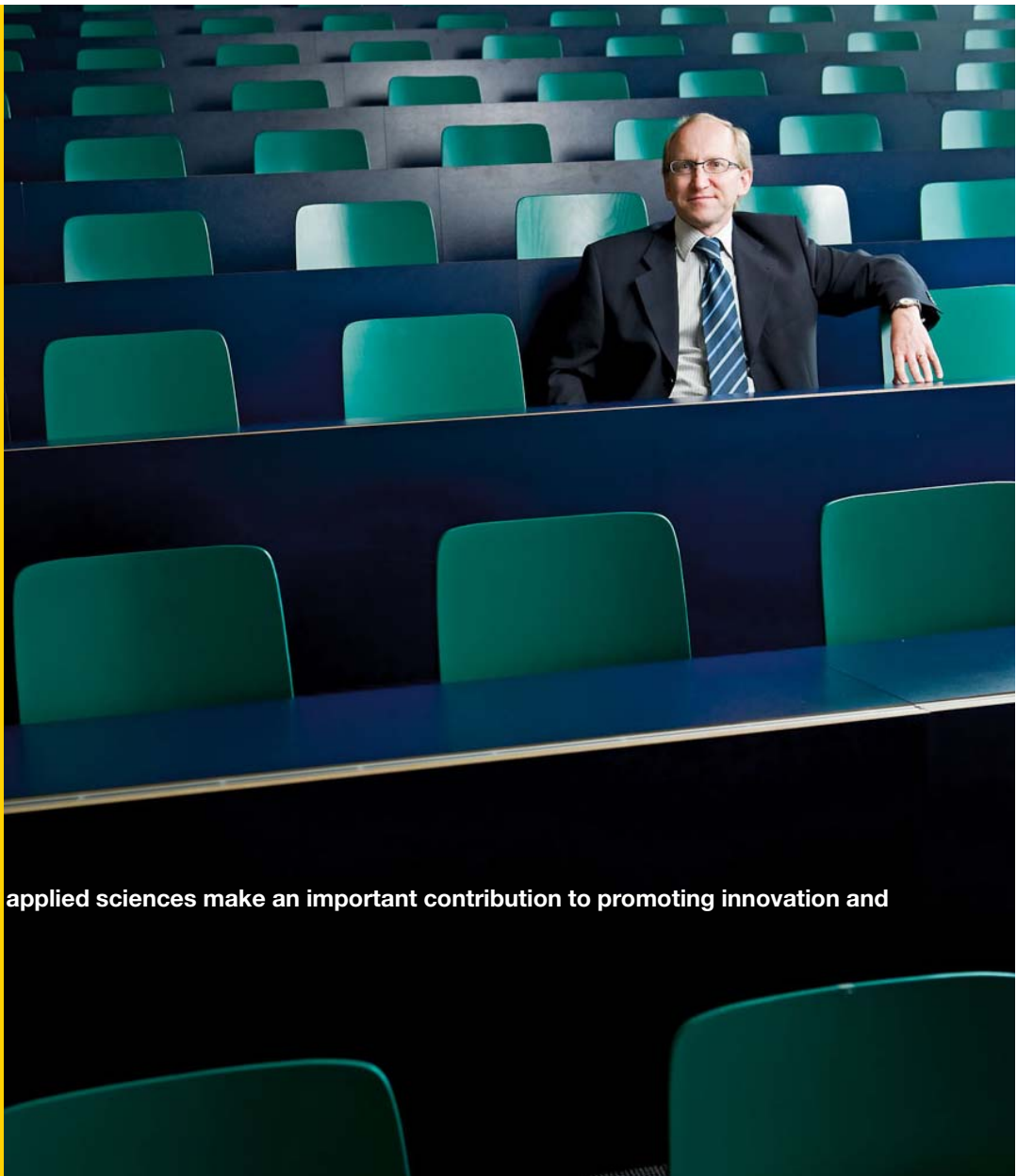
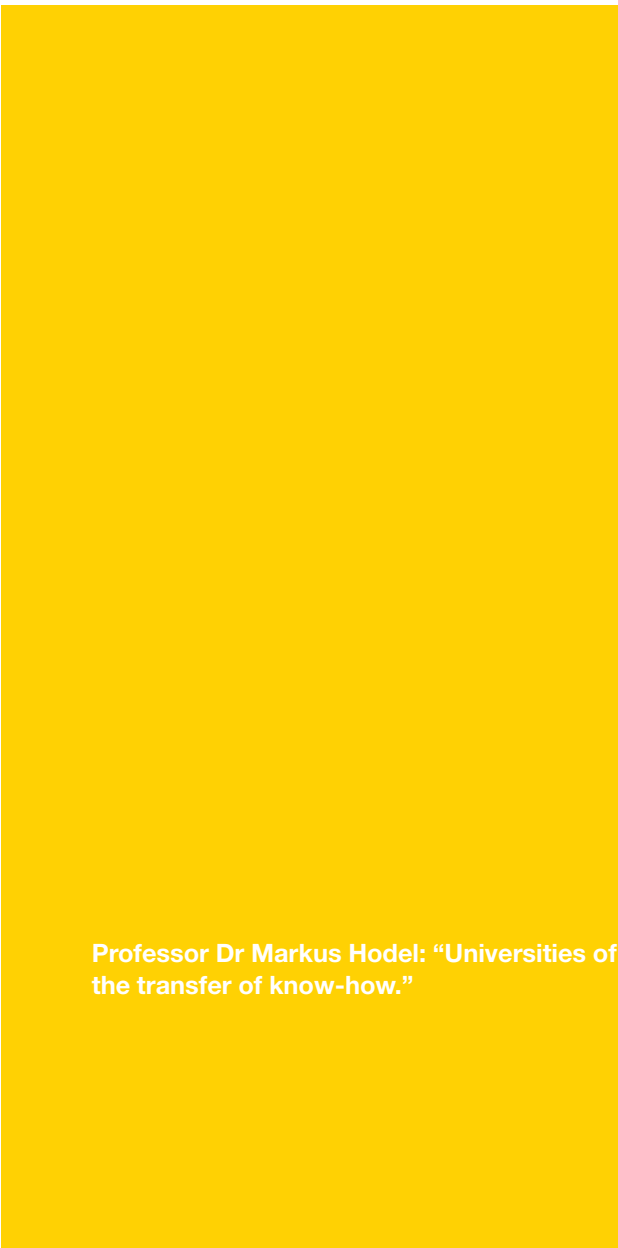
Great importance is attached to internationality

In general, the St. Gallen management team wants more internationality on the campus. Non-Swiss citizens have to pass a special acceptance test for studying at the HSG; this does not apply for Swiss citizens. The university is interested in brilliant foreign students that raise the standard and can act as a stimulus. “The first year of study is selective in nature,” confirms prorector Thomas Dyllick, whose responsibilities include quality development at the HSG. The university management is particularly interested in non-German-speaking students. Students are wooed in Singapore, China and Latin America using local hubs. The aim of this diversity management is not only the optimisation of quality but also an internationally defined, bilingual campus. This also involves recruiting more first-class professors from around the world. The university is extremely attractive – the culture on the campus is characterised more by cooperation than by rivalry, for the clear practical orientation of the institutions and the proximity to business means that there is sufficient scope for entrepreneurial activity.

The University of St. Gallen is a partner of 120 universities worldwide. This basis is to be used more extensively for the exchange of visiting professors and students. In addition to the traditional exchange of more than 300 students, a semester programme for a 30-strong group of students at Singapore Management University has been ongoing for three years. In turn, a group from this university comes to the HSG in the spring. The university's presence at international education fairs is also part of the HSG's forward-looking strategy.

Already today, two out of ten master's programmes can be taken entirely in English. From 2008 onwards, that figure will rise to four. Talented students also have the opportunity to acquire double degrees at the master's level – with Singapore and four top European business schools. At the bachelor's level, only some courses are taught in English. The HSG does not want to convert entirely to English. “Students who can't speak German and come to St. Gallen to study undoubtedly want to learn German and understand the local culture. We stand by our regional and cultural roots,” says Thomas Bieger.

As a clear supplement to its training courses, the HSG is intending to expand its first-class continuing education programme. Prorectors Bieger and Dyllick emphasise that today, lifelong learning is vital for management personnel. With 16,000 members, the HSG has one of the most extensive alumni networks in Europe, including a large percentage of the current managers in Switzerland. One of the aims of the continuing education programme is to make this elite fit for the global market. It is a commitment that also pays off financially: the alumni financed the expansion of the continuing education centre to the tune of CHF 10 million. //



Professor Dr Markus Hodel: “Universities of applied sciences make an important contribution to promoting innovation and the transfer of know-how.”

The universities of applied sciences: Practice-oriented and heading for expansion.

They’ve barely established themselves in the educational system, yet another wave of modernisation is on the horizon: A “landscape of universities of applied sciences” is to be created in Switzerland. An ambitious project with potential for success.

In the space of a decade, the universities of applied sciences have managed to establish themselves as the third pillar of the educational system alongside the universities and federal institutes of technology. The seven cantonal and intercantal universities of applied sciences that have been created through the merger of numerous technical colleges offer what students and employers want: instead of colloquiums held in ivory towers, contemporary, compact courses from architecture to business administration, design management, information technology and life sciences to microelectronics and telecommunications. The success is backed up by the figures. Since the universities of applied sciences opened their doors in 1997, their number of students has risen tenfold from 5,000 to 50,000.

The education route via apprenticeship, vocational qualification and university of applied sciences is proving to be a genuine alternative to grammar school, A-levels and university. In small classes, support is more personal than at a university, where at times hundreds of students are crammed into lecture halls. The courses are aligned with the requirements of the everyday professional world. The University of Applied Sciences of Eastern Switzerland,



The seven cantonal and intercantonal universities of applied sciences offer what students and employers want: contemporary, compact and practice-oriented degree courses.

for example, runs an international class in the business administration course in which the language of instruction is primarily English. Students spend part of the course abroad at a partner university in Europe, the USA, Russia or China, and collaborate with industry on international projects.

Focus on practical applications

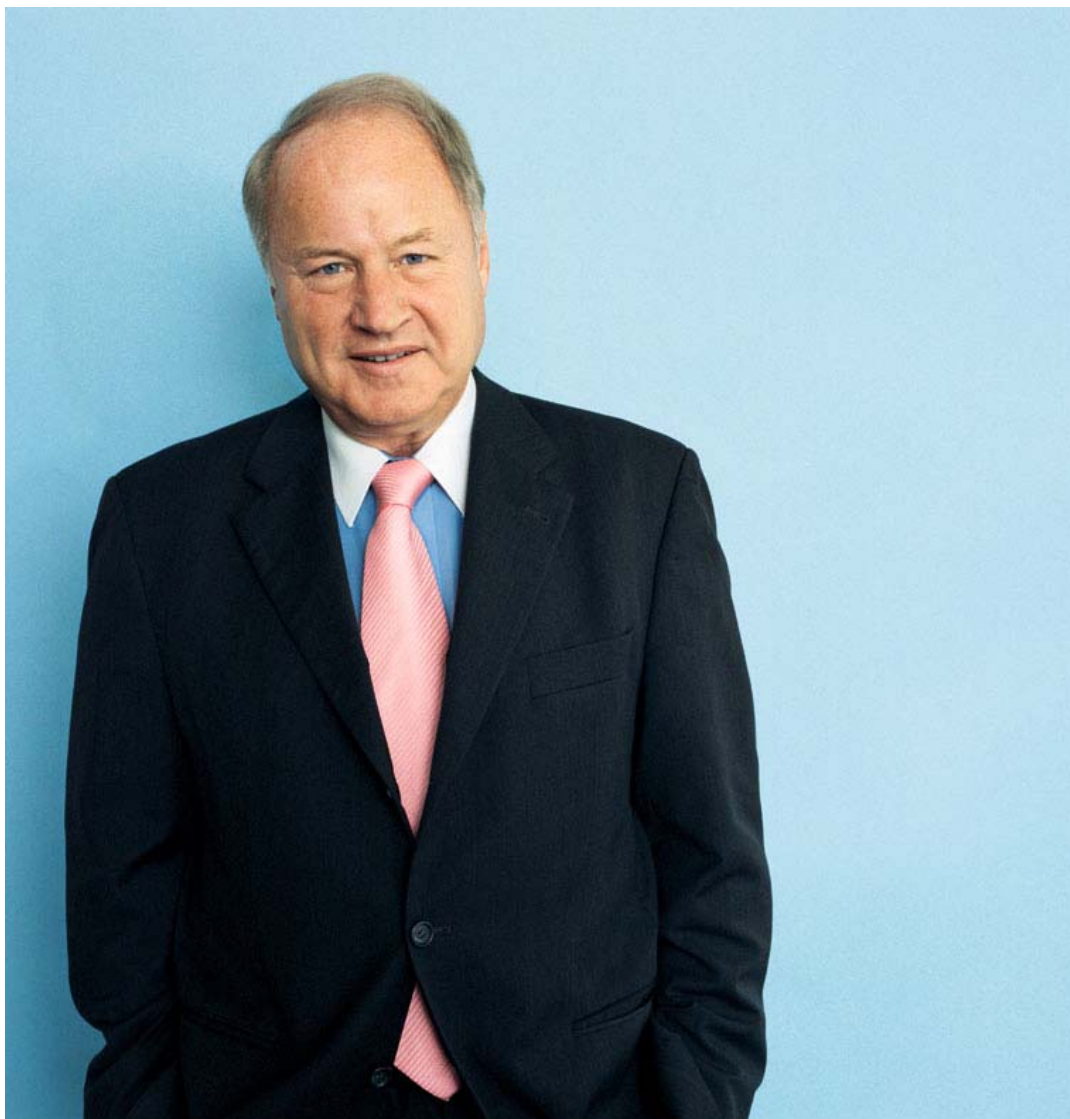
A degree course at a university of applied sciences is tightly organised; practical projects, workshop and laboratory instruction, case studies and project work ensure it fits the needs of the workplace. "Universities of applied sciences make an important contribution to promoting innovation and the transfer of know-how," says Professor Dr Markus Hodel, head of the University of Applied Sciences of Central Switzerland and president of the Rectors' Conference of the Swiss Universities of Applied Sciences. Unlike the conventional universities, the focus at the universities of applied sciences is not on the search for knowledge. Instead, more recent insights are to be used for practical applications. For example, the Haute Ecole Arc in the Neuchâtel–Berne–Jura region fosters a close exchange with the watchmaking industry and carries out research in a project relating to the lubrication of springs in watchcasings which is important for the precision of a watch. The Institute for Engineering and Architecture (HTA), which is part of the University of Applied Sciences of Central Switzerland, founded the Sun Center of Excellence with the software corporation Sun Microsystems. After the University of Berne and the Swiss Federal Institute of Technology Zurich (ETHZ), this is the third partnership of this kind for Sun in Switzerland.

A degree from a university of applied sciences promises good job opportunities. According to a study by the umbrella association of graduates from universities of applied sciences, 96 per cent of all students found a position in their choice of profession within twelve months of gaining their degree. Starting salaries are between CHF 5,500 and 7,500 a month. In the subjects business administration and architecture, where direct comparison between a university of applied sciences and a university and federal institute of technology is possible, a degree from a university of applied sciences is "at least the equivalent to that from a university or institute of technology," according to Monika Pätzmann, head of the rectorate staff of the Pedagogical University in Berne and author of a dissertation on the topic. This study shows that if you have completed a degree at a university of applied sciences in architecture or business administration, the practical relevance means that you have a slight advantage in the labour market over university graduates.

Ambitious goals for the future

The universities of applied sciences have barely established themselves in the educational system, yet another wave of modernisation is on the horizon. "A landscape of universities of applied sciences is emerging out of the conglomerate of different schools," says Markus Hodel, director of the University of Applied Sciences of Central Switzerland, which will operate from autumn onwards under the international brand "Hochschule Luzern – Lucerne University of Applied Sciences and Arts". The universities of applied sciences, some of which are spread over several sites and cantons, along with their 60 subschools, are to be run more efficiently and collaborate more. In addition to the existing bachelor qualifications, they will also offer a limited number of master study programmes from the 2008 academic year onwards. Furthermore, the application-oriented research is to be expanded. All this will drive up the number of students again – and will require money. According to the "Masterplan 2008–2011", which lists the financial requirements for the next four years, the universities of applied sciences will require CHF 8.2 billion from the federal government and the cantons for operating costs, room costs and building investments. Whether the money required materialises will be decided by parliament in September when the budget for education and research for the next four years is debated.

This amount includes building investments of more than CHF 600 million that are intended to ensure a self-assured presence for the universities of applied sciences. To the north of St. Gallen station, the University of Applied Sciences of Eastern Switzerland is planning to build a new multi-storey building that will offer space for 2,000 students. On a new campus next to Brugg station, the University of Applied Sciences of North-Western Switzerland is planning construction of a new training centre that, in addition to the headquarters of the university, will incorporate the technology, pedagogy and economics faculties. On the premises covering 42,000 square metres, 4,000 training places and 1,000 workplaces are to be created. Adjoining the new campus, Kabelwerke Brugg AG will be constructing a new factory hall and an office and service building. The construction projects are an indication of how training, research and work can grow together at the workplace. //



“Excellence is essential in a country such as Switzerland.”

We must concentrate on what really sets us apart, says Dr Hans-Ulrich Doerig, who advocates promoting a sense of the elite and an increase in tuition fees.

Mr Doerig, what do you think of Switzerland as an education and training location?

Hans-Ulrich Doerig: The more I consider the subject, the more I appreciate the flexibility of our dual system of education and training. I believe it is the best system with regard to equal opportunities, and that we should stand by it, since it is even the envy of other countries. Admittedly, we do not fare very well in the OECD statistics in terms of the proportion of graduates in the general population, and it has long been apparent

Dr Hans-Ulrich Doerig, 67, studied economics at the University of St. Gallen. After promotion and five years working for J.P. Morgan in New York, in 1973 he began his career at the Credit Suisse Group and has been active in its senior management bodies since 1982. Since 1993 he has been full-time vice-chairman of the board and chairman of the Risk Committee. Doerig was visiting lecturer at the University of Zurich for ten years. He is active in the supervisory bodies of several business, science and arts organisations and foundations, as well as being a member of the board of the University of Zurich.

to me that gaining a university degree is no guarantee of success and happiness. At the same time I find that too few Swiss nationals are entering the tertiary sector. As a member of the board of the University of Zurich, I am involved with the appointment of staff at the universities and see that overall only few Swiss candidates can or do apply.

What is the reason for this?

This surely has to do with the fact that we have a whole range of very successful large and medium-sized consortia in the country which are able to offer attractive posts to academics interested in research and analysis. The universities must make improvements in this respect, particularly among lecturers or academics who are aspiring to professorships. Nowadays, due to the workload, this would demand a high degree of idealism and enthusiasm.

Do you believe that the Bologna Process has been beneficial or detrimental?

It has changed the world of the universities. I was sceptical prior to its introduction and thought it would mean considerable restrictions for students in the tertiary sector. I have since arrived at a different view of it – the Bologna Process has led to a certain degree of “disciplining”, but it has also led to restructuring and greater choice in many modules. I believe that this is extremely positive, because the absence of discipline and focus leads to a lack of employment opportunities. The Bologna Process has resulted in a further increase in lecturers’

workloads due to more examinations. A professorship is no longer synonymous with unbounded freedom and time to undertake research. A relatively new factor today is that performance is also measured and evaluated, and this presents a challenge for those involved. The reputation of a university now plays an increasingly important part in the worldwide competition between education locations, and the reputation of a university is inextricably linked to the reputation of its professors.

What is the reputation of Swiss universities abroad?

Switzerland has always been very appealing to foreign students, and we have the largest overseas quota here. Foreign professors are also attracted to Switzerland – the University of Zurich has a staff of around 40 per cent non-Swiss, and ETH has 50 per cent. The compactness of Switzerland, its location, its quality of life and the high and sometimes outstanding quality of our educational institutions are the most important factors.

Where does Switzerland falter in international comparisons?

Lecturing in English is still insufficient to attract more students and professors from non-German-speaking countries. Today English is of great importance, and those who do not speak the language have fewer opportunities in the employment market. This being the case, more lecturing should be done in English.

What else needs to happen so that we do not miss opportunities?

We need to concentrate on where we can really improve. One of my principles is – increase the strengths and eliminate the weaknesses. Excellence is essential in a country with a high cost of living such as Switzerland. Excellence helps to set you apart. Nevertheless, excellence has hitherto been somewhat neglected, and I am in favour of promoting it. Someone who is talented should be treated differently from the norm. Another point is that lecturing

should be upgraded, as it tends to be accorded less importance than research. After all, nobody is awarded the Nobel Prize just for being a good lecturer. The university heads are aware of the problem, and Credit Suisse is encouraging action by setting up the Credit Suisse Best Teaching Award for all universities. The lecturer-to-student ratios are also a weak point in our tertiary sector – and we cannot truly compete in various disciplines, particularly in comparison with the USA. If tuition fees were to be raised to CHF 5,000 per year – concurrent with appropriate social funding – this would improve the lecturer-to-student ratio qualitatively and quantitatively by 20 per cent and inspire more researchers.

You postulate this along with others in a report on new approaches to university funding which was published in 2004.

What has been the result of this?

I have discussed the ideas with federal and national counsellors and numerous representatives of the educational sector, but nobody wants to raise the subject in an election year.

The elections will be over by the autumn. Will anything happen after that?

I think that the situation will have to worsen before improvements can be made. Assuming there are further budget cutbacks and funds become even scarcer, the subject of increasing tuition fees can be reintroduced. Assuming that student numbers increase and lecturer-to-student ratios become even lower, this will lead to complaints in the context of the Bologna Process too, which stresses the importance of adequate teaching support for students. Assuming that the up-and-coming countries maintain their tempo, they will quickly catch up and automatically overtake those that are stationary, and other industrialised countries will become more competitive too.

How do you assess the current discussions about Switzerland?

In the context of the current discussions on the strategic future of Switzerland, I have doubts about whether our country's national spending budget is distributed proportionately. I am somewhat satisfied that educational spending in the tertiary sector will not

be reduced, but government spending on research is approximately the same as that for asylum seekers, and total public sector spending shows 37 per cent being allocated to health, social services and invalidity insurance, and only 4.7 per cent to the universities. I do not wish to be politically incorrect but I wonder whether such ratios really support our strategic sustainability. We know that as a country with a high cost of living, Switzerland can only survive if it demonstrates excellence and innovation; therefore my credo is that we should certainly not fail to invest in the area of education.

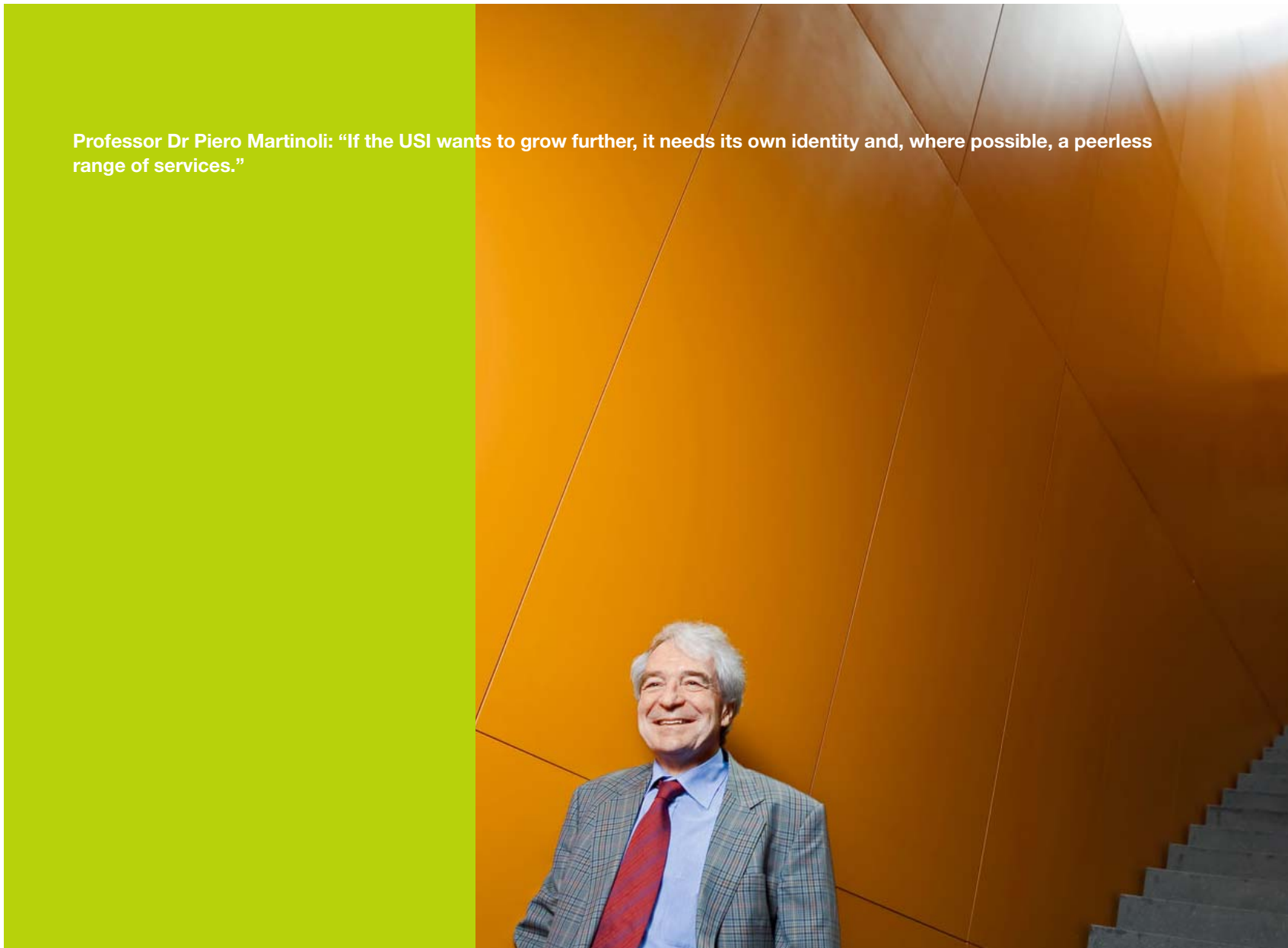
What do you think of procuring funds via relationships between companies and universities, such as the collaboration between Pfizer and the University of Zurich, which was finalised in May?

This will happen more and more because external funds are becoming increasingly important. At the University of Zurich, this provides us with about CHF 100 million per year. There are certain types of research that we would be unable to conduct at all without external funds. The criticism is sometimes levelled that business will have too much influence, but this is largely unfounded. Every company director knows the meaning of academic freedom and respects this too. It would be helpful if we could develop a somewhat less guarded attitude towards external funds.

As a banker, why are you so strongly committed to Switzerland as an education and training location?

I am proud to be Swiss as we enjoy a great deal of respect and a very good reputation, particularly abroad. I identify with my country – and education is probably the most important resource. We all have opportunities to distinguish ourselves, and I am perplexed when we do not seize them, hence my commitment. //

Professor Dr Piero Martinoli: “If the USI wants to grow further, it needs its own identity and, where possible, a peerless range of services.”



Università della Svizzera Italiana (USI): Small, young and in step with today's requirements.

Unburdened by tradition, the USI has been able to adopt a modern structure, develop new ideas and react to trends. Now the university in Ticino wants to invest in research.

The Università della Svizzera Italiana, USI for short, is a young university. It was founded in 1996 – and enthusiasm for the new educational facility was minimal at the time. “Is that really necessary?” whispered numerous sceptics, pointing to the educational landscape in Switzerland. Nine universities and two federal institutes of technology for just under seven million inhabitants seemed to be more than enough.

Eleven years later, the existence of the country's tenth university is no longer under discussion. Quite the opposite in fact – the way in which the USI is organised and managed is seen as utterly exemplary. For example, the USI receives term fees of CHF 2,000 (CHF 4,000 for non-Swiss students) – fees that the heads of other higher educational institutions can only dream about. Moreover, unburdened by the traditions of the 19th century, the USI has been able to adopt a modern structure. It is managed by just one body, the 12-member university council. It consists of ex officio members, such as the Ticino minister of education and the faculty deans, as well as externals, primarily professors from other universities. The university council makes all decisions autonomously and is inde-



Although it was only founded eleven years ago, the university in the Italian-speaking region of Switzerland has since gained a reputation for its modern structures and the services it offers.

pendent in its planning and in its finances. There is considerable organisational freedom, and quick decisions are the order of the day.

It was clear to the founding fathers of the USI that their university only had a chance if it had the courage to develop and implement new ideas as well. The Faculty of Communication Sciences has its roots in this philosophy. Ticino thus has a faculty that nobody else in the country has. The USI also started with two other faculties, namely economics and architecture. There is a tradition of architecture in the region, and with economics, the USI has built a bridge to the financial centre of Lugano.

The offer has been well received, particularly in Ticino and northern Italy. Student numbers are constantly on the rise. In 1996, 326 students were enrolled; today that figure is 2,200. By the year 2011, it will be 2,500, according to the president of the USI, Professor Dr Piero Martinoli. To keep pace with this growth, a fourth faculty was founded in 2004, a fifth is planned. Martinoli: "If the USI wants to grow further, it needs its own identity and, where possible, a peerless range of services." And more courses in English – although Lugano has the highest percentage of foreigners (50 per cent) in Switzerland, the non-Swiss primarily come from Italy and Germany. There are only a few students from the German- and French-speaking regions of Switzerland, due to the competition there and the language barrier. They are now working to change that in Lugano. From the bachelor level upwards, English is becoming the most important language of instruction in informatics.

Research is a new focal area

A university needs to teach, but it also needs to carry out research. If the university's lectures are good, then it will attract good students. If the research has a good reputation, it will attract renowned professors. In the first ten years of the USI, the focus was on the development of the courses. Now, it's the turn of research. Martinoli, a former physics professor at the University of Neuchâtel, intends to help it achieve a breakthrough in the five years of his term of office (2006–2011). Results are required for this – they can be published, and scientific publications lend credibility to a university. They are a pivotal factor in the competition between universities, but also essential for exchange and partnerships with other universities.

Research at the USI was given impetus with the introduction of the programme in informatics. In 2004, submitted research projects brought the USI just under CHF 3.5 million; in 2006, that figure was already CHF 6 million. Furthermore, the USI maintains close contacts with the financial world, in particular locally. The Lugano banks finance some professorships and also award research mandates to the financial scientists at the USI. The financial institute has also already received substantial acclaim outside of Ticino: it belongs to the national Center of Competence in Research (NCCR) FinRisk, and is a founding member of the Swiss Finance Institute, a joint venture of Swiss banks and universities. It fosters close relationships to the federal institutes of technology in Zurich and Lausanne (for instance in the fields of town planning and supercomputing) and to other national and international universities. Such academic alliances are important for a young university but are not easy to forge. It speaks for the quality of the USI that it has managed to do this.

To initiate the next stage in research, the USI needs more of its own professors. Currently, 54 professors and 181 lecturers are on the payroll. In the interest of a lean and cost-effective structure, the Ticino university started teaching primarily with visiting professors. They come from different universities in northern Italy, from the Politecnico in Milan and from Swiss universities, and compete for mini-workloads. The problem is that "if you only work 20 per cent of your time for us, you're not motivated to write and submit a research application," says Martinoli. "We therefore need people who are here 100 per cent of the time." Nowadays, when the mandate of a lecturer expires, the position is advertised publicly and internationally. With some success: the university received 273 applications from all over the world for the last three professor vacancies. According to Martinoli, there are various reasons for the popularity of a professorship in Lugano: high quality of life, interesting projects, good working conditions and the opportunity to take on a challenge.

The USI is a small university and will probably remain so. In the national and international competition between educational institutions, it intends to beat the rest with its quality. If this strategy is consistently pursued, the Ticino university may perhaps make it into the sought-after list of the 300 best universities in the world. "That's a dream of ours," says Martinoli, "and we have a long way to go." //

Total tax contribution: Businesses have to pay not only corporate income taxes. Page 27

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When the customer demands outsourcing: "Our experience has been positive." Page 33

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Total tax contribution: Businesses have to pay not only corporate income taxes.

The social and economic responsibility of business is expressed ultimately in the taxes and other duties they pay to the government. Publication of the total tax burden – and not only of corporate income taxes – can provide information about how much businesses really contribute to the overall performance of the economy.

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The public increasingly expects businesses to behave as “good corporate citizens”. Large, mainly stock-exchange-listed companies, are criticised time and again for not being “good taxpayers”. Media and the general public suspect tax evasion, and even the governments of some states express doubt as to whether certain companies make a fair contribution to the public finances. In some European countries, for example Germany or the UK, such criticism is heard almost daily, and even in Switzerland corporate tax policy attracts the attention of the media from time to time. Such reports as a rule relate the corporate income taxes paid by a company in its home territory to its global net profit. The information is taken from the financial statements. The conclusion derived from such comparisons is: businesses pay much less tax than one would expect from the profits they earn. But these comparisons are

methodologically unsound: firstly they consider only corporate income taxes, and secondly they ignore the fact that companies with international operations pay taxes wherever they operate.

In a crossfire of expectations

Fiscal law is a complicated subject that is not easy to comprehend. In a survey of tax managers of major companies carried out by PricewaterhouseCoopers in the UK two years ago, 99 per cent of those surveyed were convinced that investors, employees and other stakeholders lack adequate understanding of the economic contribution the company makes by paying taxes and duties.

No company can be satisfied if it is suspected of tax evasion, let alone tax fraud. Precisely in a social environment that calls upon businesses to behave as “good citizens”, this would involve a significant loss of reputation. Businesses actually find themselves in a crossfire of expectations. Taxes are costs, and it is management’s responsibility to reduce costs as far as possible. This is what investors and financial markets expect. Cost efficiency is, however – at least to a certain degree – also

necessary in order to strengthen competitiveness.

On the other side stand the expectations of the state and of society. The state demands strict observance of the laws, which, however, deliberately leave room for manoeuvre and free decision taking. But society expects more than the observation of rules: it requires a “fair” or “just” contribution by businesses and thereby implies in most cases the idea of a redistribution. In this crossfire, entrepreneurial tax policy is more than a financial or operational matter; it has become a corporate governance question.

Conscious management of the tax risks

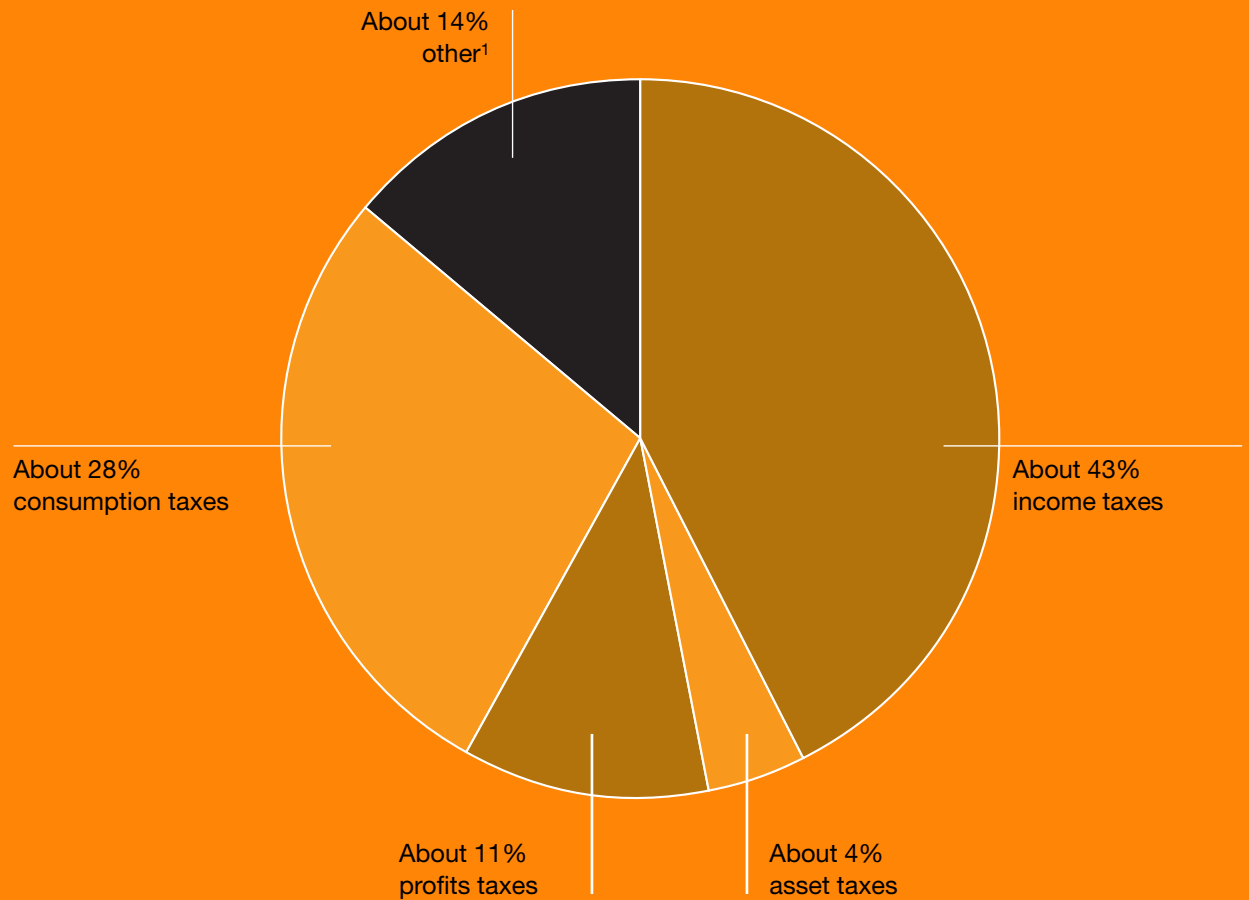
Most companies are aware of this and take the management of tax risks very seriously. Tax risk management is an important and integral element of company-wide risk management. Above all in those questions in which the legislative leaves room for interpretation, the risks must be analysed

Tax Risks
Reputation
Corporate
Governance



Andrin Waldburger, Leader Tax & Legal Services

Switzerland 2005: Analysis of total revenues (Federation, cantons and communities) by types of tax.



How can the total tax charge be captured?

If one wants to calculate the total tax charge, the first question that arises is what are taxes. The answer to that question is more difficult than appears at first glance. A general definition could be: taxes are impositions that a person or a company has to pay to the public purse in order to finance the state's tasks. A wider definition includes the social security contributions that companies pay on the wages of their employees. Precisely in international comparisons, ancillary wage costs cannot be ignored.

Looked at theoretically, corporate taxes can be divided into two categories: those directly related to operational activities and borne directly by the company, and those that the company settles, but which are not borne by the company itself, but in whole or part by customers and employees. Examples of these are value added tax or source tax. These types of tax are covered in the framework only to the extent that they are an effective charge on the company. However, management of the other taxes involves administrative costs, which could easily be captured. But the administrative costs of the direct and indirect taxes involve signifi-

cant definition difficulties, because they affect various corporate functions: in addition to the tax department, for example, the accounting, wages and purchasing departments also deal with tax matters. A company's total contribution to the state is complete only when another aspect is considered: by creating employment, companies make an indirect contribution to their employees paying income taxes and as consumers VAT. A glance at the distribu-

¹ Capital taxes
Property taxes
Withholding taxes
Capital gains taxes
Capital transfer taxes
Inheritance/Gift taxes
Excise taxes

tion of the tax revenue shows that precisely this indirect contribution by companies is a very significant economic factor. In Switzerland income tax accounts for approx. 43 per cent of the aggregate tax revenue of the public purse. The Federal Finance Department does not distinguish between individuals and legal entities. But this relationship is clear from the communal taxes: the proportion paid by individuals to communities within canton Zurich (income and net assets taxes) is on average 73.7 per cent, by legal entities 20.6 per cent. The balance comes from other sources, such as inheritance or motor vehicle taxes.

seriously and systematically and the benefits of less tax weighed up.

Tax risk management is directed towards the observance of laws and rules (compliance). The demands of some interested parties, however, extend beyond compliance. To counter the pressure of their expectations, companies could publish voluntarily what they pay in taxes and duties in total. The publicity of the complete tax and duty burden provides businesses with the opportunity to communicate their real contribution to the economies in which they operate.

PricewaterhouseCoopers has developed a model in which all types of tax for which a company is liable can be illustrated: the Total Tax Contribution Framework.

For international companies with operations in numerous countries – in addition to the types of taxes – the various national legislations play a decisive role; precisely in international comparisons the tax charge can vary significantly. The model therefore has to be robust enough that it can be employed to calculate all taxes that a company pays worldwide. In the course of globalisation more and more companies, and not only major groups, generate a substantial part of their value creation not only in their home market, but outside their borders. In principle, taxes are due where value is created. While in the context of intercompany transfer pricing a certain amount of shifting is possible, it involves strict rules and extensive documentation. Disclosure of all tax and duty charges is not only a way to escape the crossfire of expectations, but also provides the company itself with information about its total tax and duty burden. This knowledge is again the precondition for professional tax planning and comprehensive tax risk management.

Summary

Businesses stand in a crossfire of expectations: on the one hand they must minimise their tax costs within the legal framework to safeguard the interests of investors and financial markets. On the other the general public expects that the economy will benefit from taxes on companies' profits. Publication of the total tax burden, the total tax contribution, creates clarity about what taxes companies pay wherever they add value. Businesses themselves should take advantage of the opportunity to set out and explain to their stakeholders their total contribution to the community. The Total Tax Contribution Framework provides a flexible model for this purpose. It enables not only a differentiated overview of the types of taxes, but also a breakdown of the tax burden over all the countries in which the company is liable for taxes. Suitable vehicles for disclosure are either the annual report or a separate corporate responsibility report.

Global mergers and acquisitions: A huge cultural challenge.

With plenty of available capital in the markets and the global economy strong, the mergers and acquisitions market is flourishing. Many deal makers expect record-setting deal levels to continue in the coming year and are eager to capitalise on opportunities before the euphoria ends: so eager that traditional deal barriers are falling and global partnering is taking on a new face.

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International mergers and acquisitions (M&A) activity reached record levels near USD 2.16 trillion in 2006 and is on track to easily exceed that level in 2007. Corporations and private equity buyers are lured to the bargaining table by the abundance of low-cost deal funding in the form of both debt and equity financing. Private equity funds have been able to raise large sums in a very short period. The result: deal prices are near their highest levels in years. In the current environment you are falling behind if you are not in the mergers and acquisitions game. Strategic buyers are competing fiercely to acquire available businesses in order to lead their industries and beat out the competition. Private equity investors are buying some of the largest companies ever and becoming conglomerates themselves. When the excitement ends and the dust settles companies may find themselves overextended or having taken on too much debt and, as always, the message of “buyer beware” looms large as buyers are wary of the risks of doing deals at the pace and of the size currently in the market. However,

the draw of global platforms and market changing M&A appear to be stronger and deeper than ever before.

Emerging market companies investing abroad

It's not just the volume of international M&A activity that is striking; the nature of the market has also changed. While it used to be restricted to Western companies investing in the emerging markets, we are currently seeing companies in the emerging markets investing abroad and acquiring established businesses in industrialised countries. In 2005, for example, the Chinese computer manufacturer Lenovo acquired IBM's PC business to become the global leader in the PC industry. And in January 2007, the Indian conglomerate Tata bought Anglo-Dutch steel firm Corus in a deal worth EUR 8.7 billion – the largest foreign investment ever undertaken by an Indian company. Only a few months previously, after a fiercely contested takeover battle,

Anglo-Indian steel company Mittal took over Luxembourg rival Arcelor to become the world's largest steel producer.

These are just some higher profile examples of the will and ability of emerging market companies to take over whole businesses or divisions of companies in industrialised nations. PricewaterhouseCoopers' “10th Annual Global CEO Survey” revealed that 67 per cent of Asia-Pacific CEOs polled intend to conduct M&A outside their region or with new trading partners. Emerging market companies that are successful at home want to put their success to the test internationally. Large companies in countries such as India, China and Russia are now playing an active role in globalisation. They have the financial means to become global players, and the emerging markets now account for a steadily increasing share of foreign direct investment. Recent developments in M&A are at the heart of the “CEO Survey” 2006, which gives a representative insight into the extent to which mergers and acquisitions are driving the process of globalisation. CEOs in industrialised and emerging nations all recognise a growing class of wealthy, prosperous consumers around the world, with enormous growth potential which, they believe, can best be tapped by entering the market directly. Financial flows are by no means the only factor influencing the interconnection of markets; knowledge, culture and people have become the key aspects of globalisation.

Integrating cultures the greatest challenge

Regardless of the direction of a cross-border transaction, the greatest challenge for both the buyer and the target company

New Markets
M&A
Post Deal
Integration



Amity Forrest, Leader Transaction Services, Advisory

will always be to bridge the cultural differences. When businesses from completely different cultural backgrounds are brought together, cultural factors take on a whole new dimension, and this in turn requires new approaches to M&A.

There is increasing awareness that a globally driven deal really involves buying one or many local companies. Maintaining a balance between global objectives and local aspects is essential to the success of a cross-border deal. Respecting the local culture, respecting and motivating local employees, and understanding the specific needs of customers in your new market while at the same time ensuring that global presence adds value – these are the huge challenges of today’s M&A market. The cultural implications of a transaction are perhaps more long-lasting and challenging to address than the financial, tax, legal and operational consequences.

Integrating different cultures after the deal is much more difficult than actually closing the deal. The key success factors for integration are careful planning and intensive communication. The best-in-class companies are the ones that are already planning for the integration while due diligence is still in progress. They are the ones that recognise communication is vital if you want to create an environment of acceptance where people recognise and understand the differences but still strive for the same goal.

Finding a balance between global and local interests

In addition to cultural issues, one of the greatest obstacles to cross-border M&A is regulation. There are regulatory hurdles at so many different levels. First there is national legislation and intervention from governments acting in the “national interest” (this happens not just in Asia, but in some European countries as well). Then there are the national and supranational merger authorities, plus local regulations, which can also vary within a single country. Most recently, regulators are stepping in to

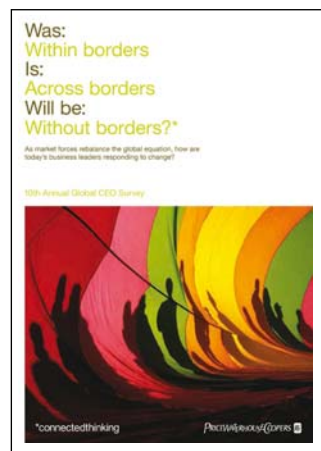
protect shareholders’ rights, adding another level of regulatory complexity to deals. Regulation can, however, also serve as an incentive for cross-border mergers and acquisitions. In an interview Ratan Tata, head of the Indian conglomerate Tata, asked rhetorically how long it would have taken before his company had been allowed to take over an Indian business the size of Corus. Tata is one of the entrepreneurs who have grasped what today’s M&A market is all about: he wants his company to be perceived as a global operation that feels local but is based in India.

Switzerland well placed

The business of globalisation involves openness, acceptance and understanding of other cultures. We can’t stop or turn back. The losers are the countries who try to protect themselves from globalisation; the winners are those that manage to achieve a balance between global and local interests. Switzerland is well placed in this regard with its tremendous number of international companies and executives. There is a certain openness, understanding and acceptance of other cultures which makes Switzerland unique. One example is Kaba, a manufacturer of security systems with a long tradition. In August 2006, Kaba bought Wah Yuet Group in Taishan City near Hong Kong. The former owner and CEO of the Chinese company is now on the board of directors of Kaba Group.

Summary

The record level of global deal activity is forcing companies to find solutions to seamlessly blend the international and local aspects of a transaction – revolutionising the way global companies operate.



Free copies of the “10th Annual Global CEO Survey” can be ordered at sonja.jau@ch.pwc.com

Outsourcing: Recipe for success, or risky bet?

For many companies in the West, outsourcing is the most obvious recipe for survival in the global marketplace. But outsourcing parts of the value chain involves considerable business risks, and must be planned and implemented clearly and methodically.

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Outsourcing is more than merely a logistical or production issue: it involves delegating part of the corporate value chain, which means losing a degree of control and sacrificing know-how. If only for this reason, outsourcing should be given careful thought. Added to this, every organisation has processes that are of strategic importance and which – because they are part of its core competencies – must not be outsourced. These competencies have to be defined before any decision on outsourcing can be made.

Outsourcing is always a make-or-buy decision that has to be taken at top management level; from the moment the idea of looking into outsourcing is put forward, it should have the backing of the whole of management.

Companies have many different reasons for deciding to outsource. In most cases they opt for outsourcing for reasons of cost. Producers who are subject to market forces in a competitive global marketplace often have no choice: to remain competitive they simply have to outsource production. A typical example is the consumer electronics industry.

But you may also be motivated to outsource by the desire to gain a foothold in a new, promising market. This is often the reason why companies outsource to one of the Asian emerging markets. If market penetration, as opposed to cost optimisation, is your objective, your make-or-buy decision will have to take a different set of factors into account.

Forced to outsource

One concept that is heard increasingly frequently in the wake of globalisation is so-called unfriendly outsourcing, where a large organisation works with a supplier only if the latter agrees to follow it into other markets. This means that outsourcing is the only option if the supplier wants to remain in business. If this happens, suppliers – in most cases medium-sized companies – have to decide whether they are prepared to mobilise unplanned resources and even run the risk of cash flow or profitability problems, or whether they would prefer not to do business with the customer (see interview).

Companies that outsource production for reasons of cost don't necessarily have to go as far as China or India. Alongside full offshoring you also have the option of onshoring or nearshoring. Depending on the business, it can make perfect sense to relocate production to another canton or European country. Organisations often fail to recognise the potential of nearshoring. Southern and eastern European countries such as Portugal or Hungary are closer to home in cultural and geographic terms, and offer a high degree of legal security. Some companies have recognised the benefits, and have onshored or nearshored processes that were previously offshored.

You can't outsource problems

Regardless of the type of outsourcing a company is considering, a number of crucial points have to be thought through before the final decision is made. First you have to devise a business model that adds value, either by reducing costs and maintaining quality at the same level, or by improving quality and innovation while keeping costs at the same level or even reducing them. The budget should be calculated on an absorbed cost basis that takes account of the extra supervisory work involved in addition to the costs of transport and warehousing. Oversight and supervision are at the core of outsourcing management: you have to make sure that the service is delivered, quality standards are maintained, and delivery deadlines are met. Secondly you have to remember that outsourcing ties up management resources. From the initial idea to its execution, you

Strategy
Supply Chain
Risk Analysis



Franco Monti, Partner, Advisory
Outsourcing/Offshoring

Romay AG

When the customer demands outsourcing: “Our experience has been positive.”

To avoid losing business, in August 2004 Romay AG entered into a joint venture with a local partner in the Chinese industrial centre of Qingdao. Head of sales and board member Ruedi Döbeli reports on how the company was able to turn the spectre of unfriendly outsourcing into an opportunity.

Ruedi Döbeli, how did your company get into an unfriendly outsourcing situation?

Four years ago we were approached by Siemens, one of our most important customers. Nowadays large companies like Siemens win major business from the Chinese government on condition that they manufacture at least 50 per cent of the order locally. But since they now tend to buy in and assemble parts rather than making them themselves, these companies suddenly have a problem: they can't find suppliers in China who can deliver components of the required quality. So they ask their European suppliers to go with them to China.

Would you have lost Siemens' business if you hadn't started producing in China?

Indeed we would, at least for certain projects. For example, one of the orders was for the inner lining of the ICE wagons that Siemens makes for China. If we'd said no, we would also have lost out on developing the product and the first production series – because the whole development and manufacturing process takes place in Switzerland up to the moment that the product is ready for serial production in China.

What are the implications of the joint venture in terms of Romay AG's cash flow and profitability?

Back on our first visit to China we were impressed by the huge boom taking place over there. Explosive economic growth means that people have to be extremely

mobile, and the only realistic way of coping with this is by rail. This in turn means that there will be demand for rolling stock, and this demand will last for a long time. So the risks of getting involved were calculable; if things didn't work out in China, there was no way this would jeopardise our business in Switzerland. And this has turned out to be the case: in 2006, Romay created 18 new jobs in Switzerland, mostly as a result of the project in China. So it's had a positive impact on our business in Switzerland. Our investments in China are kept separate from the parent company. This is absolutely vital in an undertaking of this sort, because conditions in emerging countries can change at a moment's notice.

How did Romay manage to find a partner in China?

We kept our ears open to find out about the experiences of companies in similar situations. It was clear that a joint venture with a local partner was the only viable option. The business of choosing a partner was also

Romay AG, based in Oberkulm, canton Aargau, is a leading polymers technology company. Its main business is manufacturing high-volume moulded parts for small- and medium-scale runs in the capital goods sector. Romay AG was established in 1946, and now generates sales of some CHF 40 million with a staff of around 200. In August 2004, Romay AG teamed up with a local partner in the Chinese industrial centre of Qingdao to found a joint venture: Qingdao Victall-Romay New Material Manufacturing Co. Ltd.

made easier by the fact that the Chinese rail ministry had alerted local suppliers to the imminent arrival of European competitors in China, which meant that these suppliers were also on the lookout for partners in Europe. Our future partner, Victall, had been putting out their feelers in Europe. On a train journey they were struck by the inner lining of the ICE trains. When they made enquiries at Siemens they were pointed in our direction.

But establishing a joint venture in China isn't without its legal problems, is it?

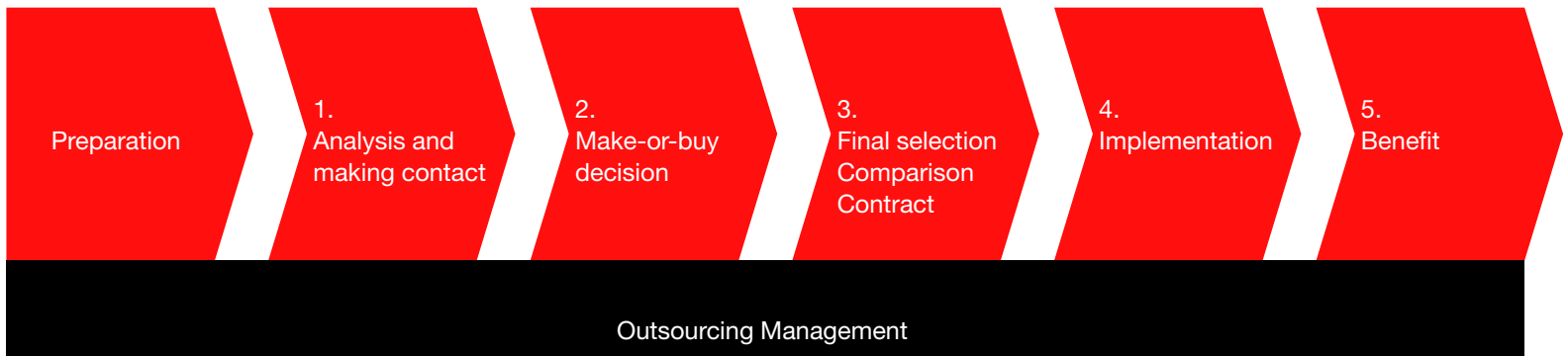
We even went one step further by founding a limited liability company. To clarify the legal situation we sought advice from a major German law firm that runs a large office in Shanghai and has the know-how to draft contracts that bridge the gap between Anglo-Saxon and Chinese law.

How do you tackle the challenge of managing the outsourcing engagement?

Since our Chinese partner holds 50 per cent of the company, it has a vested interest in ensuring that everything runs smoothly. We also periodically send personnel from Switzerland to enable us to exert a decisive influence on the management. But outsourcing management is a sensitive issue. The mentality over there is completely different. The people are poorly trained, and the low wages aren't exactly a great incentive either. This means productivity is a major problem. Even so, in most areas we've attained similarly high levels of quality as in Switzerland.

Looking back, would you say it was the right decision?

Oh yes, our experience has definitely been positive. We now employ 100 people in China, and by the end of the year this figure will have reached 200. The order books are healthy. But of course in three years' time I might take a completely different view of our outsourcing engagement. //



Outsourcing requires thorough preparation. Not until the company is really prepared can the individual process steps be commenced. Outsourcing management comprises above all project management, strategic coordination, financial and legal matters, logistics and monitoring.

can expect the process of outsourcing to take at least 12 to 18 months. Thirdly – and this is the most sensitive point – you have to realise that you can't outsource problems. The aim of outsourcing is to optimise business processes, not to delegate responsibility for an area of business with structural problems to an outside supplier. Not only do you not get rid of the problems; sooner or later the supplier will also notice them and demand compensation. Even if there is too little time to restructure the area of business in question, in most cases you can address the most urgent problems pragmatically. In any case you have to make sure before you outsource that costs are transparent and a management methodology is in place that takes account of organisational development issues as well.

Do the analysis before choosing a partner

The management and board should only make their decision once there is clarity on the motives for outsourcing and the critical issues. If they opt for outsourcing, it is important to set up the project carefully and thoroughly, and give the project team enough time to prepare. You should also take care to preserve the trust of your staff when building the project team, as this type of change within the organisation always has implications in terms of people's positions and jobs.

Once you have decided to look into outsourcing, before actually implementing a solution you have to do some thorough analysis:

- A business analysis to find out things like what processes and products are affected and how the value chain will change as a result of outsourcing. This analysis should also include a review of your unit costs.
- A legal analysis covering both the transaction itself and the intellectual property rights involved.
- A risk analysis to quantify and define the probability of the financial implications – which could be existence-threatening – of the various different scenarios.

If, following this analysis, management is still resolved to go ahead with the project, the search for the right outsourcing partner can begin. Here it's very important to take a critical look at potential partners in terms of ethical behaviour and the sustainability of their production processes. Stakeholders increasingly demand proof, for example, that suppliers treat their staff humanely and that production does not pose any major environmental risks.

Think in terms of the alternatives

A particularly tricky point in legal terms is the design of the service level agreement, which must cover all the relevant legal, financial and insurance details. Negotiations spanning different jurisdictions and legal systems can take a great deal of time and be very emotionally charged.

At the same time the company must consider practical issues such as how to adapt its supply chain management in line

with the new outsourcing arrangement, or how to maintain the quality of its products and services – for example maintenance agreements or guarantees – when it no longer has direct control of parts of the production process.

If you always remember that outsourcing is a make-or-buy decision, you'll be able to tackle the difficulties in a more relaxed fashion – because you will always see an alternative.

Summary

Outsourcing is a make-or-buy decision that must be made at top management level, and only once all the aspects have been examined clearly and systematically. First the reasons for outsourcing have to be clarified, and then the business implications and risks must be analysed. When it comes to outsourcing it's important to always think in terms of the alternatives: nearshoring, for example, might turn out to be a valid alternative to offshoring.

New salary certificate: An opportunity to enhance corporate governance.

Companies that apply the new salary certificate guidelines meticulously can improve their corporate governance. Not only is the changeover to the new certificate a great opportunity to review internal processes and structures, but laying down clear rules on compensation also increases transparency and builds employee trust.

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After long and intense political debate, the new salary certificate was introduced in most cantons with effect 1 January 2007 – four years later than originally planned – and will be mandatory as of the 2008 salary year. This is the first time there has been a standard salary certificate form for the whole of Switzerland. The tax authorities expect the new certificate to create greater transparency and greater equality before the law.

Despite initial scepticism, many businesses are now recognising the advantages of the new system. In practice, it turns out that:

- many companies have largely completed the changeover,
- some companies have used the change as an opportunity to review the whole issue of expenses,
- provided that the employee's taxable income has been calculated correctly until now, the new salary certificate will not lead to heavier taxation.

Payroll accounting in the context of corporate governance

Companies striving for good corporate governance are taking the process of implementing new measures in payroll accounting particularly seriously, and want to use the new salary certificate as a testing ground for their own compliance. They have also realised that the certificate is much more than just a form: it is an official document that is the product of all the processes involved in payroll accounting.

Payroll accounting is a challenging business, which always involves aspects of employment, social insurance and tax law (affecting different types of tax, forms of levying and duties of disclosure). It is only possible to present a correct salary certificate if all these dimensions are taken sufficiently into account.

Conscientious efforts to make sure that salary certificates are correct are not only necessary to meet the requirements of the law, but are also a matter of a company's responsibility towards its employees. The certificate is the most important basis for calculating the tax an employee has to pay, so errors not only risk incurring sanctions from the authorities, but can erode the commitment of staff as well.

This means that responsibility for payroll accounting should be given to experienced specialists working in close collaboration with the human resources department. This is particularly important given the complexity of today's compensation models, which increasingly include flexible, performance-related remuneration and fringe benefits. Management must make sure that a framework and infrastructure are in place to enable these different departments to collaborate.

The complexity of payroll accounting is something that has to be addressed independently of the new legal requirements. Fundamentally, the key is to give appropriate emphasis to the payroll function and structure it in such a way that internal processes and those involving other departments such as HR or financial accounting run smoothly. Many organisations are using the changeover to the new salary certificate as an opportunity to review these internal structures.

Human
Resources
Compliance
Internal
Processes



Brigitte Zulauf, Partner,
Leader Accounting & Payroll Services, Zurich

Secure legal framework, but more guidance needed in certain cases

In many respects the guidelines on the new salary certificate establish a more secure legal framework. They are more comprehensive than the previous guidelines and provide a more concrete basis for calculation. Most companies should therefore find they give adequate guidance. However, in addition to a number of special cases which the guidelines deliberately do not cover (including the issue of expatriates and source taxes), there are also points where companies will need further clarification – most of them related to expenses and training.

Expenses: In future it will be even more important to clearly separate living expenses and expense reimbursements. Payments from the employer to cover expenses that qualify as living expenses

Operating in more than one canton

Just because there is a standard salary certificate for the whole of Switzerland doesn't mean that the cantons have harmonised all the rules, and there are still individual provisions that companies operating in more than one canton have to be aware of. For example, the following cantons require the employer to submit the salary certificate direct to the cantonal tax authorities: Basel-Stadt, Basel-Land, Berne, Jura, Neuchâtel, Vaud and Valais.

constitute a taxable salary component; payments to cover necessary work-related expenses, on the other hand, are not subject to tax. The rules also lay down the amounts allowable as tax-free expenses. For example, lunch expenses can be paid either in the form of a flat allowance of CHF 30 per case, or as an amount of up to CHF 35 on presentation of a receipt; whichever approach is chosen, for any given group of employees the employer has to opt for either one alternative or the other. Where flat-rate expense allowances are paid, it is in many cases worth drawing up expense regulations and having them approved by the tax authorities. Not only does this put the whole business on a more secure legal footing, but it builds employee trust and makes the employer a more attractive place to work.

Training: Organisations offer their employees training to enable them to stay abreast of new or more demanding professional requirements. To ensure that the tax authorities do not tax training-related expenses such as course fees, there must be a direct connection between the training in question and the person's job. To create transparency and clarity it is important to sign written agreements with employees (for example governing repayment obligations). This applies particularly in cases where the expenses are reimbursed only in part, since there is a duty to declare this on the salary certificate.

This again underscores the importance of close collaboration between the payroll, HR and accounting departments. Generally there is likely to be a trend in Swiss business towards clearer and more transparent remuneration packages, as special cases and exceptions lead to a lack of transparency and make implementation more difficult.

Summary

In practical terms, clear regulations and agreements help ensure the salary certificate is correctly prepared. The challenge for management is to make sure that processes and an infrastructure are in place to enable the correct preparation of the salary certificate and that communication – between the departments involved as well as with individual employees – functions smoothly. Ultimately they have to ensure that the defined rules and agreements are implemented correctly.

For more information on the new salary certificate, please visit: www.pwc.ch/lohnausweis

Events, publications and analyses.

The pharmaceuticals industry approaching a growth spurt

The global pharmaceuticals industry is booming. For the period up to 2020 the worldwide market for pharmaceuticals is expected to grow to more than twice its present size to USD 1.3 trillions. This is forecast by PricewaterhouseCoopers' study "Pharma 2020: The vision – Which path will you take?". The market growth is the result of the increasing demand worldwide for medicines and prophylactics in the coming 13 years.

The study "Pharma 2020: The vision – Which path will you take?" is available at <http://www.pwc.ch/de/medienservice/medienmitteilungen.html>



Good questions on the Internet:

Every answer is preceded by a question. This also applies for every entrepreneurial decision. PwC has set up an Internet platform for good questions, where you can find the questions posed by other business people. You can answer them or ask your own good questions. The dialogue platform can be found at www.goodquestion.ch

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IOP Watch, Q1

In the 1st quarter of 2007 there were 137 IPOs in Europe, in the same period in the USA 64. In Switzerland there were 2 stock exchange listings, VZ Holding AG and Cosmo Pharmaceuticals S.p.A. London retained its leading position for European IPOs also in the 1st quarter of 2007. This can be seen in PricewaterhouseCoopers' quarterly report "IPO Watch Europe". For the first time investment companies are also considered in this report. You can obtain "IPO Watch Europe 2007, Q1" at <http://www.pwc.ch/de/medienservice/medienmitteilungen.html>

Event

Tax Forum 2007

The topics this year: Tax competition, Tax dispute with the EU, International and cantonal tax law developments, The attractiveness of Switzerland and its cantons as a business location. The Tax Forum is the meeting place for CEOs, CFOs, entrepreneurs and tax managers, where they can exchange tax knowledge and discuss relevant tax questions.

Locations and dates

Basle, Tuesday, 13 November 2007, Kongresszentrum Messe Basel
Lucerne, Tuesday, 13 November 2007, Radisson SAS Hotel
Berne, Thursday, 15 November 2007, Hotel Bellevue Palace
Neuchâtel, Tuesday, 20 November 2007, Hôtel Beaulac
Weinfelden, Tuesday, 20 November 2007, Thurgauerhof
Zurich, Tuesday, 20 November 2007, Hotel Widder
Chur, Wednesday, 21 November 2007, Calvensaal
Thun, Wednesday, 21 November 2007, Hotelfachschule Thun
Zug, Wednesday, 21 November 2007, Kongresscenter Metalli
Aarau, Thursday, 22 November 2007, Aarg. Versicherungsamt
Winterthur, Thursday, 22 November 2007, Hotel Banana City
Lugano, Tuesday 27 November 2007, Hotel Bellevue au Lac
St. Gall, Wednesday, 28 November 2007, Pfalz Keller St. Gallen
Geneva, Wednesday, 28 November 2007, Hôtel Président Wilson
Lausanne, Thursday 29 November 2007, Hôtel Lausanne-Palace & Spa

Attendance at the Tax Forum is free of charge. Further information and registration: www.pwc.ch/events

neighbourhood assistance



Christian Guler (left) and Ernst Ravasio are convinced that independence and self-initiative are central elements of job satisfaction – and thus also of quality. Their credo: “If you see the point of your work, you are committed, and you get better results.”

Work with a meaning.

Or: Why services sometimes come free.

Working 50,000 hours a year without pay – that’s something that goes without saying for the active members of Zurich Neighbourhood Assistance. You can achieve a lot with the power of selfless activity, a fact also demonstrated by Ernst Ravasio and Christian Guler. The two retirees have brought a whole new image to neighbourhood assistance – with unconventional methods and great success.

Text: Alexandra Stark
Photos: Andri Pol

An economic truism is that anything free of charge isn’t worth a jot. “Wrong,” says Christian Guler, president of the development association Zurich Neighbourhood Assistance: “Something’s valuable if it’s seen as such.” Services, for instance. In 2006, volunteers provided 50,000 hours of assistance to their neighbours in Zurich districts – free of charge. For Ernst Ravasio, managing director of the association, this is proof that there is a “market for meaning in life, a market that is sometimes not sufficiently taken into account in the value paid”. Over the last few years, Guler and Ravasio – with a joint age of 132 between them – have given neighbourhood assistance in Zurich a new professional image. What was once deemed the leisure activity of bored housewives and retirees has since become a trend with positive appeal – as demonstrated by the Day of Neighbourhood Assistance that was commemorated on 29 May this year with barbecues in several Swiss towns. Yet neighbourhood assistance is more than just eating grilled sausages together. In Zurich alone, there are 14 district groups, some of which have existed for more than twenty years. The small organisations place volunteers who look after children, feed cats, drive old people to the doctor or go

shopping for people who are ill. Tasks for which there is no market – because they would be too expensive as a service for the “customers”. Across Zurich, some 1,000 volunteers work for no pay in this low-threshold sector, which is not covered by professional organisations such as Spitex. Up until a few years ago, the autonomous district groups in Zurich were a mixed bunch of volunteers who were allocated tasks by other volunteers according to a random principle and with little planning. However, the need then arose for networking among the groups, to enable them to appeal to a broader group of helpers and people seeking assistance, and for them to go live with a joint website.

The power of the value of neighbourhood

Sometimes it is small flashes of inspiration that trigger something big. Guler looks back on the moment in question with pleasure. In the spring of 2002, he was sitting in a meeting of the neighbourhood assistance interest group of the city of Zurich. The topic was the joint Web presence of 14 independently organised district groups. Guler – who at the time was a member of the management team at the central office of Spitex run by the city of Zurich – had been asked to report about the experiences of Spitex, which had gone live with its own Web site a short time previously. The neighbourhood helpers did not have sufficient money for professional consulting. Guler

recalls: “I listened to the discussion and suddenly thought: This is crazy! For years, these people have been helping total strangers, thus providing an incredibly valuable service to society, without being paid a penny for their trouble. And despite all that, they haven’t got the funds for a Web site and still have to worry about their image!” “At that moment, it hit me like a bolt out of the blue, and I knew what had to be done,” says Guler with a mischievous grin. “Neighbourhood – this word has a magical appeal which it is impossible for anyone to withstand! And I thought: Neighbourhood assistance is something that is so fantastic, only the best can really be good enough!” Guler’s vision was that a lack of funds should not mean that the Web site has to be done by either a student or a retiree. This task should be done by the most experienced agency in the city. Indeed, we should only work with the best professionals and companies anyway – whether for sponsoring or for communication. When the Spitex man suggested this to the meeting participants, all he got was incredulous looks. “Of course, this sounds crazy the first time you hear it, that only the best can be good enough,” he recalls. “But



Sonja Virchaux, mother of two, neighbourhood assistance Schwamendingen:
 “I have been doing this for ten years now; I find the exchange of ideas and experience with the people whom I help exciting and enriching. I am doing something worthwhile, it gets me out of the house and I can still be at home when my children come home from school.”



Members of the large neighbourhood assistance group Höngg:
 (from left to right) Verena Mätzler, Bruno Schöchli, Heidi Schenk, Loni Schumacher and leader Elisabeth Kleiner.

Verena Mätzler, placement officer:
 “Life has been good to me up to now. Now I've got time on my hands, and I would like to help to make life better for others.”

Bruno Schöchli, volunteer:
 “After retirement, I fell into a rut; volunteering helped me to break out of this situation. I regularly meet up with an Alzheimer's patient; we have since become good friends.”

ultimately it was the realisation that neighbourhood is something of value that achieved the breakthrough in the efforts to publicise neighbourhood assistance.” And because Guler was about to take early retirement at the time, he took on this job himself soon afterwards.

Guler set about telephoning top agencies in Zurich, with élan and armed with the knowledge of the valuable product. “I had no experience doing something like this and wondered: Where do you find prime addresses? On Bahnhofstrasse, of course!” In the telephone book, he came across the name of the agency Iris Wirz c&p communications. And he only needed one phone call to persuade the owner to implement a Web site free of charge for the neighbourhood assistance association.

The agency’s commitment means that the association now has a professional Web presence that far exceeds the one that was originally planned. Inspired by this success, Guler contacted renowned companies and institutes in the search for financial support. Within six weeks he had accumulated CHF 100,000 donated by the city of Zurich, the national churches, and other institutions and companies, including PwC as the main sponsor. “Suddenly doors opened up that we had considered closed,” says Guler in amazement.

The success was soon tempered, however, by the realisation that the Web site alone would not be sufficient to publicise the offers of the district associations. For this, continuous public relations were required. The new generous financial donors also now demanded an annual report. All this exceeded the scope of the hitherto non-binding cooperation between the individual groups. Consequently, in 2005 the public relations interest group became the Development Association of Zurich Neighbourhood Assistance. An efficient organisation with clear responsibilities was intended to ensure minimum overheads and maximum acceptance. No easy task, as there are big differences between the different groups. While some are organised as associations with strict management, others are loose

forms of cooperation that do not even have an accounting system.

From the auxiliary help to the academic, from the long-time resident of Zurich to the young guest worker – the group of volunteer neighbourhood helpers is a motley crew. However, they tend to be older because retirees have more time, and there are more women because they are less integrated into the workforce. All of them work free of charge; only the placement officers are reimbursed for some of their efforts when their workload of telephone service and coordination work goes beyond that which can be reasonably expected of volunteers. Just as the volunteers are different, so are their motives. Some come out of social considerations, others from the conviction that they shouldn’t leave everything to the state. They all have in common that they are convinced that a good society requires personal commitment.

A top-down approach doesn’t work

“Many people have the need to give meaning to what they are doing, because this is something that is sometimes missing in paid employment. People get this meaning from working free of charge,” says Managing Director Ernst Ravasio, whom Guler brought on board almost two years ago. Together, the enthusiastic manager Guler and the rigorous doer Ravasio are what you might call a dream team. Ravasio works between 30 and 50 hours a week for the association, Guler between 20 and 30 on average. Today, Guler knows that he, too, is fascinated by the value of neighbourhood – like so many before him. “I would not want to receive any money for my work here; it would dampen my enthusiasm!” he confesses. As the president, he deals with contacts and fund-raising. Ravasio, who had a long career in consulting and in between times managed a variety of companies, is responsible for the development of a professional structure. He intends to complete this during the summer. Twelve of the 14 Zurich groups have now joined the association. However, there was much scepticism at the beginning. The groups were afraid of being told what they had to do. “This fear is totally ungrounded,” says Ravasio: “We are not an umbrella organisation; we provide services for the individual groups.” The association does not interfere in the “classical” tasks of the

district groups but assumes tasks that the individual groups cannot do themselves. In addition to professional public relations, these include, for instance, European Neighbourhood Day or publication of the book “Grüezi” (available in German only), in which renowned figures give their opinion of neighbourhood. There is also now a 50-page communication concept, created by the Institute for Applied Media Science at the Zurich University of Applied Sciences in Winterthur. Furthermore, the association ensures systematic networking with other social institutions and helps to organise further training for volunteers who want to learn how to differentiate themselves or how to deal properly with the mentally ill.

The association, which also includes members of the district groups, offers training – members who don’t want to take part, don’t have to. Former manager Ravasio sees the key to success in this principle, for “volunteers do not pursue the organisation’s goal. Instead, they have their own objectives.” From an organisational point of view, it would undoubtedly be easier for management to decree that everything be standardised. This would improve transparency and simplify coordination. “But a top-down approach doesn’t work!” insists Ravasio. “None of the volunteers was born yesterday, and they have good reason to do their things as they do,” he says. And personal commitment plays just as big a role here as established processes, the development history and group dynamics.

“Independence and self-initiative are central elements of job satisfaction with us – and thus also of quality,” says Guler. “If you see the point of your work, you are committed, and you get better results.” By creating more freedom for the helpers with improved structures, it is possible to ensure a top-class operation, he says. And Ravasio adds: “When we force the volunteers to do something they don’t want to, their motivation falls – or they stop altogether. And that is very definitely not the aim of the whole thing! But we can convince them that it would be better to do something differently. And we are working on that.” //

Questions about questions. It's hard work getting a good answer.

You need to be naive enough to ask questions and intelligent enough to examine the answer critically, says Roger de Weck.

Interview: Christian Jauslin

Mr de Weck, what makes a good question?

One that makes the person who's asked the question think.

Is there such a thing as a bad question?

Oh, yes. But for every bad question there's a good answer.

Which is more important: a good question or a better answer?

The most important thing is the relationship between the person being asked the question and the person asking it. You can't have questions without people.

To be able to ask a good question, is it necessary to imagine an answer yourself?

That's not asking questions, that's ticking off a checklist.

The well-known journalist and publicist Roger de Weck was the Chief Editor of the "Tages-Anzeiger" and "Zeit" newspapers. Today, he works for various Swiss and international media. De Weck is President of the Graduate Institute of International and Development Studies in Geneva. He is Visiting Professor at the College of Europe in Bruges and Warsaw. In 2004, he was awarded the Davos media prize.

Does this mean you have to know nothing to be able to ask good questions?

Socrates said: "I know that I do not know." The person asking the question has to know that while they might know everything, they also don't know anything.

How do you come up with questions on a topic which you know nothing or very little about?

It's 90 per cent hard work, 5 per cent inspiration and 5 per cent intuition.

Could you explain the "90 per cent hard work" bit?

Both asking questions and giving answers requires work and knowing what you're talking about. By work I mean a way of asking myself questions and seeking answers so that instead of asking the most obvious next question, I am able to ask a slightly less obvious or more sophisticated one.

Do you have to be curious?

Without curiosity you wouldn't be asking questions in the first place.

What about the 5 per cent inspiration you mentioned? What do you do?

Nothing. Go for a walk. Be open. Look at the person I'm talking to. Read the newspaper. Go to the movies.

Is there a method for intuition?

No. It's a combination of the intuition you're born with and know-how that has been passed on to you, a kind of highly intelligent naivety: that childlike quality I mentioned earlier. You have to be naive enough to ask questions and intelligent enough to be able to discuss the answers critically.

When does a good question become a bad one? And vice versa?

A good question becomes a bad one if you ask it too often. A bad question becomes a good one when it prompts a good answer, when the interviewees give themselves some leeway. The great thing about interviews with intelligent people is that those asking the questions always appear more intelligent than they actually are because they get good answers to stupid questions. In my lifetime I've interviewed two or three people who've made me feel like a genius. But only because they were able to fashion a diamond out of the raw material I gave them.

“It’s true that we’re sometimes so afraid of the answer that we don’t ask the question in the first place. That’s what you call repression. Maybe it’s sometimes better not to ask a question. But in the long run it’s really much better to ask almost all the questions you have.”



Do people go into an interview with preconceptions or completely without them?

Well, we all have certain preconceptions. This game of questions and answers is a game of enlightenment – in the sense of the Age of Enlightenment. Les Lumières, as the French put it. It’s the idea that there’s no truth other than discursive truth – asking questions and getting answers that enable you to form your own opinion. It’s like constantly coming closer to the truth or to a number of truths. And, even more important, people who ask questions aren’t ideologues, because ideologues only have answers and no questions. And if you ask questions, you’re signalling that you respect the person you’re talking to. If you despised them you wouldn’t be asking them questions. In other words, there is probably nothing more characteristic of interpersonal relationships than questions and answers. And of course, it’s even better when the process is two-sided.

Have you ever regretted asking a question?

Yes, when it really betrayed my ignorance. In other words, a question that wasn’t

pitched at the level it should have been. It’s embarrassing when you ask a question that you thought would challenge the person you’re asking, but which only ends up letting them know that you don’t really know what you’re talking about.

Have you ever regretted not having asked a question?

Yes, because I didn’t think of it. I was too slow, and the person I was talking to was too fast.

Is it possible to learn how to ask spontaneous questions?

To a certain extent you can train any ability, but that’s not necessarily what counts. If your job involves asking a lot of questions, for example, you can do the following exercise: Talk to someone, ask them questions, interview them, but then – and it must be a friend – instead of following each answer with the next question, first summarise their answer. That trains your ability to listen carefully to what the other person has said so that your next question actually refers to the previous answer rather than just fitting into your own scheme.

As you get older, how do the questions you ask and the way you ask them change?

You probably know the anecdote about Einstein writing the questions for an exam.

His assistant comes rushing in: “Professor, Professor, you’re asking the same questions as last year, aren’t you?” To which Einstein replies: “Yes, the questions are the same, but the answers aren’t.” In other words, I might ask the same question, but in most cases I’ll ask completely different questions. However, the essential underpinnings of all questions – existential issues like, Why am I here? What am I doing here? and What do I want to achieve here? – are always the same.

Ask any question you like as long as you’re not afraid to hear the answer: Do you agree with this principle?

Now that’s a really good question that makes me think. It’s true that we’re sometimes so afraid of the answer that we don’t ask the question in the first place. That’s what you call repression. Maybe it’s sometimes better not to ask a question. But in the long run it’s really much better to ask almost all the questions you have. Having said that, though, I still intend to get to the end of my life with a few questions left unanswered. //

Security is worth its weight in gold.



Each year Argor-Heraeus refines more than 300 tons of gold worth CHF 8 billion. This requires exacting provisions with regard to environmental protection and security – as well as mandatory ethical regulations that apply to all members of the supply chain.





The gold is cleansed of impurities and residues and then processed further in the required purity into bars or other products.

Text: Corinne Amacher
Photos: Roth und Schmid

From a distance the architectural landscape of the Mendrisiotto in the southern corner of Switzerland looks like just another grey and impersonal industrial area. The truly remarkable details are only apparent at a second glance – concrete walls up to tree height, four rows of barbed wire and cameras wherever you look. A steel gate opens, as though by a ghostly hand, to let in a transporter and closes again without a sound. An electronic eye checks arrivals.

The few visitors to Argor-Heraeus let in by the porter could well feel like Scrooge McDuck – hefting gold bars until their biceps ache, letting gold dust run through their fingers like shingle or marvelling at wildly glittering crystals of silver. The premises of the country's foremost precious metal processor hold temptations at every turn, but it is unwise to succumb to them. Not even the CEO is able to avoid the strict security arrangements, and just like all the other 140 employees, when leaving the factory Erhard Oberli must pass through the

electronic security doors to the exit. An incorruptible random generator selects the guinea pigs for the special daily check and makes no distinction between cleaning staff or directors. If Erhard Oberli is picked out at the checkpoint, he is not permitted to go to the main exit but has to make his way to a security exit off to one side, where he is carefully checked for traces of precious metal. "I should not and do not receive any special treatment at our security checks," he says.

Each year Argor-Heraeus refines over 300 tons of gold worth CHF 8 billion. This represents more than 10 per cent of the annual volume extracted from gold mines worldwide. Added to this are 250 tons of silver plus smaller amounts of platinum and palladium. The material is first cleaned of impurities and residues and is then further processed into bars or other products of the desired purity, such as blanks for clock cases or pendants. Every day precious metal worth several tens of millions of CHF passes through the factory areas. The CEO is no longer impressed by such figures. Working with these valuable commodities over a period of time makes you start to

disregard their value. Gold is not treasure for him and his employees but simply a material with which they work. Erhard Oberli has presided over the company for 19 years, although his original intention was to stay for just three. A civil engineer by profession, he was essentially responsible for the construction of the factory in Mendrisio in the mid-1980s on behalf of banking giant UBS and the German company Heraeus, and subsequently entrusted with managing it. In 1999, Heraeus and the management, led by Oberli, took over the company completely. Later the German Commerzbank and the Austrian Mint also acquired an interest in it. As a joint shareholder, Oberli not only holds the position of CEO but is also an entrepreneur. This is evident from the zest with which the 57-year-old CEO hurries through the factory greeting staff by name and talking about processes and products in detail. His enthusiasm for the job is still apparent after all these years. However, times have not



During the random safety check, Erhard Oberli is examined for traces of precious metals. Even the vacuum cleaner is routinely checked for residues.

always been as favourable as they are today, when the business is experiencing increasing demand, all three profit centres are in the black, and the company has been able to enter into new areas of business and innovation. When UBS sold off its share completely in 1999, the company lost its most important clients at one stroke. The management had to restructure the company, expand the range of products and services, and adjust to new customer requirements.

The highest standard of precision

In the past, mines, banks and private investors were the most important customers, but over time the watchmaking and jewellery sectors have become more significant. In the 1990s, the proportion of semi-finished products for the watchmaking industry was less than 10 per cent of turnover – today it is more than 30 per cent. “We are an industrial company, but we work with the precision of a watchmaker,” says Oberli. The company, whose slogan is “the

Every day, precious metals worth several tens of millions of CHF are moved through the factory halls. To the employees, they are not a treasure but rather pure working material.

golden link”, acts as a service provider between the gold producers and the precious-metal-processing industry. The Argor-Heraeus customer list boasts the most exclusive luxury watch manufacturers and international banks. Since the price war in the industry has reached new extremes, success can only be assured through innovation and ongoing implementation of the latest high-tech methods. This includes a computer-controlled swaging machine, which the management commissioned a year ago at a cost of CHF 1 million. This processes alloys to eliminate even the smallest porosity of a

tenth of a thousand millimetres. Material compressed in this way is of the highest quality, which is what watchmakers require for their most expensive timepieces. Oberli sees his task as working together with customers to develop the products in a process that adds value. Argor-Heraeus is also one of the market leaders in the application of kinegram technology for embossing precious metals. Kinegrams show different images depending on the visual angle and are used as security marks, for example on banknotes. Along with the Swiss company OVD Kinegram AG, which has evolved from the former Landis+Gyr, Argor-Heraeus has developed a process whereby a pattern to a thousandth of a millimetre in thickness can be embossed on the surface of a gold plate, and the tiny facets reflect the light falling upon them in all the colours of the rainbow. With this patented process, Argor-Heraeus



A lot of importance is attached to environmental protection. Waste water is cleaned in the recycling system and prepared for further use.



holds the exclusive worldwide rights for manufacturing kinebar® gold bars embossed with KINEGRAM® technology. Operations can be more heavy duty in other parts of the company. When gold is being melted, it bubbles away at 1,200 degrees in the vats. In the summer heat, the working climate can reach 45 degrees in the smelting plant. In other areas it looks like a chemical plant – and a chemical plant it is at Argor-Heraeus. Gold is refined in two different ways – either by using electrolytic gold separation, which takes around 22 hours, or via a chemical process, which is indeed faster but more complex. As precious metals are very expensive, it is important that they be processed immediately in the plant and undergo short throughput times. One way or another, large quantities of chemicals are used, from hydrochloric acid and saltpetre acid to chlorine. For this reason, the company's cellar contains a capacious recycling processor in an acid-proof concrete tub, where all wastewater is purified and reused as far as possible.

In addition to service, reliability and seriousness are the most important business principles – and ultimately also decisive sales arguments.

Oberli maintains that the rigorous requirements with regard to environmental protection, safety and quality in Switzerland are a considerable cost factor. For example, Argor-Heraeus is obliged to employ a Swiss-certified fine-metal inspector who is subject to scrutiny by the Federal Department of Finance. Although production can be carried out more cheaply in other countries, Oberli is adamant in his determination to keep Switzerland as a production site. "We do not want to go to one of the cheap-production countries. This is upheld in our strategy, and I have made this clear to our staff," he emphasises. Next to service, security and a reputable image are the most important business tenets for a gold refinery – and ultimately they are also vital for sales.

Respectability is also important – "We have an old virtue to thank for our success, and one that has rather lapsed into obscurity – good, solid craftsmanship," says Oberli, who wants to achieve his objectives in "small persistent stages." There are neither high-flyers nor flops, and all products and services – from refining to the manufacture of gold bars and alloys – should continue to be offered into the future. The shareholders also serve as a sign of continuity, and the companies among them largely consist of businesses that are steeped in tradition and have long-term industrial objectives.

Turning a debacle into an opportunity

Oberli took it personally when Argor-Heraeus hit the headlines in April 2005. In a report by the United Nations which was leaked in advance to the press, the firm was accused of processing gold from dubious sources in Africa and thereby breaching sanctions. Oberli was shocked by the vehemence with which the company was attacked: "First, it did not concern a direct customer relationship, but a customer of a



Argor-Heraeus sees itself as a service provider between the gold producers and the firms processing precious metals. Its customers include manufacturers of exclusive jewellery and luxury watches as well as international banks.

customer; second, the Argor proceeds totalled less than one-tenth of a per cent of the total proceeds during the period in question; and third, the deliveries had already been discontinued before the accusations, that is to say in the spring of 2005.” It was only in February this year that the UN completely withdrew the allegations against Argor-Heraeus retrospectively, as from May 2005. That is a long time to wait when you consider that a company has to continue to trade. “We have our good long-term relationships with our customers and banks to thank for the fact that we have come through this year so well,” says Oberli. “It was also very helpful that SECO, the State Secretariat for Economic Affairs, stood by us the whole time and that the Swiss ambassador at the UN supported our cause.” Despite the image-related issues, 2006 turned out to be the most successful year in a long time. “A real record-breaking year,” enthuses the CEO. “Our turnover went up

by more than 30 per cent, and we were able to increase our staffing at a similar level.” In addition to this, the company’s second new branch was founded in Milan, alongside the one in Pforzheim, Germany. Ultimately it was possible to turn the debacle into an opportunity. “We have learned that it is not enough to adhere strictly to all legal provisions,” says Oberli. “You also have to personally ensure that ethical precepts such as human rights and environmental protection are followed – and indeed not only in your own company (which is obvious to us!), but also among all customers and suppliers.” Consequently, efforts are now made to compel all members of the supply chain to adhere to ethical regulations. In the meantime, Argor-Heraeus has become an active member of the Council for Responsible Jewellery Practices (CRJP) and subscribes to the World Check database, a service that monitors all business dealings. Protection is important in the Ticino factory too. In the past there have been various attempts at theft, but each time, the perpetrators have been caught. Oberli believes that monitoring the material flow is just as

important as security checks. What goes into production and what comes out again is measured, weighed and checked to the thousandth gram. Perfection lies in the details. Each department has its own vacuum cleaner, which is regularly scoured for residues. Staff work clothes are not thrown away but burned in order to reclaim precious metal remains. Even 100 grams gathered this way constitutes quite a substantial amount given that the price per kilo is CHF 20,000. Also, for security reasons, all the gold that can be seen in the factory area is only part of the material that goes in for processing. By far the greatest proportion of the precious commodity is stored in a vault protected by steel bars behind 6-ton steel doors. Here, all the gold bars are stacked on ordinary pallets (the type used by the Swiss Federal Railways) as though they were filled with chocolate. Oberli tries to rattle the door of the vault. “I feel reassured when it is locked,” he says with a laugh. //



The PwC “Ulysses” team (on the left, Adnan Akan) got to know the two sides of India: dream tourist destinations and the tough reality of life in the slums.

“Ulysses”: Comparing projects for street children in India.

In India, thousands of street children are forced to survive on their own. According to a study by the Indian foundation, Childline, more than 100 non-governmental organisations (NGOs) all over the country are trying to help these children. In turn, international child protection organisations and private individuals are supporting the NGOs with funds and assistance. The problem is that it is impossible to compare the work of the NGOs – making it difficult to select the most suitable organisations for the tasks. On the initiative of Childline, the aim was to establish a framework that helped to make the NGOs comparable in terms of reporting and invoicing. Furthermore, non-financial, qualitative standards were required that made it possible to assess the work of the NGOs. No problem, thought the “Ulysses” team from PwC as they headed to India in 2001 to support Childline in this task. “We had totally underestimated this task,” recalls Adnan Akan, who was 31 at the time and is now an Assurance Partner at PricewaterhouseCoopers in Istanbul. “We thought creating such a framework would

be a routine task, just like it is at home in our normal jobs, and that the employees of the NGOs were clients.” Only when the highly courteous employees at Childline were unable to conceal their disappointment any longer, did it dawn on the four-man PwC team that a different approach was required there. “We ventured a new beginning and started right from scratch again, even though time was short. We consciously laid aside our routine thinking. Instead, we listened closely to what people were saying to us. We travelled through India with our eyes wide open and dispelled our prejudices. And suddenly we understood more!”

That was six years ago. Today, Adnan Akan is convinced that you have to become part

“Ulysses” is a leadership development programme of PricewaterhouseCoopers. The participating PwC partners are nominated by their country organisations. In multicultural teams (comprising three to four people), they spend two months in developing countries, working together with social entrepreneurs, and non-governmental and international organisations. The selected projects offer the chance for participants to put their professional expertise to good use in a totally different environment.

of the problem to become part of the solution. “In an unfamiliar environment, you have to be open to other ideas and other ways of working; you almost have to be a novice at work to really achieve something.” Even today, he is still impressed by the Indian employees of the NGOs who strive to achieve something without any infrastructure, sitting on bare soil in many cases. “I didn’t completely come to understand the mentality of the NGOs in those ten weeks,” he says. “But it brought home to me that money is not the only motivation in work.” The project was successfully concluded for all those involved, despite the initial difficulties. Adnan Akan is still able to put what he learnt during that assignment into practice today. “I listen to every new client attentively and at length, without forming my opinion beforehand and without preparing ready-made solutions in advance. I want to see the whole forest – not just one tree.” //

Do solutions always need a problem?*

Nicolas Chanton, PricewaterhouseCoopers Geneva



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ceo* forum/the big picture/detail

Matthias Remund

“In key strategic areas you need to be familiar with the important details to be able to ask the right questions.”

06



Patrick De Maeseneire:

“Every major decision taken by the management needs to be considered in light of how it affects the business as a whole.”

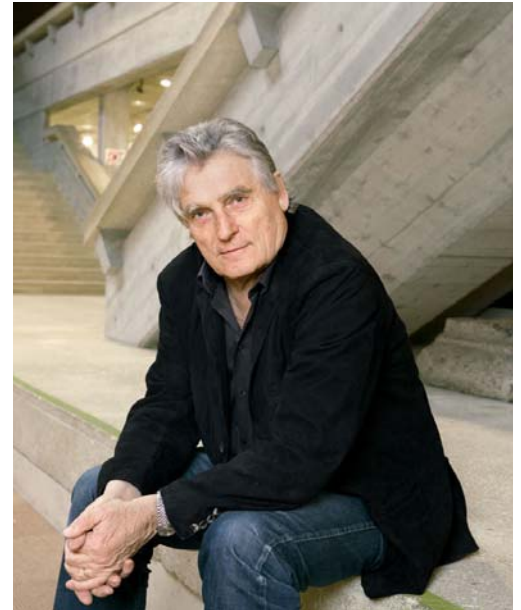
08



Prof. Dr Susan Gasser:

“The job of a scientist is to make sense out of many small details.”

10



Léonard Gianadda:

“I am obsessed with details and like to have everything under my control. That’s simply what I’m like – it’s a question of character.”

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