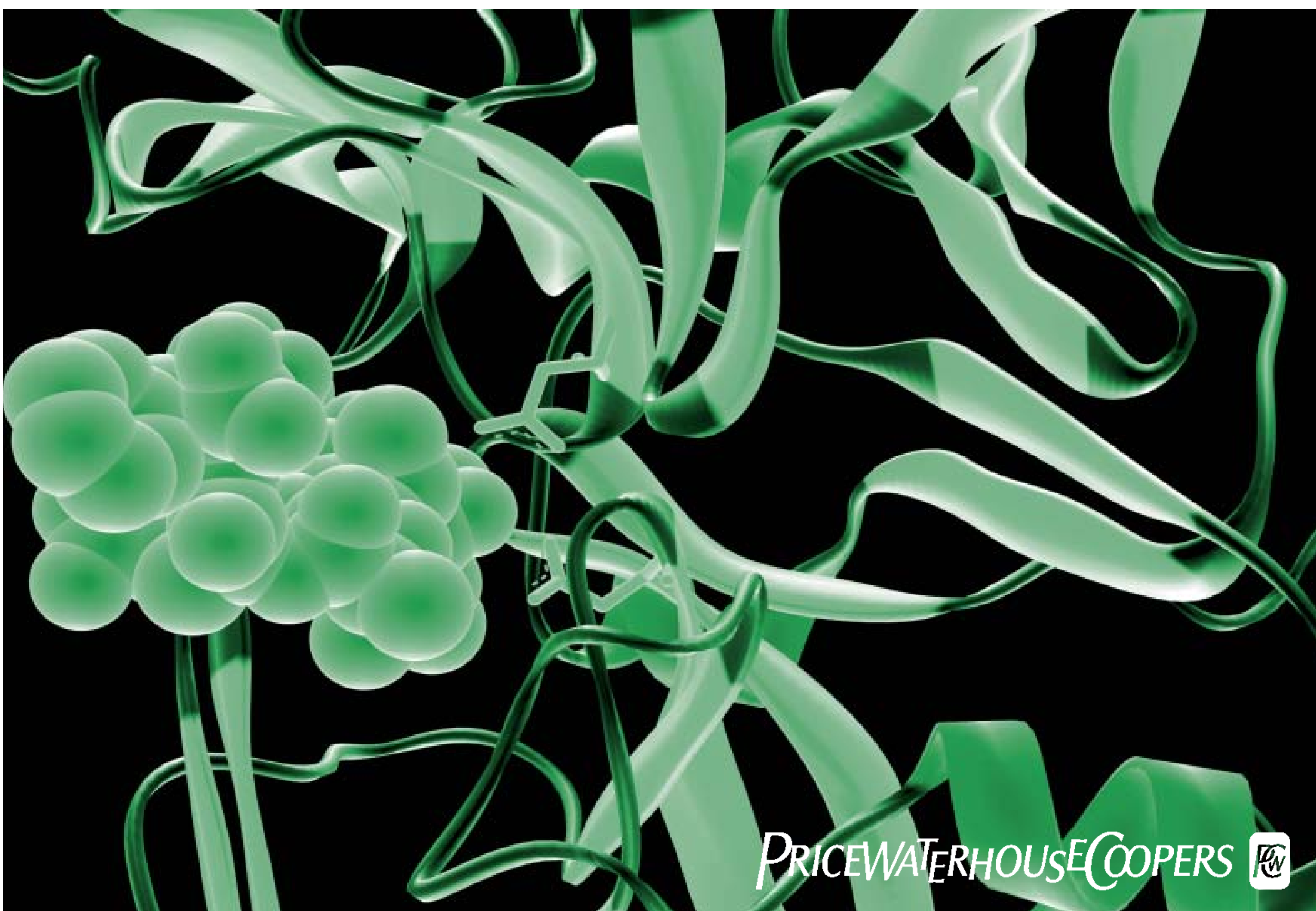
ceo*

The magazine for decision makers. Dec. 2007

Innovation. What it takes to transform ideas into value.
Rhaetian Railway. Setting the trend for the future.
Red Cross Ball. Why you can't put a price on charity events.



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Innovation is the basis of future economic success. So it's no wonder that managing innovation is a key issue for CEOs.

Innovation is the basis of future economic success. So it's no wonder that managing innovation is a key issue for CEOs.
But isn't innovation management a contradiction in terms? Surely innovation is a creative phenomenon that defies rational categorsation?
In our dossier on innovation, a number of companies describe why they deserve to be called innovative – and why innovation will assure their ability to operate successfully in the future.

Innovation in the services industry

Mostly when we hear the word "innovation" we think of patents, new products and new technologies. Innovation and services somehow don't seem to be so closely associated. And if they are, it tends to be in the context of traditional services geared to individual people.

By contrast business-to-business services, which account for the lion's share of value creation in the services industry, are rarely at centre stage – even though innovation is probably even more commonplace in services than in manufacturing. Despite this, in a study conducted in Germany, PricewaterhouseCoopers found that 57 per cent of services companies have no clear innovation strategy, 80 per cent have no innovation management system, and 66 per cent do not systematically measure the results of their innovation work.

Structured innovation process

The study prompted PwC in Germany to design and implement its own structured innovation process. In Switzerland we are also taking steps in this direction. At the same time we are supporting the Federal Institute of Technology in Zurich with research into the fundamentals of innovation in the services sector, in the conviction that this is an important factor in assuring Swiss competitiveness.
After all, around two-thirds of all companies established in this country every year operate in the services industry.

Interplay of emotion and reason

The companies featured in our dossier, and our own efforts, are an illustration of the attempts being made to gain rational mastery of innovation. But at the same time everyone realises very well that innovation is driven by emotional forces: ideas, creativity and intuition. Is this, too, a contradiction in terms? Or can emotion be tamed by the rational mind and put to good business use? Or is it emotion that gives rationality a sense and direction in the first place? This is the fascinating issue that will be discussed by the four people featured in our forum.

I wish you an enjoyable and stimulating read.

Markus R. Neuhaus

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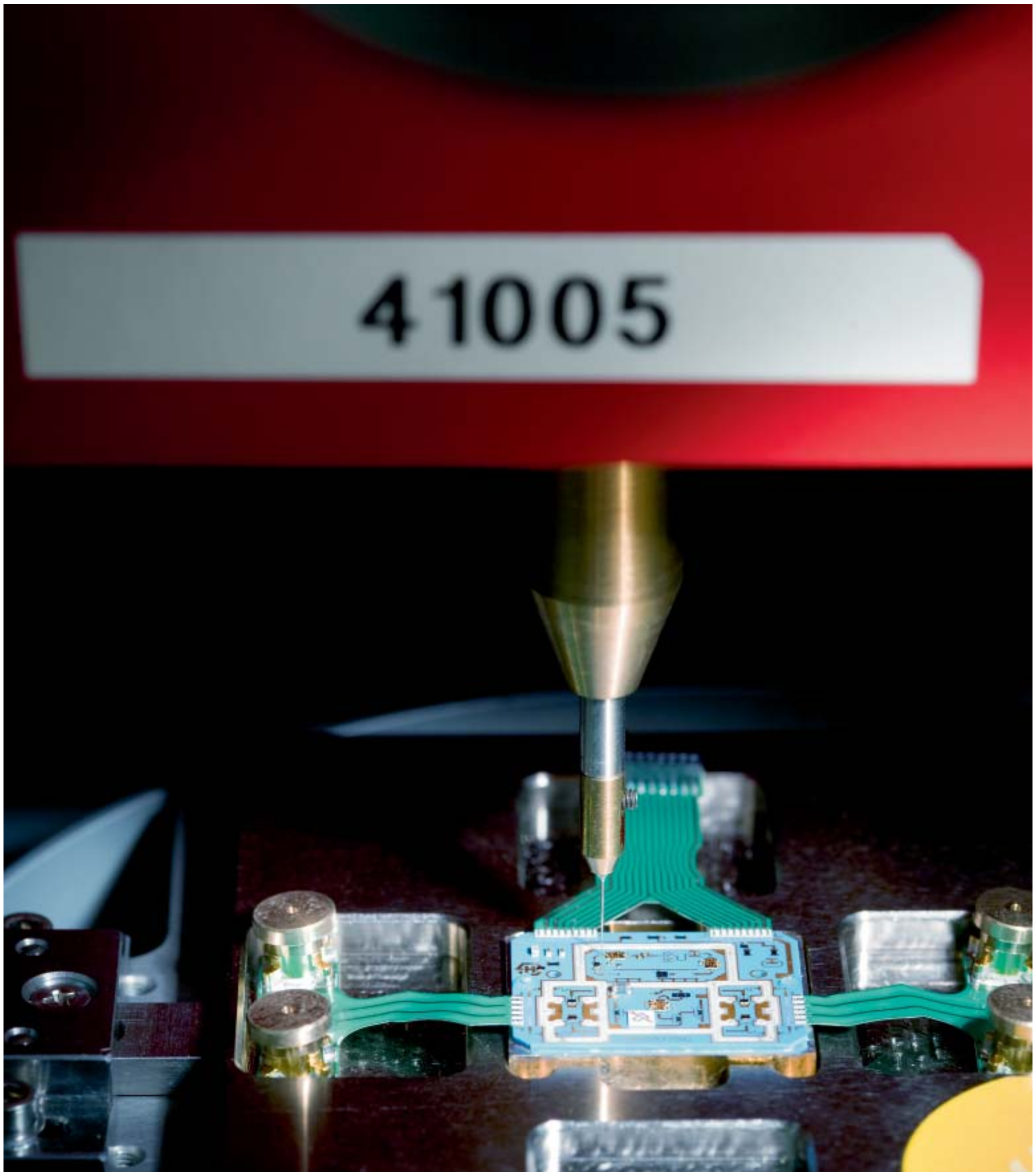
pwc expertise

Cover picture: Aspartyl Protease, Actelion



Dossier Innovation

Marc Bürki: Our relations with our customers are mainly on-line. Under these circumstances, it is a real challenge to build up a personal or even an emotional relationship.

Marc Bürki is the CEO of Swissquote, a Swiss on-line bank which serves around 85,000 customers, manages CHF 6 billion and employs over 200 people.

We are a technology-based bank. This means that we provide our customers with an information system, but they must make their investment decisions themselves. For a technology-based bank, an engineering background such as mine is without doubt a good foundation. I learned as a student how to tackle problems, and this was an advantage for Paolo Buzzi and me when we founded Swissquote together. At the time we did not know much more than that we wanted to establish a bank. We sat down and worked through the Swiss Banking Law, and by the time we had finished, we knew precisely what was needed to set up a financial institution in Switzerland. Banking is a very rational business, controlled by numerous regulations. On the other hand, I am running a technology company, employing a variety of people – from physicists and mathematicians to engineers and people with classic professional banking qualifications. These employees come from15 different countries and have cultural backgrounds which vary widely. So of course emotions play a major role in management. Also dealings with software developers need to be handled with a lot of sensitivity. My work therefore involves a continuous balancing act between rationality and emotionality.

We are a classic second bank – all our customers have another bank, via which, for example, their payments are processed. Without doubt, these people bring their investments to us as the result of rational consideration – our fees are lower than those of the usual banks. We also offer a whole range of information and analysis tools. But what counts above all is that our customers belong to the Internet generation; they are "self-directed" and do everything possible for themselves, whether booking a hotel room or buying shares on-line. Things happen faster on-line, and you can have everything as you want it. You become an active part of a process – but in return you expect to make savings.
We built up our business according to a clearly defined structure. To begin with, many of the transaction orders were handled by telephone via our call centre. We then undertook regular analyses to find out which stock markets were generating the most orders, and introduced them on-line in sequence. Now it is possible to deal on-line, via Swissquote, with all the world's major stock exchanges, and 250,000 securities are available on our system platform. For this reason, when expanding our services, our priority is to simplify the complexities of the investment universe for our customers. One thing we do, for example, is seek to quantify the risk a customer is prepared to accept. Our system uses the individual data to calculate a figure which reflects the risk potential. This method is called Value at Risk and is also used by traditional banks, although only for institutional investors. We provide it for all our customers. They can then find out, for example, that there is a 95 per cent probability that they will not lose more than a specified sum in the next 24 hours. This is a difficult but crucial figure, as no customer wants to lose anything. But our system shows the worst-case scenario and provides information on which securities are bringing the portfolio down and what could be done to restructure it.
Our relations with our customers are mainly on-line. Under these circumstances, it is a real challenge to build up a personal or even an emotional relationship. We are not private bankers and do not make investment recommendations, but there are customers who nevertheless need a kind of sparring partner with whom they can discuss their investment strategies. We are therefore establishing a kind of business lounge at our new office on the Bahnhofstrasse in Zurich, where people can simply drop in and exchange ideas with other investors or with one of our employees. Customers call in spontaneously even now at our current head office in Wallisellen, and our office in Gland.
To cater to those customers who prefer physical contact with us when opening an account, we also offer the possibility of opening a Swissquote account, not on-line but at a Swisscom shop of their choice. This facility is regularly taken up; around 5 per cent of accounts are opened using this route. //

Photo: Cédric Widmer

forum2. emotion/reason

Martin Knoll: Two-thirds of my success depends on how well I manage to motivate people and communicate ideas to them. And that is only possible with emotions.

Martin Knoll has been the CEO of McDonald's Switzerland since 2003. In 1976, McDonald's opened its first Swiss restaur-ant in Geneva. Today, the company has 144 locally based restaurants throughout Switzerland and employs around 6,200 staff.

Rationality does not surface without emotions, for emotions are positive and important mainsprings. However, rationality helps to channel feelings and, where necessary, to control them. In our business in particular, success is based on the individual. As soon as we work with people, emotions are always in play – whether we want them to be or not. That is why we must always be aware of them.
Two-thirds of my success depends on how well I manage to motivate people and communicate ideas to them. I am convinced this is only possible with emotions. One of my key tasks is communicating to my employees, franchise partners and suppliers where we are going and how we can be even more successful – or simply how we can keep enjoying our business. In the process, I take care always to be authentic. Because if you are not authentic, people will immediately see through you.
Particularly in customer relationships – and especially in the guest relationship at McDonald's – authenticity and emotionality are pivotal. The friendly, open smile is an important pillar of our success. Of course, the products need to be fresh, of supreme quality and presented in the right way and style. But the personal contact between employee and guest is very, very important. It gives me genuine pleasure to see satisfied guests and laughing children in our restaurants. That's when I feel that my work is worthwhile. McDonald's is a very emotional brand – precisely for this reason!
Emotions also play a central role in the dialogue with the public. With the topic of food safety – think BSE or bird flu – the discussion is driven by fear. Fear is necessary to curb excessive courage. Most of the time, however, it is a poor advisor. Another highly charged topic is the increasing obesity in our society. There is a risk that the food industry will be made the sole scapegoat for this social problem. But it is not just about what people eat. It is also, and much more, about how they live and the fact that they generally don't do enough exercise. That is why the obesity problem must be tackled from different angles.
In the discussion, we are trying to make clear that the problem is a social one. However, we also assume our share of the responsibility. Our initiative "it's what i eat and what i do … i'm lovin' it" for a balanced lifestyle is therefore based on three pillars: varied range of quality products, transparent nutritional information, and motivation for an active life and more physical exercise in everyday life. I believe it to be central that we commit ourselves with the power of our brand to ensuring that young people in particular enjoy sport and exercise more. Commitment to the big social issues of our time will continue to grow for companies in the future. And these issues are practically always emotion-driven.
Personally, I am someone who doesn't like talking about emotions. When I'm annoyed at something, I can control my anger pretty well. I don't fly off the handle, nor am I one to yell and shout. Even when I get annoyed, I can close the loop and consider whether I have done something wrong myself. I usually sleep on it, and some of it dissipates; afterwards, I can approach the things in a more constructive manner. However, negative emotions are also an important trigger – to improve things and to address problems.
The delicate balance between rationality and emotionality is, in my opinion, an artificial creation with many managers. Managers probably do not show enough emotion. Perhaps they fear that emotions could be interpreted as weakness. Yet it is easier to put ideas into practice when you are authentic and use emotions. After all, it is very rare that you can move things on your own; you normally need others for it. And that is only possible with emotions. //

Photo: Helmut Wachter

Professor Dr Miriam Meckel: Emotions reduce complexity, allow us to live in harmony with our decisions and make us happy.

Dr Miriam Meckel is professor of corporate communication at the University of St. Gallen and executive director of the Institute for Media and Communication Management. Her latest book "Das Glück der Unerreichbarkeit – Wege aus der Kommunikationsfalle" ("The luck of unattainability – ways out of the communication trap") has just been published.

Communication is always highly emotional. This is also true of corporate communication. Frequently, here, technical and expert arguments are changed or superseded by emotional influences. For instance, if the chairman of the board makes an unplanned personal comment at a media conference, it will be in the papers the next day – under certain circumstances, the good annual report may no longer be of any importance. Human emotions cannot be decreed or controlled. This makes them more exciting than facts and figures.
It is interesting that we are now also very preoccupied with the role of emotionality in business. For a long time, science fostered the image of the Homo economicus: a type of person who directs his actions rationally and solely on the basis of the information available to him and makes his decisions according to economic principles to maximise his personal benefit.
The American economist Herbert A. Simon toppled this theory with his spectacular research into decision processes in commercial organisations, for which he was awarded the Nobel Prize in 1978. The take-home message of Simon's insights is that a company cannot maximise its profit through optimal decision making. And individuals cannot do it either. People like to think that they can act purely rationally, but they cannot. Normally, we don't "maximise" and optimise; we "satisfice", a neologism from "satisfy" and "suffice". One example: The "maximiser" conducts interviews with 25 people when recruiting a new executive member of staff. By using this elaborate process, he wants to ensure that he makes the best choice. After lengthy evaluations and considerations, he then recruits a person.
In the same situation, a "satisficer" is better off because he relies on his gut instinct. Ultimately, however, the decisions of the maximiser are also emotional, because he cannot rationally cope with the wealth of information. In the end, he allows himself – unknowingly – to be guided by his experiences, and his personal preferences and dislikes. Afterwards, of course, he will be racked by doubt as to whether another candidate might not have been better after all.
In most cases, maximisers do not perform as well as satisficers: they take on too much, are dissatisfied with their decisions and achieve worse results. I am convinced that emotions play an important role in our professional and private lives. They reduce complexity, allow us to live in harmony with our decisions and make us happy. I very often rely on my gut instinct, and my experiences with it have been good.

A person's conscious handling of his or her own feelings and the feelings of others is a quality that is much in demand today – also and particularly in management. The trigger for this development was the book "Emotional Intelligence" by the American psychologist Daniel Goleman, which in 1995 signalled a paradigm shift, at least in the USA. In American business seminars, ever greater importance has been attached since then to "soft" factors such as emotion and motivation in company management – while in our country value is often only attached to management strategy and control. Rational managers believe that you only have to compile a sufficient number of facts in order to be able to make the right decision. I am convinced that it is essentially the other way round: We often know intuitively within a fraction of a second what decision we want to make, and then we collect the necessary arguments to underpin the decision rationally.
This is also confirmed by empirical research. It shows, for instance, through the introduction of game theory in economics, that a person who thinks on a purely rational level does not exist. In this respect, we can safely say goodbye to Homo economicus. //

Photo: Andri Pol

Samih Sawiris: A good businessman's most important attribute is the ability to look into the future, spot possibility, have an idea and believe in it.

Samih Sawiris is chairman of the Egyptian company Orascom Hotels & Development, which among other things builds resorts and hotel cities in the Middle East. Sawiris is planning a luxurious tourism project in Andermatt with five hotels, villas, a wellness centre and an 18-hole golf course.

For me, rationality and emotionality are like two sides of the same coin: with a slightly different imprint but ultimately of equal value. You can break a business idea down into its individual parts for months, discuss and analyse it, make a whole number of calculations and forecasts – and even then you still cannot guarantee that it will be a success. However, numerous examples show that the craziest ideas can turn out to be global success stories.

In the Middle East, we may perhaps work slightly more slowly than people in Europe. That is why a simple basic rule applies for us: If we do not get going before the others, we cannot win. In other words, we need to see something in advance, something that others cannot see or haven't yet seen. I believe that a good businessman's most important attribute is the ability to look into the future, spot possibility, have an idea and believe in it. And when you have gotten to the stage of believing in an idea, you'll always find a way of realising it.

Although I come from a well-off family, I have always enjoyed earning my own money. I discovered my first market niche at the age of 24. Nobody in Egypt built fibreglass boats, but there was a big demand for them from the police, army and sea anglers. So I built fibreglass boats. Business was booming at our company; we were the only manufacturers, and our books were full all the time. When competitors arrived on the scene, I stopped. In places with lots of people, I feel hemmed in, and I'm not one to jostle for the best places.

I have now been in the tourism industry for 17 years. A very emotional sector, because it's all about people, their wishes, their hopes, their dreams. My maxim is always doing everything to make everybody happy – the people who are at home in a tourist location, as well as the guests that come on holiday. Take our showpiece project El Gouna on the Red Sea. We could have built a resort in the well-known holiday resorts of Hurghada or Sharm el-Sheikh. Instead, we built our own town, in line with our expectations of fine architecture and extensive comfort. Today, thousands of people live and work there; tourists and locals feel at home, people are buying houses and investing. When we leave aside the emotional aspects, this was only a barren piece of desert before we arrived. We have turned it into a dream destination.

With me, the decision for or against an investment is "brain" or "no brain". With a "brain decision", I weigh up the pros and cons and consider whether the risks are possibly greater than the chances of success. With a "no brain" decision, every single criterion is met; I don't have to think at all! Andermatt was a "no brain" decision. I saw the place and knew: This is where I want to build a resort. And I am sure that everyone will benefit from it!

There are different phases to a major tourist project like Andermatt. First the emotions and the enthusiasm: you dream what everything could be like, you plan, romanticise, fantasise. Then you have to listen to everyone involved. Authorities, general public, army, conservationists – all give their input, and the architects work to reconcile it with our ideas. This phase is followed by one of disillusionment: the cost of all these requests! Of course, it would be nice to have the cantonal road built underground, and sow a big meadow over the top of it. But spend 25 million on it? Whether you want to or not, you'll probably have to bow to reality.

You can only develop trust by engaging in permanent dialogue with each and every participant. This means that you have to be flexible, make compromises and, when necessary, forge new paths. As a result, a project grows organically, and that is what I like. In such complicated processes, many investors get nervous because they want to see a profit too soon. We can afford to think in time frames of between 10 and 15 years. I don't like playing at the same level as others, because I am a bad loser. I need a head start with each race; otherwise I don't even bother to line up. //

Photo: Markus Bertschi

Innova

On transforming ideas into value.

tion

Twenty-six Swiss firms figure among the 1,000 companies that invest the most in research and development worldwide. A substantial number for a small country – and an indicator of innovation. Innovating is the key to growth. It requires discipline, though, and depending on the industry, a strong feel for trends. Ultimately, the only meaningful definition of innovation is success on the market. Innovation is not what the innovators offer but what the customers accept.

Text: Bernhard Raos
Photos: Roth und Schmid

Is man a born innovator? Professor Dr Carel van Schaik, director at the Institute of Anthropology at the University of Zurich, is seeking an answer to this question among our closest relatives, the primates. To summarise van Schaik's thesis: "Primates avoid innovations, at least for as long as is possible." This is different with humans, and he ascribes this fact to innovative, social learning. This cultural evolution is the key to the development from ape to human. Observations on Sumatra support this assumption. There, the anthropologist observed orang-utans living in the wild. These primates are known for their ability to use tools in captivity but not when they live in the wild. Yet van Schaik and his team observed how a group of apes broke open the seeds of a special fruit with wooden sticks. These seeds are protected by hairs that cause great pain when touched. With neighbouring populations of orang-utans, the fruit remained untouched. According to van Schaik, there is only one explanation for this: one of the apes must have invented this technique and passed it on – not genetically but through social learning. Although orang-utans are usually loners, they spend time with one another and can learn from one another, thus preserving innovations. Applied to Homo sapiens, this means that the manner in which people interact influences their culture of innovation. In order for them to be able to develop further, they need a feedback process.

In our virtual times, the tools have changed – but not the principle. Today, progressive networking is becoming the engine of development. A good example of this is the so-called Innovation Jam at the technology company IBM. Forty-six thousand ideas were compiled from employees and customers around the world via the Internet. Lively blogs were created for the individual suggestions. "Somebody had an idea, and somebody else gave their opinion on it," says Daniel Rüthemann, country general manager at IBM Switzerland, describing the process (see also page 20). In a second phase, the most promising innovations were filtered out from the host of ideas received and commented on. These were then refined into project drafts and converted into business processes. "True innovation aims for benefit, both for customers and for the company," says Rüthemann. Ideas alone are not enough.

Success in the market is all that counts

"Only artists and academics are permitted to innovate for innovation's sake. In a company, it's about reaching strategic goals. Innovation is the transformation of newness into value," says Michael Schrage, innovation expert at the Massachusetts Institute of Technology (MIT). In the magazine "GDI Impuls" (autumn 2007), Schrage dispels a few myths about innovation.

First, the myth of "good ideas": According to Schrage, a company does not need any good ideas to be innovative. Good ideas are hugely overestimated, he says. Second, the myth of "resourceful minds": No company needs to recruit specialists to be innovative. There's never a lack of people with ideas. The plan to recruit innovative people in order to become more innovative is a waste of time and money. And third, the myth of the "customer survey": The idea of having to "listen to the customer" is a waste of resources. Instead, companies would do

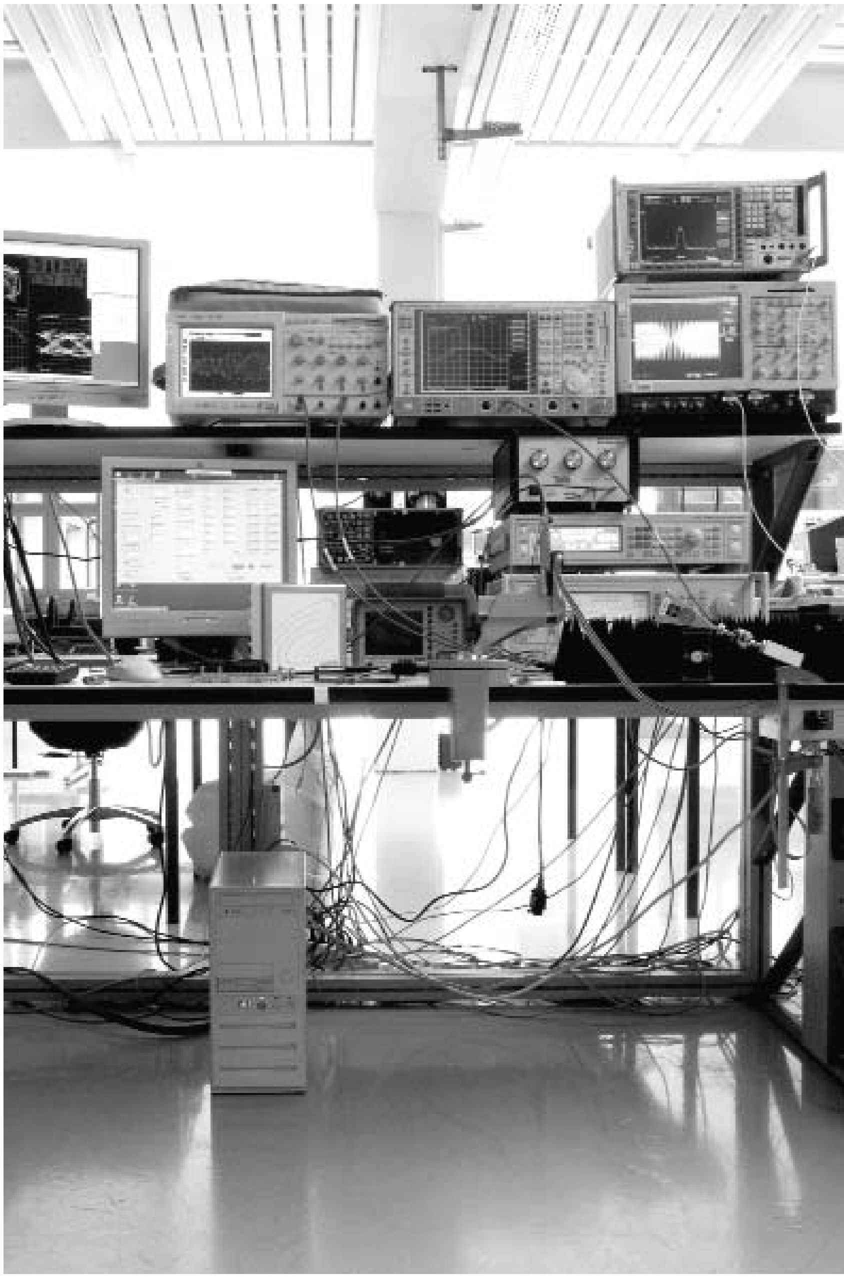
better to observe their customers, because frequently the latter's statements do not match their actions.
Ultimately, the only useful definition of innovation is success in the market. According to Schrage, innovation is not what "the innovators offer but what the customers accept". He cites the example of the mobile phone. Most mobile phone users use less than 20 per cent of the features offered by their devices. Nevertheless, mobile phone manufacturers are deemed to be very innovative. "Every year, they launch models on the market with an ever greater number of features that are used by an ever smaller number of customers. What we really need are innovations that bring added value for the user."

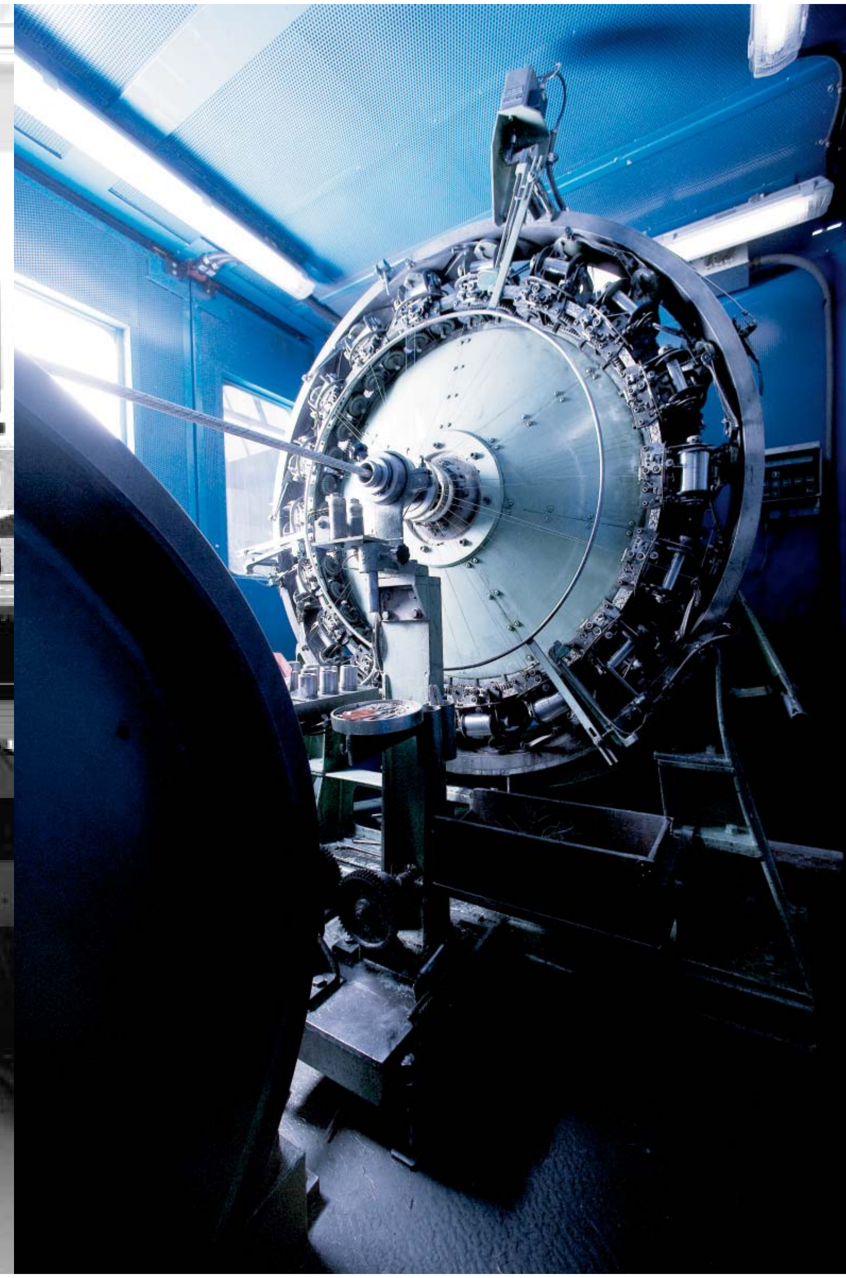
Investing in research and development

According to statistics, Switzerland registers a substantial number of patents – an indicator of innovative strength. The country leads both with regard to the number of patents per capita as well as with regard to the number of patents per million spent on research. In 2006, Switzerland registered 3,400 international patents, only 500 less than, for instance, the new economic power China. However, other countries such as Germany and Finland are increasing at a faster rate. According to the latest Swiss Institute for Business Cycle Research (KOF) innovation survey, which was carried out in 2005 on behalf of the State Secretariat for Economic Affairs (SECO), the innovative performance of Swiss industry has been stable since 1997 but is at a lower level than at the beginning of the 1990s.
Nevertheless, 26 Swiss companies still figure among the 1,000 companies that invest the most in research and development worldwide. This is also reflected in the economy. Only 0.1 per cent of the world's population lives between Lake Geneva and Lake Constance, but the Swiss generate 0.8 per cent of the world's income.
For Jean-Paul Clozel, CEO of the biopharmaceuticals company Actelion in Allschwil, in the canton of Basle Land, Switzerland still offers the best environment for innovation: "In the Basle region, we have a pharmaceuticals cluster with large companies and other biotech companies. Furthermore, the Federal Institutes of Technology in Zurich and Lausanne are international leaders in their fields." This helps in recruiting specialists. Actelion employs staff from 40 countries. With Tracleer, the company has developed a drug to combat pulmonary arterial hypertension. To date, Tracleer has already generated sales worth billions (see also page 23). Actelion invests a quarter of its profits in research and development – a very high percentage even by international standards.

Asking the right questions

What role does the head of a company play in the innovation process? According to MIT expert Schrage, ultimately it's all about living according to the credo of the investment guru Warren Buffett: "You have to buy a dollar for fifty cents." Urs Kaufmann, CEO of the connection technology corporation Huber+Suhner, sees it differently: a balance between new technologies, product developments and product improvements is what's important. "Whereas the product improvements bring money quickly, because they extend a product's life cycle, developments and new technology require a medium- to long-term horizon."
For Kaufmann, too, the market is the benchmark (see also page 18). Together with a team of internal and external experts, his task is to ask the right questions: "Which customer requirements do we meet, how big is the market, do we have the right sales channel?" According to Kaufmann, innovating requires discipline. And depending on the industry sector, a strong feel for trends.
Dirk Trappmann, head of the cosmetics company La Prairie Group, whose registered office is in Zurich, sees such a growth driver for his company in the increased numbers of older people in the population. La Prairie primarily sells emotions, because human skin does grow older: "We can influence the optics and slow down the ageing process by between five and ten years," he says. This meets the requirements of the target group. In line with the zeitgeist, La Prairie currently offers its well-heeled customers the complexion they want with "Pure Gold Serum", a skincare serum with fine microparticles of 24-carat gold. An ideal blend of mysticism, lifestyle and high quality – after all, the ancient Chinese always swore by the healing powers of gold. "To date, none of our other products has established its position so quickly on the market," says Trappmann delightedly. Last year, the La Prairie Group had a turnover of CHF 354 million.
Innovation is the key to growth. That is particularly true for companies whose core business is coming under pressure, such as, Swisscom. In the area of voice communication, prices are being eroded. Last year alone, the telecom company lost half a billion francs in turnover. "When the prices for a dominant product collapse as dramatically as this, it probably needs between 30 and 40 new products to make up for it," says CEO Carsten Schloter. His company is driven to innovation – in a market where nobody can say today what tomorrow holds (see also page 28). This requires the courage to take risks and to handle possible solutions creatively, evoking parallels with our ancestors. When they left the rainforests two million years ago due to a dramatic change in the Earth's climate and moved onto the savannah, they tried out different strategies for survival. They used new tools, hunted in groups and defended one another against predators. Otherwise they would have died out.





Fully connected.

Huber+Suhner, with offices in Pfäffikon and Herisau, is a global player for electrical and optical connection technology. The technology group exhibits a high level of innovation.

At first glance, the huge hall at the edge of the village of Pfäffikon in the canton of Zurich looks like a large weaving hall. The basic material, however, is not thread but purest copper. The rolls of wire, which weigh tonnes and have a diameter of 8 millimetres, are used for cables of differing strengths, the thinnest of which is just 0.12 millimetres. The goods that are ultimately rolled up and ready for shipment after a multistage refinement process in the cable factory of the connection technology group Huber+Suhner (H+S) are specialities. Other companies supply mass goods. “Thin-walled, perfectly insulated cables are decisive for our market success,” explains CEO Urs Kaufmann.
For example, between 2,000 and 3,000 metres of cable is laid in every car. For H+S only 30 metres of that is interesting – in the area where more and more data are being collected in the smallest space in the same wiring harness, for example to provide information about tyre pressure or the distance to the car in front. The more intricate the on-board electronics and the higher the networking requirements, the better for the cable specialist. The insulating

Urs Kaufmann

FACTS AND FIGURES

Huber+Suhner Group is listed on the stock exchange and is present in more than 60 countries, with 17 subsidiaries and representations. Beginning in 2008, the group will be structured in three divisions: high frequency, low frequency and fibre optics. Production is in Switzerland in Pfäffikon in the canton of Zurich and in Herisau in the canton of Appenzell Ausserrhoden, as well as abroad in Poland, China, Malaysia and Brazil. As of mid-2007, the company had 3,386 employees, of whom just under half work in Switzerland. In 2006, net sales were CHF 655.2 million, with group profits of CHF 70.4 million.

www.hubersuhner.com

process is done using a procedure that the company has developed itself, so-called beam cross-linking. The cables are shot through with electron beams and made temperature-resistant. The booming solar division of H+S also profits from this, as the product manager Max Göldi explains. Using the model of a solar panel, he shows “his baby” – a control element with halogen-free cables that forwards the solar energy from the panel: “We supply the entire connection technology.” The module needs to withstand extreme differences in temperature and is intended to last 30 years.

Reducing dependency

These are just two of many examples of how H+S adapts its basic technologies to specific customer requirements. “We are active in many markets and niches to reduce our dependencies on the usual cycles. In doing so, we focus on sophisticated applications where we can differentiate ourselves,” explains the CEO. A graduate engineer from the Swiss Federal Institute of Technology (ETH) with an additional qualification from the International Institute for Management Development (IMD), Kaufmann knows what he is talking about. When he became the CEO in 2002, he was expected to achieve a turnaround. H+S was in serious difficulty as a result of the crisis in the telecommunications sector. Kaufmann successfully diversified in the areas of electrical and optical connection technologies. The company was back in the black again in 2003.
With 3,400 employees worldwide and a turnover of CHF 655.2 million in 2006, H+S develops, produces and sells components – coaxial and fibre-optics cables, antennae, plugs – and system solutions. In addition to the applications already mentioned, these include lightning protection components for antenna systems and communication networks, high-temperature-resistant cables for rail traffic or customer-specific solutions for testing and measuring devices, aerospace and medical technology.
According to Kaufmann, one of the drivers of growth is the “unsatisfied appetite for ever greater bandwidth in the communication market”. Here, H+S has several strings to its bow and is supplying products for second- to fourth-generation mobile networks. One trend is fibre to the home, where solutions for wiring and fibre

management are supplied from the distribution centre to the home, facilitating telephony, digital television and on-line gaming over the same network. For short ranges up to 800 metres, H+S already manages the data flow cable-free via a 60-gigahertz link: 1,500 A4 pages can be transmitted per second, in other words, the content of a thick book. Kaufmann is delighted that his company is thus setting new standards: “Currently, nobody else is able to offer this technology.”

Innovations like this are good for business and for the company’s image. They originate in H+S’s own R&D department, which occupies half a floor in the company’s spacious premises in Pfäffikon. There, the 60-gigahertz link is already history – testing is currently being carried out on, among other things, a mini-antenna that is integrated into a chip that measures just under a square centimetre. This miniature is intended to replace a system the size of a computer hard disk.

The creative minds at H+S do not have carte blanche to do research. The supplier must align its technology radar properly to anticipate customer requirements. A challenge, for “the number of available options is increasing, whereas the lifetime of a technology is decreasing,” explains Kaufmann. It’s about keeping the famous nose length ahead of the competition. The innovation process proceeds in a systematic way. There is a link on the intranet – with a lamp bulb icon – where every employee can place his or her ideas. The company division then carries out an initial assessment. Every three months, a committee of internal and external experts, including professors from the Swiss ETH, meets up to discuss the entire research portfolio.

The key is to achieve a balance between new technologies, product developments and product improvements, says Kaufmann. Whereas product improvements bring money quickly because they extend a product’s life cycle, developments and new technology require a medium- to long-term horizon. New technologies, however, mean a quantum leap and usually require staying power – it is here that the opportunities and risks are the greatest.

Customer requirements as a benchmark

Before the innovation process starts, the market perspective needs to be clarified. Which customer requirements do we meet, how big is the market, do we have the right sales channel? The CEO of H+S sees “his task in asking the right questions. If a CEO in a company of our size contributes all the ideas himself, there is a great risk that he will work on his hobbies.” New technologies require discipline too. A possible initial application is defined. Using this vision as a starting point, the idea is then expanded laterally, and further applications are sought in other business units.

The innovation process can also stop before the goal is reached. “We set ourselves budgets, both timewise and financially. If we have wrongly assessed the potential or if the market is developing differently than expected, it would be fatal to continue.”

The company has enjoyed two-digit growth over the last two years. And whereas, for instance, the mobile phone market stagnated in the first half of 2007, with high-margin industrial applications there was strong growth. What now? Because H+S is listed on the stock exchange, its CEO is cautious: “We see a good chance of further growth in 2008 as well.”

“We rebuild the company on a daily basis.”

The company has only survived so well because it is constantly changing, says Daniel Rüthemann, country general manager of IBM Switzerland. He sees innovation both as a driver for growth and as life insurance.

Mr Rüthemann, if you enter the word “innovation” on the IBM homepage, the system comes up with 14,216 hits. It would seem to be an inflationary term – please help us with a definition.

Innovation means changing what already exists – a product, a service or a business process – for more relevance and effectiveness for a company or society. Or, put another way: How can a good idea be applied to another business field? The creation of something new that has not previously existed is an invention.

Can you give a more specific example of innovation?

Let’s take the “pay-as-you-drive” system. Thanks to mobile radio-assisted data transmission from the black box of a vehicle, today it is possible to record individual driving costs more precisely, facilitating perpetrator- or user-based insurance premiums. We thus transfer a system that we know from utility bills to the domain of motor vehicle insurance.

Daniel Rüthemann

PROFILE

Daniel Rüthemann, 48, is a native of Zurich and has been the head of IBM Switzerland since 2006. Rüthemann graduated from an HWV (Higher College for Business and Administration) and the Swiss Banking School, and rose through the ranks at IBM: from the sales organisation via the IBM banking solutions business, the management of the Global Services Delivery division in Frankfurt to the management of the Banking division of IBM Switzerland, where he was ultimately responsible for the customer relationship with a major Swiss bank worldwide.

Does innovation always have to have a benefit?
That is the case in our commercial environment. If innovation is not of any benefit to our customers, it is irrelevant for us.

Before you became head of IBM Switzerland, you were primarily active in the banking sector. Can a corporation such as IBM still learn something from banks when it comes to innovation?
Sure. For instance, banks integrated the Internet into their business model very early on, thus opening up a 24/7 channel to their customers. Work is therefore transferred from the back office to the customers who, for example, record payment orders themselves. Furthermore, banks became international and global very early on and opted for the one-company strategy. IBM also runs its company globally and in an integrated manner. Some key impulses for this came from the banks.

Nevertheless, numerous customers still want personal contact over the counter…
That's true. The banks have created an additional channel, without closing the existing one. This conventional channel is still required because many customers do not use computers. But in one or two generations, the picture will probably be different.

Do you believe that a company is innovative per se – or is this only born out of necessity?
The cycles in the IT industry are particularly short. The willingness to change in our company is very strong, perhaps stronger than with many companies in other sectors. But it is ultimately the ability to change that defines our company. IBM has survived every cycle. Every shock, every new technology was integrated into the business model. And our employees know that too. We represent change, and we attract people who are capable of change.

Is this wishful thinking or reality?
People who want to work in a clearly structured environment, with a minimum of change, don't come to IBM. We rebuild our company on a daily basis. I think that this striving for something better, for more knowledge, is something intrinsically human. Of course, this process needs to be well balanced. If you are constantly implementing change on all levels, you will tire people out.

Do you think that innovative business models will in future increasingly become a strategic feature of differentiation?
We adapted our supplier structure and standardised the processes for all 170 country representations years ago – from the procurement of pens to financial resources. This enabled us to save billions. Another example: How do we interact with our customers? Depending on the market, we work with independent business partners who provide market services in cooperation with us. This means that we can also serve local customers as a globally active company. We supply large companies directly.

Can all good solutions be found within the company or are business partners and customers just as important as innovation drivers?
It's rare for customers to want precisely the product or service offered; they also want to purchase in the shortest time frame possible and they don't want to tie themselves to one supplier. How can we convert our standardised models so that they are customised for our customers? Searching for answers turns up feasible solutions that can also be commercialised. Customers thus help us to make the products and services we offer marketable.

And this is probably also the philosophy behind your global, company-wide on-line brainstorming for employees and customers. The so-called Innovation Jam has generated 46,000 ideas so far. How do you find the needles in the haystack there?
The technical answer is easy – with the help of data mining. This enabled the creation of a hit list of the ideas that generated the most interaction. Someone had the idea, and others gave their opinion on it. A kind of ideas blog.

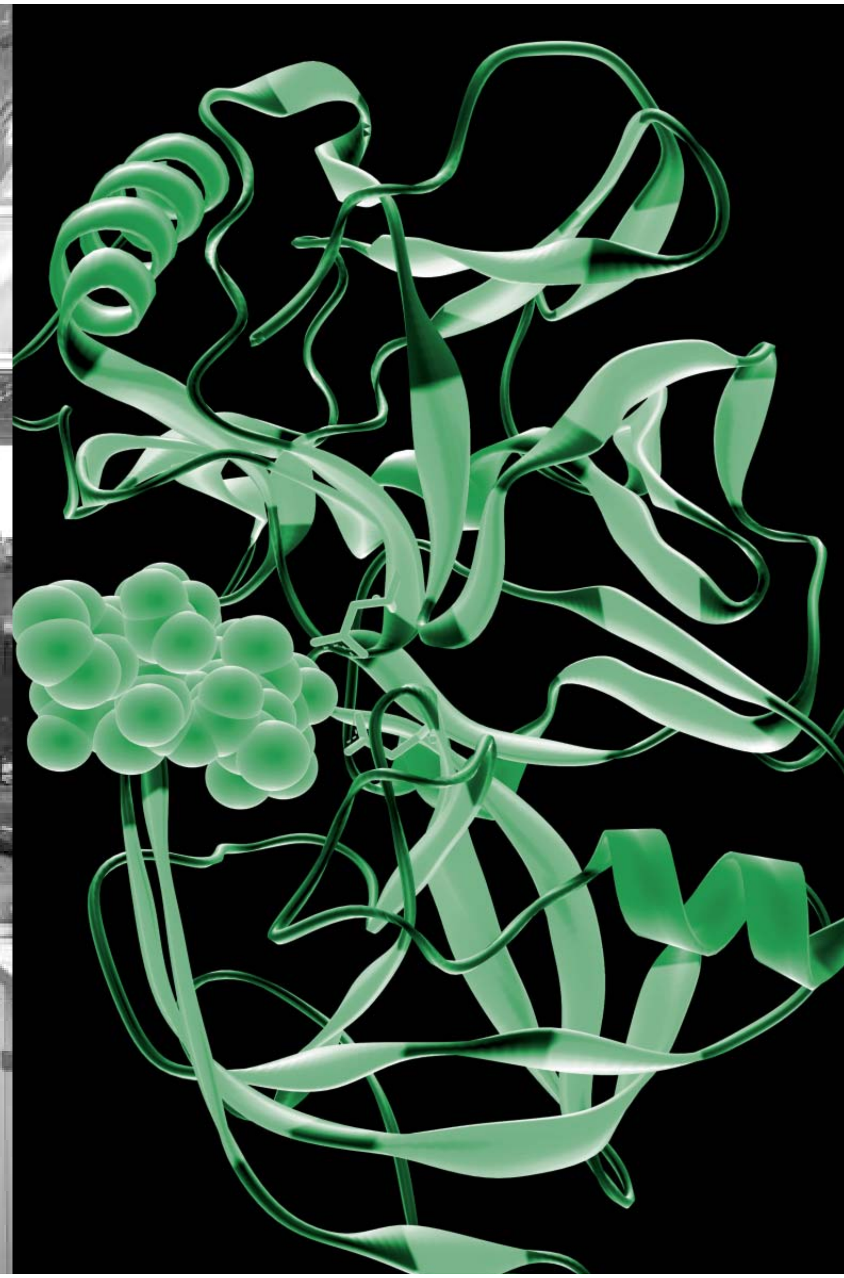
Does that also pay off commercially?
IBM has offered a well-funded innovation prize for the ten top ideas that make a contribution to our company in the broadest sense. There is, for instance, a project for translating between Mandarin and English. Another project is testing how we can provide the same computer performance with less energy. It's not yet possible to say one way or the other whether it will pay off.

Are innovative people also sufficiently communicative? Innovators are often seen as loners.
The charm of our "jam" is that people with ideas can communicate with others. These ideas are refined in the truest sense of the word through dialogue. There are discussions about how plausible and usable the proposals are. We have also set up so-called think places on the intranet where employees can constantly register and communicate their ideas – simply and quickly. But you can't be innovative at the press of a button. Operational day-to-day business is often an obstacle to that.

IBM is putting its faith in virtually active global project groups. Is that effective?
The best communication for my generation is undoubtedly personal contact. We are, however, discovering that the generation of the 18- to 30-year-olds is already communicating in a very different way. When they are gaming, their fellow players are on different continents. They take part in "virtual parties". Interacting virtually and globally is an everyday occurrence for them.

Since 1999, IBM has had a policy of time sovereignty for employees, with no checks of employee attendance. How is this model turning out?
It requires that you trust your employees. Our experience with it is good. The employees can optimise their work-life balance and do not have to plan everything around their attendance times at work. This is also a reason why many people like working for IBM. The results themselves are our control mechanism; and we have not noticed any reduction in performance there.

Let's take a look into the future. Where will your company be in five years' time?
We will continue to consolidate our concentration on the service sector. In doing so, we will expand increasingly from the component business into processes for our customers. We will, for instance, manage human resources or purchasing for customers so that they can concentrate on their core business. Many business processes can be globally standardised.



Medical demand as a benchmark.

The biopharmaceutical company Actelion in Allschwil is a success story. Ambitious goals, team spirit and an open-door policy foster an innovative climate.

"As major shareholders, you could sell your millions of francs of shares and spend the day lying on the beach." This comment triggers general amusement among the management staff at Actelion. CEO Jean-Paul Clozel says that a beach lifestyle is pretty low down on his list of personal priorities: "For me, that would mean less quality of life." His wife, Martine, head of preclinical pharmacology at Actelion, does not see a life of leisure as a viable alternative either: "We develop drugs here that help thousands of patients. There is nothing more fulfilling." And Walter Fischli and Thomas Weller, the heads of molecular biology and biochemistry, and chemistry, "prefer to develop the company further".
CEO Clozel, who was recently voted "Entrepreneur of the Year", sees this team approach as a clear statement: "Without those present and a few more, Actelion would not exist. No CEO, no matter how good he or she is, can develop drugs on his or her own." In mid-November, Actelion was valued on the stock exchange at CHF 6.7 billion. The founders and around a dozen of their partners and employees hold 11.5 per cent of the shares in the company.


Dr Jean-Paul Clozel

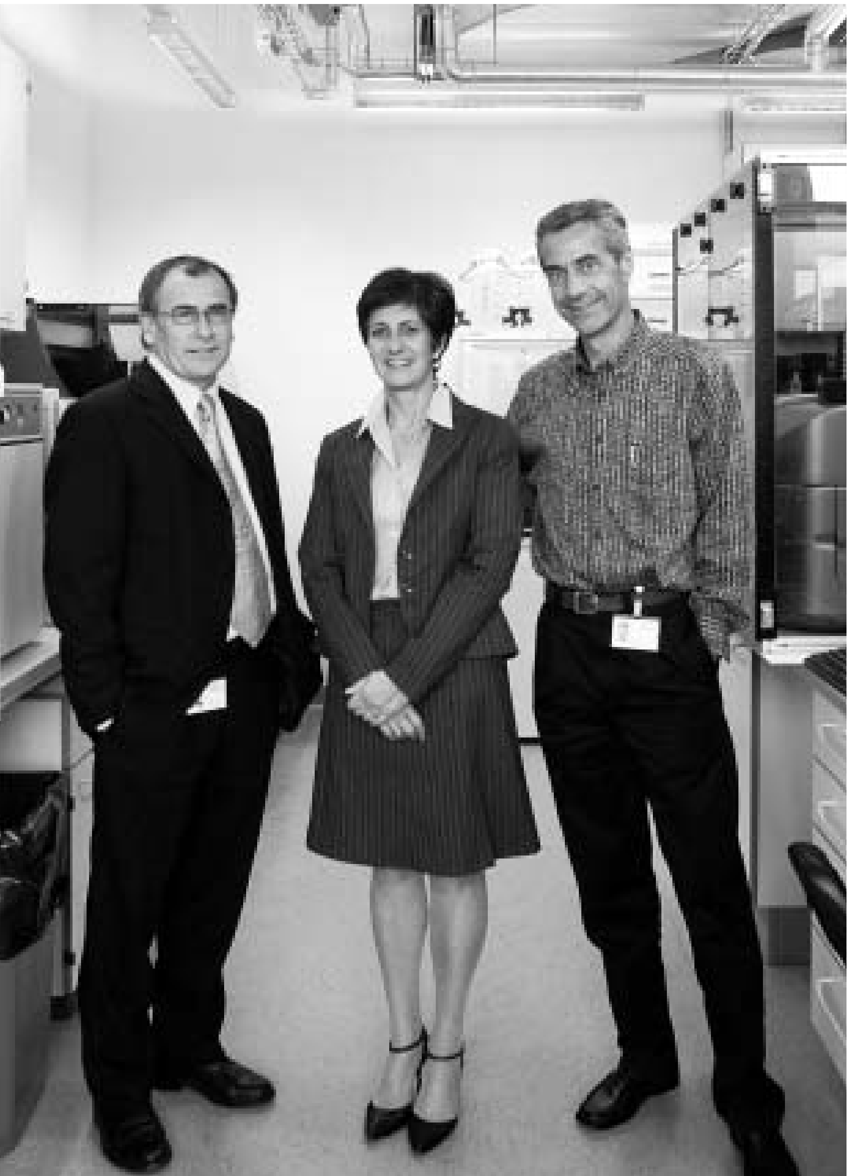
FACTS AND FIGURES

Headquartered in Allschwil, the biopharmaceutical company was founded ten years ago and now employs over 1,500 people. It markets its drugs worldwide through its own subsidiaries. In 2006, the company's turnover was CHF 1.2 billion. The most successful drug is Tracleer, for treatment of pulmonary arterial hypertension. Two other drugs have already been authorised for distribution and are generating revenues; ten agents are currently being tested in clinical studies. Actelion has been listed on the stock exchange since 2000.

www.actelion.com

Driven to independence

This corporate culture results from the still young history of Actelion. Most of the founders – trained doctors and biochemists – knew each other from the cardiovascular research department at the pharmaceuticals company Roche. Martine Clozel then came across research results from a test with pig cells that electrified the whole team – a secretion that narrows the veins: "I wanted to find out whether illnesses such as a weak heart or certain forms of high blood pressure can be explained and combated in this way." Clozel and Fischli subsequently developed with their team a formula that blocked this blood-vessel-narrowing substance.
But then in 1996, when the next phase was to test the drug in clinical trials on people, Roche stopped the project. A huge disappointment for the team: "To implement our vision, we had to become entrepreneurs." And give up secure, well-paid jobs. Instead, the battle for funding began. Roche was not prepared to participate. Nevertheless, they concluded a contract with the Actelion founders: They could take their discovery with them, but would have to pay licence fees to Roche if they were successful. In hindsight, it was a clever move on their part that now brings the pharmaceutical giant a high-digit million sum every year.
The start-up entrepreneurs had to do a lot of convincing and invest their personal savings. In 1997, they finally had the millions they needed. At the time, the team did not yet have any product that was ready for the market. But the risk paid off: The new agent passed all clinical tests, was launched on the market under the trade name Tracleer and catapulted Actelion into the profit zone in record time. In 2007, the company will achieve a turnover of more than CHF 1 billion with Tracleer alone – the drug helps to combat pulmonary arterial hypertension.



Dr Walter Fischli, Dr Martine Clozel, Dr Thomas Weller

Investing profits

Most of the earnings with Tracleer are invested in expanding the company and filling the research pipeline. Ten products are in the clinical trial phase; by the end of 2007, five of these will be in so-called Phase III, in other words, about to undergo the final tests on patients.

The visual calling card is the new research centre in Allschwil – an imposing building with an inviting, artistically designed entrance hall that opens outwards through a glass front. The state-of-the-art laboratories and offices are arranged around a large inner courtyard and are very light and airy. There are standing desks, seating corners and coffee machines – contacts among employees are explicitly encouraged.

"It is a building by scientists for scientists that promotes constant interaction and thus innovation. This is an important part of our corporate culture," says Walter Fischli, who, above all others, has left his mark on the building. And if you look out through the window, you will see a large building site. This is where the new business centre, which has been planned by the Basle architects Herzog & de Meuron, is under construction. Actelion is building its future. "This will not be a monument," says Jean-Paul Clozel. "But we want to launch new products. For this, we are looking for the best people, who need more space and a stimulating environment." With no trace of arrogance, he advertises for "world champions" for his crew. Actelion currently employs more than 1,500 staff, most of them specialists from 40 different countries. The lures for recruitment include not only the company's own reputation but also the Basle pharmaceutical cluster with large companies and other biotech companies.

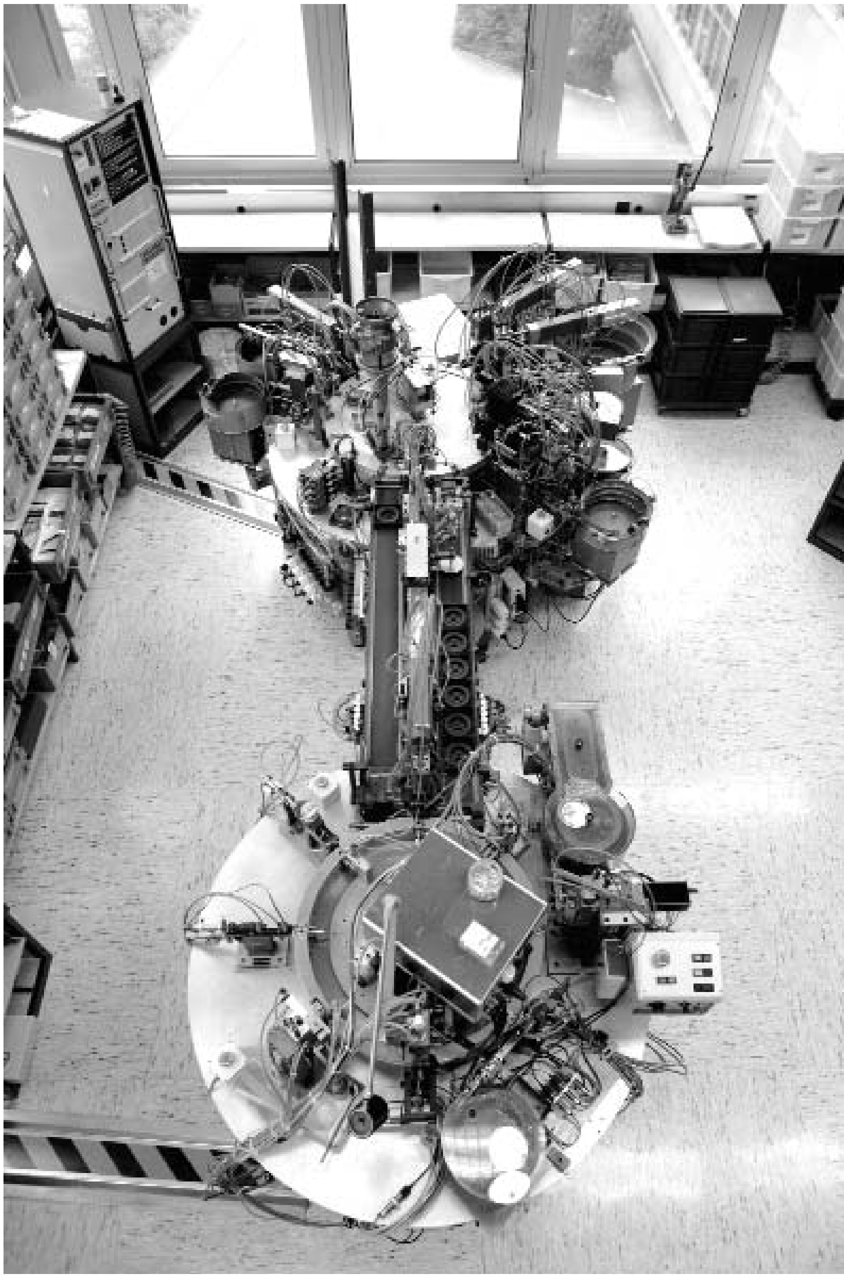
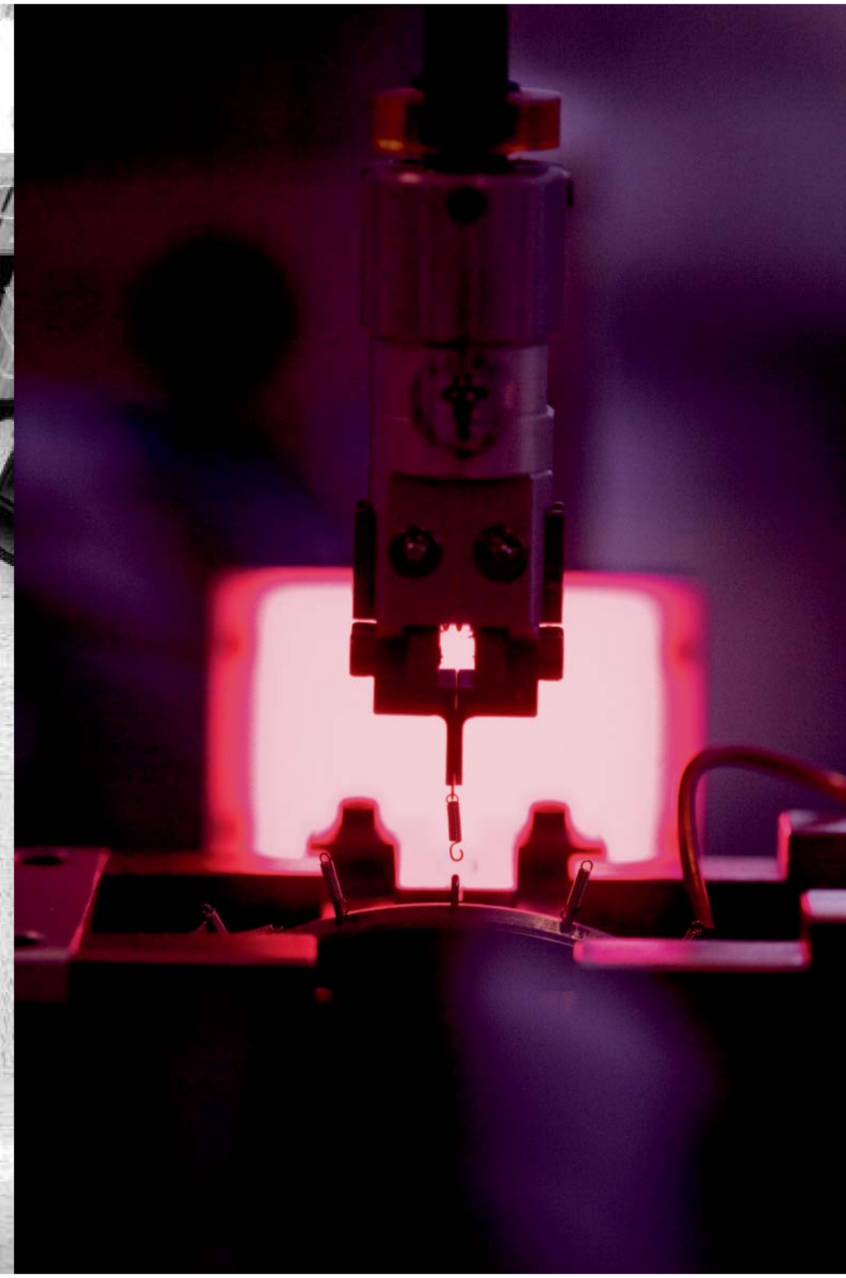
According to a company brochure, Actelion is driven by innovation, not by marketing. The CEO specifies this in more detail: "In the beginning, there's always the patient and his or her ailment. That is why we develop products. We cannot market anything if we do not have an innovative product." Of course, good marketing is then a key to commercial success. Clozel elegantly captures the arc to the product from the Actelion product pipeline on which most hopes are pinned: "Take our new sleeping pill Almorexant. You have to explain to patients how sleep works and how the drug works. As scientists, we need translators for this."

Research with a clear goal

The new sleeping pill, which regulates the wake-sleep cycle, has already been successfully tested on 147 patients. The test subjects were able to go to sleep more quickly and sleep longer. The so-called REM sleep period was also extended. This is important for recovery. And there were no signs of a headache, which is a typical side effect of conventional sleeping pills. In major clinical tests with different dosages, the "sandman" from the Actelion laboratories now has to confirm its positive features. This process will take another three years. If expectations are met, the company would then have another blockbuster with a sales potential of more than a billion in addition to Tracleer. In the USA alone, 80 million people suffer from insomnia.

Furthermore, trials are being carried out on drugs to combat autoimmune and infection illnesses as well as illnesses of the central nervous system. Actelion thus has several efforts under way at the same time to ensure that it is successful and independent in the long run. The company says that it has shorter decision routes than large pharmaceutical corporations. And in the opinion of Actelion's executives, small, lean organisations unleash more innovative power.

Aren't they afraid of generating too much hope too quickly? "We only publish data that can be scientifically proven," explains Martine Clozel. And they don't carry out research willy-nilly. Actelion concentrates on drugs in areas where there is a great medical demand. "The drugs must benefit the patient." The benchmark is a high one. Only one in ten agents in research becomes a drug. And even after initial promising tests in patients, the failure rate is still 50 per cent. This frightens stock exchange analysts more than it does the people at Actelion.



Globally successful at the press of a button.

Switches and keypads connect humans and machines. The global niche player EAO has systematised its innovation process to produce ever more intelligent products.

When you open the train doors on the Jungfraujoch or in Shanghai, press the ticket button in the underground car park, type in your personal code at an ATM somewhere in the world or snap in your seat belt in the car, there's a fair chance you are activating a product from EAO. However, the brand is not perceived as such because the company's name is on the inner part of the switch system and thus invisible to the user.
Kurt Loosli, CEO of the company, which is headquartered in Olten, doesn't like the term "switch" – he prefers to speak of human-machine interfaces (HMIs): "Our solutions give the user tactile feedback. With them, you get the message that you have pressed the button." This applies not only for train and bus doors but also for the operating units on hydraulic hoists, cranes and conveyor belts. Here, too, the operator expects tactile and acoustic feedback. In most cases, the keys also light up visually.
Loosli, who holds an MBA and a degree in physics from the Swiss Federal Institute of Technology (ETH), is totally in his element when


Kurt Loosli

FACTS AND FIGURES

EAO was set up as a family-run business in Olten in 1947. The leading manufacturer of switch and keyboard solutions (HMI) in the areas of passenger and goods transport, mechanical engineering, multimedia terminals, professional audio-video and control applications has four production sites, in Olten, Auerbach (D), Ozoir (F) and China. EAO operates via a global sales network of 12 sales companies and 38 agencies. The company employs around 650 staff and will generate turnover of well over CHF 145 million in 2007. The company has been run since 2001 by Kurt Loosli, the son and namesake of the company's founder.

www.eao.com

demonstrating how HMIs work in his office. Behind the visible interface of illuminated push-buttons, signal lamps, emergency-off switches, keypads and keyboards beats the heart of the system that ensures that the door in the tram, the safety belt display in the car or the video mix panel in the television studio works properly.

Supreme standards of quality

EAO supplies both components and entire systems, 95 per cent of which are exported. The list of the company's reference customers reads like a Who's Who of big brands: General Electrics, Philips, Siemens, Bombardier, Bosch, Alstom, Japan Railways, Sumitomo, Tetrapak, VW, Swiss Federal Railways (SBB), Marconi and many more. One of these customers is carrying out its audit in the assembly hall of EAO during our visit. But Loosli is unperturbed: "We are constantly checking our products and processes; they meet supreme standards of quality."
A defective HMI system not only blocks the exit from a railway carriage or prevents a person from withdrawing cash at an ATM, it can also bring entire production lines in the mechanical engineering industry to a standstill. EAO is liable for its systems and also guarantees them. A large-scale recall would be catastrophic for the SME. That is why EAO checks its products closely. Faulty individual parts are examined in a test laboratory. Inspection under a microscope reveals, for instance, that a wire connection in the area of a switch has not been properly soldered. The problem has been identified, and the process will now be adjusted. Before a new product is supplied to customers, it must prove its robustness and suitability for everyday use. Consider, for example, the door opener of a tram: millions of clicks, rough handling, big differences in temperature, moisture and wet conditions. Nothing is totally vandalproof, but nor should the switch react too sensitively.
EAO works like a virtual factory. "We do the innovations and the sales; everything else is outsourced," explains Loosli. The individ-

ual parts are bought from suppliers – injection-moulded, stamped and processed accordingly. Assembly and quality assurance are done in Olten and at the other production sites in Germany, France and China. This is the way EAO has worked since it was founded 60 years ago.

Planning innovations

The innovation process is standardised. All employees are encouraged to register product ideas and suggestions for improvements on a form ("product request"). These suggestions are then discussed during the fortnightly meetings of the innovation team. Here, potential innovations are given the green light. If 80 per cent of the defined prerequisites are met, the idea becomes a prototype. If the key technical and commercial data also tally, this gives rise to a product application. Currently, 27 concepts are being pursued further. Developing a new HMI product costs EAO CHF 1 million on average.

One innovation that EAO has high hopes for is a new request stop button for buses. The mass product used today is marketed by low-cost suppliers from the Far East. The biggest cost factor here is not the button but all the wiring involved. That is why EAO is working on a wireless switch, for which it can also ask a slightly higher price. However, the bus manufacturer wanted neither a Bluetooth system (potential electrical smog) nor one with batteries (too much maintenance required). The solution is a stand-alone system that stores sufficient energy in a cell when the button is activated for the signal to be emitted. EAO has announced that it is about to make a decisive breakthrough.

"To date, money has never been an obstacle to new developments. We are able to finance everything out of our revenues. I am responsible for the strategic decision," says Loosli. Managing innovators, however, is not always easy, he says. Employees with a high degree of expertise sometimes have a headstrong manner that can make them their own worst enemy. Yet successful innovations are team efforts. And loners are becoming ever rarer.

EAO affords itself the luxury of its own research and development department at each of its four sites. That sounds rather inefficient. "But it's not!" says Loosli. He says the sites gained these departments through acquisition and development. Each site has been aligned with its own range of products. Some products are jointly developed. The innovation process works across sites and involves employees as well as clients. In China, the local market is supplied with local products from the company's factory in the country.

EAO is flourishing. For 2006 and 2007, growth is more than 10 per cent. "We are a cyclical company. When the mechanical engineering industry is doing well, our order books are full too," explains Loosli. And he is also optimistic for 2008, when EAO is expected to reach a turnover of CHF 150 million for the first time.

"Innovation means actively shaping the market."

Swisscom CEO Carsten Schloter on communication, competition, customer behaviour and the importance of betting.

Innovation is the key to growth. And growth does not mean a plus sign in front of the sales figures. If, for instance, the market in which your company is active grows by 10 per cent and your own company only by 2 per cent, then the company has not grown. For me, growth means acquiring a market share, and doing so with above-average profitability.

The core business of Swisscom is subject to massive price erosion. For instance, in 2006 we lost around CHF 500 million out of CHF 10 billion of turnover through price erosion alone. This has a direct influence on profits – particularly in a company with high fixed costs such as Swisscom. There's a deficit of 500 million and thus 5 per cent of sales. This is around 25 per cent of the cash flow. The question now arises as to how much innovative power is needed to compensate for this erosion of sales and price.

If we look at the different products that Swisscom can launch, there is not a single new product that will ever achieve the sales volume of voice communication. It is there, however, that the price erosion is the greatest. When a key area incurs such a substantial loss, it probably needs between 30 and 40 new products to compensate for this development on the sales side. And the cash flow side still needs to be compensated for as well. That is why innovation is essential for a company such as Swisscom. For me, innovation primarily means that a company actively shapes its market. When it

Carsten Schloter

PROFILE

Carsten Schloter, a German national, studied business administration in Paris and began his career at Mercedes-Benz France. He moved to the telecoms industry in 1993 when he joined the newly established debitel France. He later switched to debitel Germany. Since 2000 Schloter has worked for Swisscom, where he first headed up the mobile phone division before taking over the management of the group after the resignation of Jens Alder. Swisscom has 4.9 million mobile phone customers and some 5.3 million fixed-line connections. Approximately 20,000 employees generated sales of CHF 8.1 billion in the first nine months of 2007.

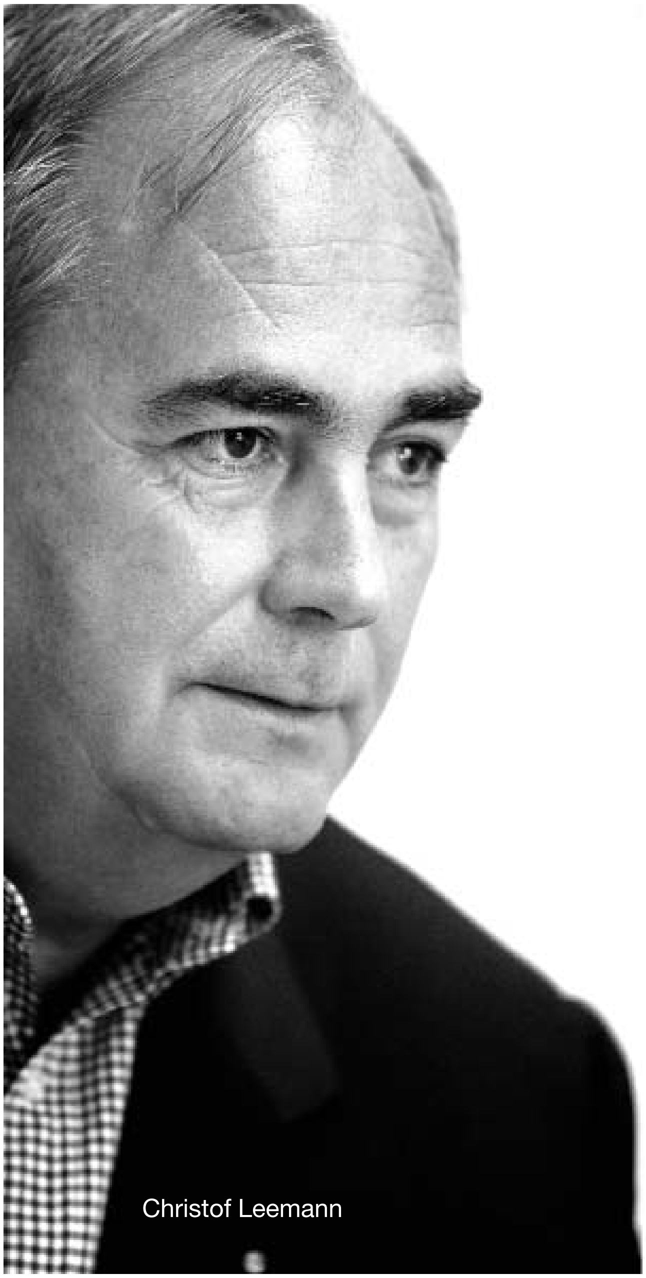
comes to innovations, companies must not be seen as followers; rather, they need to set the trends.

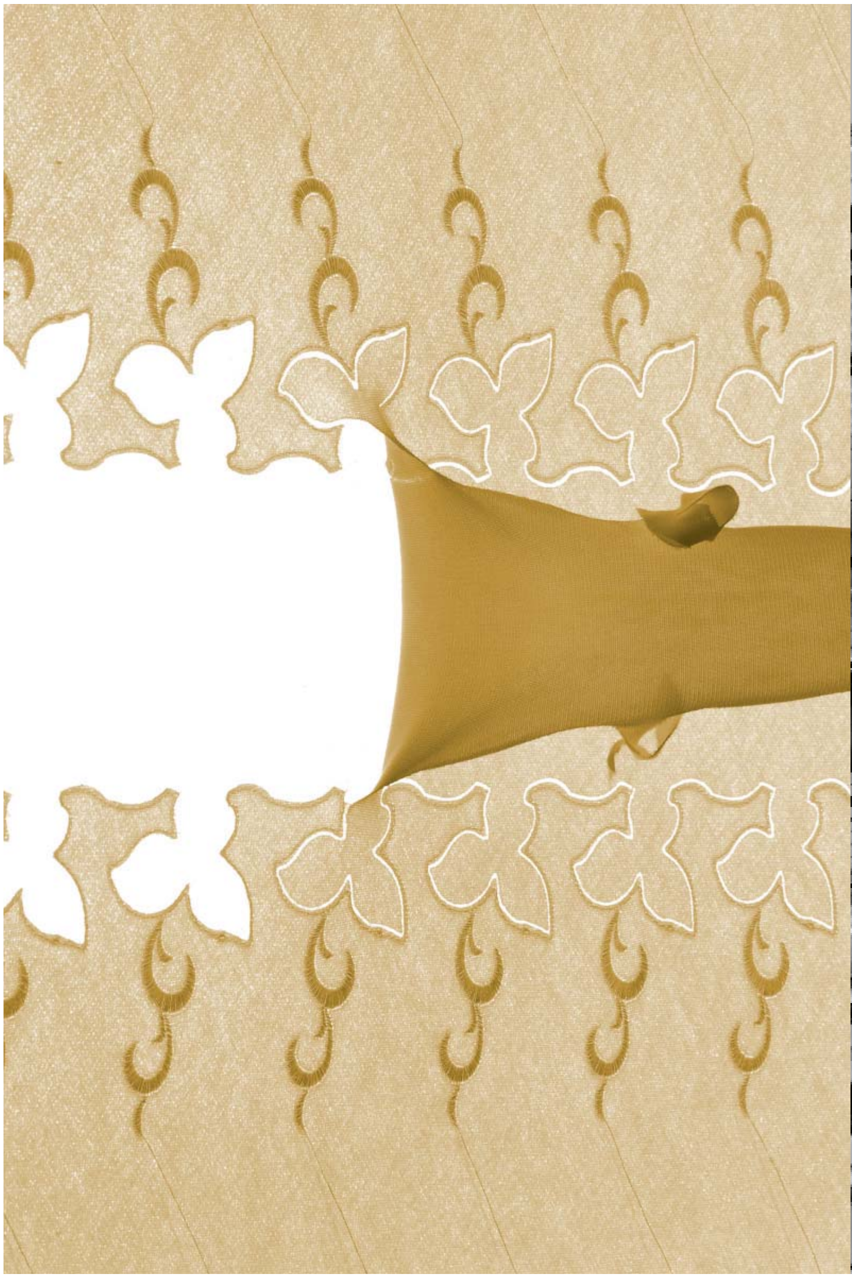
Paying attention to customer requirements is an important factor for innovation. Take a teenager who alternates back and forth between different forms of communication – fixed network, mobile, e-mail, chat, other community platforms – and depending on the type of communication, selects a totally different medium. Compared with 10 to 15 years ago, this is a drastic change and leads us to question what the future will look like. Nobody can say today what communication behaviour will be like in 10 years' time. And if you wait until you are sure, then you are lost. Because somebody will have done it before you and said: "I bet it will look like this. I'm not sure, but I'll take a bet on it." And he will provide resources to develop products for this assumed need. So you need to make a bet, and that means taking a big risk. What technology, which products, which services should you bet on?

When the mobile data transmission technology arrived, we asked ourselves: "Which device do we believe will give us the required bandwidth?" And we wagered, talked to manufacturers and developed appliances – and in the process won an international innovation prize. When we launched the Liberty tariff, it was a difficult decision. Up until then, customers had dutifully paid per minute. Then a marketing guy came along and said: "We will only be charging per call from now on. Why? Because it is a lot more transparent for the customer; before he reaches for the telephone, he knows how much it will cost him." Then we said: "Let's do this." It was a bet in many aspects. Will it be accepted by the customers? Will it generate a pull effect on the market? Will it make it possible for us to acquire market share? Will it result in different call behaviour? We didn't know. One thing was clear: it meant a reduction in revenues. That was the only thing that was certain.

But it worked. Eighteen months later, all our competitors were offering tariffs like ours. What I want to say with this is that the communication industry changes very rapidly. And if you're not willing to wager, you'll never be in a position to shape the market.

Incidentally, there are also bets that totally backfire. But that is the price you pay for innovation.

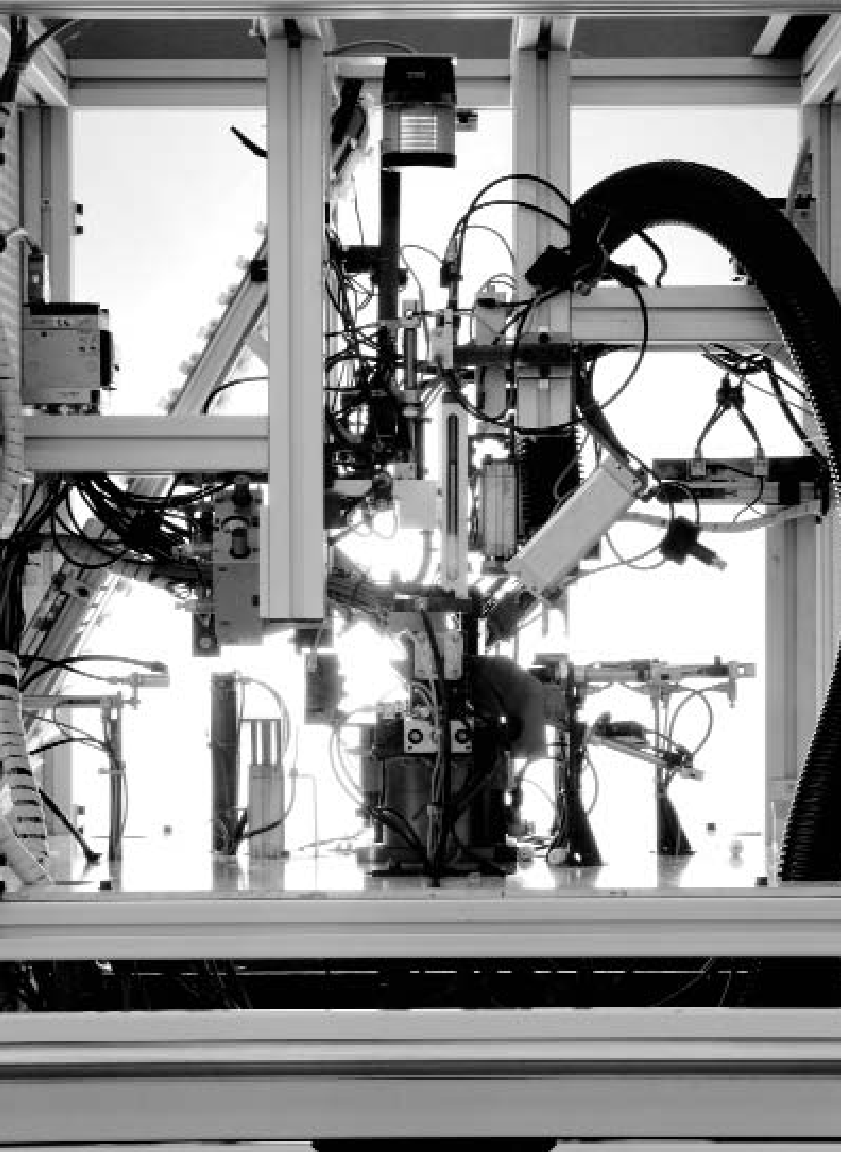

Christof Leemann



The competitive side of charm.

Fine embroidery on lingerie is a profitable business, as proved by Union AG in St. Gallen. Innovations are crucial to the company's success.

Christof Leemann allows a sheer piece of flimsy material, decorated with lime-green flower patterns, to run through his fingers. It is a pattern for a brassiere cup from the next winter collection. Owner of the embroidery company Union AG in St. Gallen, Leemann is clearly proud of his product: "State-of-the-art laser technology means that we can place different materials over one another in clearly cut leaf forms and then embroider them."
In the high-wage country of Switzerland, only the most innovative companies can survive in this industry. Leemann produces hundreds of thousands of metres of lingerie embroidery in St. Gallen on a high-performance laser-cutting machine that he put into operation two years ago as a test customer of Saurer. Union AG can thus supply quality in volumes that would otherwise be unaffordable. Production is done in three shifts, in continuous operation. This allows for a comfortable margin. And thanks to the latest machinery, Leemann also finds the specialists that he needs for his high-quality goods.



FACTS AND FIGURES

Union AG, founded as a canvas weaving mill in 1759, has belonged to Gebrüder Leemann Holding since 1978. The two owners, brothers Thomas and Christof Leemann, have now reorganised the responsibilities and adapted the company's structure. Christof manages the embroidery division, with companies in Switzerland, Austria, China and a joint venture in Turkey; Thomas deals primarily with the real estate. The company does not publish any sales or profit figures, but will say this much: all investments are financed from the company's profits. Union AG is specialised in high-quality embroidery for lingerie and supplies top brands such as Sara Lee, Victoria's Secret, Triumph, Felina, Chantelle, Marks & Spencer and Marie Jo, among others. The group employs around 400 staff.

www.union-ag.ch

The laser-cutting machine is now being sold worldwide, and soon it will be embroidering in the Far East. The Union CEO is aware of this too: "In Switzerland, we are positioning ourselves as a boutique for specialities. Low capital costs mean that we can remain competitive with highly productive machines." However, in three or four years' time, they will need the next innovative boost, he says.

The market sets the pace

Quality is now being produced in the Far East too. Among others, by two Union embroidery plants in China, where the company has been active on the market for the last 15 years, operating in the "European" way – with state-of-the-art machinery and impeccable standards. "We are certified by Öko-Tex. Just imagine, lead in a brassiere – that would be a catastrophe." Customers such as Marks & Spencer and Triumph check the quality themselves on site. That's what Leemann likes: "We will be the right partner for as long as there is a demand for quality. We're not needed for cheap products."
For Leemann, innovation is the lifeblood of his company. He believes the success of his collection depends on three factors: "The design, colouring and technical implementation – everything has to be perfect." Customers tend to look more closely at colour today than in the past, he says. And even the most fabulous design is of no use if it is not properly embroidered. The textile professional visits specialist clothing trade fairs and cannot bypass a lingerie shop, even when on holiday. He has a simple credo for promoting the right spirit in his company: "As the boss, you need to be seen more frequently in the design department than in the accounts department." All designs are made by Union.
Leemann is concerned about the industry: "We have survived well because our cluster is unique. Here, we have the world's best machine manufacturers, the most important suppliers for transparent materials, specialist dyers, flexible contract embroiderers and the universities of applied sciences." This textile chain is still intact, and the Union owner hopes that it will continue for as long as possible. At the same time, he views things from an economic perspective. There is also an embroidery cluster developing around his companies in China. //

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Responsible leadership: You have to make it happen.

Corporate responsibility and responsible leadership have taken on a whole new dimension in times of globalisation and an increasingly interconnected business environment. Responsible leadership demands high ethical standards from managers. But it also means having organisational measures in place to ensure that responsible leadership is firmly institutionalised.

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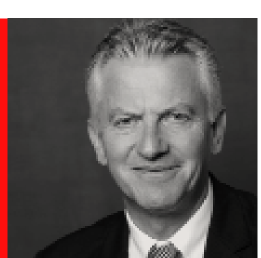
Is responsible leadership merely a sign of the times that will eventually go the way of all trends? Are the many publications on issues like responsible leadership and corporate sustainability management just reflecting another new hot topic in business literature? Or is responsible management an approach that CEOs and directors really have to give some serious thought?

To find answers to these questions, you first have to define more closely what is meant by "responsible leadership". The term gained currency in 2004 when the European Foundation of Management Development (EFMD) launched its Globally Responsible Leadership Initiative (GRLI), with the aim of ensuring that corporate managers all over the world act responsibly. It is supported by the Global Compact, an initiative launched by the UN in 2000 that calls on companies to voluntarily adhere to ten fundamental principles relating to human rights, labour, the environment and tackling corruption. The message was that companies should be "good corporate citizens".

Leadership
Responsibility
Reputation



Professor Dr Edgar Fluri, Chairman of the Board of Directors of PricewaterhouseCoopers

High expectations of business

These initiatives reflect society's high expectations of business. But they also reflect the reality that companies are independent entities only in a legal sense – in all other respects they do not operate in pristine isolation. Companies shape society and the overall economy in every country in which they do business. Corporate responsibility does not stop at the factory gate or office door; in an economy based on the division of labour, it extends to the supply chain, regardless of whether this chain starts in the company's home market or in an emerging nation. And companies have an obligation to make responsible use of the resources provided by nature and society. This is where another concept comes in: sustainability. Companies have a duty to operate sustainably, especially now when the climate is changing and natural resources are scarce, and where increased use is being made of human resources in emerging economies. The much-cited "triple bottom line", which also stems from a UN definition (the Brundtland Commission in 1987), describes the three dimensions of sustainability: economic, social and environmental. The two sides – sustainability and responsible leadership – are closely related, and both are based on the concept of social responsibility. But they are both also based on a simple and proven economic principle: to do successful business in the long term, a company has to manage all its resources professionally. And this includes non-financial resources such as trust.

The limits of responsibility

Yet the reality of business puts limits on the behaviours required by such a broad definition of responsibility. The first of these limits has to do with the basic purpose that any company must fulfil: to create economic value for its owners and employees, a responsibility that has an immediate impact on the prosperity of the economy (or economies) at large. Seen from this angle, a company only ever has one bottom line: an economic one. But it must go beyond this focus. If a company neglects or ignores the social and environmental dimensions of its actions, sooner or later the economic bottom line will suffer, with dissatisfied employees, shaky supplier and customer relationships, and a damaged reputation. The second limit lies in the difficulty of

Implementing responsible leadership

putting theory into practice. Regardless of how committed the CEO and board are to responsible leadership in principle, it will not be possible to translate theory into day-to-day business practice if this commitment is not firmly anchored in the company's strategy, structures and processes. Ultimately, realising the necessity of responsible leadership comes down to what is generally referred to as common sense. Doing business means taking responsibility for the capital that has been entrusted to you, the people who work for you, and the resources used in your production process. But how do you make sure that this common sense realisation is actually put into practice?

Reputation as a competitive advantage

Any failure to make responsible leadership happen in practice will be most evident in times of crisis. Once assets are lost, an environmental disaster occurs or fraud takes place, a company's first priority will be to limit the damage – and particularly the damage to its image. Companies that attract public and regulatory attention in the wake of this type of event are not necessarily badly managed. But in most cases they are companies whose area of business or international reach makes them very exposed and susceptible to irregularities. Performance-driven management means having ambitious goals, and managers may sometimes be tempted to bend the compliance rules to reach short-term objectives. But they will only be able to do so if there is a breakdown in corporate governance and controls.

A company finding itself in this type of situation will generally do everything it can, regardless of the cost, to reorganise its structures and processes to prevent the situation from recurring. But a more advisable approach is for companies – before any problem has even occurred – to give some thought to whether they should be taking a longer-term view and gearing their organisation to responsible leadership. In practice, however, it is often difficult to see how the reputational gains, which also pay off in terms of stable customer relationships and employee commitment, justify the heavy investment involved. Despite this, however, many companies make this investment because they see good reputation as a competitive advantage.

Institutionalised at an organisational level

The complexity of implementing responsible leadership throughout the organisation, and the time required to do so, are a challenge that should not be underestimated. The whole enterprise rests on the assumption (one that we will not go into further here) that the people at top management level have integrity and adequate ethical standards. Given this, and a commitment to responsible leadership, implementation involves four different phases:

• The first step is to define a set of corporate values that embody the corporate culture and the tone at the top. Corporate values represent the company's identity; they reflect the way the organisation behaves and the things that it stands for. It is no use merely paying lip service to these values: they have to have the support of the whole organisation and be internalised by everyone who works for it.

• The second step is to translate these values into a code of conduct. This has to match not only the culture for which the organisation is striving, but also its strategy. This is the only way of ensuring that the code of conduct has credibility both inside and outside the organisation. For management, this means that the question of corporate responsibility must be considered in all strategic decision making.

• A code of conduct contains general guidelines on behaviour, and also plays a significant role in raising awareness. But a code of conduct can provide only limited guidance when it comes to making decisions on a day-to-day basis. For this reason the third step must be to define concrete rules and guidelines governing issues as varied as giving and receiving gifts, the use of energy and paper, customer acquisition, and dealing with suppliers.

• The fourth and final step involves giving content to these internal rules and regulations. Management structures, risk management, and internal controls and incentives must be aligned with the desired objectives. The company should offer specific training to ensure that employees grasp the connection between their behaviour and the interests of the organisation. An officer should also be appointed to give confidential help and guidance to employees in conflict situations.

Credibility and transparency

The credibility of responsible leadership depends on consistency of behaviour, the congruence between perception and reality, and the congruence between what a company says and what it actually does. Besides being firmly institutionalised, responsible leadership also involves accountability. Without transparency, truthfulness and open dialogue, there can be no foundation for building trust. And trust is the basis of economic success.
This realisation alone is reason enough to treat responsible leadership as a key management requirement. But added to this is the regulatory component. These days compliance, originally defined as strict adherence to rules and regulations, also encompasses non-legal aspects. Compliance with rules and regulations should and must be a matter of course, and this includes tax compliance and the related tax risk management.
Nowadays, compliance goes further, especially in regulated industries. Take the example of the Swiss Federal Banking Commission's 27 September 2006 circular on oversight and internal control, which includes the following paragraph on compliance: "Compliance is considered the adherence to legal, regulatory and internal regulations, as well as the observance of the common standards and rules of professional conduct." Here the notion of compliance has been deliberately extended to include a company's own internal rules and "common standards", which are constantly evolving. Such a broad definition of compliance makes meeting the requirements all the more challenging.

New horizons for innovation and training

The desire to prevent potential infringements of compliance and the resulting tangible and intangible damage is sufficient grounds to systematically implement responsible leadership. Not only this, but responsible leadership helps reinforce governance structures and enterprise risk management systems. And provided it is embedded in corporate strategy, responsible leadership can also open up new horizons.

For example if a company finds that business practices in a certain market cannot be reconciled with its own values and code of conduct, it can change these practices or withdraw from the market in question without any damage to its reputation. Conversely, regulatory restrictions can also be an opportunity. Throughout economic history, environmental change has always acted as a driver of innovation and spawned new technologies and production methods. Nowadays, for example, limits on emissions are forcing the auto industry to develop new types of engines. And with oil prices continuing to rise, renewable energy appears to be developing into a profitable area of business. Companies that have taken the path of responsible leadership early on can exploit these developments to create competitive advantage.
Regulation has gained broad social acceptance, and goes hand in hand with a heightened awareness of environmental and health issues. This has also opened up whole new markets for a wide range of industries, from packaging, food and textiles to retail.
The issue has also taken root in education and training. Responsible leadership has found its way on to the curriculum of top management schools. In line with the Globally Responsible Leadership Initiative mentioned above, the executives of the future are being given a theoretical basis in preparation for a responsible leadership career – another good reason why today's managers should also be taking a good look at the issue.

Summary

Responsible leadership is an issue that CEOs and boards should be treating very seriously. The challenge lies less in a theoretical commitment to the goals of responsible leadership, and more in making sure responsible leadership is firmly anchored in the strategy, structures and processes of the entire organisation.

Investing in Russia: A question of savoir-faire.

The size of the Russian market means there are plenty of opportunities to be had. But it's important to remember that due diligence in Russia has to be more thorough than in the West.

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Russia's geographic and cultural proximity to Western Europe make the country an obvious choice for investment. And the economic outlook remains promising.
In the last three years Russia has seen a sharp rise in foreign direct investment (FDI) – the figure totalled USD 57 billion from 2004 to 2006. The most important players are Cyprus, the Netherlands, Luxembourg, the UK, Germany and the USA. According to the Swiss National Bank, direct investment by Swiss companies totalled CHF 227 million in 2006, after CHF 881 million the previous year. At the end of May 2007, around 150 Swiss firms operating in Russia were registered at the Swiss embassy in Moscow. According to Russian sources, Swiss businesses hold an interest in some 600 companies. The biggest investors are Nestlé, ABB, Holcim and Kronotec, and financial services companies (primarily in asset management).
Russian businesspeople have a lively interest in state-of-the-art technology. They too are price and quality conscious. With the economy flourishing and Russia badly in need of modernisation, short delivery times are another important consideration for investors.
Despite the range of investment opportunities with such enormous potential, many Swiss companies, especially medium-sized ones, are still sceptical when it comes to the Russian market. On the one hand this is due to the difficulties of negotiating a market characterised by an as yet underdeveloped democracy, a slow and complicated bureaucracy, and a lack of legal security (see page 42). On the other hand the response of Swiss firms is influenced by Russia's image.

Contradictory perceptions

In 2005, the French-speaking section of the Swiss-Russian Chamber of Commerce commissioned a poll of executives and opinion leaders to find out more about Swiss perceptions of Russia and vice versa. The survey, "Etude Suisse – Russie: Au-delà des apparences, les perceptions mutuelles des Suisses et des Russes", found that both the Swiss and the Russians believe that Switzerland has a good image. But opinions are divided when it comes to Russia's reputation: while the Swiss have a relatively negative view of Russia, the Russians believe that their country has a fairly average reputation. This perception gap can make it difficult to build relationships. Swiss people's negative perceptions of Russia probably stem from the many structural obstacles to entering the market. But these reservations are offset by two positive aspects: the dynamism of the Russian economy, and cultural proximity.

The "Russian business model"

The Russian market is still in the process of maturing, and progress on diversifying the manufacturing structure, which could reduce dependence on the energy and commodities sectors, is slow. Thanks to rising incomes, the standard of living is improving, which in turn is creating enormous consumer potential. The large urban centres are seeing the emergence of a middle class that is eager and able to spend. But because the structures are not yet fully consolidated and mature there are also risks, and these risks have to be weighed carefully against the opportunities. The fact of the matter is that the political and bureaucratic framework still lags behind the economic boom. This situation has given rise to a typically "Russian business

New markets
Growth
Risk

Daniel Gremaud,
Leader Tax & Legal Western Switzerland

Business in Russia: facts and figures

The Russian economy was the 11th largest in the world in 2006 with a gross domestic product (GDP) of EUR 780.5 billion. Economic growth came to 6.7 per cent, and the Russian ministry of finance and the central bank estimate growth of 7.5 per cent for 2007. Foreign direct investment totalled USD 28.732 billion in 2006. In 2004 Russia set up a stabilisation fund using a portion of its tax revenues and duties on the production and export of oil. The state can use the fund to reduce the money supply and thus help brake inflation. Inflation came in at 9.5 per cent for 2006, but the Russian authorities are endeavouring to reduce the rate to 4.5 to 5 per cent by 2010.

model" that foreign investors should be very sensitive to. Doing successful business in Russia means knowing and understanding the reality of Russia and getting to know the mentality and culture of the people who live there.
The younger generation in Russia is entrepreneurial and hard-working. Corporate managers are very young. While this is good in terms of economic development, it does mean that people are more eager to take risks – and sometimes excessively so. This attitude is rooted to a significant extent in the country's history: a population that for so long had no freedom or property still has little faith that things will continue to develop the way they are at the moment. People view everything as temporary, and tend to behave correspondingly.

Thorough due diligence

Another peculiarity lies in the way the Russians go about business relationships. They value very personal and emotional contact, something that is extraordinarily important when it comes to building and nurturing partnerships or relationships with customers. Doing business in Russia requires great personal investment, and the willingness to spend a lot of time in the country. This can be a great interpersonal challenge, but also a very enriching experience.
Given the way privatisation was pushed through in the 1990s, there is still a major risk of encountering less-than-trustworthy business partners. Business partners should be chosen with great care. The trick is to gather as much information as possible, analyse it carefully and, if necessary, verify it a second time. In Russia due diligence must be more thorough than in the West, and requires more time and greater financial resources as a result.
Until now there has been a serious lack of transparency in the way companies are structured, and corporate governance has not exactly been a priority for Russian firms. Because the process requires a radical change of attitude, these structures are changing only slowly. But thanks to the presence of multinational companies, Russian business is gradually becoming more aware of the need for good governance.
To succeed in this dynamic and complex environment, Swiss investors who are not familiar with local conditions should seek expert advice in all areas relevant to establishing a business in Russia.

"You need someone to 'translate' the hidden messages."

Galina Naumenko, Partner in Tax & Legal, works for the Russia and CIS Desk in Moscow, set up by Pricewaterhouse-Coopers Switzerland to support mutual business relations between Russian and Swiss companies.

How do you think Swiss people view Russia?
Galina Naumenko: For a long time Russia carried the image of a communist country with a scary system, and Russian people continue to be plagued by that image. But the Swiss are generally more interested in and aware of other cultures, and I think that they're generally more positive towards Russians than people in many other countries. Even so, from the time I spent in Switzerland I still recall the shock in the eyes of my neighbour (a nice old lady) when I said I was Russian. She wasn't negative at all, just very deeply shocked, as if she had just seen a dinosaur or something.

What should be done to improve mutual perceptions and reinforce economic collaboration between Switzerland and Russia?
We should travel more. Our attitudes towards other cultures change when we get to see with our own eyes what we have read about in books. I think some Swiss people still don't realise that Russia has made a lot of progress towards becoming a more "civil" country, with lots to see, nice restaurants and beautiful shopping centres that are open 24 hours a day. Any Russian, on the other hand, would be amazed to see how beneficial systems and good order can be for any country – at first it's shocking to see how well everything works in Switzerland!

As a Russian, what would be your advice to Swiss companies and entrepreneurs who intend to do business in Russia?
The history of development in Russia and Switzerland has been very different. While business in Switzerland is transparent, fair, built on good legal and tax systems, common sense and respect for people and their property rights, for a long time in Russia it was quite the opposite in some areas. This means that Russian and Swiss businesspeople have a different mentality and a different view on things. The best recommendation I can give here is to get advice from service providers like PwC or another Big Four company. You need Russian professional advisors to help you through your business relationships step by step, "translate" some of the hidden messages and fill you in on the background. Once you have built trust and a common language with your Russian business partners, you'll be able to run on your own!

Private equity: Investors with specialist expertise.

Private equity investors can provide not just financing, but expertise as well – for example to businesses needing to manage succession or large companies wanting to concentrate on their core competencies.

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Private equity is a fairly young business: it started to find its feet in Europe around the early 1980s. It involves providing unlisted companies at the start-up or growth phase with capital and know-how, supporting management buyouts and carrying out leveraged buyouts (i.e. debt-financed acquisitions). From the very outset, private equity investors always have an exit strategy in mind. This may be the reason why they are often accused of chasing short-term profits.

Draw on expert expertise

As is usually the case, however, the reality is rather more complex. Often private equity investors buy a business or part of a business to help it create more value. Most private equity firms have specialists whose job it is to keep up with economic and legal developments in the various countries in which they operate. To ensure they can contribute in-depth knowledge to the businesses they acquire, some private equity financiers also specialise in specific industries. They can provide management capability and help a business make decisions that may be long overdue.

Financing
Succession planning
Expertise

Barbara Brauchli Rohrer,
Leader M&A Tax Services Switzerland

Precisely because they want to avoid the short-term pressure to succeed on the stock markets, once private equity investors get into listed companies they delist them from the exchange for the course of their involvement. Their exit strategy only comes into play once the business has started to have the desired success, which can then mean that the business can be relisted.

Support in executing strategy

Selling to private equity investors is a perfectly valid alternative for businesses looking to solve their succession problem. Good examples in Switzerland include Geberit (see box) or Leica Geosystems. As the then CEO Hans Hess recently explained in the “NZZ”, private equity managers managed to float Leica Geosystems on the stock exchange much more efficiently and expertly than the company could have itself.
Calling in a private equity investor also makes perfect sense if managers (and other staff) are keen to acquire an interest in “their own” company.
Private equity investors can also be useful to companies seeking to systematically execute a particular business strategy. For example, a company may want to divest, as was the case recently in the spectacular departure of Chrysler from the Daimler-Chrysler Group. Or it may be looking to implement a growth strategy requiring additional financial resources and, possibly, management capabilities.

New transaction forms

The private equity industry has come a long way since its beginnings. It has become established as an independent force on the financial markets, and is now an important player that has to be taken seriously. This is evidenced among other things by the role private equity investors play in mergers and acquisitions. Around a quarter of all deals announced in the first half of 2007 – including megadeals like the sell-off of Chrysler and the takeover of Hilton – were done via private equity houses.
New forms of transactions are emerging. They include so-called club deals where a number of investors pool their interests to raise the necessary financing for a large deal or to comply with investment restrictions. Last year, for example, private equity houses in the Netherlands, the UK and the USA joined forces to form a consortium to bid for Philips subsidiary Next eXperience.
Alongside this, a secondary market grew up where the interests of one private equity investor can be sold to one or more private investors. In the fourth quarter of 2006 alone, 70 such secondary buyouts were announced in Europe. We are also seeing cases where a private equity investor sells its interest to a corporate buyer, as happened recently when UK private equity house BC Partners sold the Hirslanden group of clinics to the Medi-Clinic Group in South Africa.
Another phenomenon is that in addition to helping other businesses go public, major private equity players are going to the stock exchange themselves. At the end of June, the New York-based Blackstone Group became the first to make this move, and

another New York outfit, Kohlberg, Kravis, Roberts & Co. (KKR), plans to have completed its IPO in the fourth quarter.

Opportunities for SMEs

These megadeals make the headlines, especially now that the US mortgage crisis is forcing a rethink of how some of these billion-dollar transactions are to be financed. After months where investors had a healthy appetite for risk, the uncertainty that has dominated the capital markets since August has led to much greater wariness. This has jeopardised the refinancing of bank loans worth more than USD 300 billion and prompted renegotiation between private equity investors and lending institutions. The private equity boom – which may turn out to have been exaggerated – thus came to an abrupt end in summer 2007. However, this is more down to the ill-considered lending practices of some US banks than any fault of the industry itself. Nevertheless, the industry's future looks bright, as private equity is now an established form of finance on the transaction market. Added to this is the fact that the large majority of private equity business is very unspectacular. In 2006, there were 7,536 private equity investments in Europe, 88.7 per cent of which were in businesses with fewer than 500 employees – in most cases to solve the problem of succession. This makes the whole business particularly relevant for Switzerland, where around 50,000 small and medium-sized enterprises face similar succession issues.
So far experience has shown that private equity investors are just as capable as the established managements of operational companies. Restructuring decisions do not depend on whether the investor is "private" or "corporate", but on whether the business was managed well or badly prior to the sale. Thus far it also appears that the private equity industry has done the economy at large more good than harm. It plugs the gap between finance through bank loans on the one hand and the capital markets on the other. Private equity investors safeguard jobs by helping businesses grow or simply survive. As cases like Geberit, Leica Geosystems and Mettler Toledo demonstrate, private equity is a blessing for Swiss business. That private equity has also gained acceptance in this country is in no small degree due to the fact that pension funds are allowed to invest in private equity firms.
In 2005, former SPD party chief Franz Müntefering described private equity firms as "locusts". This image has nothing to do with the reality, but it has stuck, even though it was nothing more than an attempt – albeit a successful one – to stir up fears and win votes in the run-up to the federal elections.

Geberit –
a private equity success story

The deal took place in 1997, a time when the term "private equity" was known to few people outside the financial community. The business in question was Geberit, a family firm founded in 1874 that had evolved into the European leader in sanitary technology. The business was owned by the Gebert brothers; there was no one in the family to take over the reins.
Against this backdrop the Gebert brothers and the Geberit management team evaluated various options for creating an ownership structure that would take the business into the future. In the end the shareholders decided to sell their interests to the private equity house Doughty Hanson, which transferred them to a new holding company. The deal was worth CHF 1.8 billion. Doughty Hanson and members of top management provided the equity, and the debt capital came primarily via two big foreign banks with international operations.
According to the company, the main reason for the decision to place this traditional business in the hands of a UK private investor was the fact that they agreed on some basic business issues – for example the conviction that the Geberit Group should be preserved as a unit with its existing structures, and that its business freedom should not be impaired.
Before this there had been few private equity deals of this scale in Switzerland. For this reason the Geberit transaction was greeted with a great deal of public and media scepticism. But history proved this scepticism to be unjustified. Only two years after the transaction, on 22 June 1999, Doughty Hanson floated Geberit on the stock exchange. The shares opened trading at CHF 372, CHF 42 above the placing price. By the end of 2006 (before the share split in April 2007), Geberit was trading at CHF 1,878, and its market capitalisation came to CHF 7,8 billion, more than four times the transaction price. Looking back, the CFO of Geberit Group has the following to say: "The private equity investor enabled Geberit to gradually open up to the capital markets."

Summary
Private equity plugs the gap between financing through bank loans on the one hand and the capital markets on the other. Private equity investors safeguard jobs by helping businesses grow.

Economic crime: Culture better than control.

Nearly 40 per cent of Swiss companies admit to having fallen victim to economic crime in the last two years – a figure that shows just how great the risk of fraud is. The best prevention is a healthy corporate culture supported by controls tailored specifically to the organisation.

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Economic crime is a widespread phenomenon that also affects Switzerland. Around 37 per cent of companies in this country say that they have been subject to at least one incident in the last two years. At 38 per cent, the figure for Western Europe as a whole is around the same, while 43 per cent of companies worldwide have experienced fraud, corruption, misappropriation or similar forms of economic crime. This is one of the findings of the fourth edition of PricewaterhouseCoopers' biennial Economic Crime Survey (www.pwc.ch/crimesurvey).

The fraud controls paradox

Some of the survey's findings are particularly striking. Firstly, the perception of the occurrence of fraud seems to have risen significantly, to the extent that companies are now tending to overestimate the incidence of economic crime, particularly when it comes to accounting fraud, corruption, bribery and money laundering (see graph). This is in part due to the factors that influence people in business, who are more aware of incidents that they read about in the papers or discuss with their industry peers. But it may also be that perception is closer to the real figure than the number of incidents actually reported. This heightened awareness is prompting more and more companies to take action.

It is the threat of intellectual property infringement that is most often underestimated. Given the many publications currently appearing on this issue, however, CEOs are likely to become increasingly aware of this type of economic crime, particularly as the damage it can cause is potentially much greater than for other kinds of fraud. After all, IP infringement strikes at the very heart of what enables a company to function: its intellectual capital.

Secondly, the study raises the question of why the figure for reported fraud is not decreasing when companies are spending so much time putting controls in place. Part of the answer lies in the "fraud controls paradox": if you put in more controls, you find more fraud. This can initially be disheartening for companies. Only slowly, over time, can you expect the level to decrease – and only provided the right measures are taken, for example ensuring that culture and control work together to minimise the risk of fraud.

Clear and consistent rules

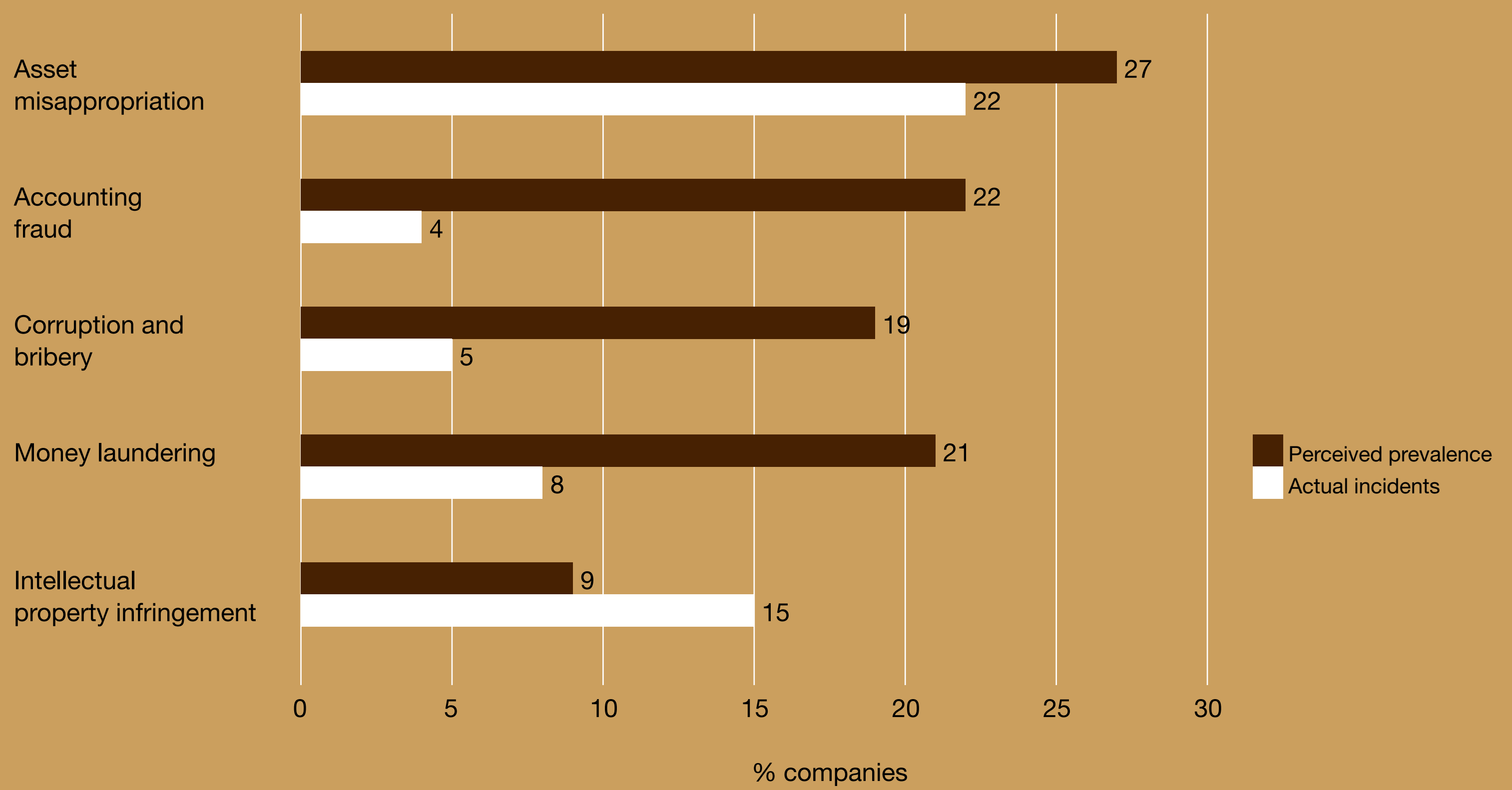
A company's culture is key to prevention. To prevent incidents of economic crime, you have to have clear and consistent policies and messages. Business is becoming a lot more complex, so you need to set the right framework in which people understand what the responsibilities are, and what the organisation expects in terms of behaviours. To have credibility, these messages have to be formulated and applied consistently. And because compliance-related decisions are made every day at all levels, the message has to get through to the whole organisation. A lot has been said about the tone at the top. But the tone at the middle and the tone at the bottom need to be addressed as well.

Clear rules are one thing, but compliance with these rules is quite another. To be credible, a company has to impose sanctions when these rules are broken – and the rules have to be consistently applied at all levels. It is no good applying one set of rules to one part of the organisation and another set to the other part. For example, it sends out a very confusing message if different sanctions are applied to senior managers who are found to be guilty of economic crime than to people in the rest of the organisation. Consistency is also the key when it comes to foreign subsidiaries: the same

Security
Reputation
Transparency

John Wilkinson, Leader Forensic Services Switzerland and Eurofirms

Perceived prevalence vs companies reporting actual incidents of fraud in 2007



Heightened awareness among companies: the perceived prevalence of fraud is greater than the number of incidents actually reported.

stringent rules and behaviours have to be applied there as at the parent company.

Effective controls

The greatest challenge is to create a culture which encourages employees to do the right thing and see themselves as part of an organisation that they do not wish to damage. Important as controls are, they generally only work when they are embedded in an adequate culture. The way to address fraud is not to have individual controls – it is to have layers of control so that it is harder to break through the different layers.

Even so, people will always find ways of getting round controls. Three things have to come together for a crime to take place: motive, opportunity and a way for the person committing the crime to rationalise their actions. The motive cannot be influenced – it is a personal thing. The opportunity and the rationalisation are what the company can influence. It can nurture a good corporate culture so that people cannot rationalise their actions. And it can ensure that efficient controls are in place to prevent opportunities from arising in the first place.

Enormous intangible damage

Investment in an adequate culture and controls is more than justified in the light of the enormous costs of economic crime. The direct financial damage is not so serious: at USD 3.2 million worldwide and USD 2.3 million in Western Europe, the average amount lost through fraud is not enough to cripple most companies. Much more serious are the indirect costs. Worldwide, 53 per cent of the companies surveyed said that fraud had had a significant impact in terms of management time and costs: not just the costs of the investigation itself, but the costs and time involved in dealing with the fallout.

Added to this are the intangible costs of damaged reputation, lower morale and a loss of trust in business relationships. These costs are hard to measure, but are precisely the factors that affect the company's future value, which is what counts for the markets.

Fraud is detected most often thanks to an internal or external tip-off, with around half of all cases coming to light as a result of this type of whistle-blowing. Since detection and prevention are so closely linked, companies should have a vested interest in having institutional whistle-blowing systems. These systems are much less prevalent in Western Europe than in North

America: while 77 per cent of the companies polled in North America had a whistle-blowing system in place, the figures for Western Europe and Switzerland were only 32 per cent and 22 per cent, respectively. There is no doubt that setting up whistle-blowing systems is culturally sensitive. The challenge is to find a structure with a filtering process so that it is possible to distinguish between justified suspicions and malicious informing. But given the effectiveness of whistle-blowing, it is well worth tackling this challenge systematically.
Perhaps the most positive finding of the survey is an increase in corporate transparency and a greater willingness among companies to admit that fraud has been uncovered. This is in part thanks to the regulators' efforts to encourage companies to disclose fraud, and the fact that they are acknowledging disclosure as a sign of good corporate governance. Companies that endeavour to detect and disclose fraud reap immediate benefits: they are able to limit the intangible damage and maintain trust in their organisation even when they fall victim to economic crime.

Summary

Awareness of economic crime is increasing, not least because of the enormous damage it can cause. The best prevention is a corporate culture with clear messages and policies and consistently applied rules – a culture that makes it easy to accept these rules.

The shadow side of the emerging markets

Economic crime is already firmly on the agenda in Western countries, but what about the emerging markets – and in particular the developing countries offering investors the most promising opportunities? For the first time, the latest PricewaterhouseCoopers Economic Crime Survey addresses this question systematically by investigating the countries that PwC calls the Emerging Seven (E7): Brazil, China, India, Indonesia, Mexico, Russia and Turkey. To do so, PwC combined its own experiences of helping companies tackle the threat of fraud worldwide with interviews with more than 1,200 managers who are responsible for investing in E7 countries. The research yielded rich insights. The following general findings could be useful for companies who want to move into the emerging markets:

- It is precisely during these times of dynamic change that companies are particularly vulnerable to fraud. Companies that experienced changes in structure, which are typical during periods of overseas expansion, were more susceptible to fraud than those that operated in a stable environment.

- Companies in which parent and subsidiaries employed different accounting systems were more susceptible to fraud (61 per cent of cases) than those operating a unilateral system (52 per cent of cases).

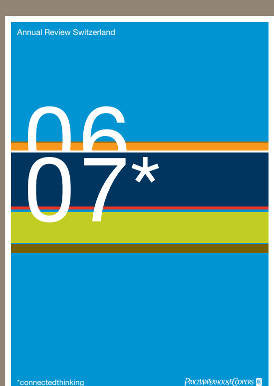
- Doing business with E7 nations can lead to conflicts of interest, since buying or selling from friends or family to pass economic benefit outside the company is commonly viewed as a basic business practice in these countries.

No major differences were found between emerging markets and developed nations in terms of the types of economic crimes experienced. The difference lies in the extent to which – because of the legal, political, social, economic and cultural environment in which companies in emerging markets operate – these crimes permeate private business, and the effectiveness of the internal controls used to mitigate these risks. It may come as a surprise that the experts surveyed conclude that the incidence of economic crime – apart from corruption and misappropriation – is no greater than the global findings. At USD 1.9 billion, total losses reported by E7 companies account for more than 45 per cent of the losses reported by all respondent companies. Bribery and corruption (alongside intellectual property infringement, of which people are only gradually becoming aware) constitute the greatest risk in the emerging markets, with 34 per cent of respondents believing that they had lost a business opportunity to a competitor that they think may have paid a bribe. The highest incidence of this was in Russia, with 51 per cent. The figures for North America (6 per cent) and Western Europe (14 per cent) were much lower. More than 80 per cent of those polled had reservations about investing in emerging countries because of the high risk of corruption.
The emerging markets themselves certainly have a vested interest in tackling economic crime: the more transparent they are, and the better their corporate governance, the greater their chance of gaining the trust of foreign investors.

Events, publications and analyses.

PricewaterhouseCoopers Switzerland's 2006–07

The annual review runs under the banner of "good questions". By asking good questions – and answering them – PwC wants to intensify dialogue with its clients and staff, and further enhance the value of the PricewaterhouseCoopers brand. In an interview, Markus R. Neuhaus, CEO of PwC Switzerland and Eurofirms, explains why dialogue is of such key importance in the professional services industry, and emphasises the strategic importance of the company's global client relationship programme PwC Client Experience. In addition to its responsibilities towards clients and staff, PwC also has a wider responsibility to society. Chairman Edgar Fluri describes how PricewaterhouseCoopers is addressing the issue of responsible leadership. During the year under review, PwC consolidated and successfully managed its leading position within the industry, and saw gross fee revenues increase by 21 million to CHF 674 million.



Incredible outlook – endless growth?

Despite the tough competition, times are good for private banking, with a positive outlook and high growth in prospect. But this growth has to be managed properly, which means that players in the private banking business have to make sure that their organisational structures and processes are geared to expansion. These are the findings of a recent survey of 265 people in 43 countries, which for the first time included human resource managers in addition to CEOs, COOs and CFOs.

Your contacts for the survey:
susan.de.zordi@ch.pwc.com

You can order free copies of "Unprecedented opportunities, plan your approach*, Global Private Banking/Wealth Management Survey 2007" from sonja.jau@ch.pwc.com

Events

Transfer Pricing Masterclass

This is a two-day conference exclusively for tax and finance specialists working for international companies. Based on a detailed case study, the event is ideally suited to the practical needs of tax and finance professionals. The key issues to be covered are:

- OECD transfer pricing guidelines
- The relevance of functional analysis in transfer pricing
- Transfer pricing documentation

Date and venue
27/28 March 2008
Panorama Resort & Spa,
Schönfelsstrasse,
8835 Feusisberg
The fee is CHF 1,250 excl. VAT; the number of participants is limited.

For more information and to register:
helene.schneider@ch.pwc.com
Tel. 058 792 43 42

Energy Forum

The forum will look at hot issues and challenges in the Swiss energy industry. Key topics:

- The new electricity supply legislation
- Market liberalisation
- Findings of the latest PwC study on the Swiss energy industry

Date and venue
Zurich, Thursday, 6 March 2008
PricewaterhouseCoopers AG
Birchstrasse 160
Admission is free.

For more information and to register:
www.pwc.ch/events

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The new station in Chur, a joint project of the Rhaetian Railway, the Swiss Federal Railways and the city of Chur, will cost around CHF 150 million and be finished in 2008. Four hundred trains come through here every day; more than 15,000 people – commuters and tourists – use the modern infrastructure.

Getting on the right track.

What can a company do when it finds its future threatened? Switch track! The Rhaetian Railway shows how.

Text: Franziska Zydek Photos: Stefan Walter

The Rhaetian Railway (RhB) is the star of numerous postcards and photo calendars, the symbol of Swiss bridge and tunnel building, and the nerve centre of the Engadine region with its remote mountain valleys. It is a popular icon. It is also, however, a complex business enterprise with various mutually complementary business arms. The metre-gauge railway with its red trains provides tourist, regional and goods transport services, maintaining an old, difficult-to-access network which is 100 years old in places, with innumerable tunnels and bridges, and has its own industrial works to keep the rolling stock in good repair.

Barely a year after taking up his post in November 2004 as CEO of the RhB, Erwin Rutishauser made the following prediction: if business continued as before, in the near future the railway would face a cumulative deficit of over CHF 100 million. Changed market conditions, public savings measures and internal costs would lead the Graubünden state railway into a dead-end siding by 2012. Something had to happen.


42
Ferrovia retica

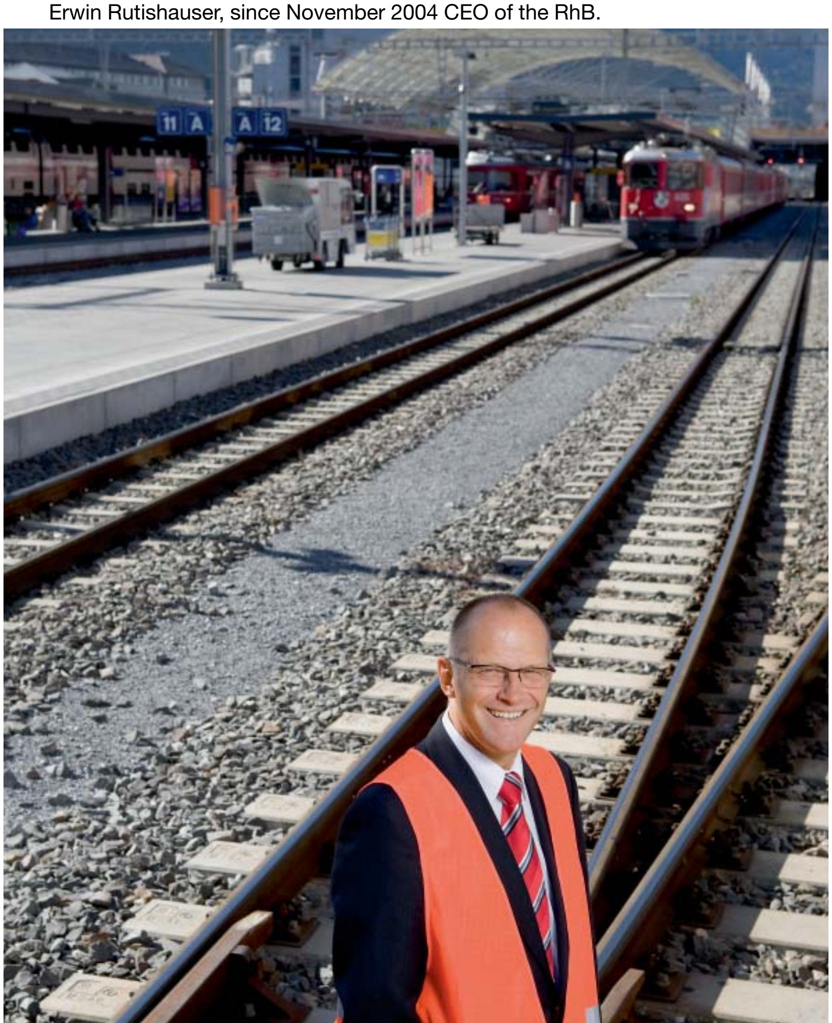
The two-pronged strategy developed by Rutishauser and his team and approved by the board of directors put them on track for a sustainably successful future. The two main thrusts are to increase income while at the same time reducing costs by optimising processes. Although the RhB is financed to a considerable extent by payments from the state and canton (see box), it nevertheless has to bear the costs of 30 per cent of the infrastructure and 60 per cent of the services itself. It is a point that CEO Rutishauser cannot emphasise enough – it annoys him when claims are made that the railway only operates thanks to taxpayers' money.

> The goal is significant growth in all business divisions. Already in 2006, a year after the new strategy was launched, the figure stood at 6 per cent.

Savings on costs and investment

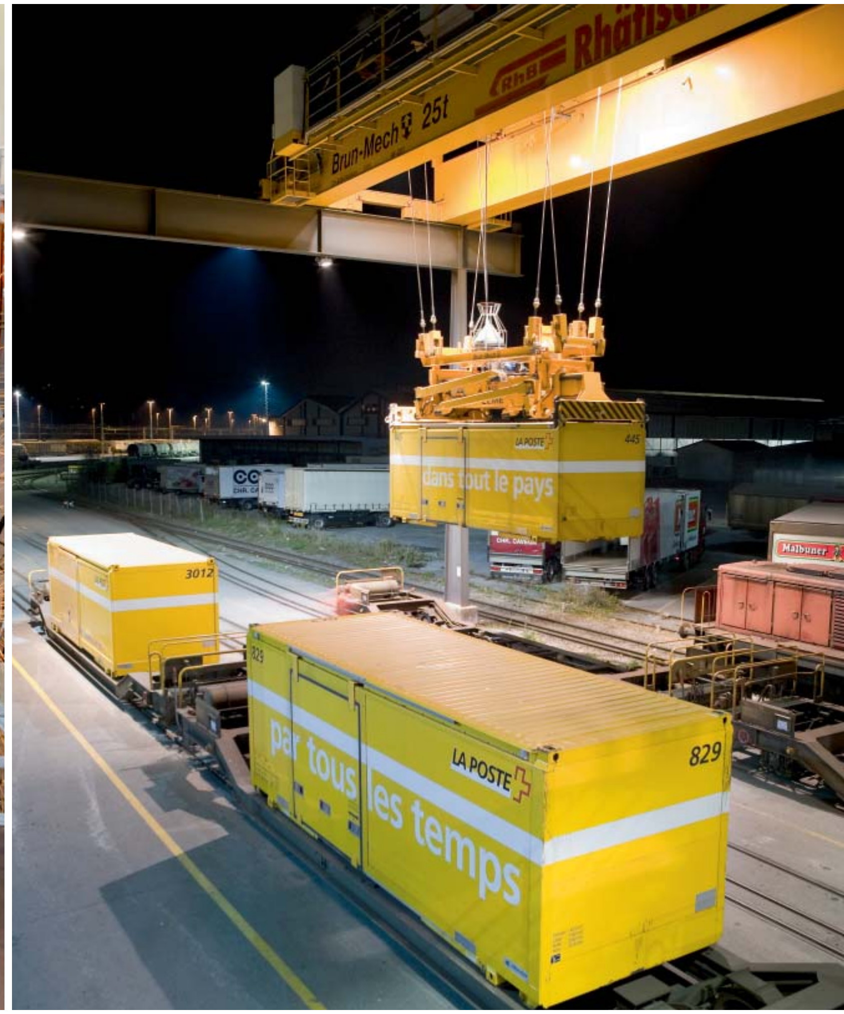
"We are trying our very best to boost profits and at the same time put the brakes on the costs wherever possible," says the CEO. Because all areas of the RhB's business are closely interlinked, every measure taken directly affects the rest of the system. "For example, in order to increase travel and tourism traffic, we are intensifying our marketing. We are seeking strong partners among tourism enterprises in Switzerland and worldwide, and ensuring representation of our rail travel offers at the major trade fairs. In order to satisfy the customers won in this way, we need modern, attractive rolling stock and high-performance trains. To finance this investment we need to make savings elsewhere. We must improve our operations and have been forced to cut jobs. At the same time, in all areas of the business we depend on well-motivated and well-trained people – which means that we are also investing in staff training."
This cycle needs to function on all levels, so that the nerve centre of the railway is not cut off. "The trick is to establish clear internal and external priorities in all our areas of business and to arrange the costs so that the results are ultimately positive. When the board of directors and the company management decided in 2006 and 2007 to order new motor coaches at a cost of CHF 200 million, this was a bold investment in the future."
The aim of the RhB offensive is marked growth in all areas of business – 6 per cent was reached in 2006, one year after the launch of the new strategy, an achievement which shows that they made the right decision. The next two years are also well in hand, says Rutishauser. Further investments in marketing, rolling stock and infrastructure are planned and require financing for the coming four years to generate further growth rates over subsequent years. A total of 145 jobs at all levels of the hierarchy fell victim to the restructuring, although the effect of these staff reductions was mitigated by carrying out most of them through natural fluctuation and early retirement. The RhB management and the unions worked out a benefits package in just a few weeks for the 27 employees who were made redundant.

Erwin Rutishauser, since November 2004 CEO of the RhB.

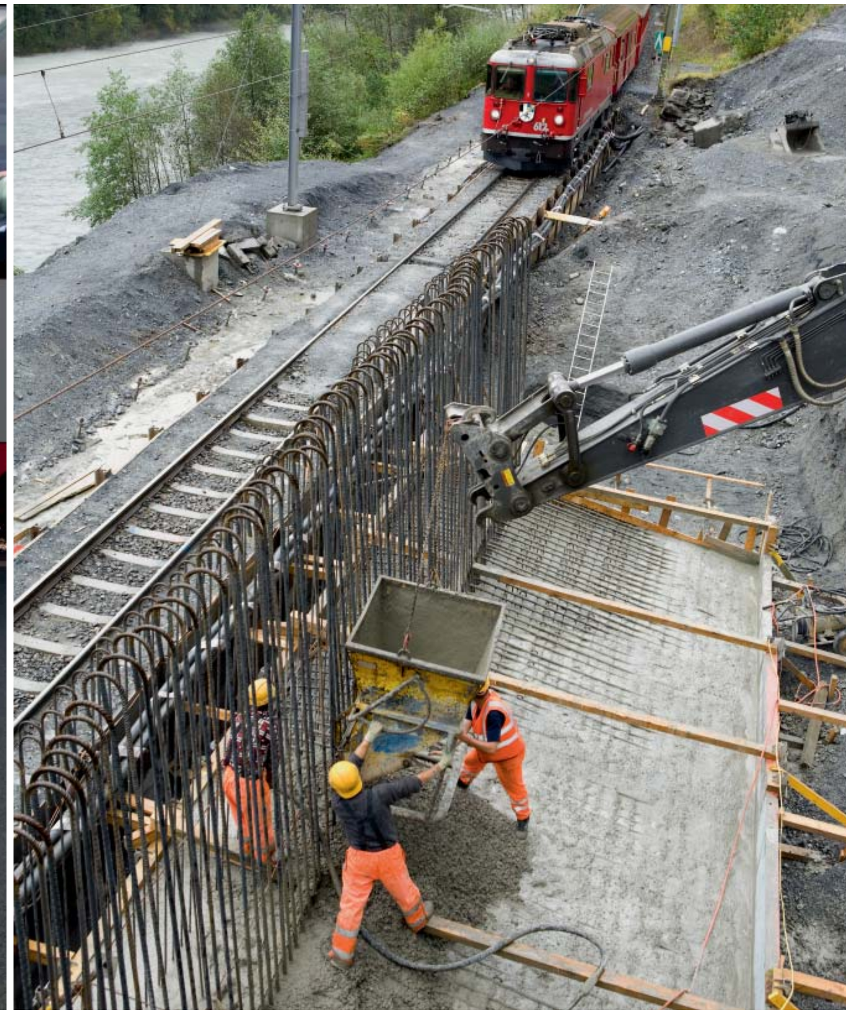


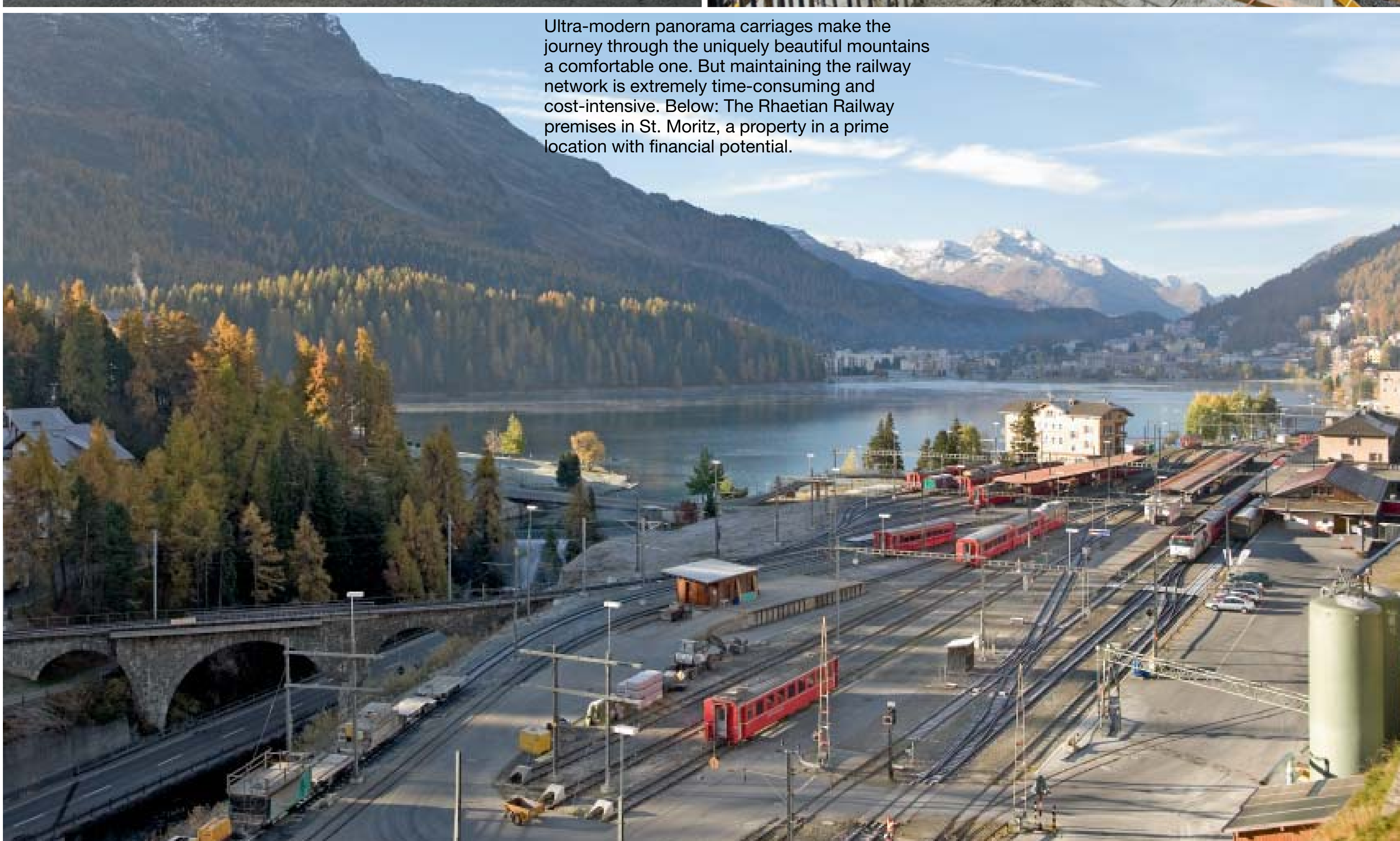
The Swiss railway reform 2

The planned reform of the Swiss railway system provided, among other things, for financial support from the government and the cantons for private railway infrastructures to be controlled anew by means of service level agreements. Since the Swiss Councils rejected the railway reform 2 at the end of 2005, no new solution is predicted for infrastructural financing before 2011. In the meantime, the Federal Office of Transport (FOT) has implemented an interim solution: the parliament approved a framework credit agreement of a total of CHF 800 million, from which the railways are granted interest-free, conditional repayable loans for investment in their systems. The funds are to be released in stages between 2007 and 2010. The formula for distributing the funds was previously based on the financial strength of a canton, the length of the tracks, the topography and the number of people per square kilometre. According to the new financial adjustment between the government and the cantons which will come into force in 2008, this formula will now be based purely on population density and the length of private track. FOT spokesman Gregor Saladin estimates that the costs to be paid by the government for a thinly populated mountainous canton such as Graubünden will be around 85 per cent. The exact amounts will be negotiated each year.



The Rhaetian Railway is a complex company with different, mutually dependent business segments. Top: The industrial workshops and the goods loading facility in Landquart. Below: The mix of old and new at the station at Filisur.





Ultra-modern panorama carriages make the journey through the uniquely beautiful mountains a comfortable one. But maintaining the railway network is extremely time-consuming and cost-intensive. Below: The Rhaetian Railway premises in St. Moritz, a property in a prime location with financial potential.

From Europe to Japan, the Swiss railway is characterised by the two showcase trains, the Glacier Express and the Bernina Express. Every year around half a million tourists from all over the world experience the journey through the spectacular mountain landscape from St. Moritz to Tirano and from Davos to Zermatt. For Rutishauser, looking after these two brands takes priority: “This is where we continually optimise what we offer.” The 24 ultra-modern panoramic coaches bought last year, a new gourmet concept and an electronic customer information system at the major stations should make the trains even more attractive to tourist groups worldwide. The planning attends to the finest detail. When fitting out the new motorised coaches, the CEO personally insisted on that windows could be opened, despite air conditioning, “so that we don’t disappoint the photographers and video film-makers among our customers.”

Opening up additional markets

The RhB-leaders expect international perception of the two leading brands, the Glacier Express and Bernina Express, to increase yet further if the “Rhaetian Railway in the Albula/Bernina cultural landscape” is accepted as a UNESCO World Heritage site. A decision is expected during the coming year. However, the growth potential of the two express trains is not unlimited, on the grounds of capacity alone: “We can’t allow tourist traffic to increase excessively,” Rutishauser asserts firmly. “To date we have been focusing on seasonal operations. Now we are setting new priorities for the low season.” Even now, the two trains bring the resorts of St. Moritz and Davos 200,000 additional overnight visitors a year.
The RhB makes around CHF 14 million with the two popular tourist trains, about the same amount as it makes from local commuter traffic. The lion’s share of CHF 51 million is brought in by leisure travel – weekend skiers, families on walking holidays, mountain climbers, cyclists, day trippers and so on. “A good 80 per cent of our profit is generated from the Swiss market,” estimates Rutishauser. He sees some real opportunities for growth here. Starting with increased marketing campaigns and combined rail offers in the sports, leisure and wellness sectors, in future the intention is to offer attractive weekend and short-break packages, bookable on-line, for the markets of Switzerland and neighbouring countries. But the RhB also wants to expand in the commuter market by offering the local population an alternative to the car in the form of modern trains which provide a reliable service in all weather.
The RhB is also keen to establish its position in the goods transport sector. Just last year, 6 per cent more goods were transported than in the previous year. Combined traffic increased by 13 per cent. This pleases Rutishauser, for whom this development – following a downward curve for several years – indicates a changing trend. “The current times favour the RhB,” he says, acknowledging environmental and climate change concerns. Another cause for optimism is the arrival of new customers, for example the large sawmill, Stallinger Swiss Timber, in Domat/Ems. To be able to meet the agreed annual transportation capacity of 70,000 square metres of timber from 2008, the RhB has developed its own tailor-made transportation concept and invested CHF 6 million in new goods wagons.

> “It is not enough to post good results in our core areas of competence; we also need to generate new sources of income.”

Benefiting from different revenue streams

Rutishauser is setting a fast tempo for restructuring the RhB. Now 58, the business administrator from Zurich has experience in the railway business, initially in a managerial capacity at the Swiss Federal Railways (SBB), and later as an independent management consultant for public transport companies, cantons and local authorities. Before his appointment as CEO, the keen mountaineer had already spent 10 years as the government representative on the board of directors of the RhB, which gave him deep insight into the company.
“It is not enough to achieve good figures in our core competence areas; we must also generate new sources of income,” he says. One example is the company’s industrial plant in Landquart, which is responsible for repairing and maintaining the RhB’s rolling stock. Now, the firm will also offer its speciality service to orders from outside. For example, this year RhB took on a job for Stadler Rail AG that involved fitting out the aluminium shells of 20 railway carriages with all the necessary technical equipment, including WC and air-conditioning systems, seating, doors and windows.
Another underexploited area of business is RhB properties. At the stations – and therefore in prime locations – the company owns buildings and land in places such as St. Moritz, Davos, Arosa and other big-name destinations of Graubünden. Incredible potential in the form of sidings, sheds and warehouses was simply lying fallow. So a strategy was developed to enable the maximum possible profit to be obtained in future from these railway sites. Even the old crossing keepers’ cabins were assigned new functions as a result of the new money-making measures – for example by being rented out as attractive holiday homes for railway enthusiasts.
Does Rutishauser see light at the end of the tunnel today? “Yes, we have made a substantial step forward, thanks to a huge team effort,” he says. “Even if the new phase requires a lot of effort, it is heading upwards.” //

The Rhaetian Railway

In 1889, hotelier Wilem Jan Holsboer obtained the support of banks, politicians and local communities for his idea to build a metre-gauge railway from Landquart to Davos – thereby going down in history as the founder of the RhB. Today the company has a railway network of 384 kilometres with gradients of up to 7 per cent, 582 bridges and 114 tunnels with a total length of 60 kilometres. The RhB, which now employs around 1,300 people in 80 different capacities, achieved a revenue in 2006 of CHF 275 million and after transfers to the reserves – as ordered – recorded a moderate profit.

trend. happiness research.

Satisfaction as a success factor.

A higher wage does not necessarily mean higher performance. And managers with discontented employees are doing a bad job, says Professor of Economics Bruno S. Frey.

Interview: Bernhard Raos

Professor Frey, do companies primarily need to be profitable and generate profits, or should businesses make people happy as much as possible?
The purpose of the market economy is for suppliers to produce what is in demand. Profit is merely an incentive. Companies that produce the products that are most in demand make the highest profit. Profit per se is not important – and has nothing to do with happiness.

Do you believe that it is important for a company's employees to be happy?
No. Happiness is a short-term thing, and tends to be defined by emotions. However, employees should not be dissatisfied either. You cannot achieve anything with frustrated people. Just one dissatisfied person can cause great damage in a company.

Bruno S. Frey (66) is a professor of economics at the University of Zurich and a guest professor at the Swiss Federal Institute of Technology (ETH) in Zurich. He is one of the most highly respected German-speaking economists and is considered internationally to be an expert in matters relating to happiness research.

Is employee satisfaction an issue for top management?
Definitely – that is a very important task of superiors. What we need in Switzerland and similarly developed economies is employees with the ability to think for themselves and to develop new solutions. To do this, they need to be motivated by their managers. Managers who complain all the time and dictate everything make their staff dissatisfied and ultimately drive them away. Managers of this calibre should not expect that employees show any initiative in unexpected situations.

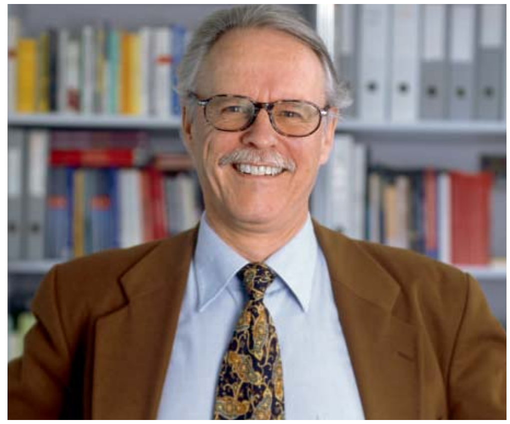
What characterises satisfied employees?
If you are satisfied with your work, you'll take on additional tasks that are not in your job description. Satisfied employees are more innovative when they are given the necessary freedom. This self-determination is important, for example, in competition with economies such as China and India where employee freedom is less pronounced.

Where do you see potential for self-determination in hierarchically structured companies?
In the past, hierarchies used to be steeper. Today, we need more well-trained people at all levels, people who think for themselves and show initiative. This is a perspective that is still not adopted enough, although it will be decisive for our companies in the future.

There is usually nothing about satisfaction in company reports. Sales, margins and profits rule the roost there.
Only in the external presentation of the company does the factor employee satisfaction play a role, for instance, in adverts. When it's about "real" business, the "soft" factors get forgotten. This is a mistake from an economic perspective. Satisfied employees are more productive, change their jobs less frequently and fall ill less often. And this reflects positively in the company's balance sheet.

What has your scientific research revealed about how satisfied and contented a higher wage makes an employee?
With low incomes, happiness increases as salary goes up. In this case, more money means more security, and basic requirements can be met with fewer worries. However, with higher wages, a wage increase only has a short-term effect. Three-quarters of the additional happiness effect has already dissipated after one year. People soon get used to a higher income. Above all, they are disappointed when they

compare themselves with others who get even more. In contrast, non-material values such as friendships and networks last much longer.



"I am in favour of market-driven wages. However, not every little increase in performance should be rewarded. For that only leads to a state where employees reflect every morning on how they can get even more money out of the company. Performance-based wages do not result in greater productivity but tend rather to suppress enjoyment in work."

What do you think of performance-based wages and bonuses?
I am in favour of market-driven wages. However, not every little increase in performance should be rewarded. For that only leads to a state where employees reflect every morning on how they could get even more money out of the company. Performance-based wages do not result in greater productivity but tend rather to suppress enjoyment in work. People want to achieve good results. This intrinsic motivation is important. But what is needed to realise it is as much freedom as possible, rather than a bonus.

Does your experience show that managers are satisfied with their work?
Managers in particular define themselves very strongly via their work. Most managers refer to themselves as satisfied, although they have a lot of hassle and resistance to put up with in their everyday professional lives. It is not pleasant when you have to relocate or fire employees, for instance. At the same time, managers also emphasise how important their families are to them.

Do you see this as empirical evidence of the work-life balance?
Yes. This balance is very important. When you work too much, you don't have sufficient time for your family or leisure activities. Take the USA, where many people only get two weeks' holiday a year. The American Nobel prize winner Daniel Kahneman maintains that Americans would be happier if they could work less. In Switzerland, we have at least four weeks' holiday – and most managers take a holiday too. But managers' time is a scarce resource. They need to consider well how to spend it. Competent managers are characterised by their ability to generate time windows for themselves. If you delegate, you have more time.

According to your investigations, the Swiss are particularly happy. On a scale of 10, they rank among the top happiest nationalities in a European comparison, with a mark of 8.2. What are the reasons for this?
We have some great advantages: a flourishing economy, a relatively low level of crime, low taxes and superb political structures with direct participation by the people.

So you consider political participation to be a factor in happiness? But fewer and fewer people are participating in elections and referenda...
Over the last few years, voter turnout has stabilised. With important referenda, substantially more people cast their vote. This voting behaviour is rational and shows that our system works well.

Is there such a thing as a genetic happiness factor?
Yes, it's empirically proven. A positive attitude to life is genetically programmed. Managers can promote this talent by showing trust in their employees. //

Charity. How to create an event.

What do you have to do to get people who have everything to donate money for a good cause? Make the target group happy, says Mary Hofstetter, executive director of the Swiss Red Cross Ball.

Text: Kaspar Meuli
Portrait: Cédric Widmer

A major society event creates its own legends. For instance, stories like this one: The mood was excellent at the 2003 Red Cross Ball at the Arena in Geneva, and the charity auction – the traditional highlight of the evening – had got off to a superb start. The next lot on the agenda: a photo of Alinghi, the winning boat in the 2003 America's Cup with the autographs of all the team members plus two signed Alinghi T-shirts. They were objects of no material value, but very soon the lofty sum of CHF 70,000 had been bid for the memorabilia. Not enough money for a good cause, thought Alinghi's owner and CEO of Serono, Ernesto Bertarelli. He stood up and shouted into the hall: "The highest bidder can spend a Sunday afternoon with me on the boat!" The bids continued to rise strongly, and when they had reached CHF 100,000, Bertarelli raised the stakes even higher: "There will be a lunch at our house before we go sailing!" A challenge from the audience: "And how about a game of tennis before lunch?" Bertarelli agreed, laughing, and the souvenirs were ultimately bought by a happy bidder for the princely sum of CHF 150,000.

Red Cross Ball director Mary Hofstetter with Harry in her Geneva office.

Beat Wagner, head of communication at the Swiss Red Cross, relates this anecdote to explain why his organisation has been arranging an annual gathering of the rich and famous with a ball on Lake Geneva since 2002. “We chose this formula so that we can appeal to people who are prepared to donate a lot of money in one go – but want to do so in a particular setting. This target group exists and it is extremely generous.”

American Mary Hofstetter is responsible for creating the exclusive setting for the Red Cross Ball. A long-established figure in Geneva, she has a first-class international network. She runs an event agency by the name of Blue Heron Productions and has been commissioned by the Red Cross with organising the charity event. To give appropriate emphasis to her mandate, she holds the title of Executive Director of the Swiss Red Cross Ball.

Entrance tickets are highly sought after

This task appears to have been made for Mary Hofstetter: she is sincere, charming and has a good dose of American extrovertedness. Her address book is worth its weight in gold, for it contains the most important and wealthiest addresses on both sides of the Atlantic. She made her entry into the event business with her husband at the time, Michel Hofstetter, who owned the celebrated sports and fashion store, Hofstetter Sports, when organising a fashion show for the sports brand Bogner that attracted a thousand guests. She was previously the Director of the British Red Cross Ball in London since 1996 and has been in charge of these famous Red Cross Balls for over 16 years in total.

Never repeat yourself!

The Helvetian version of the charity event is now seen as the most significant society event of Switzerland, and the demand for the coveted tickets grows from year to year. In fact, at a price of CHF 600 per person, the 900 tickets for this year’s ball were already sold out weeks in advance. Those who were too late had to make do with a spot on the waiting list.

That is an amazing record for an event that has only been held six times to date. So what does it take to get to the top in the charity business that quickly and that successfully?

Secret number one: “Our discerning clients want to be constantly surprised,” says Mary Hofstetter. For her, that means: Never repeat yourself! Every ball night has a totally new theme. The first in 2002 was “La Dolce Vita” and offered the Italian rock singer Zucchero as a guest star. Last year, the event was titled “La Nuit des Orchidées” and celebrated the magic of the Far East, for which, among other delights, thousands of fresh orchids were flown in from Thailand. The illustrious guests also included a Thai princess. The motto of the 2007 ball was “Stetson, Satin & Lace”.

The dress code and Western decor in the former halls of the Swiss Federal Railway station of Morges had less to do with the hostess’s home country and more to do with current style and fashion trends. According to Hofstetter, as a charity organiser, she has to have her finger constantly on the pulse, to feel in advance, so to speak, which fashion trends are in the air. “I buy every women’s magazine and newspaper that I can get my hands on and read issues of ‘Vogue’ from all over the world. Lace was the thing in 2007. Two Grammy Awards were given to country and western artists for the first time!” The outcome of this perpetual style monitoring is essential for the success of a ball, for Hofstetter knows from experience how important it is to satisfy the fashion consciousness of her female guests. “The



Prof. Dr René Rhinow, president of the Swiss Red Cross, welcomes prominent guests from high society, business and politics as well as celebrities such as Naomi Campbell to the Red Cross Ball. A discerning clientele who are willing to donate but expect top-flight entertainment in return.

“Charity events are not only important for drumming up funds, they are also ‘must-do’ dates in the entertainment calendar.”

women want to wear something ultra-trendy to our event, and to look great in it."
Secret number two: Sweat the details! For instance, Hofstetter pays particular attention to the printed programme for the Red Cross Ball – a high-gloss magazine that runs to more than 100 pages. To her, it was worth organising a photo shoot in Thai greenhouses just to get sublime images of orchids for the 2006 issue. In turn, the 2007 programme is adorned with a picture from the cowboy series by the renowned American artist Richard Prince whose works sell for over half a million dollars. His gallery was persuaded to relinquish the copyright free of charge for the cause.

A network of high-calibre sponsors

There is a good reason for the effort that Mary Hofstetter puts into the design of the programme: the booklet is her most important sales pitch in drawing sponsors. It is not only about financial support, but also about donations in kind and a way to thank the generosity of donors.
Sponsors provide for the physical well-being of the guests at the Red Cross Ball. From mineral water and wine, the five-course menu – for which the Geneva Hotel Beau-Rivage turns up with an entire kitchen team – to coffee and chocolates they donate everything that the pampered group of guests desires.
Hofstetter also looks for and finds suppliers who provide the elaborate decoration free of charge. She recounts how, in the search for suitable accessories, the materials of the Dutch manufacturer Chivasso caught her eye at the Paris Interior Trade Fair Maison et Objet. With her contagious enthusiasm, she made it clear to the company what a fantastic shop window her high-society event on Lake Geneva would be. And indeed, the company contributed material worth EUR 65,000 to the Western decor last June.
"Up until that point, we had never supported a charity event," explains Robert Petit, international sales and marketing manager at Chivasso, "but we can identify fully with the work of the Red Cross. And of course, the guests at the ball correspond exactly to our potential clients."
The connection with the decor sponsor came about more or less by accident. But usually Hofstetter employs her network. Simon de Pury, the internationally sought-after auctioneer and art dealer, called on Richard Prince, the cowboy artist, on behalf of the Red Cross. De Pury, an old acquaintance, also carried out the charity auction on the Western evening. This year's event contributed more than half of the average net receipts of some CHF 800,000 from the ball.
For the auctions – seen as de rigueur in the charity business – the well-off guests are prepared to spend money particularly easily. But to captivate an audience that can afford everything, something pretty special needs to come under the hammer: "Things that you can't buy for money," says Arpad Busson, hedge fund founder and initiator of ARK (Absolute Return for Kids), a children's emergency fund. ARK events are among the most remunerative charity activities worldwide. Last May, the lofty sum of CHF 65 million was collected in Marlborough House in London – on a single evening. A highlight of the event is the ARK auction: priceless enjoyable experiences have been bid for, such as a yoga course with Sting, dancing with Richard Gere or a game of tennis with Tony Blair.

Get highly committed VIPs involved

The Swiss Red Cross Ball cannot keep up with show business events like these, and they are also in a lower league when it comes to the sums collected – the funds are intended for the "Victims of Forgotten Disasters". However, the bottom line is that





the lively ball night brings the Red Cross some 3 per cent of the entire private donations of CHF 25 million.
Is all the effort worthwhile? Definitely, says Beat Wagner, Head of Communication, because the financial result is not all that counts. “We gain valuable contacts through the ball, a network which we can fall back on.” The members of the ball’s committee in particular are personally dedicated to the effort and are very interested in the work of the Red Cross. “These people are not just looking for glamour!”
Indeed, the group of voluntary helpers of the Executive Committee likes to be kept informed about the organisation’s activities during its regular meetings in the Beau-Rivage Hotel in Geneva. For example, committee member Countess Celia von Bismarck recently travelled to Romania to see for herself how an aid project for mothers and children is being supported with funds from Switzerland. “After all,” says Hofstetter, “our sponsors want to know what they are giving their time and money for.” Interest in the work of the Red Cross is growing all the time, she says.
Back to the 2007 ball. Back to the Silver Spur Saloon in Morges, where the Cornell Hurd Band (flown in especially from Austin, Texas) is getting the audience going. The mood is good – but why exactly does high society want to be here too? Why do Geneva society and international guests gather together, with sheriff stars on their lapels and wearing cowboy boots?
The answer is Hofstetter’s secret for success number three: Relaxed atmosphere and good entertainment! “The most important thing is that the guests have a good time. Charity events are not only important for procuring funds; they have also developed into ‘must-do’ dates in the entertainment calendar. People meet up; they get to hang around with people they know. And this applies just as much in Switzerland as in London. Our guests from the USA book in regularly every year now as well as those from the UK and throughout Europe.”
In her quest for a night to remember, the ball director pulls out all the stops: She promises genuine stars – from the Buena Vista Social Club to the violinist Vanessa-Mae – who all appear for nothing. She ensures the necessary touch of glamour – at this year’s ball, for example, Naomi Campbell suddenly turned up as a surprise guest, the latter thanks to Sheikh Mohammed Y. El Khereiji and his beautiful wife Roba who are active in the committee as Honorary Chairman and Executive Committee Member, respectively. And she leaves nothing to chance in the seating arrangements. Hofstetter personally phones the people on the guest list to ask tactfully and discreetly about social compatibilities. In this way she can be sure that, on the big night, age, language and chemistry fit happily at the tables.
The rich and famous want to have their fun too – and if the whole thing is for a good cause, all the better. Ernesto Bertarelli summed it up: “We want to spend a nice evening,” he said into the microphone of a reporter from the Suisse Romande television station TSR. “And we want to feel good by doing something with our money. And that helps everyone.” //



Art dealer Simon de Pury auctions a tennis racquet belonging to John McEnroe. The auction regularly generates more than half of the net receipts of the ball.

The proceeds of the event are intended for the “Victims of Forgotten Disasters”.

The PwC team (Iwona Smith in the centre) eased the bureaucratic complexity of an aid project and attended the laying of a foundation stone for a school.

"Ulysses": Aid in East Timor without the red tape.

Nine days after East Timor gained independence from Portugal in 1975, the country was annexed by Indonesia and became its 27th province – despite widespread international condemnation. During the 24 years of Indonesian rule, almost 183,000 of the 800,000 inhabitants died. The country finally became independent in May 2002. For Iwona Smith, arrival in the capital Dili in 2004 came as something of a shock. "I had never seen such poverty. There were so many young children begging!" she recalls. The scars of the long war were still fresh: "It didn't matter which topic you chose, the conversation would always very quickly revert to people's own experiences, to the dead in their families. Nothing had prepared us for this despair and these emotions." The task that the "Ulysses" team had to carry out was also different from what they had expected. The brief was to assess the successes of an international aid programme that, with funds of USD 3 million, aimed at alleviating the low level of education and the unemployment in East Timor. A group of Japanese was responsible for implementing the programme. "Fearing corruption, the aid workers had created a raft of rules and processes to ensure that the funds ended up in the right hands," reports Smith, who had been a PwC partner in Warsaw for a year at the time. In light of the ever-present poverty, the PwC team, which in addition to Smith included colleagues from the United Kingdom and Mexico, decided to convince the Japanese to reduce the number of regulatory hurdles and to distribute funds more quickly. It was a delicate mission, not least because of the considerable differences in ways of thinking of all those involved. Towards the end of their stay, the PwC team attended a ceremony to mark the laying of the foundation stone for a school.

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

Smith is convinced that "without us, there would have been months of delay". Thanks to her "'Ulysses' experience", the tax specialist, who is now 40, developed a new sense of self-confidence. "I already knew that I am an expert at my job and that I'm tough," she says. "But I only discovered in East Timor that I am very quickly accepted and viewed as a person of trust who can solve difficult problems not only with expertise but also with empathy and human warmth." Smith is convinced that whoever put forward her name for "Ulysses" must have had an inkling that she possessed these leadership skills. She has since climbed the career ladder and is now a managing tax partner for Poland. She has fundamentally changed her understanding of the purpose of her work: "I do not accept a solution that is not demonstrably sustainable," she says. "For me, this means consciously assuming responsibility and understanding the requirements of our customers even better. And doing so at both a professional and human level." //

Questions beget answers, and answers, knowledge.

PricewaterhouseCoopers has challenged business-minded people to ask some good questions via the Internet on the topics of Leisure & Work, Local & Global and Money & Ethics. Some 400 respondents have posted more than 800 questions regarding these topics on the Web. Business publicist René Lüchinger interprets this barometer of today's zeitgeist.

The history of mankind and of human thought is also a history of enduring questions. One such example is "What is enlightenment?" which was posed in 1783 in the journal "Berlinische Monatsschrift" by a priest and declared opponent of the Enlightenment movement. There are answers, too, that withstand the test of time, such as the answer to the aforementioned question. Its author was the German philosopher Immanuel Kant, who wrote, "Enlightenment is man's release from his self-incurred tutelage." We would not have this answer had the question not elicited it. So it seems fair to conclude, in the spirit of Kant, that those who don't ask questions stay in a state of tutelage.

"How many years does a person have to work," asks a participant in the PwC Internet Forum, "before he can finally enjoy life?" He seems to want to tell us "first work, then pleasure" – and this inner conflict between one's job and the urge for leisure time is very symptomatic of the post-materialist world in which we live. There is widespread fear in the virtual question room that the work-life balance could go awry and end in burn-out. Money has long ceased to be the currency for success. Instead, it has become the material reminder that too much of it destroys more than just a person's character. "Nature," says one, "manages without money" and adds sarcastically: "Can money also get along without nature?" A question that inevitably implies the answer – and this fear of existential loss triggered by boundless greed also emerges with many other questions. "Is having more important than being, money more important than character?" and "Why are needs a growth market?". One participant sums up this yearning for new modesty and goodness: "Do you know your limits?" Other questions follow seamlessly, for instance on the topic of globalisation: "What comes after globalisation?" and "When will we globalise the universe?". Bigger, higher, faster: these also provoke questions of ethics and morals. Also in this context, the people asking the questions know no mercy. "How many losers," they want to know, "are needed for one winner?" Or: "Does the economy always have to grow?" And finally: "Why do redundancies shore up stock market prices?"

This is no band of anti-civilisation critics and cultural pessimists. They are people seeking answers. Asking existential questions – post-9/11 questions. For this community, the roaring nineties are infinitely far away. "Do you love yourself?" one person queries, holding up an anti-materialistic mirror to us all. Clearly, fundamental values are once again in demand and fundamental questions permitted. Questions in the best tradition of the Enlightenment – even if the answers have become more complex and currently we have no philosopher equal to Immanuel Kant to point out the path of knowledge. But one thing is certain: Everything starts with a question. Whoever asks it has already taken the first step to the answer. //

ceo* forum/emotion/reason

Marc Bürki: "Our employees come from 15 countries and have different cultural back-grounds. So of course emotions play a major role in management."
06

Martin Knoll: "Negative emotions can also be an important trigger – to improve things and to address problems."
08

Prof. Dr Miriam Meckel: "We often know intuitively what decision we want to make, and then we collect the necessary arguments to back up the decision rationally."
10

Samih Sawiris: "You can discuss and analyse a business idea for months – and even then you still cannot guarantee that it will be a success."
12

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