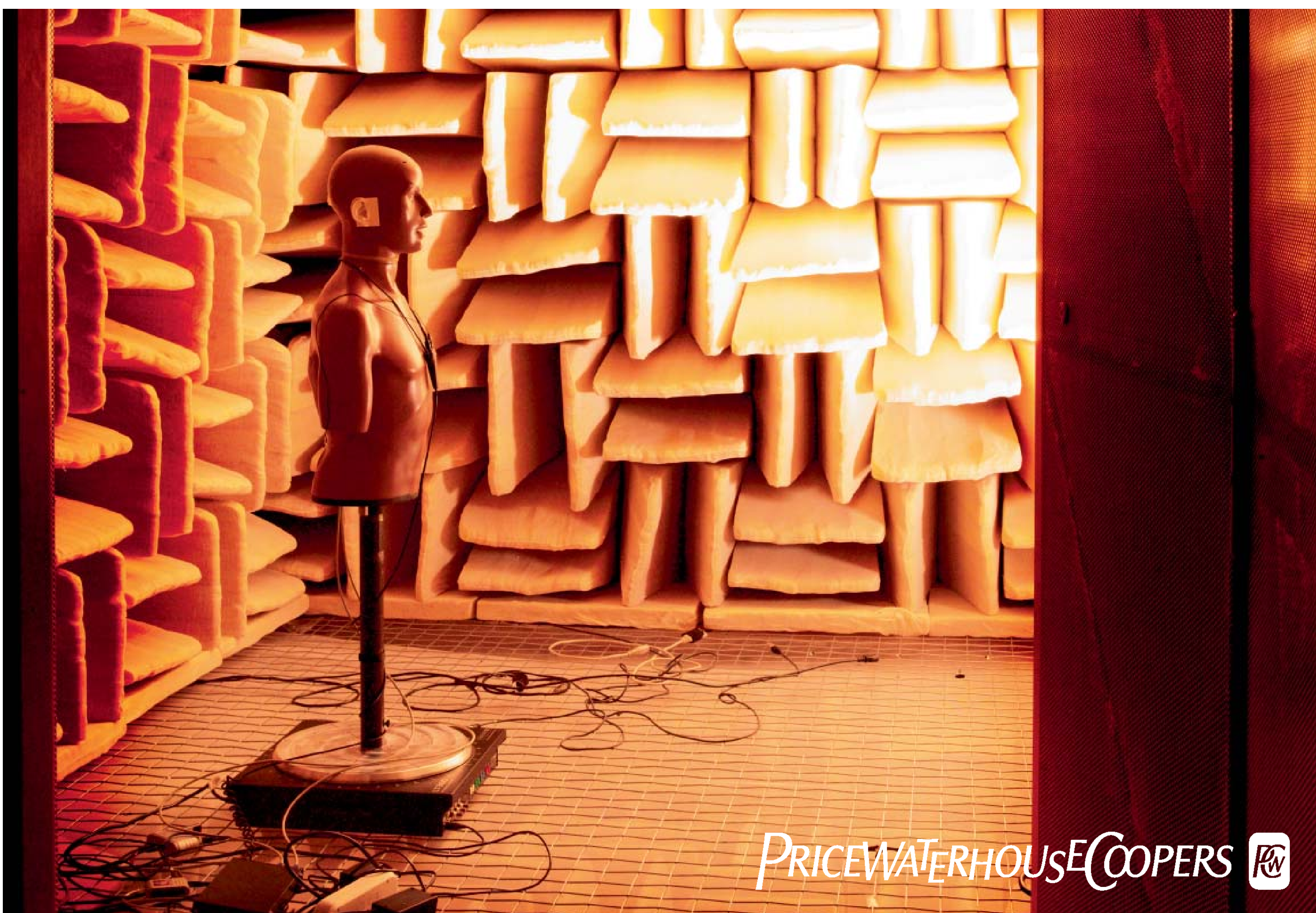
ceo*

The magazine for decision makers. May 2008

Sonova. The sound of bold new technology and cool design.
La Prairie Group. The crème de la crème for a discerning clientele.
SEF. Business plus emotion equals enviable success.



Publisher: PricewaterhouseCoopers AG ceo magazine, Birchstrasse 160, CH-8050 Zurich, Switzerland

Editors-in-chief: Alexander Fleischer, alexander.fleischer@ch.pwc.com, Franziska Zydek, zydek@purpurnet.com
Creative director: Dario Benassa, benassa@purpurnet.com

Contributors of this issue: Michael Craig, Ella Sarelli, Giselle Weiss
Concept, editing and design: purpur ag, publishing and communication, zurich, pwc@purpurnet.com
Photos: page 3: Andreas Teichmann, page 36–41: All the photos for this report were shot in the Juvena Laboratories in Volketswil, page 46/47: Peter Schneider/Keystone, photos SEF, page 48/49: Peter Schneider/Keystone, Hervé Le Cunff/SI/RDB, photos SEF.

Copyright: ceo magazine PricewaterhouseCoopers. The opinions and views expressed by the authors do not necessarily reflect those of the publisher.

ceo magazine appears three times a year in English, German and French. Circulation: 30,000
Free subscriptions and changes of address: sonja.jau@ch.pwc.com

Lithography/Printing: ud-print AG, Lucerne. Paper: Magno Satin FSC, woodfree, two side coated, silk, bright white

FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
www.fsc.org Zert.-Nr. SQS-COC-100038
© 1996 Forest Stewardship Council

Whether they like it or not, organisations and governments increasingly have to deal with moral and ethical questions. What is seen as “fair”? Can governments be trusted? Are tax laws equitable? Are the decisions made by companies legitimate?

Dr Markus R. Neuhaus
CEO PricewaterhouseCoopers Switzerland and Eurofirms Senior Partner

Globalisation is bringing about dramatic change. This may be a dreadful cliché, but it’s true. In recent weeks we have seen how economic globalisation is increasingly dominating events on the political front – and how public debate increasingly has a strong ethical and moral dimension.

Just look at Singapore and Germany

Let me explain: In Europe we have started to get used to a situation where companies that had been seen as part of the national identity are being taken over partly or completely by foreign organisations, sometimes even in the so-called emerging markets. The Singapore government fund’s involvement in UBS introduces a whole new dimension: the question of whether a state whose political system does not match our own idea of a functioning democracy should exert a substantial influence on a company of key significance to our economy. The emphasis here is on “should”: it’s a question of legitimacy, especially political legitimacy.

Should a state be allowed to impose its own concept of legality on other sovereign states? Should it be allowed to encourage breaches of the law in these countries? Certainly not. Hence the huge, and justified, indignation over the way Germany has acted in its dispute with Liechtenstein. This type of behaviour towards neighbouring sovereign states is just as outrageous as the way the media present the arrest of a suspect. Here we see the fundamental differences that still exist between the way even neighbouring countries see something as basic as the relationship between the state and the individual.

So far, we in the world of commerce have tried to steer clear of these questions as far as possible. But they are getting harder and harder to ignore. One phenomenon of globalisation is that all the different political, economic and cultural aspects are more and more closely interconnected. Another phenomenon is that people are increasingly using moral and ethical standards as a guide and aid to judgement to navigate the complexity of global events. Part of the German public is behind the state’s dubious actions because they are driven by a motive with positive moral connotations: ensuring equitable taxation. People’s sense of justice tells them that it’s unfair to hide income from the tax authorities. And because the government is seen to be correcting a situation that is perceived as unfair, people in Germany view it as more of a Robin Hood than a Sheriff of Nottingham – quite the opposite of how it is viewed in other countries that are the victims of this campaign.

It’s a matter of having the better arguments

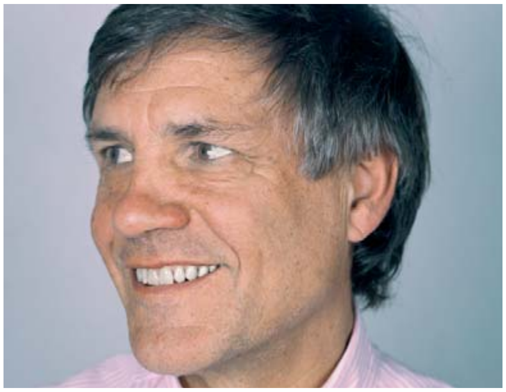
Whether they like it or not, organisations and governments increasingly have to deal with moral and ethical questions. What is seen as “fair”? Can governments be trusted? Are tax laws equitable? Are the decisions made by companies legitimate? It’s rarely a question of yes or no: it’s a matter of having the better arguments, of a clear and credible stance.

The Forum section of this issue also looks at ways of approaching the thorny issue of profit versus ethics. The metaphorical approach described in Trend may be one way of finding solutions to these new challenges. And if this is all a bit too theoretical for you, in the Expertise section you’re sure to find some ideas for tackling concrete business issues.

I hope you enjoy this issue!

Markus R. Neuhaus

ceo1/08. contents



pwc expertise

Cover picture: Roth und Schmid
The anechoic chamber, Sonova

Only one out of ten people with a hearing problem wears a hearing aid. To Sonova CEO Valentin Chapero, that sounds like fantastic market potential.

14

Interview. Alex W. Widmer, CEO of Bank Julius Baer, on the risks and opportunities in private banking. And on the dangers that threaten the future of financial markets.

20

La Prairie Group. Demand for anti-ageing products is growing. Trendsetters have something to be happy about: business is booming.

36

Swiss Economic Forum. CEOs Peter Stähli and Stefan Linder show how to create an excellent event.

44

“Ulysses”, the leadership development programme at PricewaterhouseCoopers. Teaching professional skills in an unfamiliar setting: for example in Ghana.

50

Amy Stierli: I don’t believe that ethical behaviour is something you can learn. Everybody has very own personal values – and either behaves according to them or doesn’t.

Together with partners, the tourism expert Amy Stierli runs the two hotel islands Mirihi and Helengeli in the Maldives, as well as six diving bases and a chain of spas.

The central values that form the basis of any business for me are giving and taking. I have always dealt with things in this way, and my experience has been a positive one. I am convinced that the more you give, the more you get back.
Thirty years ago, I came to the Maldives for the first time as a holiday guest. From the very first second, I was fascinated by the unbelievable beauty of these islands and the cheerful equanimity of their people. At the time, there were numerous jobs for me in the travel industry as an all-rounder – I worked for a whole variety of service providers such as airlines and travel agents, right across the board. In 1992, I became the CEO of Manta Reisen, which at the time was a small company specialised in diving holidays. In this position, I was able to expand my contacts to the Maldives. Two years later the company was sold to Imholz, and after another two years I became the majority shareholder of Manta Reisen thanks to a management buyout. Within the space of five years, we managed to increase turnover seven-fold. At the end of the nineties, I then sold the company to Kuoni, although I initially remained its CEO. During this very intense time, I noticed that it pays to give everything you can.
I was able to lease the island of Mirihi in 2001, which was a stroke of luck. The award of hotel islands is very clearly regulated in the Maldives; the lease agreements are hotly sought among foreign investors. I benefited from the fact that I had always worked with respect and fairness, and had built up many personal relationships with Maldivians. From the start, I worked with Maldivian business partners – which made a lot of things easier. My partners are not only business people interested in profit; they are also friends on whom I can rely and who have an attitude similar to my own. We redeveloped the island entirely, in line with state-of-the-art ecological standards, and reopened it in 2002. Later, we were able to conclude a management agreement for the island of Helengeli with the Maldivian leaseholder.
Today, our gross profit is between 50 and 60 per cent. In my opinion, you only achieve figures like that long-term if you invest emotions as well as money. I am the contact person for most members of staff on the islands – I’m almost like a mother to them. I know when someone is expecting a baby, or whether a member of the family is ill. When necessary, I intervene – for instance, by sending someone home when there is a death in the family, or by our company assuming the costs for expensive medical treatment. The Maldivians are Sunni Muslims. That we go to great pains to take their cultural and religious values into account is part of our success. If you’re only in it to make a fast buck, you can afford to ignore ethical factors – but in the long run, attentiveness, empathy and respect will pay off, I am sure of that.
The service sector is always about people’s well-being. The maths are simple and they add up: the more satisfied our staff are, the more our guests will feel at home. That is why, for instance, our people have a lounge, a fitness room and their own football pitch with artificial turf on Mirihi. On an island that is only 350 metres long and 50 metres wide in total, and that barely offers sufficient space for physical exercise, this is highly appreciated. Today, all around us in the atoll, an increasing number of global hotel chains are opening up ever more luxurious resorts. They can afford to woo good people with top salaries. Yet most of our employees prefer to stay with us – not least because we have ensured that there are also Maldivian management staff at every level.
Incidentally, I do not believe that ethical behaviour is something you can learn. Although there are social morals that serve as guidelines, everybody has very own personal values – and either behaves according to them or doesn’t. More often than not, commercial success depends on personal and intrapersonal factors. Ultimately, it’s always about trust. When you invest here, you’ll notice that, below the line, your profit is guaranteed to be greater than any loss. //

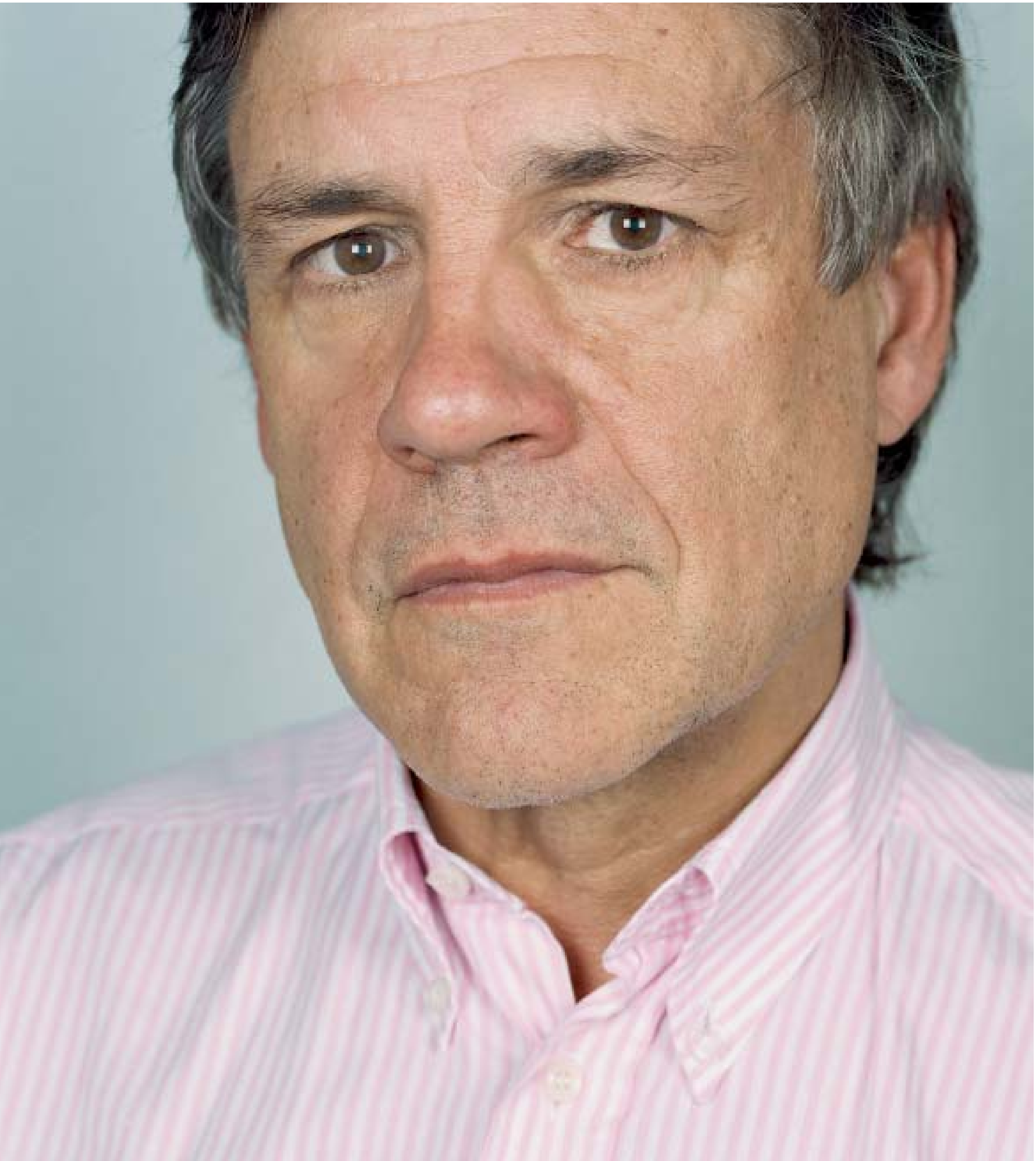
Photo: Cédric Widmer

Andreas Reinhart: The question how we make our money needs to be asked by every entrepreneur and every manager. The answer is not always “in an ethically correct manner”.

In 1985, Andreas Reinhart was the fifth generation of his family to take over the management of the Winterthur-based company Volkart. Reinhart fundamentally restructured the company. At the core of the Volkart Group’s current philosophy lies the principle of sustainability.

I can still remember how I felt as a young manager at Volkart when I realised how the coffee business really worked. Looking back, I understood how our company – including myself – functioned “successfully”, for instance, in Central America; how government departments and some of our people were able to enrich themselves personally. This hit me hard – for ultimately I was in charge.
The question how we earn our money needs to be asked by every entrepreneur and every manager. The answer is not always “in an ethically correct manner”. Many people then shut their eyes and continue in the same way as before. In a family-run business – a partnership or a cooperative – things are probably perceived in a different way, with a longer-term orientation than in a company listed on the stock exchange. Maybe you tend to feel more responsible, act in a more sustainable manner, for ultimately it is about the continued existence of the company. The personal values of the family – the partners or shareholders – are transferred to the company.
When the owner delegates the management of the company, this can abruptly change. Then people can acquire power who just do their job – and who then leave when they like. I do not want to praise the virtues of a family-run business here. But what is the alternative? How do you structure a com-pany so that it can make profit on an ethical basis? In global corporations where management and the board of directors hold a large part of the shares and can thus co-decide themselves who sits on the board and the commissions, this important question is decided by a small group of elite people. An elite, mind you, that is employed by the company.
At the moment, we have reached a point where the risks that this model harbours can very clearly be seen. The current discussion regarding bonus payments and golden parachutes is being conducted years too late – only now, when certain sectors of the economy are faltering, is it becoming clear to all that the status quo cannot continue. Although I believe that the participation of management in a company’s loss is necessary, the issue here is a different one. My question is: What is the ethical organisation of a company that allows its employees – irrespective of the form – to participate in the profit? Or asked naively: Whom is the profit “taken away” from?
Customers, consumers and society pay for the majority of the billions in profits generated by many companies. Through absurd financial incentives – in addition to salaries that are already good – certain executives and profit centre managers are “motivated” to generate even more profit. This can tempt some of them into entering into ever greater risk, and others into exploiting their power vis-à-vis the customers. One example is shown by Michael Moore’s film “Sicko”: medical insurance companies that reward staff for withholding benefits from insurants. I have experienced first-hand that this is common practice!
The promise of power and money makes people corruptible. It is only a question of time until everyone – from the board of directors down to the lowest employee – is used to financial incentives and a high standard of living. There is then a great danger that people will dispense with ethical principles and lose all sense of moderation. It is absolutely fatal when this profit-at-any-cost thinking permeates an entire company from top to bottom. This creates a climate of terror in which every employee only has his or her own personal enrichment on their mind. When “social responsibility” committees are set up in such a company, this is either cynical or pure marketing.
The real responsibility, the orientation of a company, starts with the attitude of the board of directors, the CEO and his or her team. It is these bodies that take decisions about how “ethically” a company acts in the market, how it handles incentive and reward systems, how corruption is investigated, what the profit target is – and what happens with the profit. For this task, common values are needed that are consistently represented by the top management, lived on a daily basis and implemented right down to the grass roots. A reversal of the trend – or even a sensible reorientation – is perhaps possible now because the system has reached its limits. And because the consequences of globalisation mean that we are faced with a new set of circumstances. What for a long time nobody thought possible can happen very quickly under pressure from the grass roots, the shareholders. The Berlin Wall, too, fell overnight. //

Photo: Julian Salinas



Bettina Ferdman Guerrier: Making a profit, giving part of that back to society and then talking about it – that's what I consider to be a decidedly healthy attitude.

The political scientist Bettina Ferdman Guerrier is the founder and CEO of Philias. Companies are showing an increased desire to assume social responsibility, and the Geneva-based foundation supports them in this aim. It counts companies such as Nestlé, Swiss Re, Novartis, Manor and Orange among its 22 members.

Profits and ethics only appear to contradict one another at first glance. In actual fact, they go hand in hand – at least in a commercial context. A company that doesn't make a profit is not a good one. But today, the goal can no longer be all about making a profit. The question is: How do you do business and create an impact in the social sector at the same time? The corporate social responsibility of a company embraces its relationship with all stakeholders – from its dealings with its own employees, through environmental issues at its production sites, to the support of NGOs. The CEO of the future is a socially thinking entrepreneur who plans on a global scale, acts innovatively and sees him – or herself as part of a changing society.
Companies actually don't have a choice in the matter – they need to assume social responsibility because they can only be successful in the long term if their social environment is well disposed towards them. Today, large corporations with multinational operations are behaving in an increasingly responsible way – whether out of conviction or as the result of external pressure. They are demonstrating improved and more frequent commitment to projects that have a positive social impact. SMEs are at very different stages of development in these issues – but for them too, corporate social responsibility is becoming increasingly important. Many major companies have started to demand ethical behaviour from their suppliers.
The companies are communicating their activities in the field of corporate social responsibility ever more strongly. And they are not doing this solely for image reasons but also because consumers, the media and the authorities want to know precisely what a company does for the well-being of the general public. Social commitment is no longer just about donating money but also about passing on knowledge, providing labour, procuring contacts and advising. Ultimately, both sides can benefit from such a transfer of know-how. Getting to this point, however, is a laborious process. Philias is not a rating agency; we do not assess companies according to their social behaviour. Instead, we help them to act in a responsible manner in day-to-day business. Our role is that of a catalyst. The decisive factor in the success of our work is bringing together the right partners.
HSBC Bank, for instance, has gone down such an avenue with us. Three years ago, the areas in which the company wants to commit itself socially were defined in a first step. It opted for the education of children and young people, as well as the protection of the environment. No money was to be spent in the first phase of the project. In the subsequent years, more than 200 employees from the bank worked for a day in one of these areas. They were able to select from a host of tasks – from coaching unemployed young people, through clearance work on a river bank, to providing consulting services to an environmental organisation in marketing issues. Through this, the HSBC employees have gotten to know various NGOs and their requirements personally. The next phase can now naturally entail financial support too.
For the bank, however, something else is important: it can communicate internally that it is not just sufficient for the employees to do their job. Their work also has an additional dimension – that of social responsibility. For there are no "socially responsible" companies; there is a sum of people that fulfil their responsibilities and leave their mark on a company. And it goes without saying that the CEO has a key role to play in this. He or she needs to define which social goals a company wants to achieve now and in the future and how it communicates this. Making a profit, giving part of that back to society and then talking about it – that's what I consider to be a decidedly healthy attitude. //

Photo: Bertrand Cottet

Rolf Hartl: Hundreds of millions of people aspire to Western-style affluence. Ethical business practice is not an overriding priority for them in achieving that.

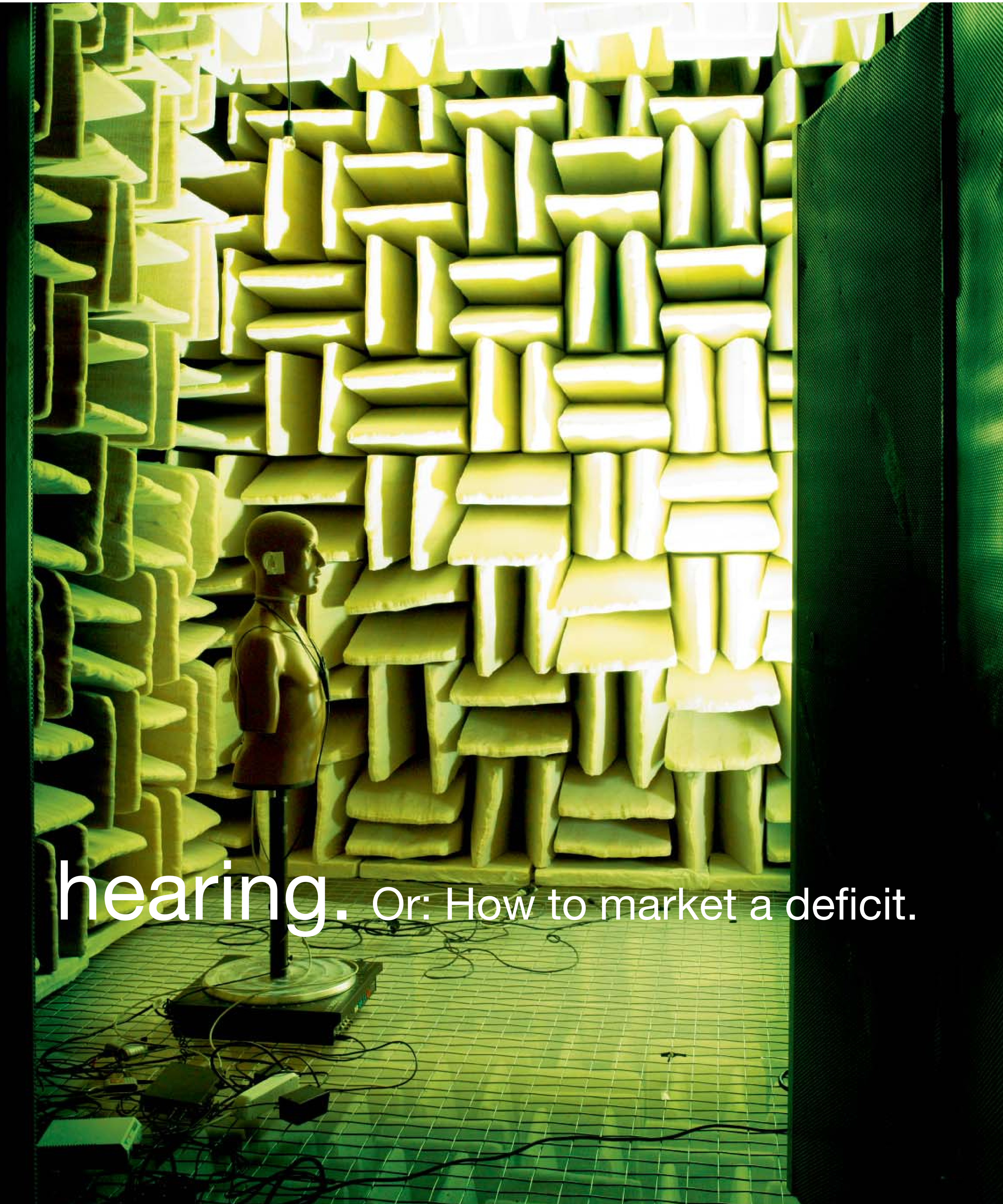
Dr Rolf Hartl is the managing director of Swiss Oil (EV). The association of the Swiss oil industry campaigns for the preservation and promotion of its members' interests, who import 95 per cent of Swiss crude oil and oil products.

Although energy is not the be all and end all, without oil, natural gas, electricity and other sources of energy, it is difficult to imagine our daily life, our place of work and our home – in a world that is characterised by increasing global interdependence and the associated transport of people and goods. As a consequence, the demand for energy is growing, primarily for oil and mineral gas because, despite high prices, supply fears and climate policy challenges, there are insufficient alternatives at hand.
We are therefore dependent on a well-functioning oil and natural gas supply which in turn is the business basis of oil and mineral gas producers and the downstream trade.
As well-informed consumers, we expect resource conservation and environmental and climate compatibility but also demand – in addition to the permanent availability of the resource "energy" – a good price. Satisfying this demand for energy products and generating a profit in the process is required from a commercial perspective, enhances macroeconomic prosperity and also fulfils sustainability criteria.
Why do globally active petrol and natural gas companies regularly face discussion about their "ethical" behaviour, such as e.g. the latest demand for production of "fair oil"? Why are they generally suspected of being active in a questionable industry? Or at least that is the impression conveyed. Why doesn't a food distributor or a water supplier have to regulate ethical practices for companies and employees as meticulously as is the case with most oil and gas multinationals? With the latter, especially, the regulations are extensive – and substantially beyond the requirement to comply with the relevant laws. It is, for instance, not possible for an international oil company to appoint an active politician to the board of directors or to support political parties and/or candidates financially in an election campaign. This is true even in Switzerland where such issues are generally tackled highly pragmatically by business. Apparently, the risks to the oil industry's reputation are very high, particularly in this area. Why?
An initial answer is: Size generates suspicion. Of the world's ten largest companies, six are oil and natural gas companies. ExxonMobil, the leader in the industry, posted sales of approx. CHF 400 billion and company profits of approx. CHF 45 billion in 2007. Other oil companies are posting similarly lofty figures. For many people, these are scarcely conceivable dimensions – for that very reason, credibility in business activities is of pivotal importance.
Secondly, the production of oil is carried out at the interface between politics and business. Fossil resources are under the control of the states, which either use them themselves or generate profit by awarding production rights. The "rule of law" and reliable institutions along Western lines do not apply everywhere. And normally the process is one that involves a great deal of money and substantial power. Formidable considerations regarding legal interests can arise for oil and gas companies – which are monitored particularly vigilantly by the general public, shareholders and non-governmental organisations when they are active in areas like these. The option of not becoming active right from the start in places where "our" standards are not lived sounds like commercial suicide when you take into account the fossil resources and the competition primarily from state-controlled petroleum companies outside of the Western hemisphere. Dying virtuously is not a serious option for any company! On the other hand, you have to live by your own standards, particularly in areas where it does indeed require effort, and even at the risk of failing to close a business deal, if you want to remain credible as a company.
In Switzerland, doing ethical business is a comparatively simple art. We are simply (still) able to afford such a situation. Hundreds of millions of people, however, aspire to Western-style affluence. Ethical business practice is not an overriding priority for them in achieving that, which is also evident in the oft-quoted race for oil and gas resources. That is why one might argue that sooner or later the security of our energy supply will be given a greater weighting for us in the West than the concern for ethically correct business deals in their finest forms. Without doubt, every society needs to constantly redefine its ethical issues – even if there is unquestionably a fundamental set of dos and don'ts that are set in stone.

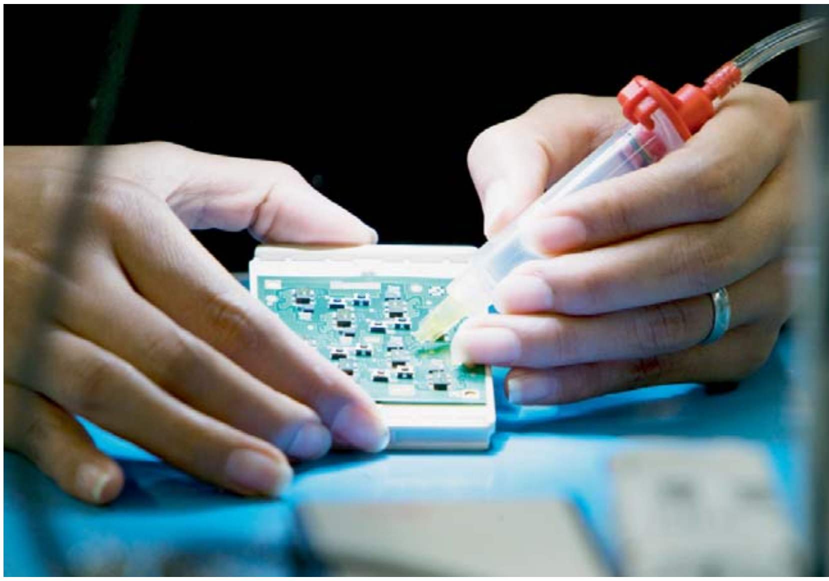
Photo: Helmut Wachter

A keen sense of

Only around 1 in 10 people with a hearing problem wears a hearing aid. That means huge potential for Sonova Holding AG, one of the leading suppliers of hearing systems. With state-of-the-art technology, a cool design and image campaigns, the company intends to throw off the stigma of a hearing aid as an artificial ear.



hearing. Or: How to market a deficit.



CEO Valentin Chapero, in complete silence – the anechoic chamber is where the acoustic capacity of hearing aids is usually tested. The open-plan architecture of the company headquarters in Stäfa houses the full range of different corporate divisions from the executive floor, through marketing and production, to dispatch.

Text: Bernhard Raos Photos: Roth und Schmid

In films, people who cannot hear are usually older. Sometimes, they are involuntarily comical figures. A cliché that is firmly rooted in people's minds – people who use a hearing aid are instantly older, lose attractiveness and are taken less seriously intellectually. In the light and airy entrance hall of the hearing aid manufacturer Phonak in Stäfa – the company belongs to the Sonova group of companies – nothing recalls this image of the hard of hearing. Life-size posters of new hearing aids show children and fit adults and suggest the new message of the miniatures for the ear: Even if you hear poorly, you are in the midst of things, have led a fully active life and can continue to do so thanks to hearing systems.
The advertising demonstrates a conscious change in style, says Alexander Zschokke, marketing head at Sonova: "In the past, people thought that if you lost your hearing, your performance would drop and you would be out. Today, people are better informed." In the meeting room two floors up, Sonova CEO Valentin Chapero nevertheless still sees a long road ahead of the company: "Social perception of the hearing aid as an artificial ear is still a huge hurdle." Phonak is thus forging new paths with "Hear the World". This initiative for improved hearing intends to sensitise the general public to the topic, publicise the social and emotional consequences of a loss in hearing, and inform about possible solutions (see also box page 19).

Opportunities for growth in the global market

Experts estimate that 500 million people around the world are affected by loss of hearing. And the trend is on the rise, for the ageing of society and the increasing noise pollution in our environment act as growth drivers. Although many people already begin to have some loss in hearing from the age of 50, it usually takes years until that person opts for a hearing aid – if at all. Today, only 15 to 20 per cent of those affected buy a hearing aid. The market penetration is thus still very low.

The future phenomenon of hearing loss

Experts estimate that 500 million people around the world are affected by loss of hearing. By 2015, that figure will already be 700 million, according to British studies. Most hearing problems are caused by damage to the inner ear. There, the cochlea with its hair cells is so badly damaged that it can no longer relay the sound without loss. The sound quality also suffers with time. Those affected usually "lose" the higher frequencies – this affects consonants such as s, f, t or p – all they then understand is a mumbling. At www.hear-the-world.com, you can test your own hearing strength under the link "Online hearing test".

Sonova is upping the pace. The two largest hearing aid companies in the world have a market share based on turnover of between 22 and 23 per cent. According to Chapero, they intend to knock the industry leader off the top spot before the year is out. And Sonova has no cause to shun comparison. The figures for the first half of the 2007/2008 financial year (as per 30 September 2007) are impressive: an increase in turnover over the prior year of 18.3 per cent to CHF 596.3 million, with organic growth of 15.4 per cent. Sonova is anticipating global market growth for hearing aids of between 6 and 9 per cent, and is thus increasing at the cost of the competition. The EBITA margin is enviably high, at 25.5 per cent, and the aim is to reach even 30 per cent in the medium term. If the one-time write-off for the acquisition of the Danish hearing aid manufacturer ReSound, which was forbidden under cartel law and which amounted to a good CHF 31 million, is excluded, the first six months yielded a net profit of CHF 138.5 million. Sonova is a well-oiled money-making machine.

Rejuvenating a stagnating company

The fact that the company is flourishing has a lot to do with the expertise of its boss, Valentin Chapero, and his hand-picked team of management personnel. "I have managed to unshackle the potential in this

"I prefer to be the head of the mouse rather than the tail of the lion."

Dr Valentin Chapero

The latest-generation hearing systems are digital jacks of all trades.

It is primarily women who sit at large tables and, with exquisitely fine motor skills, solder the miniature earpieces under the microscope.

Facts and figures

Stock-exchange-listed Sonova Holding AG with its core brands of Phonak and Unitron is one of the largest suppliers of hearing systems worldwide and a market leader in wireless communication for audiological applications. It also produces hearing protection aids. Sonova employs more than 4,200 staff; its products are manufactured in Switzerland, China and Vietnam. In the last financial year, its turnover was CHF 1.07 billion; group profit after tax was CHF 243 million. www.sonova.com

company," says the 51-year-old, who holds a doctorate in physics from the University of Heidelberg.
What went before is the typical story of a medium-sized company that was led by charismatic entrepreneurs but was ill prepared for when they left. At Phonak, the dominant figures were Andy Rihs and Beda Diethelm, one a marketing expert, the other a technical specialist. After the duo withdrew from operational business, Phonak entered its biggest crisis in almost 50 years of existence. Important trends were missed – such as, for instance, digital hearing aids for the medium- and lower-price segment. This was exacerbated by problems with the integration of the Canadian hearing aid company Unitron that it had acquired. The key ratios and the share price collapsed.
In this situation, Rihs fetched a high-calibre manager: Valentin Chapero had led the audiology division of Siemens to the top before he was promoted to become the head of the Mobile Networks division with 18,000 employees and a turnover of EUR 5.7 billion. Chapero, never short of a witty remark, substantiates the move from a large corporation to a medium-sized company with the words: "I prefer to be the head of the mouse rather than the tail of the lion."
So that you can bite as well as be wagged? The Sonova boss laughs: "That too. At the second management level in a corporation, you are deeply embedded in these greater structures. Here, however, I have the integral management, with all the elements that define the occupational profile of a CEO."
How do you unshackle a stagnating company? Instead of continuing to offer only expensive hearing aids, the company's product range was expanded to include the medium- and lower-price segment. Like the big car corporations, they opted for a platform strategy for all models. Two-thirds of the labour-intensive final production of the hearing aids has now been outsourced to the company's own production sites in China and Vietnam. Sonova's hearing aids are thus produced at half the costs of five years ago. Yet because the systems offer ever greater performance, it has been possible to increase prices. As the margin figures prove.

Hear the World Foundation
This foundation, which was launched by Phonak, helps non-profit-making organisations and projects dedicated to people with reduced hearing. For a good cause, prominent figures such as Plácido Domingo, Harry Belafonte, Joss Stone and Franka Potente lend their name free of charge, and hold their hand behind their ear on photos, making for very effective advertising. The Phonak brand also benefits from this. They know that the celebrity effect works: when the former American president Ronald Reagan had hearing aids fitted, sales of hearing systems in the USA grew by more than 10 per cent.

Since 2002, the stock-exchange value of the company has increased from CHF 1 to 6 billion.

High tech to combat loss of hearing

A modern hearing aid comprises some 35 components and sub components. The core mechanics come from Stäfa: acoustics, chip sets and operating systems are also developed at the company's site. The production is done on up to 50 different machines. The assembly and control are largely manual tasks. It is primarily women who sit at large tables and, with exquisitely fine motor skills, solder the miniature earpieces under the microscope. Despite the open architecture, it is barely possible to hear that products are also manufactured in the company building.
The hearing systems of the latest generation are digital jacks of all trades. They have directional microphones that in noisy environments – for instance in restaurants – emphasise speech and at the same time suppress disruptive background noise. They store different hearing situations, recognise these again and then adjust to them automatically.
The minicomputers in and on the ear are also becoming smaller and smaller. They look better and have improved performance. This year, Sonova has already launched four new product families and a new chip platform with Core on the market. This thus facilitates wireless communication between two hearing aids, or the connection to a mobile or MP3 player. Entire communication packages at the ear are envisaged, and these, in addition to amplifying lost frequencies, would also be able to read out e-mails or transmit an electronic agenda. Combined devices that measure blood sugar levels and blood pressure at the same time remain a vision. Today, there are already initial experiences with acoustic implants – Sonova is active in this area with its own subsidiary.
The hearing aids are not sold to consumers but to acousticians. Acousticians are highly specialised personnel who must master a complicated profession. It is not only the degree of hearing loss that varies from person to person; everyone notices sounds and noises in a different way. It is consequently difficult to adjust hearing systems individually. No hearing aid in the world – irrespective of how sophisticated it is – can fully replace hearing. However, what the leading manufacturers such as Sonova are aiming for is optimal speech audibility wherever possible. And the new top device Exélia offers several improvements all at once. The core of the system are six high-performance compressors with 8 million transistors that support the wireless exchange of audio signals.
Exélia analyses the ambient noises and adapts itself accordingly. In this way, disruptive background noises are repressed; conversations, however, are amplified. For the first time, users can also adjust the hearing direction individually to their requirements. This facilitates, for instance, conversation in the car, where the wearer of a hearing device can now determine himself or herself from which direction he or she wants to hear. Up to now, hearing systems were oriented to acoustic signals from the front.
In product advertising, the manufacturers of hearing aids vie with one another, using high-tech superlatives to describe their miniature devices. Sonova is no exception here. "We are operating in an industry where every company maintains that it is the best and the only one," states marketing expert Zschokke matter of factly. Ultimately, however, success on the market is decisive, he says. And the boss, Chapero, sees the company on exactly the right course: "We have excellent products, a superb reputation and we are growing fast." //

"It's amazing what's going on here."

Dr Alex W. Widmer, CEO of Bank Julius Baer, talks about risks and opportunities in private banking – and about the dangers that threaten the future of financial markets.

Interview: Corinne Amacher

The buzzword in business today is "interconnectedness". How interconnected is Bank Julius Baer?
Compared to manufacturing companies that deal with tangible goods, we are not very interconnected. The nature of wealth management means that organisations in this business tend to create a high degree of value by themselves. Our most precious asset is the trust of our clients, and responsibility for that isn't so easy to delegate outside the company. Having said that, it is also true that there are only few industries as interconnected as the financial sector. All our investments are based on interrelationships, and our clients demand that we work in all markets, from the USA to Russia and China.

> "There's no internal directive saying that if Alex Widmer doesn't understand it, we won't sell it."

What options does a pure asset management company like Bank Julius Baer have in terms of partnerships?
There's scope for cooperation and outsourcing in terms of research. After all, there's not a single bank in the world that can possibly hope to research all sectors in their entirety. So for reasons of efficiency we work with other banks to produce reports. But we're also looking into the possibility of building up research support in Eastern Europe. There's no shortage of qualified labour there – and many even speak German.

Information technology is traditionally a candidate for outsourcing. Is that true for Bank Julius Baer, too?
We certainly won't be outsourcing IT. I believe one of our great strategic advantages is the fact that our entire IT operation – currently with a staff of 800 – is all run in-house. That's the only way we can keep control of valuable client data. I simply cannot envisage Bank Julius Baer shifting its IT to a third-party provider.

As one of the biggest Swiss banks Julius Baer is closely interconnected with the international financial markets. The 2007 credit crisis was a stark indication of just how risky global interconnectedness can be. What impact has the crisis had on Julius Baer?
We're geared to a private clientele that demands a low degree of risk. Accordingly, we have a clear product philosophy: we didn't, for instance, sell structured credit products.

Why not?
Because I've never believed in these products, and would never advise a client to buy a product where one has no idea what lies behind it. Here we're seeing loans from bad borrowers being bundled, dressed up differently, and then rated even though they're basically unrateable. I started to loose confidence in the rating agencies a long time ago. They don't seem to be forward-looking; all they do is react to crises. Whether it's Japan, Russia, or Argentina, the rating agencies raise a warning finger only when the crisis has already occurred.

As CEO, do you issue directives about what investments should and should not be considered?
There's no internal directive saying that if Alex Widmer doesn't understand it, we won't sell it. It's a question rather of leading by example and promoting the right corporate culture. Our roughly 550 private bankers act similarly to the management and me. We only sell products that we can stand

“The problem of securitised mortgages is small compared with what we’ll face if the economy really takes a turn for the worse.”

behind; we don’t sell products that we wouldn’t want in our own portfolio. And we count ourselves lucky not to be involved in investment banking. The sub-prime crisis has revealed the unholy alliance between investment and private banking with investment bankers telling private bankers what they should be selling. There are conflicts of interest inherent in this model that can cost clients an awful lot of money.

Are we past the worst of the market downturn?
I think it’s going to get much worse. The problem of securitised mortgages is small compared with what we’ll face if the economy really takes a turn for the worse. I believe the greatest threat to the financial markets lies in an overproduction of many basic commodities like steel, copper, cement and nickel. Everyone is driving up capacities to satisfy demand from emerging markets such as China and India, but nobody knows how demand will really develop. We’re already seeing the first indications that production is exceeding demand.

How do you see events playing out?
I think the financial markets are on the brink of a protracted downturn. It’s got nothing to do with the volatility we’ve been seeing in recent months. I always say that volatility is something positive because as long as you invest intelligently, volatility provides the greatest opportunities to earn money. But not everybody makes money in a bear market. The tide could turn as early as the second half of 2008.

Do you think it makes sense to tighten the rules by introducing, for example, quality controls for highly complex financial products? Or should the industry be left to market forces?
Since hedge funds are acting more and more like banks – but aren’t subject to the same capital and transparency requirements – we are seeing attempts to regulate hedge funds more closely. Clearly, it would certainly be helpful if these funds were more transparent. But I don’t think it’s possible to limit volatility by means of controls or guidelines. Ultimately, it’s people’s greed, inexperience and stupidity that led to this crisis. Bad things occur when people who should never have got a hold of money in the first place get access to it.

CEOs all over the world complain about the growing jungle of regulations. How is Bank Julius Baer impacted by rules and regulations?
As a Swiss private bank we’re subject to Swiss laws. Even though we have clients in 125 countries, 90 per cent of assets are booked in Switzerland as we manage the money offshore. When we do expand abroad, we tend to favour countries with liberal legislation such as Singapore, the Bahamas or – in the near future – Hong Kong.

Where would you start if you could change the environment in which Bank Julius Baer operates?
We have a very favourable environment here in Switzerland. If I could change anything, I think I’d start with international judicial assistance. We’re coming under increasing pressure from countries that have a problem with Swiss banking secrecy. I believe the Swiss authorities are sometimes too ready to cooperate, and too quick to subject bank clients that are domiciled overseas to suspicions of tax fraud. That’s the reason, for example, why some Russians now prefer to take their money to Singapore rather than bring it here. They have more trust in Singapore’s legal system than in Switzerland’s. That could become a problem for Switzerland’s reputation as a centre of banking.

The ever-changing business environment demands specific new skills from managers and employees alike. What qualities do people who work in private banking need today?

“My passion for private banking has helped to unleash an incredible dynamism throughout the organisation.”

In private banking we work with a sophisticated and demanding clientele. Good manners are no longer enough. Clients want to be able to talk to their banker about companies, markets and investments. We're looking for people with broad horizons and in-depth knowledge of the financial markets. They must furthermore be able to think in complex ways, to listen and to ask the right questions. In other words, they have to find out what clients want and meet those needs. But there's a problem in that there is no specific training for private bankers in Switzerland.

In the 21st century, hiring and developing talent is seen as a key competitive factor. What is Julius Baer – and you yourself – doing in terms of recruitment?
We're in the fortunate position of being able to find enough experienced people. In addition, we have started recruiting directly from the universities. We go into the universities as a team and look to see which graduates are good matches for us. I myself give presentations to final-year students at the University of St. Gallen, where I studied banking 30 years ago. Additionally, we are expanding our internal training under the banner of the JB Academy. This is an area in which we want to invest further.

Bank Julius Baer underwent a substantial change. Within the space of two years Bank Julius Baer transitioned from a family firm to a public company; the business volume grew substantially through the acquisition of three private banks from UBS. How did that come about?
Thirty years ago, the big names in private banking were Pictet and Julius Baer. The so-called universal banks were involved in private banking more or less as a sideline. But when growth shifted from Europe to Asia and Latin America in the 1990s, these banks found themselves in the fortunate situation of having an established presence in very attractive markets, and a private banking clientele more or less fell into their laps. In contrast, the traditional private banks had to first build up their presence in these high-growth markets and that put them at a competitive disadvantage. At Julius Baer we also had the situation where some of the Baer family members withdrew from the business. Subsequently, Julius Baer had the chance to acquire three UBS private banks and GAM.

How did you manage that?
There were many challenges including legal integration and merging the brands and IT functions. But the most important thing was to create a strong corporate culture. Bank Julius Baer was a good bank with good bankers, but there was a lack of clear leadership. So I put together a new management team and encouraged its members to have confidence in themselves. Now, rather than holing themselves up in their offices, our people are focussed on developing the business. My passion for private banking has helped to unleash an incredible dynamism throughout the organisation.

And what's the result?
We have shown that we can grow again. Since the merger, client money has started flowing back in – we saw inflows of CHF 5.4 billion in the first half of 2007. We are also now seen as one of the best places in banking to work. Old Julius Baer used to employ 170 private bankers. That figure grew to 370 after the merger, and now we have over 500 private bankers. So we have increased our precious store of bankers by about 50 per cent. It's amazing what's going on here. //

ceo1/08. pwc expertise

Collaborative networks: How they enrich the economy.

Networking is an increasingly important success factor in our globalised world. Companies should give their people room to become networkers inside and outside the organisation, and support them in their efforts.

markus.neuhaus@ch.pwc.com

"Compete & Collaborate" is the title of the "11th Annual Global CEO Survey" published by PricewaterhouseCoopers. Its findings are based on the responses of 1,150 executives in 50 countries to the question "What is success in a connected world?". The CEOs describe their business environment and how companies operate in a connected world. Reading the study (ordering information on page 35), I was struck by two core findings – and the discrepancy between them. On the one hand, more than half of all CEOs believe that collaborative networks will play a major role in the way companies operate in the future. On the other hand, most companies have not yet developed a systematic way of developing and capitalising on networks. In other words, while the CEOs polled do not dispute the growing importance of networks, the question of how to respond to this challenge is still open.

Networking: An established fact of life

Networking is not some new management fashion. It's a new tool, a new approach to leadership. The question of whether we want to make networks an integral part of daily business life in future doesn't even arise, because the emergence of networking is a simple fact of life, like globalisation or bad weather. We get to decide how, not whether, we deal with it. With the weather it's fairly easy: when it rains you take your umbrella with you. But what do managers take with them in a climate of growing connectedness? It's not an easy question to answer, because ultimately globalisation and connectedness are abstract concepts, a concatenation of different political, social, technological and economic developments. We observe a whole range of phenomena, from the growth of multilateral collaboration, an explosion in communications options accompanied by an implosion in costs and the harmonisation of international accounting standards to an increase in the global flow of goods, and we call them "globalisation" or "connectedness". Borders are dissolving, and capital, labour, goods, services, information, etc., are getting increasingly mobile – and constantly finding new ways of connecting. Global connectedness – and global networking – are on the march. The networking of the economy as a whole is only part of the reason why networks should be a key organisational principle in future. But it's clear that in a globalised, connected world, there are a growing number of challenges that can only be tackled by networks of organisations as opposed to organisations acting in isolation. Take, for example, climate change. However important and welcome the efforts of individual people and organisations may be, we won't be able to tackle these challenges unless we network our resources. A good 80 per cent of the managers polled in PwC's "Global CEO Survey" believe that governments should take the lead in tackling environmental problems. This finding is striking. The CEOs surveyed are not otherwise in the habit of calling for government regulation. On the contrary, in past surveys the danger of overregulation has regularly got the most mentions when CEOs have been asked about the greatest threats to growth. But maybe this indicates a belief that cooperation rather than confrontation with legislators makes more sense in the long term, and that the potential for legislative collaboration has not yet been fully exhausted.

Think global, act connected

More than half of all the CEOs polled also support global harmonisation of critical elements of the regulatory regime. Alongside calls for government leadership, around 75 per cent also believe businesses need to collaborate more effectively with industry peers and business partners in mitigating climate change. Both findings

Globalisation
Corporate culture
Competition

Dr Markus R. Neuhaus,
CEO PricewaterhouseCoopers Switzerland and Eurofirms Senior Partner

underscore the growing importance of collaboration in tackling global challenges. While the challenges are becoming more and more complex, there is also more and more knowledge available. These days individuals may know more than they used to, but their share of the overall store of knowledge has shrunk. It follows that project work will tend to become increasingly prevalent, project teams will be bigger and their members more specialised, and that collaboration will take place over greater distances. But at the same time, the very nature of these teams – the fact that they are so large and diverse, have such highly qualified members, and collaborate on a virtual basis – can also be an obstacle to their success. Rigidly hierarchical command and control structures are hardly likely to be the right organisational response. I, like the majority of the CEOs polled, believe the answer is more apt to lie in open forms of collaborative networking.

Networkers need freedom

How can you go about systematically building networks? My response, however provocative it may sound, is that you can't. This conviction rests on a basic principle postulated by Adam Smith. I believe that what he says about markets can equally apply to networks: in the system of natural liberty, the interaction of humans, the organisation of markets and thus the optimum allocation of resources are guided by an "invisible hand". "Natural liberty" is Smith's term for a system unconstrained by monopolies and the possibility of market domination. Only if this exists can the principle of the invisible hand come into operation. If there are no monopolies and the system is free to organise itself, networks too are efficiently and effectively organised by an "invisible hand".

So I believe that if, when confronted with the issue of networks, we focus primarily on the political, social and economic structures and how to create them, then we're failing to see the wood for trees. Networks are the product of networking, and networking is an activity. So before you attempt to systematically develop networks, you should first develop your own ability, and that of your employees, to build, maintain and use networks. It may sound banal, but if we're honest, most of us, when talking about networks, first think of things like joint platforms, formal knowledge and experience sharing, institutionalised forms of collaboration, and so on. There's nothing wrong with this, but it does miss the key point: that a network is made up of people. And here there's an analogy to another great issue of recent years, permanent change. It's obvious that you can't deal with change by initiating further change for its own sake. What you can do is make your people fit to deal with change. So what we need most of all are not networks, but networkers.

What skills and characteristics do the ideal networkers possess? First of all they have to be selfish altruists. While they believe in Adam Smith's "invisible hand", they don't hold that individuals are only out for their own interests. In this respect a networker is much more a proponent of game theory. Game theory simulates decision-making situations where the success of the individuals depends not just on their own actions, but on the actions of others – something that is increasingly the case in a connected world. In such situations, altruism guided by self-interest is a better strategy than simply trying to maximise personal gain. Rational market participants act accordingly, and will seek to collaborate.

How can you instil this type of behaviour? Incentive systems only help to a limited extent. The real key is for senior and top management to set a good example. Studies show that in organisations where top managers collaborate openly and effectively, staff also display more collaborative behaviour.

A networker knows how to build and nurture relationships, resolve conflict and achieve an impact. It's no great problem to make these so-called soft skills part of employee training. Organisational measures and building planning that facilitate collaboration within the organisation and networking across departmental boundaries are also a good idea, although they do require more effort and investment.

Are you a leader or a networker?

But setting a good example, office planning and training are not the only avenues open to management. Rather than adopting a policy of laisser-faire and allowing people to simply organise themselves into autonomous grass-roots collectives, management should create a clear framework for networking. In particular, they should ask themselves what purposes are best served by networking, who should be included in networks, and what risks have to be taken on board in the process.

The important thing is for networks to always keep their purpose in mind while at the same time remaining flexible enough to respond to new opportunities and circumstances.

The decision on how to define who should be included in a network has nothing to do with the actual purpose of the network, so the main thing to remember is that you shouldn't set the limits too narrowly or place the entry or exit barriers too high. The risk of incest and back-scratching is much greater in closed networks, and at the outset it's not always clear who may turn out to be of value to the network. Networked collaboration also has its risks: misappropriation of intellectual property, loss of control over output and quality, and attrition losses and reputational risks, to name but a few. These risks have to be weighed against the potential returns and carefully monitored.

Networked collaboration may not be the best tool for all purposes or for all companies and industries. But in a globalised world the importance of networks – as a construct, success factor and activity – is sure to grow. //

Compensation systems: An underrated competitive factor.

Pay is a key weapon in the global war for talent. Variable salary components and equity compensation are becoming increasingly important. Smart compensation systems focus on offering long-term incentives and encouraging employee participation.

robert.kuipers@ch.pwc.com

Sixty per cent of Swiss CEOs agree that their company must compete more effectively for talent by finding new ways of hiring, motivating and retaining qualified staff. Two thirds have doubts as to whether their HR organisation is equipped to handle the changes required to compete for talent. The following figures show just how hard it is to find the right people: 68 per cent of Swiss CEOs say it is difficult to hire people with global experience; 38 per cent have problems finding people with good language skills, and 63 per cent say they find it hard to recruit staff with combined technical and business expertise – all factors which the overwhelming majority of managers believe to be of particular importance for their organisation.

These are just some of the revealing findings of PricewaterhouseCoopers' eleventh annual "CEO Survey", a representative global survey of CEOs based on differentiated polls in each country.

Factors influencing compensation

The findings show that, among other things, global competition has given rise to a war for talent. Talented people are looking for challenging work and entrepreneurial freedom. To gain a strategic advantage on the employment market, employers have to offer attractive terms to entice people to join and remain with their organisation. Alongside a whole range of soft factors such as training, the working environment and recognition of good work, the compensation system is a crucial factor when it comes to retaining staff and attracting new talent.

Designing a compensation system that takes account of the interests of everyone involved and provides the right incentives is no easy task. The interests of shareholders, management and the company itself often do not coincide, and ultimately the trick is to find a compromise in terms of the amount and structure of compensation. Short- and long-term incentives are valuable tools for influencing the behaviour of management and staff, so structuring, managing and controlling these incentives are important strategic management tasks. Ultimate responsibility lies with the board of directors, although the actual task is usually delegated to an independent compensation committee.

The main factors to consider when designing a compensation system are as follows:

• Corporate governance: The issue of executive pay, and in particular the compensation paid to top managers, has become a matter of public interest and the object of highly emotional debate. There are no regulations laying down what is "right" or "wrong"; this is left to the compensation committee to decide. What most people accept is that a compensation committee with integrity and independence boosts the credibility of a company and its compensation policy. Greater transparency makes more information available to the public and facilitates comparisons within industries and markets.

• Legal framework: The legal and regulatory requirements are becoming increasingly complex. Many issues have to be examined in detail before the introduction of a compensation system: the tax implications for the company and its employees, the booking of individual salary components, the employment law implications, stock exchange rules, etc.

• Economic environment: If compensation systems are to offer effective incentives, they must be geared to developments on the financial markets, in other words share prices and interest rates. They must take proper account of the market situation and future developments.

• Competition: In the wake of globalisation there are signs that compensation systems

Transparency
Incentives
Reputation

Dr Robert W. Kuipers,
Human Resource Services

Factors to be considered in the design of a compensation system:

The board of directors is responsible for ensuring that a compensation system taking account of all the important factors is in place.

Disclosure of executive compensation

Investors and financial analysts have long been calling for greater transparency on the amount and structure of executive compensation. At the beginning of last year, the legislators responded with an amendment to the Swiss Code of Obligations: new provisions on the disclosure of payments and compensation to members of boards of directors and management (Art. 663bbis and Art. 663c) have been in effect since 1 January 2007. They stipulate that listed companies must individually disclose the salaries and other compensation paid to each member of the board of directors, and the compensation paid to their highest-paid executive, alongside their name and function. Now the interests (shares, options, etc.) held in the company by its directors, executives and closely related persons must also be disclosed individually.

The new legislation applies for the first time to the financial year starting on or after 1 January 2007. The information must be given in the notes to the financial statements, and is thus subject to audit. The SWX and economiesuisse have amended their corporate governance guidelines accordingly.
PricewaterhouseCoopers has conducted a representative study on the annual reports of 61 companies listed on the Swiss stock exchange. The findings, published in a report entitled “Executive Compensation & Disclosure”, highlight the impact the new disclosure rules will have on companies:

• In 2006, all the companies surveyed disclosed the total compensation paid to members of the board of directors and executive management in line with the SWX guideline that was valid at the time.

• 74 per cent disclosed the total compensation paid to executive management separately, something not required under the earlier guideline.

• 35 per cent of the companies surveyed disclosed the compensation paid to their highest-paid executive individually by name, and 32 per cent disclosed the compensation paid to individual members of the board of directors.

This means that two thirds of the companies surveyed will have to change the way they disclose executive compensation. 80 per cent do not yet disclose interests held by members of their governing bodies in detail, but will have to do so in future. PricewaterhouseCoopers will be conducting a follow-up study to investigate the impact of the new rules.

in English-speaking countries and Continental Europe are converging. Benchmarking is no longer done on a national basis, but internationally within specific industries.

• Demographics: Among other things, an attractive employer must take account of societal developments. This includes offering flexible working models that are attractive from both a financial and a career point of view. Rising average ages in industrialised countries mean that people will work longer over the course of their lifetime; compensation systems and working models must also reflect this. A greying population means that pension systems will face a very different set of challenges.

A balanced compensation system is one that offers long-term future incentives. Short-term incentives are not a good way of influencing staff behaviour and loyalty in the long run. Employee participation mechanisms (equity compensation) geared to future performance encourage more lasting motivation and loyalty. Nowadays there is a whole range of equity rewards that can be tailored to the needs of a particular organisation.

Performance-related plans are attractive

The latest "Global Equity Incentives Survey" from PricewaterhouseCoopers yields some surprising findings when it comes to the equity compensation mix. Stock options, for example, have lost a lot of their appeal. While the vast majority of the companies surveyed were offering stock option plans five years ago, now only around half are doing so. For a number of reasons – primarily abusive practices and the complex rules governing accounting for this type of plan – many companies have abandoned stock option plans, at least as the sole form of equity reward.

Another classic form of equity compensation are employee stock purchase plans, which enable employees to buy shares in the company at preferential terms. While the prevalence of this type of plan has declined internationally in recent years, it is still very widespread in Switzerland. Many employees view employee stock purchase plans as a long-term investment, even though their value is heavily dependent on the performance of the company.

Restricted stock units, which represent a promise that employees will receive stock in the future, are an increasingly widespread form of equity compensation. Employees may lose their entitlement to if they leave the company (there is a vesting period until the shares are actually allotted). Worldwide, more than half the companies surveyed offer this form of long-term equity compensation.

Performance share plans are also very popular and similarly structured – apart from one important difference: the stock employees receive depends on their ability to meet certain performance targets. These targets can be measured via key performance indicators (KPIs) against either internal or external benchmarks. The most commonly used internal benchmarks are sales and earnings. The most common external benchmarks are share price or earnings per share in relation to a specific peer group. However, the peer group approach (very widespread in the UK) is not unproblematic, as it is difficult to define the relevant peer companies, and the peer group has to be adjusted every time there is a change in the company's strategic orientation. It can also be very discouraging for staff if their company performs consistently but slightly below the market while the results of other companies in the peer group are good one year and poor the next, rewarding a volatile performance that is not in the interests of shareholders.

Companies see compliance and administration as the greatest challenges when it comes to implementing equity rewards. This applies particularly when plans are offered on a global basis and are thus subject to different regulatory regimes. According to the PricewaterhouseCoopers report, Switzerland is no longer one of the ten countries where the tax treatment of equity compensation plans is viewed as especially complex.

Forward-looking planning and testing

Equity compensation plans are primarily incentive programmes designed to give a company a strong position on the employment market. Companies should choose from the wide range of available mechanisms to create a mix that matches their strategic objectives and the needs of their employees most closely. They should appoint an independent compensation committee responsible for deciding on and monitoring the amount and structure of compensation. And to be able to assess the long-term impact of equity rewards on the company, its employees and shareholders, models should be used to run through a number of different possible developments. Thanks to its incentive function, total compensation is a tool that can allow companies to achieve their strategic objectives. For this reason the system should be chosen on the basis of dynamic and forward-looking planning, and tested and adjusted by means of simulations. Any company managing to do this will reap the benefits of a balanced system that systematically enhances the commitment and performance of its managers and staff.

SUMMARY

Compensation systems are a good way of managing and controlling incentives, and influencing behaviours. For this reason the amount and structure of compensation must be geared to the organisation's long-term business objectives. Designing the system is a strategic management task that should be carried out by an independent compensation committee.

Pension funds: Greater responsibility for trustees.

Legislative moves are afoot to place greater responsibility on boards of trustees and foundation boards. The new structural reform of occupational benefits also includes clear corporate governance rules for pension funds.

roland.sauter@ch.pwc.com

Like organisations in many other areas, occupational benefits schemes are also facing much greater regulation. At the beginning of 2005 a comprehensive revision to the Swiss legislation on occupational pensions and benefits entered into force. In mid-2007, the Federal Council approved equally wide-ranging draft legislation in its dispatch on the structural reform of occupational benefits. This legislation will now be debated in parliament.

Trustees of Swiss pension and occupational benefits institutions work on a part-time or honorary basis. The trustees of company pension funds are often employer and employee representatives who sit on the board in their spare time, so to speak. So it is all the more important – but also all the more difficult – for trustees to stay abreast of the latest developments. The first revision of the pensions legislation made the duty to train a legal requirement; the present structural reform will establish this duty on the list of the non-delegable core duties of the supervisory body. This means it will no longer be sufficient for the board of trustees to rely on the professional know-how of pension fund experts.

For pension funds it is important to exercise a good corporate governance. The goal of this pension fund governance is to ensure that the long-term financial interests of the members are pursued responsibly and efficiently, and to prevent misconduct and abuse. Like corporate governance for companies, the aim is to lay down appropriate management and control principles and ensure that appropriate checks and balances are in place.

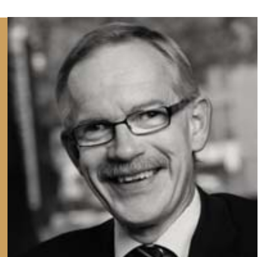
The draft legislation contains a series of measures on the design, management and monitoring of business activities. They primarily concern the organisation and structure of the pension fund's management and investment activities, and how to deal with conflicts of interest. The legislation explicitly requires the "integrity and loyalty of the officers responsible" and makes them responsible for ensuring the proper conduct of business (Art. 51b of the new law on occupational pensions, BVG/LLP).

In terms of a pension fund's asset management activities, there are new rules on issues such as so-called parallel running (employees conducting personal and institutional business at the same time). Added to this, in future any pecuniary gain (for example the pecuniary gain accruing from trailer fees) will have to be paid to the pension fund. There will be even tighter restrictions on legal transactions with affiliated persons, for example members of the pension fund's management bodies and their relatives, or with the employer company; such transactions will have to be conducted at market terms and disclosed to the auditors.

Problems can easily arise if the pension fund does its own investment and asset management. The most sensitive areas are personal trading by employees and accepting personal pecuniary gain (e.g. kickbacks and trailer fees), gifts and invitations. Personal trading is deemed to be improper if insider knowledge is exploited or in cases of front running (where employees trade assets for themselves before doing the same business for the pension fund). While the law does allow parallel running, provided that it does not put the pension fund at a disadvantage, in practice this is a grey area that will be debated again in connection with the structural reform.

New rules on the oversight of pension funds will constitute an important step towards greater legal security. In future, ultimate oversight will be the responsibility of an expert commission that operates independently of the Federal Council and the federal administration. One of the commission's main duties will be to improve oversight practice and, above all, harmonise oversight. Direct oversight, however, will be the sole responsibility of the cantons or the regional oversight bodies they set up.

Corporate governance
Risk



Roland Sauter, Assurance

SUMMARY

The structural reform of occupational pensions and benefits will define the responsibilities of trustees clearly. It will ensure clear management and control guidelines and strengthen trust in institutions providing occupational pensions and benefits.

5 minutes: Business information and research by PricewaterhouseCoopers.

Post-deal integration.

Thorough risk analysis in the run-up to a deal can do a lot to ensure the overall success of a takeover. Thanks to early planning, 67 per cent of companies are able to reach their target EBIT, and a whole 95 per cent achieve the planned gains in market share. Companies name merging IT systems and harmonising operational processes as the greatest integration challenges. The costs are often underestimated: 26 per cent of companies polled saw the integration process go over budget. It also emerges that company directors often underestimate their role and responsibilities in post-deal integration. These are some of the findings of a study conducted by PricewaterhouseCoopers into the key factors in successful post-deal integration. See page 32.

www.pwc.ch –> Press Room –> Press Releases

Top employers.

Highly qualified people embarking on a career have clear expectations of their future employer, who must be credible, take their social responsibility seriously and offer appropriate development opportunities. Young professionals are looking for an employer they can identify with. Of those polled, 78 per cent expect to work for between two and five organisations over the course of their career – in other words they expect to stay an average of at least eight years with one employer. Work-life balance is a key issue for Swiss university graduates. At the same time, all young professionals know that performance, flexibility and language skills are extremely important in a globalised employment market. These are the findings of a PricewaterhouseCoopers study called “Managing tomorrow’s people: The future of work to 2020”.

www.pwc.ch –> Press Room –> Press Releases

Family businesses.

More than 30 per cent of family businesses polled worldwide have seen demand for their goods and services rise significantly in the last 12 months. Of Swiss family companies, 58 per cent have opted for a growth strategy, and are placing particular reliance on brand and product quality. In an international comparison the main focus is on the quality of customer relationships. Twenty-five per cent of Swiss companies polled have no strategic business plan. Around 62 per cent of companies who face a change of ownership in the foreseeable future say sale to a third party is the most likely form of succession. The greatest external challenges for Swiss family businesses are regulatory and legislative changes. Ninety per cent of family companies in North America, 80 per cent in Europe and 68 per cent in Switzerland have bonus programmes for management; in Switzerland, one quarter of these were only introduced in the last 12 months. These are the findings of a global PricewaterhouseCoopers study entitled “Family Business Survey 2007/08”, which investigated 1,454 family businesses in 28 countries.

www.pwc.ch –> Press Room –> Press Releases

Equity rewards.

In 2007, equity compensation programmes became increasingly complex in the wake of rules and regulations. Even so, equity rewards are still highly popular. Ninety-seven per cent of companies confirm that the benefits of these compensation plans clearly outweigh the costs. Stock option plans are still the most popular form of equity incentive for staff. But 40 per cent of companies polled already have performance-based compensation models in place. These are some of the findings of the “2007 Global Equity Incentives Survey” by PricewaterhouseCoopers, which polled 152 companies in 15 countries.

www.pwc.ch –> Press Room –> Press Releases

Post-deal integration: Fully realising the potential value of M&A transactions.

Sealing a deal takes a lot of time and management resources. But the real work starts once the contract is actually signed: getting the maximum value out of a transaction depends most of all on the success of the subsequent integration.

ralf.schlaepfer@ch.pwc.com

Successful businesses want to expand and grow market share. They can achieve this through organic growth or acquisitions. These two options are by no means mutually exclusive; indeed ideally they should run parallel. The mergers and acquisitions market is flourishing, even though activity has slowed a little in the wake of the financial market crisis.

The goals of an acquisition will vary according to the company's strategy. It's not merely a matter of achieving competitive advantage or sheer size. The main aim should be to improve the performance of the business and generate greater shareholder value. But ultimately only around half of all transactions actually achieve this goal – regardless of the state of the market. A successful merger or acquisition is one that generates the maximum value for the company. But value doesn't happen automatically the moment you sign a deal – it only comes if you work for it systematically on a day-to-day basis.

Balance between deal and daily business

Managements embarking on a deal will generally be very familiar with the theory of mergers and acquisitions. As is so often the case, however, the real pitfalls lie in the execution. Global research by PricewaterhouseCoopers shows that there are four main reasons underlying the gap that exists between theory and practice:

- A transaction dramatically increases the workload for management. Planning, negotiating and signing the deal, and then overseeing the subsequent integration, tie up enormous management resources. Managers seeking to divide their time between daily business and the M&A project have a real balancing act on their hands.

- The window for positive change is very small. A general rule of thumb is that the first 100 days after the deal is signed are crucial to the success of integration. During the first three months, staff are open to new ways of thinking and working approaches. But if management doesn't succeed in moving the integration forward during this time, people lapse back into their old ways of doing things.

- In the midst of the hectic M&A process it's easy to neglect the whole issue of people and the cultures of the two organisations that are coming together. Uncertainty and a lack of motivation can erode the value a deal is supposed to add.

- In many cases companies lack deal experience: management doesn't have the practical know-how necessary to run a merger or acquisition, particularly the integration process.

Management commitment to integration

In August 2007, PwC Switzerland conducted a survey of 55 Swiss companies and a selection of financial analysts involved in mergers and acquisitions to find out about post-deal integration. The findings of this survey match the experience of advisors and consultants.

One striking result of the survey is that managers tend to lose their focus on the deal once it has been closed. Of those polled, 70 per cent admitted that management interest during post-deal integration was low. In other words, the way management attention fluctuates during the different phases of the process is conversely proportional to the actual work involved in each of these phases. Post-deal integration undoubtedly involves the most work, and is at the same time the most crucial phase in terms of achieving the strategic objectives of the transaction. This means that it is extremely important for management to be fully committed during this phase.

Better success rate through planning and due diligence

There is now also empirical evidence demonstrating the importance of planning post-deal integration early on. Two thirds of the companies surveyed started thinking about integration before the deal was actu-

Strategy
Growth
Leadership

Dr Ralf Schlaepfer,
Head Strategy & Operations

Lonza Group case study. "Advisors help you be more self-disciplined."

Stefan Borgas has been CEO of Lonza Group since June 2004. Targeted disposals and acquisitions have transformed the traditional chemical company into a modern life science business.

What criteria did you use to define your acquisition strategy?
We defined our corporate strategy in 2004. Prior to this we had analysed all areas of our business to see what it would take to achieve a leading position in each market. We realised that since we didn't have sufficient resources to lead all our markets, we would have to concentrate on core business. We decided to focus on life science, progressively shedding any units where there were no synergies with this core business. First we defined our strategy, and then we looked to see which units we could sell off. Only once we'd embarked on this process of disinvestment and had sufficient funds together did we actually start looking for acquisition targets.

In February 2007, you acquired two divisions of US company Cambrex, Research Bioproducts and Microbial Pharmaceuticals, for CHF 460 million. How did you approach these strategic investments?
We had earmarked these two Cambrex divisions, if you like, as they were an exact match for our core business. For a long time Cambrex didn't want to sell. But when the company decided to reorient itself strategically, it was clear we would be making a bid. That was when the whole process kicked off. We did very careful due diligence, setting up an individual team for each aspect, from evaluating the technology, market position and the corporate cultures to analysing their environmental protection. My main role during due diligence was to build a relationship with the managers of the new businesses.

How long did due diligence take?
Due diligence itself took around four months. But naturally new issues also repeatedly arose and had to be clarified during the negotiations that took place once the binding offer had been made.

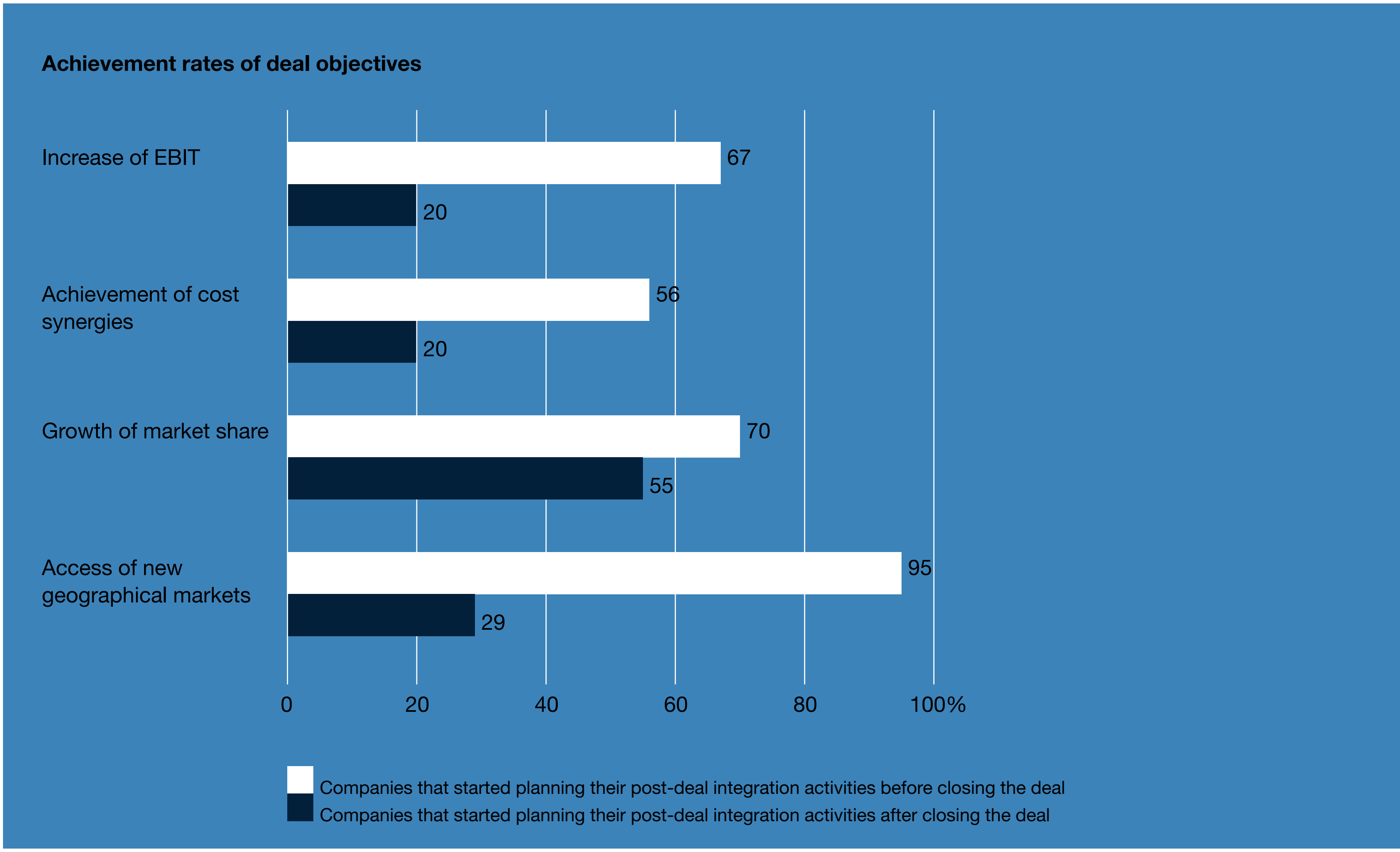
How much management time did the transaction tie up?
Depending on the phase of the deal, it took up between 20 and 70 per cent of my time. One of my colleagues in executive management spent around 25 per cent of his time on the project on average, and the rest around 10 per cent. There are always peak periods during a deal: the management presentations, deciding on the purchase price and the end phase of negotiations. To handle a process like this you need a team that invests a great deal in getting to grips with the new business.

How do you manage to strike a balance between the deal and daily business?
By having good people. You only achieve the balance when you have a capable leader at the head of each unit who pushes the business forward independently. You also need a clear strategy for each unit that shows the leaders what direction to take.

You hired PwC to advise you on post-deal integration. Why this phase in particular?
For two reasons. First, because of physical resources: since we didn't have enough people to do the integration efficiently, we wanted an experienced and capable team of advisors to support us. Second, for reasons of self-discipline: when an advisor comes in from outside and is charged explicitly with managing and monitoring the process, this also keeps internal teams moving forward on the right track.

What is the most difficult aspect of integration for you?
The cultural aspect. The ability to integrate cultures makes the difference between a successful and an unsuccessful merger. People will only work together if you get cultural integration right. We have 1,000 new staff who have to get to know each other. That will take two years, especially given that our people are scattered all over the world. Even a year or more after the takeover we're still working hard on bringing the cultures together. We have to communicate our strategy and desired behaviours, but we also have to take account of the way our new people think and the ideas they come up with. These new people bring new ideas into the organisation, and we have to make sure we develop together. A survey of staff has shown that the new people have understood the message more clearly. This has taught us some important lessons about internal communication in general: during post-deal integration we have to devote the same attention to all staff, not just the new people.

Lonza is a chemical and biotechnology company based in Basel. It employs 7,500 people worldwide and generates sales of around CHF 3 billion.



It's worth planning post-deal integration before even closing the deal, as it substantially raises the chances of success.

ally closed. In terms of reaching their objectives, these companies had a significantly higher success rate than those who waited until after closing before addressing the issue of integration. Whether the strategic objective is to boost EBIT, exploit synergies, grow market share or access new markets, a company can only realise the full value of a deal if it manages to meet these objectives in practice. The earlier planning for integration starts, the greater the likelihood that the merger or acquisition will actually boost performance. This value added can be measured: key performance indicators should be used to quantify the strategic and financial objectives. Ideally this should be done right at the beginning of the transaction when strategy is defined. This way, due account can also be taken of integration during the entire process. The survey reveals that 70 per cent of the Swiss companies polled measure their strategic objectives.

About the same proportion (73 per cent) communicate their strategic objectives externally. At only 50 per cent of those polled, however, the number who publish the financial objectives associated with the deal is a lot lower. But it is precisely here that the vast majority of financial analysts (94 per cent) want transparency. In the excitement leading up to the wedding, all anyone ever seems to talk about is synergy. But in reality it emerges that while cost synergies are generally reported reliably, companies are not always so keen to reveal details of the impact on profitability, ultimately a much more important issue. Here, too, analysts expect detailed reporting and integrated controlling.

Post-deal integration is a challenge for the companies involved in almost every area of their business, from accounting and human resources to logistics and communication. It's not just managers who have to think about integration – this is an issue that will affect practically every employee. The companies surveyed said that the integration of IT and processes was by far the most difficult problem they faced: 72 per cent mentioned this challenge, as opposed to only 54 per cent who named cultural integration. Companies that do due diligence in preparation for a deal can make post-deal integration both easier and shorter. At these companies the integration process lasted an average of just over 8 months, while those that did not do due diligence said post-deal integration lasted almost 14 months on average.

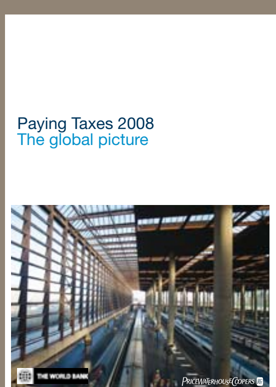
SUMMARY

The key to a successful M&A transaction lies in integration. If possible, planning for the integration should start early when the strategy for the deal is defined – or at the latest by the time the target company is known. Management's role in this process should not be underestimated.

Events, publications and analyses.

Taxes in Switzerland

Switzerland is still extremely attractive from a tax point of view. In a pan-European comparison, only Ireland turns out to have a slightly lower total tax rate. Another decisive factor alongside the tax rate is the complexity of the tax system. Switzerland is ranked fifteenth worldwide in terms of complexity, and manages an impressive fourth place in Europe. The country also does well in terms of the time it takes to comply with the tax rules: with 63 hours a year it ranks sixth in the world, and second in Europe behind Luxembourg. Globally, companies take an average of two months to meet their tax obligations. These and more findings are published in the PwC study “Paying Taxes”. Free copies in English can be ordered from sonja.jau@ch.pwc.com



The future through the CEO’s eyes

CEOs all over the world fear that economic decline could result in recession. Up till now they have named burgeoning rules and regulations as the greatest obstacle to growth. Worries about the scarcity of natural resources, climate change and the growing threat of terrorism figure less prominently than they did last year. Thirty-five per cent of CEOs polled worldwide are confident about growth in the next 12 months.
In Switzerland this figure is 27 per cent. At 40 per cent, the figure for M&A activity in Switzerland is above the world average. Forty-seven per cent of the Swiss CEOs polled plan further domestic and foreign acquisitions in the coming year. These are some of the findings of the “11th Annual Global CEO Survey” conducted by PricewaterhouseCoopers on 1,150 CEOs in 50 countries. Free copies in English can be ordered from sonja.jau@ch.pwc.com

Events

Treasury & Financial Risk Management Conference 2008

Alongside the question of value creation, the 10th annual conference will look at new developments and trends in treasury and risk management. The core issues are:
The evolution of treasury from profit centre to value creation centre; career prospects: from financial director to CFO.

Venue and date
Zurich, Wednesday 4 June 2008
PricewaterhouseCoopers AG
Birchstrasse 160
The conference fee is CHF 450 including VAT; the number of participants is limited.

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

Reader service:
The authors of the topics covered in the pwc expertise section of this issue of ceo magazine can be contacted directly at the e-mail addresses given in their article.
For a comprehensive overview of PricewaterhouseCoopers publications, please visit www.pwc.ch.
You can order PwC publications and place subscriptions by e-mailing sonja.jau@ch.pwc.com or faxing 058 792 20 52.

Subscriptions:
ceo, the magazine for decision makers, is published by PricewaterhouseCoopers. The magazine is published three times a year in English, German and French. To order a free subscription, please e-mail sonja.jau@ch.pwc.com specifying your desired language.
Address: PricewaterhouseCoopers, ceo Magazin, Birchstrasse 160, 8050 Zurich, Switzerland.

Golden times.

Hand in hand with an increasingly older population comes the growing demand for exclusive anti-ageing products. Those who set the trends early on, such as La Prairie Group CEO Dirk Trappmann, reap the rewards: business is going through the roof.

Small bottle, exclusive contents, high price, big demand: the primary equation in the luxury cosmetics sector has once again been confirmed with Pure Gold.

Text: Corinne Amacher Photos: Markus Bertschi

Nothing in the austere building in the Volketswil industrial estate suggests that a gold rush has broken out here – nothing except the beaming face of Dirk Trappmann. The CEO of the cosmetics company La Prairie Group is sitting in an office that exudes the faded charm of the 1970s, and he is in the best of moods. The reason for this is a gold-coloured bottle that almost disappears in his hand and which contains probably the most extravagant liquid currently offered by the cosmetics industry to slake the thirst for miracle creams: a serum by the name of Cellular Radiance Concentrate Pure Gold – which is perhaps better stored in the safe than in the cosmetics cabinet: 30 millilitres cost CHF 790. The skin-care agent contains tiny particles of 24-carat gold, which has been believed to be the source of eternal beauty since antiquity.

Small bottle, exclusive contents, high price, big demand: the primary equation in the luxury cosmetics sector has once again been confirmed with Pure Gold. "The gold serum is the most successful product introduction in La Prairie's history," says Trappmann. "In the first months after its launch in spring 2007, the demand took us completely by surprise and we had a job keeping pace with orders." Apparently there are women who apply the elixir to their whole body as well as their face, and, what's more, buy half a dozen of these packages in one go.

Highest growth in the industry

The concentrate doesn't just bring a radiance to the skin, it also lights up the company's balance sheet. In the 2007 financial year, the turnover of the La Prairie Group grew by 11 per cent to CHF 395 million – considerably more than the cosmetics market, which grew by around 5 per cent. "The luxury cosmetics segment has the highest growth in the industry," says Trappmann, who is aiming for a turnover of some CHF 600 million by the year 2010. The share of the La Prairie brand in the Group's turnover has grown continuously over the last few years. The rest is accounted for by the traditional brand Juvena, the young label Skin Biology Therapy (SBT) and the haircare line Marlies Möller beauty haircare.

Pioneering innovations

Since its introduction in 1978, La Prairie, which has its origins in the La Prairie Clinic in Montreux, has, according to its own reports, been the market leader in the luxury cosmetics sector and has taken the spiral of price and exclusivity to ever greater heights. The discovery of cellular care therapy, a new approach at the time for skin rejuvenation, still forms the basis of the programme today. The company has regularly attracted attention with innovations that were pioneering for the entire industry, such as light-protection filters, alpha hydroxy acids, substances from caviar and, as already mentioned, the gold serum. Gradually, other cosmetic companies began to devote themselves to the lucrative anti-ageing mission; today, there is scarcely a cosmetics manufacturer that has not extended its range with a premium line.

With each new supplier, the competition in the skin- and haircare sectors has become fiercer and more intense. Because it is only innovations that keep the business going, the product cycles are becoming ever shorter. "In the luxury segment, it is important that innovations really are new; customers also demand genuine added value for the high price," says Trappmann. The Pure Gold serum is seen as a breakthrough. According to Sven Gohla, the head of research and development, the special feature of the serum is its colloidal gold, which is extremely difficult to produce but penetrates immediately into the skin, blocks the loss of collagen and elastin fibres, and thus significantly improves the elasticity and firmness of the skin. Under Gohla's management, some 20 scientists are working in the laboratories in Volketswil on new formulas, testing the compatibility and shelf-life of formulations, and checking packages for colour fastness. Between 6 and 7 per cent of the turnover is invested in researching and developing the cosmetics. The company's market leadership is based not only on a constant flow of innovations and high-quality standards but also on exclusive additional services. Trappmann goes into raptures when he opens one of his boxes, which are designed like jewellery boxes. It takes five minutes just to get through the layers of foil, cardboard, paper, silver spoon and velvet – a real experience! The limited editions also play their part in customer retention. For Silver Rain perfume, for instance, the French silversmith Christofle designed a hand-signed cachette made of sterling silver; the skin cream from the Caviar collection is available in a pot adorned all over with Swarovski crystals. Prices of CHF 3,000 for 50 millilitres do not appear to be an obstacle to demand. According to Trappmann, expensive items like these are selling "very well".

Presence at airports

Asian customers in particular like to be enticed by a touch of Western glamour. Nobody knows that better than Trappmann. Before taking over the management of the La Prairie Group in 2005, the German national worked for Beiersdorf, the owner of La Prairie, for five years in the Far East. He refers to Asia as a "region of great growth" and ensures that it is treated as such. The Asian markets have been served for the last two years by the regional headquarters in Shanghai, rather than from the export department in Switzerland.

The figures prove that Trappmann is right. In Hong Kong, for instance, turnover in the 2007 financial year increased by 30 per cent, not least due to a new beauty salon in the luxury hotel The Landmark.

The brand is also getting an additional boost from its presence at airports. The so-called travel retail business is one of Trappmann's important strategic projects.

"In the luxury segment, it is important that innovations really are new; customers also demand genuine added value for the high price."

Dirk Trappmann

The boutiques of the world's airports are practically the only places now where wealthy world citizens find time to do a bit of shopping.

Since La Prairie opened the first travel retail shop in 1990 at Schiphol Airport in Amsterdam, a business segment has emerged that is currently enjoying two-digit growth. Today, La Prairie is represented at more than 75 airports. In 2004, the first travel retail flagship store opened at Zurich Airport with a new service concept that makes it possible for global nomads to enjoy a facial in-between relaxing in the business lounge and catching their connecting flight. This was followed at the start of this year with the opening of the flagship store at Hong Kong Airport – when the CEO himself underwent a facial. Stores will be opened later this year at Singapore Airport and London Heathrow. The boutiques of the world's airports are practically the only places now where wealthy world citizens find time to do a bit of shopping.

High importance of Swissness

The further they are from home, the greater the attraction of the attribute "Swiss made".

Facts and figures

The La Prairie Group, which is active in the cosmetics industry, generated a turnover of CHF 395 million in the 2007 financial year, 11 per cent more than in the prior year. Worldwide, the company employs 1,200 staff, of whom approx. 200 work at the company's headquarters in Volketswil, in the canton of Zurich, where the research and development department is also located. The company's portfolio includes four independent brands that are marketed around the world: La Prairie, which is positioned in the luxury segment; the traditional label Juvena of Switzerland, which is to be relaunched in the autumn; the pharmacy brand Skin Biology Therapy, which was introduced two years ago; and the haircare line Marlies Möller. The La Prairie Group is a fully owned subsidiary of the German-based Beiersdorf Group.

Although it has long been an international brand, La Prairie still advertises with the supplement "Switzerland". "We are proud of the fact that we manage our global activities from Switzerland," says research head Sven Gohla. "Switzerland is a technological location and therefore a good spawning ground for cooperation with opinion formers." According to Gohla, Swissness has a very high importance for the company as Switzerland is associated with quality, design and beauty.

Of course, the quintessence of Swissness for many is not La Prairie but its sister brand, Juvena. The origins of the company go back to the traditional line "Juvena of Switzerland", which developed its brand appeal from its base in Zurich in the 1950s, when the affluent society was forming and women discovered the cult of the body. Invented by the Swiss Edmund Locher, with light and soft textures, Juvena replaced the conventional gooey salves that were the norm up to then and attracted stars such as Sophia Loren. After several changes in ownership, Juvena has been part of Beiersdorf since 1991. One year later, it was joined by La Prairie – the foundation stones for the company that unites the premium brands of the Beiersdorf Group were laid.

The change in name, which was implemented in 2005, from Juvena International to La Prairie Group was also a reaction to the shift in importance in the company. La Prairie gained market share at the cost of Juvena and today is the driving force in the Group. Juvena is currently languishing under the pressure of competitors such as Lancôme, Lauder and Biotherm. Trappmann does not intend to sit and watch the erosion; he's planning a relaunch in September with a more contemporary image. He won't reveal any more than that. The latest achievement is progressing more quickly – the Skin Biology Therapy (SBT) line, which was launched two years ago. What is needed to establish a new brand in today's competitive environment? "Courage," says Trappmann, after thinking for a while. The cosmetics line, which was developed in collaboration with the Hamburg-based dermatologist Professor Volker Steinkraus, is aimed at people with skin problems or sensitive skin – according to Trappmann "a megatrend that's here to stay". The clinically packaged and dermatologically correct line takes its place alongside numerous so-called pharmacy brands – i.e. cosmetics that look like medicine – but is also sold in perfumeries and department stores, in contrast to rivals such as Vichy or La Roche-Posay, which are available exclusively in pharmacies. The shelves are designed like a chemist's cabinet; and at SBT, beauty advice is called a consultation. After promising launches in Switzerland, Germany and Austria, the introduction throughout Europe is now about to start. Turnover is growing from a low level by 40 per cent a year. According to Trappmann, SBT should make a substantial contribution to the Group's turnover in the long term.

Learning how to market haircare

The aim is to design the brand portfolio of the company so that it is more balanced and to reduce the dependency on the La Prairie brand. The only question is how the Marlies Möller haircare line fits in with the three main care lines. However, Trappmann has big goals here too: "Retail has not yet comprehended that there's big business going to waste in the haircare segment at the moment," says the graduate in business administration. "Department stores and perfumeries still have to learn how to market haircare." He intends to carry out awareness training at the front line so that at some time in the future Marlies Möller will have a leader role in the luxury haircare segment similar to La Prairie in skincare. When a customer buys a La Prairie package for CHF 390 in a perfumery, Trappmann cannot understand why nobody tries to get her to buy the volume shampoo Pashmisilk from Marlies Möller for CHF 42. There's still a lot to do. //

“We are proud of the fact that we manage our global activities from Switzerland.”

Prof. Dr Sven Gohla

All the photos for this report were shot in the Juvena Laboratories in Volketswil.

The art of asking the right questions.

Bolko von Oetinger on the questionable benefits of dogma and management tools. And on the more fanciful aspects of developing corporate strategy.

Interview: Franziska Zydek

Mr von Oetinger, which strategy do you recommend to a CEO whose company unexpectedly finds itself in a crisis?
Strategy is not a toolbox. Instead, it is primarily a thinking process. A company that finds itself in a serious crisis is in a phase of uncertainty, perhaps also of paralysis. So every effort needs to be made to bring the company back into a position where the people in it can act again.

How do you do that?
A classical crisis situation is characterised by the failure of all trusted tools. What has always functioned in the past, suddenly no longer works. For that reason, you have to go down totally new avenues to deal with the crisis. To develop options, you need to be open to lots of ideas. Among other things, metaphorical thinking comes into play here, and it can help to develop in-novative paths and consequently new solutions.

Professor Dr Bolko von Oetinger has worked for Boston Consulting Group since 1984. Since 1998 he has headed up the BCG Strategy Institute, an international research facility in which renowned scientists from different academic disciplines examine the nature of strategy.

What do you mean by metaphorical thinking?
A metaphor is borrowed from a field that has nothing to do with the actual situation. It can involve a story, an image, a film or a poem which, when recalled by the person thinking, immediately conjures up other important notions (e.g. the recognition of his or her problem), in other words, an association. A metaphor serves as a tool for viewing the situation from another angle.

Is “scoring an own goal” such a metaphor?
That is a typical, everyday rhetorical metaphor that has entered the vernacular. In management, there are countless linguistic images like this, with analogies to biology, sport and the army. These are purely formal transfers that trigger no new ways of thinking in our mind. The idea is simply dressed in another formulation. A cognitive metaphor, however, aims to tempt you into asking another question, a new question, without which no innovation is possible.

And an example of a cognitive metaphor would be…?
The story of Hansel and Gretel is a good example. In the beginning, the children find their way out of the wood because they mark the path with pebbles, the Ariadne myth, so to speak, as a tool. But the crisis would not be a crisis if it didn’t get worse. When the stepmother leads the children into the wood the next time, they cannot find their way out because, this time, the birds have eaten up the breadcrumbs that were supposed to guide the way. So, same situation, same tool, but it doesn’t work. The consequences were fatal for Hansel and Gretel. Only when Gretel is prepared to murder the tyrant – that is, a terrible crime is demanded of her – do the children regain their ability to act. Only with the literal “disposal” of the witch does the enchanted forest lose its magic. Applied to a company: Only when sovereignty is regained, will a lot which was unclear beforehand become simple again and easy to communicate; you know what needs to be done – and what doesn’t. The metaphor takes us further in our thinking because it enables us to ask questions that we would not have arrived at without the metaphor.

How do you find the right metaphor?
There is no such thing as the “right” metaphor. There are only myriad possibilities. A metaphor is also not hatched behind closed doors somewhere; it is a means of communication. You talk about it in the company. And suddenly you realise that

“Managers love toolboxes because they are easy to operate. But when the strategy’s not watertight, the tool is no use either.”

every individual in the team has a different metaphor to describe the situation. Different people see the same facts from varied perspectives and come to different conclusions. That is precisely the value of creativity! As soon as creativity is developed in a team again, the paralysis falls away and new solutions can be developed.

Do you see the metaphor as a kind of management tool?
Quite the opposite. I believe that, over the course of the last 10 to 15 years, the subject of “strategy” in business administration courses has been trivialised, reduced to a toolbox. Managers love toolboxes because they are easy to operate. But when the strategy’s not watertight, the tool is no use either. That is why you need to try to regain the value of strategies – and to do so through open thinking. This should be made a discipline in companies, ideally before a crisis occurs. Metaphorical thinking is a course of training to perceive signals that are important in business.

Many companies invest a lot of money in monitoring and observing the competition to find out which way the market is going…

… and yet they still miss the boat! Let us take, for instance, the music industry. There the major companies watched one another produce and market CDs. When the threat did not come from the competition but from technological development, namely in the form of the Web, they should have reconsidered their business model. Instead, they and their lawyers defended it against the innovators. In the end, they had to hand over their sovereignty to Apple. The stra-tegic question is: Couldn’t the major companies have done it themselves? The answer: Only with difficulty. For first, they failed to detect the signals; then the rapid development was apparently too much for them. This is what it is like in many sectors. Suddenly, an entrepreneur appears out of a totally unexpected corner and does everything completely differently.

Based on your experience, why do people miss signals?
In management, you rely on defining what is important and what isn’t – otherwise, you cannot lead people. In the process, we resort to doctrines that are based on our models for success, and which become rules such as “This is how we do things here”. As long as the conditions that led to these regulations still apply, the doctrines are worth their weight in gold. The problem arises when the fundamental conditions change. Management’s task would then be to sense the proper time to ask, “Could it be that our success will not continue for much longer?”

What is the task of the CEO here?
A CEO has a duty to differentiate between different doctrines. There are deep, organically grown doctrines – for example, a founding moral, an ethical or qualitative attitude – that integrate well in economic circumstances and day-to-day business. And then there are doctrines which you suspect could be fossilised. The questioning of these doctrines is a permanent process. Every new development is accompanied by anomalies. For instance? Good customers suddenly stop buying or start buying strange things, competitors behave in an atypical manner, parties outside the industry appear on the scene, the price span is unusual. Are these signals only to be rated as a strange crackling noise in the flow of information or are they the harbingers of something bigger? If critical ability and discourse are part of the corporate culture, this company has good prerequisites for assessing the market correctly. It will recognise weak signals and decide whether they need to be taken seriously or not. //

The networkers

The Swiss Economic Forum (SEF) in Thun has a firm place in the event calendar of the Swiss economic elite. The secret of its success: the right ingredients for a new dynamism and a unique way of connecting.

Text: Kaspar Meuli Portrait: Oliver Lang

In 2006, less than an hour after opening, the online sales counters had to be shut again. It took exactly 42 minutes for the last of the 1,200 available places at the Swiss Economic Forum to be snapped up. The year after, the organisers followed the example set by the ticket sales organisers of the European Football Championships: prospective customers had to apply via Internet for one of the hotly sought-after places for the event. Then the tickets were allocated via a lottery system.

The SEF sent out more than 600 rejection letters – including a copy of the notarised certification as proof that there was no foul play during the lottery. "Unfortunately, there were also a few upset people around afterwards," says Peter Stähli, one of the two founders of the event. In May, the event will be staged for the tenth time. And the organisers will be retaining the lottery system. "This may lead to disappointment, but at least it is fair."

Participant benefit at the forefront

The Swiss Economic Forum does not keep the services it offers deliberately low-key. In Thun, however, there is simply no larger venue available than the Schadausaal, where it can already get a bit cramped with 1,200 guests. The lack of space is not the only factor to limit the size of the event. "The benefit for the individual participant does not increase with the size of the event," explains fellow CEO Stefan Linder. "With larger numbers of participants, it will become difficult to keep track of things." At the end of January 2008 too, there were clear criteria in the selection of the participants before the tickets were drawn. Only one representative from each company is to attend the forum. The highest-ranking person always has priority, as the Thun gathering, according to the golden rule of the event, intends primarily to bring together CEOs. This year's Forum is being held under the motto "Top Performances". In addition to Daniel Vasella, Federal Councillor Doris Leuthard, and the Jordanian princess Haya Bint Al-Hussein, among others, are also expected.

Providing impetus for the region

The Swiss Economic Forum has concerns which other companies celebrating their tenth anniversary can only dream of: the event is threatening to become a victim of its own success.

Nobody could have expected that ten years ago. And especially not in Thun of all


Stefan Linder and Peter Stähli

All of the 1,200 participants can count themselves lucky to be there: the tickets are allocated via a lottery system. The SEF is characterised by high-calibre participants such as Adolf Ogi and Kofi Annan with his wife Nane Lagergren.

The SEF has concerns which other companies celebrating their tenth anniversary can only dream of: the event is threatening to become a victim of its own success.

places. The garrison city at the gateway to the Bernese Oberland region was in the doldrums. It was recovering only sluggishly from the "Black Autumn" of 1991 when Thun's savings and lending bank went bust and at the same time Selve, an industrial company with a long tradition, announced that it was to close its doors. This situation was made worse by a creeping reduction in jobs at federal organisations such as the army and the postal service. Not only the loss of jobs was bad; the damage to the city's image was also substantial.

At the time, impetus for revitalisation came, for instance, from the Junior Chamber Thun (TWJ), an event where Stähli and Linder met for the first time – one of them the owner of an engineering firm, the other head of marketing at an SME. In 1998, the two of them decided over a spaghetti meal in an Alpine hut, often quoted since, to overhaul an already existing Thun-based networking event and to really expand it, a goal that has not changed since the first time the SEF was held.

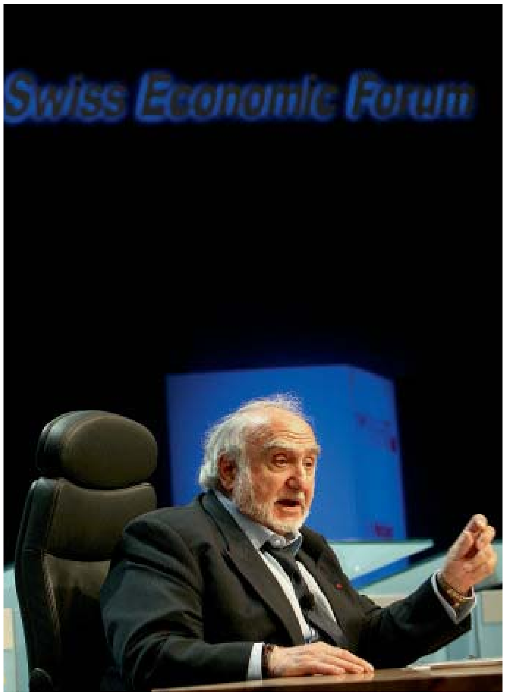
Today, as then, the Stähli/Linder team wants to create an event that gives company bosses new impetus and offers them the opportunity to exchange opinions beyond their own horizon. The founders clearly had SMEs as a target audience at the beginning – as the counterpole to the WEF so to speak, the global forum of the corporations in Davos. But now the management hierarchies of major Swiss companies are thronging to Thun. "It is precisely this blend that the participants appreciate," says Stefan Linder, explaining the event's success. "The exchange between industries and between large-scale and small companies is unique."

Creative contest for big names

With their dream of a "top national economic event", the two organisational talents got lucky right from the start. They managed immediately to acquire half a dozen renowned companies as sponsors for the SEF. And in the selection of the speakers, they pulled off a coup right at the start in 1999: Marcel Ospel who, as the strategist behind the Bankgesellschaft-Bankverein – merger, was the man of the hour. A crowd drawer.

Since then, Stähli and Linder have managed, year on year, with a blend of persistence and Bernese Oberland charm, to persuade major figures in world business and politics to take the stage in Thun. The list of speakers ranges from Al Gore, Kofi Annan and Gerhard Schröder to Nestlé and ABB bosses Peter Brabeck and Jürgen Dormann, to Stelios Haji-Ioannou, the founder of easyJet. The big names have become the Forum's real trademark.

But there's also another side to the coin.



Presentations by iconic figures from the world of business such as Nicolas Hayek alternate with emotional highlights, such as the appearance by the American mountain climber Aron Ralston, who amputated his trapped arm with his own knife.

With their continuous stream of stars, the SEF bosses are also putting themselves under pressure. "The benchmark is relatively high," confirms Stähli. "We are expected to bring top names and super speakers every year."

That is why there is a system behind the search for high-calibre speakers at the Swiss Economic Forum. The proposed candidates are wooed using every trick in the book. But first they have to be reached. The most important rules are these: The path to success goes via the secretariat. And: Never let up! Swatch president Nicolas Hayek, for instance, who shuns public appearances, initially sent ten refusals but was then ultimately persuaded to give a speech.

With Richard Branson, the founder of the Virgin empire, the Thun duo opted for an original means of contact. They had engaged the sympathy of his secretary to such an extent that they were able to find out when exactly Branson would be in his London office. To win the heart of the balloon pilot, who once competed against Bertrand Piccard in the race to be the first person to circumnavigate the globe, Stähli and Linder set up a three-metre-high airship in the entrance hall of the Virgin headquarters. Unfortunately, the man himself was not in the building after all – an unexpected change to the programme.

However, the SEF organisers were able to post a resounding success with Russell Coutts, who brought home the America's Cup in 2003 as the skipper of Alinghi. They had found out that the New Zealander was travelling to Geneva to sign a contract; Stefan Linder managed to exchange a few words with him there but Coutts was dismissive. However, he did explain that he was going straight back home again because his wife had just given birth to their third child. Linder congratulated him and, back in the office, set about finding out which hospital Coutts' wife was in, using painstaking detective work. He sent her a huge bunch of flowers, and the next day the sailing champion agreed to be a speaker. "That was pretty near the mark in terms of obtrusiveness," admits Linder looking back.

Coffee breaks do the trick

The presence of prominent international figures has established the reputation of the Swiss Economic Forum, which according to the "Tages-Anzeiger" newspaper has become an "institution" over the last ten years. The event, however, lives from the

The SEF as an economic factor

The Swiss Economic Forum has become an interesting economic factor for Thun. A study carried out as part of a semester paper at the University of St. Gallen (HSG) concludes that the Forum triggers more than CHF 3.7 million every year in additional value creation in the Thun region. Almost 90 per cent of these accrued funds are generated outside of the economic region. In addition, however, the region also benefits from the large media presence and the high level of recognition that the event enjoys. Conversely, the SEF is also supported by the population. The smooth organisation is only possible with the help of some 500 volunteers, among them many students from the local hotel management college. For its part, the city of Thun rewards the SEF for its loyalty with financial support for infrastructure facilities worth CHF 170,000 a year – a contribution that has never once been questioned in

It’s all in the blend: investor Samih Sawiris with mascot, business expert Prof. Dr Beatrice Weder de Mauro in prominent company, and the head of the postal service Ulrich Gygi engaging in recreational sport.

Emotional surprises in the programme help the businesspeople get to know one another better, beyond business and small talk.

Facts and figures

The Swiss Economic Forum costs CHF 1.8 million a year. This budget not only covers the main event but also activities in the run-up and follow-up to the SEF. Around 60 per cent of the costs are covered by sponsor contributions and 40 per cent by participant fees, and these figures have been constant for years. In 2008, participant fees will be increased to CHF 1,490. “Compared to other two-day seminars, we are very low-priced,” says Peter Stähli, “but it is important that we continue to offer SME prices.”

special opportunities to maintain contacts that it offers just as much as from the big names it attracts. Annual surveys among participants mean that the organisers know how important networking is for their clients. For this reason, almost half of the event consists of coffee breaks. And they are intensively used to initiate and consolidate business relationships.
It is a platitude that networks are of pivotal importance in commercial life. But what characterises good networking? “The right atmosphere is very important,” emphasises Stähli. That is why the contact zone at the SEF is designed according to a sophisticated interior architecture concept and equipped with the appropriate technology to ensure that the hundred-plus people who are in the foyer are not excluded from events in the hall. However, the networking concept also includes the fact that SEF visitors are sent a participants’ list as early as 14 days before the event and that contacts can already be made in the run-up via a special web tool.

Generating common experiences

Other events also offer a professional environment. But the SEF organisers go one step further: “We generate emotions – that is one factor that is becoming increasingly important in business.” Specifically, the audience in the Thun Schadausaal is confronted with surprise guests who touch them deeply with their stories. For instance, a mountain farmer appears before the assembled managers with one of his goats and reports on his existential fears that mean he can’t sleep when one of his animals falls ill – for the inhabitants of the carpeted environment of management, stories from another world. Or a sports hero is announced with a dynamically cut video

The two CEOs Stefan Linder and Peter Stähli make a sport out of engaging the services of interesting speakers. On the left, André Lüthi, CEO of Globetrotter Travel Service and SME High-Flyer at the SEF 2007.

clip, and Silvano Beltrametti rolls onto the stage – in a wheelchair. Recently released from the rehabilitation centre after his tragic skiing accident, he gives a speech full of optimism and passion for life.

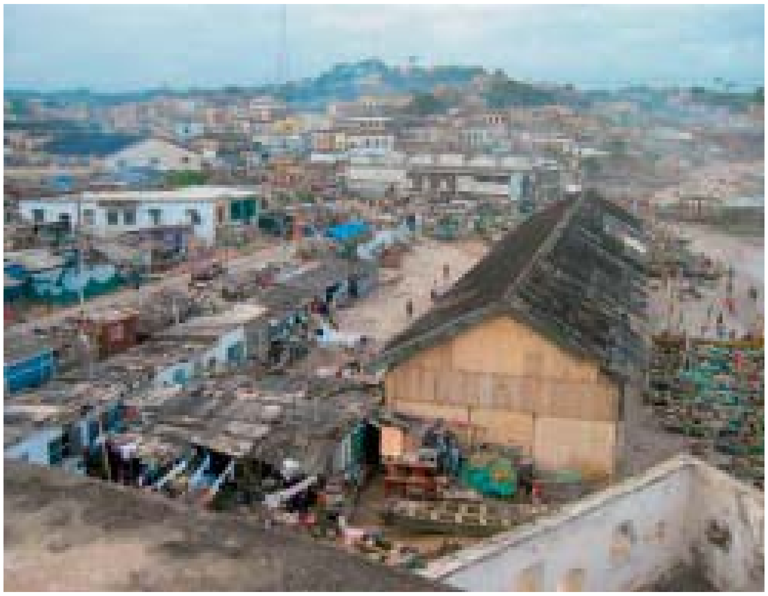
With such appearances, the SEF generates powerful common experiences which help the participants become closer to one another. "When people come out of the hall after such an event, they know what they can talk to one another about," says Stähli. With highly emotional moments in its programme, the Forum regularly tries to create "crystallisation points", with the aim of helping the businesspeople to get to know one another better, beyond business and small talk.

It is not only the perfect organisation or the overriding theme of the Forum, which in 2007 was "Shake up the Status Quo", for example, that constitutes the success of the SEF. Its attraction for the Swiss business elite lies not least in its special framework. "You feel at home in this atmosphere. The event is not highly styled. Irrespective of his or her position, everyone is only a participant. But every participant is a highly esteemed guest," the former member of the Swiss Federal Council, Adolf Ogi, told a journalist at the last SEF. According to Ogi, this is why the Forum has developed into the "best event of its kind" in Switzerland. Adolf Ogi may not be an impartial witness – he is after all the President of the SEF Advisory Council, which consists of prominent representatives from business – but it is a fact that the success of the event has regularly proven over the last ten years that the tandem of Stähli & Linder has hit the right note. Of course, there are a few factors in Thun that argue against the city being a "high-calibre" location, as the Forum announces on its website: For example, the venue, the Schadausaal, is anything but glamorous, being a purpose-built construction from the 1970s. The local hotels are not, to put it politely, exactly world-class (with the notable exception of the Victoria Jungfrau in Interlaken). And the city of Thun is geographically located slightly off the beaten track.

But for the 1,200 lucky people to acquire one of the hotly sought-after places, none of this is important. Quite the opposite in fact. A few years ago, the SEF founders considered moving their event to Zurich. After all, almost half of the Forum's clients come from the business metropolis and the surrounding area. But the participants gave a thumbs down to this idea. They don't want to be reached. Rather, they want to leave their day-to-day business behind them for two days a year. //

The company PI Events

In addition to being the joint organisers of the Swiss Economic Forum, Peter Stähli (43) and Stefan Linder (40) have also developed the company PI Events. The company employs 12 staff and sees itself as an "event agency for the most discerning of requirements" – PI stands for Premium Incentives. Background to the founding of the company in 2003: to use the know-how acquired with the SEF and the well-established team better. For the same reason, Linder and Stähli have developed a second major event in Basle with the Swiss Innovation Forum. And on behalf of third parties, PI Events is also responsible, among others, for the Swiss Climate Forum. Furthermore, until 2006, it organised the ICT Platform x.days. Depending on the event, the organisers receive between 10 and 15 per cent of turnover as their fee. In addition, the PI bosses act as strategic consultants. In future, however, the two CEOs want to become more active as entrepreneurs. At the end of 2007, they took over, in co-operation with partners, Mystery Park in Interlaken, which had gone bankrupt. Cost: CHF 14 million. What exactly is to become of the failed theme park was not yet clear at the time of going to press.



Zubin Randeria in Ghana, where a British organisation works to ensure the basic needs of the mentally ill are met and their human rights are respected.

"Ulysses": Integrating mentally ill people in Ghana.

In Ghana, the British organisation BasicNeeds works to ensure the basic needs of the mentally ill are met and their basic human rights are respected. The country's three psychiatric hospitals are all in the south of the country and therefore struggle to meet the needs of those in the north. They are often overcrowded, and as in most developing countries in Africa, Ghana suffers from a lack of doctors and staff specialised in mental illness. Particularly in the city slums and in rural areas, the mentally ill are stigmatised and often excluded from society. This can cause a cycle of despair, where, denied an education or an income, they become a burden on society, and are further marginalised from their communities. That is why BasicNeeds does not just arrange immediate and direct assistance; it also tries to alleviate social ostracisation of the mentally ill through education and advocacy.

If there was one project in the world on the "Ulysses" list that scared Zubin Randeria, it was this one. And that is precisely why the PwC partner from London opted for two months of working with BasicNeeds in Ghana. The mandate of the PwC team, which included a New Zealander and a Mexican in addition to the Briton, was twofold: to develop a community mental health and development plan – a way of providing care for the mentally ill close to their own communities – and also to help BasicNeeds itself define its future priorities. "On the second day of our stay, we were already visiting the children's psychiatric department of a hospital," recalls Randeria. "Just the cultural shock was substantial. This was exacerbated by the direct and, for me, unfamiliar contact with mentally ill children. I have seldom felt so uneasy in my own skin."

It was the people in Ghana who helped the PwC team to feel at ease, even in difficult moments. "Everybody was unbelievably sincere and kind and gave us a warm welcome," says Randeria. "I was constantly amazed that in a country so poor, the people could appear so happy." In his blog (http://ulysses-ghana.blogspot.com), he can be seen in many pictures laughing without inhibition, arm in arm with children and adults – both the healthy and the sick. "There isn't a day that goes by when I don't think about Ghana," says Randeria today, two years later. "The deep emotional experiences that I had there shaped my personal development. And my attitude to my work has also changed since then." In Ghana, the business consultant learned to allow personal contact in his job too, even to bring it about. In the past, he believed that PwC clients wanted rapid, pragmatic solutions for their money wherever possible. "Today, I understand that my clients need more from me than that. Even when they do not explicitly say it, they may in fact want someone who listens to them attentively, without prejudice, who is on their side and helps them over the long term – rather than providing a technical answer to the business problem of the moment." Trust is created through proximity and a willingness to develop a genuinely honest relationship, says Randeria. "I am convinced that you can find optimal and sustainable solutions together on this basis – solutions that none of those involved would have found on their own." //

"Ulysses" is a leadership development programme at PricewaterhouseCoopers. The participating PwC partners have the potential for a management career and are nominated by their country organisations. In multicultural teams (three to four persons), they work for two months in Third World countries, alongside social entrepreneurs, NGOs or international organisations. The projects selected are a challenge and offer the opportunity to put professional expertise to use in a completely different environment.

What’s your question about audit?*

Is the audit a duty or an opportunity?
Is there a key performance indicator for missed opportunities?
Are well audited companies more successful?
How business-minded does an auditor have to be?
What’s between the lines in an annual report?
How do you win the hearts of analysts?
Can you discuss everything with your auditor?

Answers on the value added by the audit:
www.pwc.ch/assurance

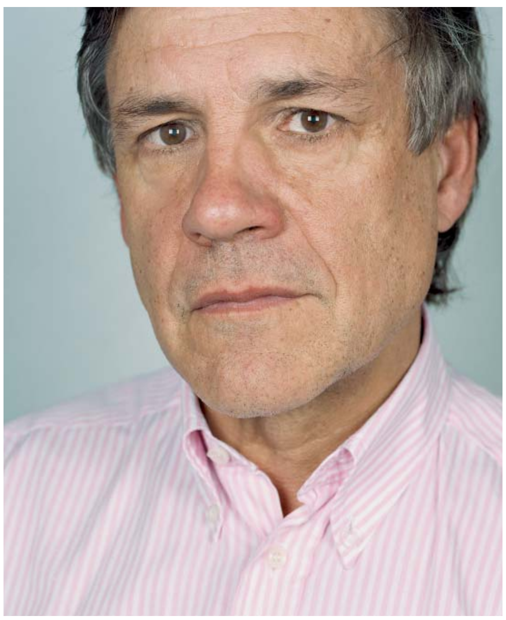
*connectedthinking

PRICEWATERHOUSECOOPERS

© 2008 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

ceo* forum/ethics/profit

Amy Stierli:
“I do not believe that ethical behaviour is something you can learn.”
06



Andreas Reinhart:
“It is absolutely fatal when profit-at-any-cost thinking permeates an entire company from top to bottom.”
08

Bettina Ferdman Guerrier:
“Companies actually don’t have a choice – they need to assume social responsibility.”
10

Dr Rolf Hartl:
“Without doubt, every society needs to constantly redefine its ethical issues.”
12

*connectedthinking

CORP-0803-05547