

ceo*

The magazine for decision makers. December 2008

Nutrition. How changing lifestyles are opening new markets.
Management. DKSH head Adrian Keller on what makes a leader.
Economics and politics. Why it is important to balance the two.



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Dr Markus R. Neuhaus
CEO PricewaterhouseCoopers Switzerland

The upside of the current situation is that in cases where it has not already hit we can see the downturn in the real economy coming and will be able to prepare for it. Our challenge as advisors is to give support to those seeking to tackle the challenge.

There's a lot of talk of responsibility and trust at the moment. This is a good thing, provided people don't look back too much. The fact is that with all indicators pointing to a slowdown, we undoubtedly have tough economic times ahead. It's precisely at times like this that CEOs are called upon to take responsibility and earn the trust placed in them.

The financial markets are accused of having seen the problem of the US mortgage bubble but failing to take sufficient action in time to prevent the crisis. The rest of the economy shouldn't let itself get into the same scenario. The upside of the current situation is that in cases where it has not already hit we can see the downturn in the real economy coming and will be able to prepare for it. Our challenge as advisors is to give support to those seeking to tackle the challenge. Thanks to an acquisition in advisory at the beginning of this year, we are fully equipped to advise clients and help them implement the necessary steps. In this magazine Markus Koch outlines the most urgent areas that have to be addressed. We also have to realise that we are probably about to be confronted with a new wave of regulation. We are sceptical of, or even

reject, the immediate calls to modify the accounting rules. You can't just state the maximum market values when times are good and omit to take charges when times are bad in the hope that the markets will simply recover. Of course I'm well aware that the situation is more complex than I have just outlined. Even so, the current financial crisis is not an accounting problem. Investors are entitled to transparency, both in good times and in bad.

The events of recent months have led to a new balance between politics and business. In the forum section of this issue, three prominent figures explain how they see, or would like to see the relationship between business and politics developing.

[Let's not talk ourselves into a recession](#)

The role of the board of directors boils down to taking responsibility. In times of globalisation, the challenges facing directors are even more complex and demanding. In this issue we also interview Adrian Keller, chairman of the board of DKSH, on the subject of networks and how he believes a globally oriented business should be managed – especially given the emerging threat of crisis.

The entire economy also has to bear responsibility for ensuring that we don't talk ourselves into a recession. There is another major upside to the current situation: many, many Swiss companies are in very good

shape indeed. In our dossier on nutrition, we feature two successful and innovative businesses to give some insights into the fascinating and forward-looking food industry.

Society has growing expectations of what the role of business is supposed to include. Clearly, healthy nutrition is something for which we all have to take responsibility as individuals. However, businesses, and large organisations in particular, are expected to ensure that their staff have healthy eating options available. Of course companies also have a vested interest in doing so, as nutrition has a direct influence on health – including the risk of cancer, a disease with a immense economic repercussions. For this reason, more and more companies in Switzerland, including PwC, are getting involved in efforts to fight cancer.

I wish you interesting reading, and hope you have the energy and the element of good fortune we will all need to ensure a successful end to the year and a prosperous future beyond that.

[Markus R. Neuhaus](#)

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Dossier Nutrition

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Gerold Bühler: The active exchange between business and politics is one of the pillars of a strong Swiss economy.

Gerold Bühler is a management consultant and president of *economiesuisse*, the largest umbrella organisation representing the Swiss economy. He has broad business experience, sits on the management board of various companies and has 26 years of parliamentary work to his name.

In his “Zurich Novels”, Gottfried Keller wrote words to the effect that apathy of people towards politics is the beginning of the end. I share this view: when business people steer clear of politics, it limits their influence. I myself had a foot in both camps for a long time: I have 26 years of parliamentary work to my name; throughout that time, I was also employed in business. This combination reflects my own convictions. Politics needs bridge builders from business. The logic behind this is simple. In a direct democracy like Switzerland, important economic reforms such as the bilateral agreements with the European Union, the new fiscal law and the reform of stock exchange law are drawn up in parliament and accepted or rejected by the people. I know from experience that parliamentarians as well as the people only vote in a business-friendly manner when the representatives of business participate in the discussion, convince people with their arguments, make their concerns transparent, and explain why a reform is good and

important for the Swiss economy – or not, as the case may be. Doris Leuthard, a member of the Swiss Parliament, formulated this as follows at a recent event: The more politics understands of business and comprehends commercial contexts, the more its decisions will benefit the Swiss economy.

The active exchange between business and politics is one of the fundamental pillars of a strong Swiss economy. Successful entrepreneurs and our social partnerships are the other two. Switzerland’s form of parliament, in which members hold office on a part-time basis, makes it ideal for bridge building. Representatives of business can get themselves voted into office in Berne and use the opportunity to contribute their expertise and experience in the relevant specialist commissions and exert influence. Traditionally, the ties between politics and business in Switzerland have always been good. In the booming 1990s, however, when everyone was talking of globalisation and focusing on countries abroad, it was difficult for a long time to get people in the companies engaged in politics. Now you will never hear a business leader say that he or she is indifferent to the workings of the national government. And there are good reasons for this. The commitment of business managers in politics is increasing again. Today, it is normal practice to appear in public and explain your concerns to a wider audience, for instance in interviews or lead articles. Business is right to exert influence on politics: after all, it’s about the country’s commercial future, the preserva-

tion of jobs and prosperity. This is undoubtedly only achieved by business figures who have the stature to represent not only their company or their industry in their political work but also the Swiss economy as a whole.

I have always been fascinated by the dialogue between business and politics; and today, in my capacity as the president of *economiesuisse*, I see myself as a kind of travelling salesman. If commercial topics are up for debate, we formulate our positions within *economiesuisse* in collaboration with our members and then forward these opinions to our points of contact in the Federal Government, the administration, parliament and the media.

As is well known, there is a great diversity of industries in our association, and some of their fields of interest differ. I regularly get asked whether we diminish our profile by constantly making compromises. I have a clear answer to this: no. We are oriented to a market economy and thus have a distinctive profile. We feel committed to this basic principle; it underlines our credibility. //

Photo: Helmut Wachter



Laura Sadis: We are witnessing first-hand how the importance and reputation of the state increase in times of crisis.

MBA graduate and fiscal expert Laura Sadis previously worked in management consulting. Today, she is a councillor and head of the financial and economics department of the canton of Ticino and a member of the banking council of the Swiss National Bank.

In principle, the same processes exist in business and in politics: you analyse problems and try to find solutions, based on the information collected. Businesspeople will opt for the solution that seems most plausible to them within an expedient period of time and then set about implementing it. Politicians, however, first need arguments. Their solution must convince – and convince a majority at that, which represents a completely different approach. When you move into politics after being in business, this step requires a major shift in thinking. Democracy demands other methods to the ones in business, and for good reason. Our system of concordance and proportional representation binds resources and slows down processes. Important reforms can be blocked and decisions delayed. A constructive political dispute can improve the final result, but perpetual conflicts lead to nothing, or only to very little. This is frequently disappointing and frustrating. Nevertheless, our political system is one of the best in the world. The democratic process should be respected and held in

high regard, and that also applies for business in particular. For a while, you had the feeling that globalisation had created a primacy of business over everything else. Politics was branded as slow, sluggish and a thing of the past. Today, the situation is very different again in many sectors. We are witnessing first-hand how the importance and reputation of the state increase in times of crisis.

I am convinced that, without our politics and without our democratic processes, business would not be in a position to function successfully. Politics creates the basis for social stability without which sustainable growth is inconceivable. Globalisation is a good example. It requires that all those involved demonstrate a large degree of flexibility. But people are only prepared to assume personal consequences and risks, for example those of a modern nomadic lifestyle, when they sense security and solidarity in their own country. This would not be the case if our society was defined purely along commercial lines. Ideally, a virtuoso synthesis can be found between the two poles: business as a creative, innovative pace-setter and politics as a corrective factor and guarantor for an environment that is positive both for business and society.

Unlike many business managers, politicians do not draw any great financial benefits from their commitment. Entering politics is a decision that does not pay off in monetary terms. It is also not without risk, for elections are held in our country every four years, meaning you have no security of

retaining any position you reach. I would rather not be re-elected than sell myself. I want to be unequivocal in my views and speak my mind. It should be one of the strengths of politicians that they are honest. We live in a free country and should exercise this freedom.

Adopting a clear standpoint, however, is not always easy. Although our system, in which members of parliament hold office on a part-time basis, gives you the opportunity to deal with many different topics, it also means that you have to acquaint yourself with areas that you are not immediately familiar with, which is hard work. Here too, this is different to the world of business where specialisation is required with ever more consistency.

My work as a politician has broadened my horizons; you approach topics in the knowledge that you don't know everything. Your own personality takes a back seat; teamwork is important, an information basis is developed in collaboration with experts. Many a commercial enterprise could benefit from such a process. //

Photo: Franca Pedrazzetti



Franz Egle: Politics is responsible for the debate on values. Business creates the material basis for our existence.

Franz Egle is co-founder of the Dynamics Group. At the interface between politics and business, he advises companies on communication issues and on media and PR relations.

I studied sociology because I'm interested in social dynamics, which are conspicuous in the relationship between politics and business. When politics loses in importance, business gains in influence. As a result of increasing globalisation, business is defining the pace of society; it acts, politics reacts, as the current financial crisis highlights very clearly.

The business and working environment has fundamentally changed over the last 15 years. The social market economy has developed into a neoliberal one. The traditional company boss of former times, who earned a decent but not astronomical wage, and looked after his employees, has been replaced by a manager who has to notch up successes rapidly if he or she is to survive in the company.

I see myself as a bridge builder who ensures that the sociopolitical areas of tension in which companies are active do not become minefields. These areas of tension are defined by politics, media and by non-governmental organisations. These three players can greatly restrict

companies' freedom to act. I help companies to look after their interests successfully. I am aided here by my broad range of experience. When I was a student, I worked as a journalist; I know how editorial departments work. From my time in business, I know how corporations function. And in the government, as the head of information at the Federal Department of Foreign Affairs and as an advisor to Flavio Cotti, a member of the Federal Council, I am very familiar with the political process.

How important it is to always include all parties in company considerations is something I experience, for example as a consultant to the Egyptian investor Samih Sawiris, who is aiming to establish a tourist resort in Andermatt. We began at a very early stage to contact all the groups involved – the local population, the municipal authorities, the canton, environmental organisations, the media – and to develop trust. We had a great number of discussions and also made compromises, for example towards environmental organisations.

I am also active as a lobbyist for companies in the Federal Parliament. It is important that companies campaign for their interests and table their concerns and requirements clearly to members of the public administration and the parliament. For their part, parliamentarians depend on information from practical experience to fulfil their tasks, namely to draw up and adopt laws and regulate the interaction between public entities and private individuals.

Put simply, politics is responsible for the debate on values and the regulation of influ-

ence and power. Business creates the material basis for our existence; its goals are turnover, profit and market share. Where figures are concerned, success is quantifiable. In contrast, the performance of politicians is rather more difficult to assess.

One evident change is that their image has become tarnished. When I started working for the government 15 years ago, members of the Federal Council were still viewed as persons worthy of respect; today, at best, they are only well known, a development fuelled in part by the media.

The media have a position of power – and have become more difficult to predict as a result of increasing tabloidisation, personalisation and scandalisation. Not least because of the tough competition in the media industry, conflicts or scandals, frequently even alleged ones, are actively sought out so that they can then be exploited for as long as possible. Politicians and business people would do well to take the media seriously and to maintain pragmatic dealings with them. Turning them into partners and not having them as opponents is the goal of good media and PR relations. //

Photo: Cédric Widmer



dossier nutrition

More and more consumers, as well as organisations like the Swiss Cancer League, see nutrition as a key factor for health. At the same time, people are changing their eating habits. They take their meals anytime, anywhere. That calls for new ideas. A market with a future.

Photos: Roth und Schmid

Food:
faster,
healthier,
more
portable.

A black and white photograph showing a person's hand in a suit jacket and white shirt cuff, stacking several white takeout containers (a cup, a bowl, and two more bowls) on a counter. To the right, a portion of a vending machine with numbered buttons (1, 2, 3, 4, 5) is visible. The scene is brightly lit from the left, creating a strong highlight on the counter and containers.

In the last three years, the fast-food lunch industry has grown by CHF 259 million.





The margin for functional foods is roughly 20 per cent higher than for the traditional food business.





The formula "fast, good and healthy" promises growth both in Switzerland and abroad.



When it comes to eating habits, there's a big gulf between vision and reality. People have less and less time for eating. At the same time, the demand for healthy food and drinks is growing.

Text: Bernhard Raos

Leading food corporations such as Nestlé and niche players such as Biotta are increasingly putting their faith in food with additional functions: perfectly balanced cocktails of nutrients and natural vitamins and minerals in meals and drinks aim to promote our well-being or make our ailments more tolerable. For the head of Biotta, Paul Kundert, health is the megatrend of the future (see page 26), and Richard Laube, head of the Nutrition division at Nestlé, is hoping for “bigger, better and bolder innovations” (see page 22) at the interface of food and medicine.

But what do consumers want? On the topic of trends in food, the Institute of Marketing and Retailing at the University of St. Gallen surveyed 1,074 Swiss nationals. The conclusion of the representative survey was that most of them want to have a healthy diet. But a lack of discipline and insufficient time are the main reasons why they fail to follow through on their good intentions. “Although people know a lot about diet, they do not act on this information,” says Alexandra Glas, co-author of the study “Food Consumption 2008 – eating and consumption habits in Switzerland”.

Seventy-two per cent of those surveyed rate diet as important or very important. This is 4 per cent more than in the survey by the University of St. Gallen that posed the same questions three years earlier. At the same time, however, satisfaction with their own diet has dropped from 73 to 69 per cent. Only for 4 per cent of those surveyed is food simply a transfer of calories; they are not interested in taste and do not think that diet is particularly important. William Wright, PwC expert for the retail and consumer industry, also sees a strong trend towards healthy eating: “Many consumers

are willing to pay more for healthier products – and this is not only the case in Switzerland. According to a study that PricewaterhouseCoopers conducts every year in collaboration with the Grocery Manufacturers Association, 75 per cent of the consumers in the USA currently believe that food and diet are the most important factors in their health. In Europe, more than 50 per cent of consumers in the seven most important markets state that they eat healthily on a regular basis. The same applies for Asia”. The marketing experts at the University of St. Gallen interpreted the data of their food study and summarised them according to five main themes for producers, suppliers and consumers:

1. What you want and what you do are two entirely different things when it comes to food. Food and drink will be the pivotal social challenge over the next ten years.

This is actually rather paradoxical. More and more people are not happy with how they eat. At the same time, 75 per cent of those surveyed are convinced that they have the right knowledge about what constitutes a proper diet. That is why most of them do not want any additional information on the topic. Another reason for this aversion to information could be the countless theories about food, which tend to confuse rather than provide clarity. Companies in the food industry active in the health sector have a double challenge. They want to make their food, which is enriched with vitamins and other additives, attractive to customers. But they are only allowed to do this with a homeopathic dosage, first because of consumers' aversion to food that is too “healthy”, and second because legislators restrict the promises a company can make regarding the healing properties of food.

2. We want to eat healthy and tasty food but are taking less and less time to do so. The result: we increasingly consume convenience products.

Sixty-five per cent of those surveyed consider healthy and tasty food to be particularly important. Nevertheless, little time is spent on eating; like everything else today, it has to be done quickly. In the space of three years, the acceptance of fast food has grown from 17 to just under 21 per cent, but the majority of people would like more time. Fast food is predominantly eaten “on the go” or “in the supermarket at the hot-food counter”. However, this is more out of necessity, for the food offerings are rated negatively. The study shows, for example, that 32.8 per cent of those surveyed complain about take-away food (e.g. sandwiches). On the popularity scale, these offers rank 24th and thus last. Dissatisfaction has also grown since the last survey with regard to “fresh ready-made meals” and “frozen ready-made meals”.

“Suppliers need to primarily invest in processes and procedures and prepare fast food freshly on site,” says A. Glas. Although there are already suppliers in Switzerland, such as Mövenpick Marché or the Manora restaurants, which operate according to this concept, suppliers from abroad are also entering the market – for instance, the restaurant chain wagamama. PwC expert Wright is also identifying potential in Switzerland for organic fast-food restaurants based on concepts that have been successfully used at the international level.

3. The dining room table in the home is diminishing in importance. This increases the opportunities for suppliers of “portable food”.

Breakfast and lunch are being eaten with increasing frequency in the “café/bistro”, “at the counter”, in “specialty fast-food stores” or “on the go”. The growth in monetary terms of these four channels came to a lofty CHF 259 million over the last three years. Only fast food at lunchtime was taken into account here. The marketing experts at the University of St. Gallen assume that this trend will become stronger due to greater mobility, the growth in the number of single households and more women going to work. In the process, little time is taken for meals: on average 7 minutes for breakfast, 19 minutes for lunch and 23 minutes for supper. Primarily hybrid forms where gastronomic establishments and stores form a symbiosis should benefit in future. This means petrol station shops, shops at railway stations, kiosks and home delivery services. Customers want to do their shopping at their own convenience – for example through systems for online shopping or services that bring freshly prepared meals to your door even after 10 at night.

4. Regional food and food that is produced naturally is high on consumers’ wish-lists.

Compared to 2005, satisfaction with products produced in the region has increased from 54 to 63 per cent. “Natural and regional products are actually also bought. People do not attach that much importance anymore to products being primarily cheap above

everything else,” says A. Glas. When shopping for groceries, regionality is deemed to be a guarantee of quality. The classical product ranges such as dairy products are particularly in demand, with more than 80 per cent in agreement, followed by fruit and vegetables with 75 per cent.

Credible labels for food assist consumers in their choice of purchase. The current “European Food Trends Report” (2008) of the Gottlieb Duttweiler Institut (GDI) also states that “the winners among the suppliers are those whom the consumers trust unreservedly”. This is because food, as the most important basic requirement that a person has, is a highly emotional matter. The report recommends that, to get their regional products to customers, retailers could go out more into the districts of the cities and towns and offer the products as specialities at small markets.

5. An increasing number of consumers are battling with being overweight. It will take concerted measures to counter bad diets.

Just under 56 per cent of those surveyed say that they are on a diet. This is 4 per cent more than in 2005. Consumers are therefore definitely aware of their weight problem. At the same time, the trend for fast food continues unabated, with due consideration being given to taste, and recommended calorie intakes are promptly exceeded. The players on the food market should react specifically to this problem, the St. Gallen study points out. A. Glas explains: “It is important that concerted measures be taken. Suppliers, schools, parents, the state, employers, doctors – all of them are called upon to do something.”

New markets are opening up for the food industry – health and a healthy diet are becoming prized goods in an individualised society. This was the result of a survey of 229 managers at prominent business companies and institutions from various sectors carried out by the GDI two years ago (“Health Horizons”). For the senior managers surveyed, the health market overall is a potential source of the next economic boom, with active preservation of a person’s health being rated higher than the fight against illness and disease. Accordingly, health is not the “absence of illness” but rather a quality in itself – health-style will replace lifestyle: the boundaries between the illness and health markets will likely become even more blurred in the future. This development offers great opportunities for the food industry, for example for products that taste good and boost our immune system, regulate our digestive system or help prevent allergies. At the same time, as the authors of the GDI study write, new suppliers are running a risk, for “consumers are more conservative when it comes to diet than is normally assumed”. And they add that suppliers who do not have the enormous resources required to launch new products will have to resort to occupying niche markets. The examples of Nestlé and Biotta on the following pages confirm both points. //

Market of the future: Nutrition meets medicine.

With sales of CHF 11 billion, Nestlé Nutrition has become the global market leader in special dietary products. Over the coming months, division head Richard Laube plans to launch 100 new products in more than 100 countries.

Text: Corinne Amacher Photo: Roth und Schmid

Nestlé used to be a supertanker, large and heavy, and also slightly plodding. Today, the company consists of a fleet of agile boats. This nautical metaphor was created by the long-standing admiral of Nestlé, Peter Brabeck-Letmathe, no less, and he made sure that it was firmly established at the group's headquarters in Vevey. One of these boats is steered by Richard Laube. At the end of 2005, he took over the helm of the Nutrition division, which was autonomous at the time, and has since made it into one of the most important and dynamic business divisions in the group – an achievement that earned him promotion to the position of executive vice president at Nestlé at the beginning of 2008.

Whenever future issues are a topic at the world's largest food corporation, the talk is of nutrition – one of the growth areas at Nestlé. The catchy term has an additional built-in function at Nestlé: it evokes the interface of nutrition and medicine.

Increasing quality of life and well-being

In the past, food fulfilled its task if a person's hunger was quieted; today, it has to satisfy additional requirements with regard to quality of life and well-being. Minute nutritional cocktails of probiotics, vitamins, special proteins and carbohydrates enrich food so that it promotes health and prevents illnesses or makes them more tolerable, namely modern illnesses such as Alzheimer's, diabetes and cancer. Nutren Balance bars make it possible for patients with diabetes to control their blood sugar levels better; probiotic cereals from Nestlé Nestum protect small children against getting diarrhoea; Power-Bars give athletes more stamina thanks to a special mix of glucose and fructose. "Good food, good life" has been the slogan under the Nestlé logo since 2001. The motto was Nestlé boss Brabeck's answer to increased life expectancy and to people's enhanced wellness requirements. Although



“The times when consumers were satisfied with just a product are long gone. What they want now is the combination of a product and a service.”

the changeover that was initiated at the time, away from a traditional food manufacturer towards a health corporation, had not yet been fully recognised by the general public, it was already well advanced in the Nestlé system. With a turnover of CHF 11 billion, corresponding to 10 per cent of consolidated turnover, Nestlé Nutrition has transformed itself in only a few years into the global market leader for special dietary products. When the division became autonomous in 2005, it claimed just CHF 5.3 billion in turnover. R. Laube made three acquisitions, each costing several billion francs, in the space of two years: the American diet company Jenny Craig; Novartis Medical Nutrition, which specialises in health food products; and the American company Gerber, a producer of baby food.

Today, the division consists of four segments, each of which has its own, clearly defined target group. With a share of 30 per cent of the market, Nestlé Nutrition is the world leader in nutrition for babies and young children. Nestlé is second in the global rankings in health nutrition for sick people, the second largest segment, and is aiming for the top position. The segments

of weight management for overweight people and performance nutrition for athletic people are still relatively small, but have two-digit growth rates.

Aiming for an annual profit of 10 per cent

To live up to his role as a pioneer, R. Laube has to meet substantially higher targets with his Nutrition division than his colleagues in the group management who sell mass products such as water and chocolate. While as a group Nestlé is aiming for organic growth of between 5 and 6 per cent, Nestlé Nutrition is targeting an annual profit of 10 per cent. The EBIT margin is estimated to be 20 per cent, twice that in the classical food business. In the first semester of 2008, R. Laube exceeded the turnover target; at 18.5 per cent, however, the margin is still below the target.

Now that the acquisitions have been absorbed and Nestlé Nutrition has reached a size that matches its ambitions, R. Laube needs to ensure sustainable internal growth. “The big deals are behind us,” he says, “they have given us a good starting position.” At the present time, he is primarily engaged in structuring his division so that the flow of new products is ensured and

accelerated. His goal sounds exciting: “Bigger, better and bolder innovations.” To achieve this, R. Laube has redefined roles among research and development and the commercial departments. The mark of the former pharmaceutical manager – R. Laube previously worked as head of consumer health at Roche – is unmistakable. As a food corporation, guided by eating trends and diverse tastes, Nestlé has always based its developments on market requirements. If the demand is for pizza prosciutto, the kitchen develops pizza prosciutto. Because the special foods business is closer to the pharmaceutical than the classical foods business, the focal areas have had to be shifted. Increasingly, ideas for new products have to come from the researchers, as the market does not know what science can do. “Reversing the priorities,” says R. Laube, “is still our most significant discussion today.”

Strengthening the culture of innovation

Since he took over the management of Nestlé Nutrition three years ago, R. Laube has been turning meetings, procedures and codes of conduct inside out – with the goal of strengthening the culture of innovation. Today, there is stronger and more frequent debate about research projects than in the past; the progress of key projects is one of the most important agenda items at internal workshops. Whereas in the past there was one research head for the entire division, now each of the four Nutrition segments has a director of research. The research budget has grown accordingly. Based on consolidated turnover, a disproportionately high percentage of the Nestlé research budget of CHF 1.9 billion is allocated to the Nutrition division. In addition to its own research, Nestlé Nutrition has 25 partnerships with universities, research institutes and biotechnology companies. A chair at the Ecole Polytechnique Fédérale de

Richard Laube, the head of Nestlé Nutrition, is a disciplined man.

For 28 years, he has stood on the scale every day. And for 28 years he has weighed 80 kilos. If he snacks too much on the chocolate bars that are to be found on every conference table at Nestlé, and if the scales show 81 kilos the next day, he takes a break from eating. “I am a fan of weight management. I am conscious about what I eat and watch my weight very closely,” says the 52-year-old. R. Laube eats four or five portions of fruit and vegetables every day, carbohydrates in the form of pasta or rice as side dishes. He likes meat but eats only small portions of it. The only “sin” he allows himself: “I’m partial to a glass of fine wine.” R. Laube also goes by the book in trying to maintain a balance between his intake of nutrients and burning off calories – he has devoted himself to endurance sports. He used to be an athlete; today, he runs a marathon in three and a half hours, and he recently took up triathlon. Regular training is a must. In that case, R. Laube becomes one of his own customers; every now and then, he’ll eat a PowerBar.

Lausanne (EPFL) financed by Nestlé is devoted to developing the world's largest research programme on brain and diet. The aim is to come up with food that can improve mental ability or prevent loss of memory in old age.

There are between 50 and 80 projects in the pipeline at any one time. For example, R. Laube has great hopes of a food to combat an illness for which there is no cure yet. It is called dysphagia and primarily affects older people who no longer have the strength to chew food properly. Their food lands in their windpipe instead of in their oesophagus, or pieces may fall out of their mouth. Nestlé has found ways of making food more compact. At CHF 40 million the market is still small, but it is growing at a tremendous rate. As R. Laube points out: "Who would have thought 40 years ago that osteoporosis would subsequently become a market worth billions for the food industry?"

Intensifying research and development

Through cooperation with the research centre in Lausanne, the heart of the Nestlé research activities and the group's own technology centres, the Nutrition division is able to gain access to the comprehensive know-how within the group. Conversely, the knowledge acquired at Nestlé Nutrition is transferred to the other business divisions, for example in the case of the Branded Active Benefits (BABs). These substances, which already generate a turnover of CHF 4.4 billion for Nestlé, form the core of the strategy of tailoring food to health. To date, 13 autonomous BABs have been developed that strengthen the immune system, stimulate the digestive system and reduce cholesterol levels. They have been integrated in hundreds of products of various brands within the group, from cereals and mineral water and yoghurts to dog food.

With a turnover of CHF 108 billion and 276,000 employees, Nestlé is the world's largest food manufacturer. The company owns 480 factories in 86 countries. Turnover of CHF 28 billion is generated with drinks such as coffee and mineral water alone. Dairy products, frozen and refrigerated products, and sweets each contribute between CHF 10 billion and 12 billion to consolidated turnover. The brands with a turnover of CHF 1 billion or more include Maggi, Buitoni, Nescafé, Nespresso, Nesquik, KitKat, Purina and Gerber. The Nestlé Nutrition division represents one of the company's highest strategic priorities. Following the acquisition of Jenny Craig, Gerber and Novartis Medical Nutrition, it posts a turnover of CHF 11 billion and two-digit growth rates. At around 20 per cent, the margins are higher than in the classical food business. Consolidated EBIT in the last financial year was CHF 15 billion, and net profit CHF 10.6 billion. Since spring 2008, the operational business of the Nestlé Group has been managed by Belgian Paul Bulcke. The long-time head of the corporation, Peter Brabeck, has retired from the day-to-day running of the company to concentrate on his tasks as president of the board of directors.

In the group's 2007 annual report, Nestlé president Brabeck wrote, "I have always been convinced that a strong nutrition business with a scientific basis must form the focus of our activities so that we can fully exploit and expand the diet-specific potential in our company."

Over the next one and a half years, more than 100 new products in more than 100 countries will be prepared for launch.

R. Laube doesn't want to go into details – citing proprietary reasons – but he names the baby food Nestlé NAN as an example of future product introductions. NAN was launched in more than 50 countries in the space of 18 months and established itself as a brand worth billions virtually overnight, which is hardly surprising given the benefits it promises. According to Nestlé, clinical studies have shown that NAN not only strengthens the immune system of babies but also reduces the occurrence of gastrointestinal disease and the risk of allergies.

While the scientists are developing new food in the laboratories, R. Laube is already thinking one step further. In future, he doesn't want to sell only special foods, he also wants to offer an additional service. The role model for this can be found in his own company: the coffee multinational Nespresso, which has managed to transform itself from a drinks seller to a lifestyle company. According to R. Laube, the fact

that everything at Nespresso today is about taste, service, design and one very smart film star is a "highly effective model for value creation". This is where the future of the food industry lies: "The times when consumers were satisfied with just a product are long gone. What they want now is the combination of a product and a service," says R. Laube, who previously enjoyed a successful career at the US consumer goods multinational Procter & Gamble.

The first signs of the new orientation can already be found at Nestlé Nutrition, for instance in the area of performance nutrition. In an online service of the PowerBar brand, competitive athletes can receive advice on their specific intake of nutrients for training and competitions. R. Laube has already found the ideal promotional ambassador for the brand in the swimmer Michael Phelps, who made Olympic history in Peking. A strong motivator for physically active people – and a worthy rival to Nespresso drinker George Clooney. //

Organic trend: Juices with market potential.

Biotta, a producer of fruit and vegetable juices, is the clear leader in Switzerland with a market share of 70 per cent. The organic pioneer is now pushing its business abroad.

Text: Bernhard Raos Photo: Roth und Schmid

There is a pleasant smell of soil and fresh potatoes. At the ramp of the company Biotta in Tägerwilen, in the canton of Thurgau, near Lake Constance, farmers from the region are loading tonnes of potatoes into containers. Among them are huge potatoes, weighing almost a kilo, in every shape. Operations manager Ruedi Liniger explains: "With vegetables for juices, it's all about taste, and not size as with fresh vegetables for direct sale."

Then things get noisy on the production line at Biotta. The principle "Into the bottle fresh from the field" applies. The potatoes are shaken, freed of soil, washed, checked by hand on the conveyor belt and crushed. A high-performance press delivers the juice, which is pumped into tanks, analysed and, depending on the composition of the products, mixed and prepared for bottling.

Today, in the juice cellar, the intensive smell of fennel mingles with the smell of potatoes. A small percentage of fennel is added to Biotta Potato Plus. The mix is intended to neutralise the acidic environment in the stomach. This beneficial effect is deliberately mentioned here only as an incidental remark. This is what the law requires. Food may not promise to cure.

Well-being as an additional benefit

In the USA, the situation is different. There, the label on Biotta juices already indicates that beetroot juice strengthens the immune system. "Internationally, health is the megatrend, and with drinks too. We are spot on with our products," says Paul Kundert. He is the CEO of the Thurella Group, which Biotta has belonged to since 2005 as an independent label.

The organic pioneer Biotta complies with all the guidelines of organic farming and holds every national and international label and test certificate. P. Kundert does not particularly emphasise this; it is a basic requirement and already included in the company's name. The further expansion of the brand primarily concerns the marketing of well-being as an additional benefit: "Taste is just as important as health. If you drink our carrot juice, you have to feel like you are biting into a carrot."

In the fully automated bottling system, the orange-coloured bottles with the carrot juice are eye-catching. After they have been filled and sealed, the bottles are labelled, packed into boxes and transported into the huge warehouse in the cellar, where the pallets with the 26 different vegetable and



Biotta primarily serves developed markets with a clientele that can afford the comparatively expensive Swiss products.

fruit juices from the Biotta range are stacked up high. Several bottles from each batch are kept until their expiry date for control purposes. Because Biotta processes organic raw materials and there are different vintages with vegetables – just as there are with wine – the Biotta staff must be on their toes at all times. The more hours of sunshine, for example, the higher the sugar content of the carrots. But consumers also want their familiar taste. It's all about choosing the right time for the harvest and pressing. 2008 was a good year for quality vegetables.

An increase of 34.6 per cent abroad

Biotta boasts impressive figures. In 2007, the brand turnover increased by 18 per cent to CHF 21.7 million. That's an increase of 34.6 per cent abroad, and 12 per cent in Switzerland. The company is targeting between CHF 40 and 60 million in turnover by 2012, which represents a challenge if only with regard to the procurement of the raw materials, for they are not available in unlimited quantities and in the required organic quality. Today, a third of the 11 million Biotta bottles are sent abroad; this quota will be increased. "We also want to grow further in Switzerland, but with a market share of around 70 per cent, there is less potential," says CEO P. Kundert. However, people are living longer and paying greater attention to a healthy diet. Biotta is benefiting from this development. Does the boss drink what he sells? "Yes, on a regular basis. I like the Biotta Breakfast Juice." Otherwise, the industrial engineer, who has headed up the drinks company since the end of 2000, does not see himself as an apostle of an all-round healthy life: "My position in the company leaves me little time to do that."

When P. Kundert gets going, he talks about the challenges on the foreign markets. Every country has its own laws. He was

recently in the USA where Biotta has set up a separate sales company: "We only employ American staff there. It doesn't work when we try to develop the market from Switzerland or with Swiss staff in the USA. Although our products come from Switzerland, the recipe, labelling and market presence are adapted to US requirements." And because many Americans have bad diets, Biotta faces some great opportunities, he says.

Careful honing of its image

Biotta primarily serves developed markets with a clientele that can afford the comparatively expensive Swiss products. The goal is not to supply supermarket chains with products at basement prices. Biotta will remain a high-quality niche product. Countries such as Russia, Japan and Australia are new countries where the products are being marketed.

It is also interesting that the individual markets select different hit products. For instance, cranberry juice sold particularly well in Switzerland after women found out that it can alleviate bladder problems. In Russia and Anglo-Saxon countries, beet-root juice is highly popular; it is supposed to reduce high blood pressure.

The image of Biotta was no longer entirely in line with the times. Although it was a very reliable product, it was not particularly trendy, as P. Kundert freely admits. And he continues to carefully hone its new image, which is, however, to remain soft and gentle: consumer habits in the area of food

are constant and conservative in the positive sense, he says. "For instance, they always have their favourite yoghurt in the fridge. Their preferences remain the same." Biotta Bio Energy is therefore almost revolutionary for Biotta – an energy drink containing caffeine with biological pick-me-ups such as guarana, camu camu and assai as well as grape juice as the dominant taste. The small bottle is an attempt to appeal to a younger, urbane clientele. With no resounding success yet, as P. Kundert admits: "The product for us is like a balancing act. It requires more explanation than carrot juice." Bio Energy has already been launched in Switzerland. Sales on foreign markets are now starting. Work is already under way on innovative new juices that, for instance, reduce "bad" cholesterol or help the growing number of insomniacs without the need for tablets.

From a commercial perspective, the parent company Thurella is currently in a phase of transition with high investments, for example in a new high-bay warehouse at the bottling site in Eglisau. Biotta intends to grow further over the next few years, predominantly abroad, and to position itself as a supplier of organic drinks in the health sector. From procurement of raw materials and market presence, to logistics and distribution, the company wants to be one of the best in the industry. "We are aiming for an EBIT margin of more than 5 per cent in order to secure our growth in the long term," says P. Kundert. And he adds: "We'll manage that." //

Facts and figures

Biotta was founded in 1931 as an independent, family-run business. The brand was oriented solely to organic production as early as 1951. Since 2005, Biotta has been part of the Thurella Group. The autonomous subsidiary employs 35 staff and last year had a turnover of CHF 21.7 million. Increased exports – products are currently delivered to 40 countries – are a major strategic goal. www.biotta.ch

Prevention: Focus on nutrition.

The Swiss Cancer League has been active in the fight against cancer for almost 100 years. It focuses on prevention, support and promoting research. It also increasingly promotes a healthy lifestyle – in collaboration with leading business companies.

Text: Samuel Dubno Photo: Roth und Schmid

Smoking is dangerous to your health. That's the message on every cigarette packet. The wrong diet can also cause cancer. That is why the Swiss Cancer League promotes a healthy lifestyle, for example with the elaborately designed brochure "A balanced diet strengthens your health" (subtitle: "How to reduce your risk of getting cancer"). Diet is of fundamental importance. It may well be the most important factor in the increased occurrence of non-transmittable chronic diseases, such as cancer, cardiovascular diseases and diabetes. According to estimates, more than 30 per cent of these illnesses are attributable to the wrong diet. Other important, avoidable factors for the development of cancer are too much sun and alcohol. We hear about individual foods that are supposed to reduce the risk of cancer. Yet there is no specific diet to prevent the disease. The main point is that a person's diet has to be a healthy one. The specific suggestions from the Cancer League hardly differ from those of other sources in this respect.

Profit- and growth-oriented thinking

"The Cancer League has grown enormously over the last ten years. Today, we are by far the largest health organisation in Switzerland," says Markus Diener, relationship manager and initiator of the Supporter Krebsliga Schweiz (Supporters of the Swiss Cancer League), a newly created interest group whose task is to foster partnerships with industry for the benefit of the League. The Cancer League is employing modern business administration tools to absorb this growth. In 2006, a uniform corporate design was drafted for all cancer leagues, and a new strategy was adopted in 2007. In the same year, the Cancer League signed the Swiss NPO code; it defines standards for best practice in the corporate governance of non-profit organisations.

The Swiss Cancer League was founded in 1910 as the Swiss Association for Research into and the Fight against Cancer. Today, the Swiss Cancer League association is the umbrella organisation for the 20 cantonal and regional cancer leagues in Switzerland and

Liechtenstein. Nevertheless, the Swiss Cancer League does not fit the typical image of a charitable organisation and functions more like a profit-oriented company. The communication, personnel, and finance, IT and administration departments have the same tasks as their counterparts in private companies. Preventive programmes and psychosocial programmes are to a certain extent the products, and the fundraising department is the equivalent of the sales department.

Attracting donations as an entrepreneurial challenge

In addition to supporting people with cancer and their families, the Cancer League is primarily active in two areas: prevention and promoting research. That costs money. Although the public sector supports the Swiss Cancer League, the lion's share of just over 90 per cent is financed privately. Procuring funds is critically important, for the volume of donations across Switzerland is stagnating. Collecting donations is becoming more difficult.

There are two additional complicating factors for the Cancer League: first, nobody likes to talk about cancer. The disease triggers fear and uncertainty. From the viewpoint of a fundraiser, there are "easier" topics. Second, the Cancer League can offer only limited direct project financing. "We depend on our donors being trusting and understanding enough to have their funds flow into one big pot," says Diener.

Although the letter to potential donors to drum up funds is rather outdated, says M. Diener, it is still a main source of income for the Cancer League thanks to a good database, more than 50 years of experience and a wealth of expertise in direct marketing to the masses. Major donors are handled individually. This is one of M. Diener's core tasks. He maintains the contacts to business, to foundations and to donation intermediaries. "We can't accept a cheque for CHF 50,000 and just say 'thank you'." For 20 years,

M. Diener managed a company that advises financial service providers in matters of strategy and communication. He knows his clients and knows that major donors have different requirements. Foundations and companies, for instance, want to be named, whereas many private donors do not. Managing the relationships takes place in the “grey area between private and business activity”.

Collaboration with businesses

Another area that M. Diener is pushing ahead with is project collaboration with business enterprises, with the goal of procuring funds. This results in cooperation between the Swiss Cancer League and companies that offer products or services that are closely connected with the activities of the League, and at the same time generate funds for the organisation. One example of this is the development of the TRIAS brand: in collaboration with Swissmill and Coop, a particularly healthy type of bread was developed (available from Coop). Some of the proceeds from the sale of this bread go to the Cancer League. At the start of the coming year, pastries and biscuits will also be offered under the same brand name.

The search for business companies that are willing to cooperate is another challenge for M. Diener. More often than not when he makes an enquiry, he is referred to the sponsoring department. However, these departments tend to invest in sports or cultural events. For M. Diener, the Cancer League is not simply a sponsoring platform but rather a partner in the area of corporate social responsibility. He is convinced that “the social commitment of companies will become the testing block of a liberal business order”. If the state quota is reduced, the business world will have to take on more public tasks.

The Supporter Krebsliga Schweiz was founded against this backdrop. It brings together companies that not only want to make a substantial donation every year but also want to advocate for the issues that are important to the Cancer League. Bank Coop, for instance, informs its clients about a healthy diet within the framework of the Eva programme; PricewaterhouseCoopers does the same with its staff, offers dietary information and a cooking course during work time, and is considering changing the canteen’s menu.

Industry exclusivity, clear criteria for inclusion and the restriction to 50 members are intended to make the Supporter Krebsliga Schweiz an exclusive network platform. In addition to image promotion and visibility, all members are given the opportunity to acquire free-of-charge services in the area of cancer prevention that are not part of the standard offerings of the Cancer League.

A newly created cancer fund

The latest innovation from the Swiss Cancer League is to be launched in the coming year: a cancer fund. The idea behind it is that the fund management invests primarily in the future market of oncology and sustainable companies. Investors will forego 50 per cent of their profits; the custodian bank and fund management will charge substantially reduced fees. The foregoing of profits by investors and of income on the part of the service providers will benefit cancer research in Switzerland and the Swiss Cancer League. //

“A third of cancer cases could be prevented.”

Prof. Dr Thomas Cerny, president of the Swiss Cancer League and chief physician of oncology and haematology in the internal medicine department of St. Gallen cantonal hospital, on the increase in cancer, chances of being cured and growing costs of treatment.

Professor Cerny, around 250,000 people in Switzerland are affected by cancer. Every year, just under 19,000 men and 16,000 women get cancer, and more than 15,000 people die of it. What trends do you see in these figures?

They will increase. Cancer is an illness of old age, and our society is becoming older. The post-war, baby-boom years are reinforcing this trend. Today, the baby boomers are between 55 and 65 years old. At this age, there is an increased incidence of tumours. Compared with the past, however, we are able to cure more people, and progress in medicine is narrowing down the causes of death. The cardiovascular illnesses, for instance, currently still the number one cause of death, are on the decline thanks to intervention, prophylaxis and new drugs. For people under the age of 75, cancer is already the most frequent cause of death, and experts assume that by the year 2020 cancer will be the most common cause of death for all ages – at least in the Western world.

Is cancer the lot of an ageing society?

Up to a certain point, yes. The malignant cells that separate in an uncontrolled manner appear to be part of life. Even with plants, similar phenomena are known; nevertheless, cancer is not just a matter of fate. Currently, we assume that around a



“We want to influence the research landscape so that the important questions get asked, not just the commercially relevant ones.”

third of illnesses could be prevented by a change in lifestyle and altering environmental influences. Smoking very clearly tops the list, followed by an unhealthy diet. Lack of exercise, too much sunlight and alcohol consumption also increase the risk of cancer.

The proportion of chronically ill cancer patients is increasing. What does that mean?

One consequence of medical progress is that certain types of cancer that have been difficult to influence up to now are now deemed to be more and more treatable. Although the patients are not cured, they are not or only moderately hampered in their social and professional capacities – under certain circumstances even less than someone who is suffering from, for example, diabetes or rheumatism. However, “chronification” also has economic consequences: the costs of treatment are continually on the rise.

How does that translate in figures?

Here, at the St. Gallen cantonal hospital, for instance, around 5 per cent of inpatient costs are incurred by oncological patients; their share of the overall medication costs of the cantonal hospital, however, amounts to between 25 and 30 per cent. Whereas over the last seven years the number of consultations has “only” doubled, the expenditure for medication will soon have increased tenfold. Among oncologists, we speak of a “logarithmic price evolution”.

Why is cancer treatment so expensive?

Patients are using increasing amounts of substantially more expensive medication over a longer period. There are various reasons for this. The number of indications has risen. Compared to earlier times, there are hardly any cancer illnesses now that

cannot be treated with drugs. The medication is often additive or synergistic. What that means is this: two drugs often work better than one and three better than two, and the new drugs are becoming more and more expensive. Of course, patients and physicians are delighted that more drugs are available, and that they are more effective and more compatible, offer more application possibilities and permit increasingly outpatient rather than inpatient therapies. But the increasing prices are problematical, and research could undoubtedly be even more efficient. The prices are also not “market prices” but are instead protected by the state. Moreover, how prices are arrived at is not transparent and, from an external perspective, difficult to understand.

What importance does cancer research have within medical research?

Cancer is always based on genetic damage that results in uncontrolled cell growth. The central oncological questions – growth processes and genetics – are also the fundamental questions of the living organism. That is why oncology has become the engine of medical research and these days produces more innovations than the two nearest research areas, intestinal and infectious diseases. Processes and drugs that are developed in oncology are also used in other areas, for instance in immunology or rheumatology. In the past, this was the other way around.

Where and how is research done?

Wherever biological research is done. Cancer research is developing into global research of the highest order. Individual research is on the decline, and forms of networked research are gaining in importance. From a management perspective, it is no longer about the motivation of teams, but rather about the networking of teams. Information technology has an ever more important role to play in this – also in order to master the complexity of the issues and the enormous quantities of data.

If so much research is done, why does the Cancer League support and do additional research?

In this country, so much research is done, among other things, because of the Cancer League with its funds. When it was founded just under 100 years ago, it was called the Swiss Association for Research into and the Fight against Cancer. We were the first to provide resources for research into cancer. Today, although more research is done, there are an increasing number of gaps because research is increasingly being done with a commercial orientation. This is where we set the necessary focal areas.

Why?

Twenty years ago, around 80 per cent of research was academic in origin and 20 per cent was commercial. Today, the ratio in clinical research is the reverse. Important questions, the clarification of which does not promise any direct commercial end results, are therefore answered less and less frequently. This leads to gaps that the Cancer League wants to fill. In addition, we also pursue innovative approaches, for instance in the area of optimal support concepts or in epidemiological research, where the state is still too reticent. We want to influence the research landscape so that the important questions get asked, not just the commercially relevant ones. In many cases, answering important questions also leads to commercial success in the long term. //

“Making a contribution to educating people.”

Peter Binz, COO of PwC, considers the commercial aspects of cancer and what companies can do to combat the illness.



Mr Binz, whenever cancer is mentioned, it is the medical and personal aspects that dominate. Where do the commercial aspects come in?

People get cancer and die of the disease every year. They leave behind painful gaps in families as well as in companies. Sick people also require comprehensive support and very frequently costly medication. For this reason, it is good to talk about the commercial aspects of cancer and to think about what else can be done through research, education and health care to prevent the disease and to combat it by medical means, medication and therapies.

How should companies handle the topic of cancer?

As companies, we can primarily make a contribution to educating people. It is also possible to support the activities of the Swiss Cancer League. PwC is convinced that fighting cancer through prevention and research is very worthwhile and that we can make an active contribution.

How does PwC support the Cancer League?

We joined the Supporter Krebsliga Schweiz. Different companies have joined together to form an association, and each of them pays an annual contribution of CHF 50,000. The Supporters can decide quickly and non-bureaucratically how these funds should be used in the fight against cancer. We are also active in the prevention of cancer, for example with specific informational events and presentations on the topic of diet that we offer our employees during work time. We also invite employees to volunteer as helpers for campaigns organised by the Cancer League. Incidentally, today, we offer less coffee and croissants at our meetings, and more fruit and water instead.

What internal and external impact does PwC expect from its commitment?

We are a profit-oriented company that also assumes a social responsibility in the service of people. Cancer is an insidious illness that causes much suffering as well as considerable cost. Prevention and research can make an active contribution to reducing the mortality rate and thus alleviating the suffering. If we succeed in reducing the number of people who get the disease and the cost for society becomes less, companies will also benefit. In the network of the Supporters, we also exchange ideas and information that go beyond the fight against cancer. It is therefore a commitment that is worthwhile in many respects. //

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Organisations: Ready for the downturn.

The financial crisis threatens to spill over into the real economy. But there is a bright side to the current situation: most companies have time to prepare for the possibility of recession.

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In Switzerland, as elsewhere, there is much talk of the threat of recession. The outlook is getting worse. Companies in especially exposed industries have already started to feel the real impact. Otherwise funding is firmly in prospect, order books are full, albeit dwindling, and profits are in some cases running at healthy levels. Even so, most economists agree that the present crisis in the financial system will hit the real economy as well. In previous crises, it has been 12 to 18 months before companies have seen an actual deterioration in their financial situation. This time, however, the impact on cyclical industries has already been very rapid and pronounced. But many companies still have the chance to get ready for the challenges to come. They can make preparations for the eventuality that growth rates could slump or even reverse, orders dry up, important suppliers fail or financial bottlenecks arise. The key is to strike the right balance between the top and the bottom line, in other words gearing the business more closely to earnings and cash flow than to sales. Companies can run a stress test on the business plan to show how bad various parameters will have to get before they face serious challenges.

However, if the impact on the real economy ends up being as dramatic as the situation in the financial industry, any scenarios currently in place are likely to fall short of the mark.

So how exactly should companies go about preparing? In our experience there are ten fundamental priorities when it comes to managing in a downturn (see box on page 36). Here we will look into two of these priorities in detail: protecting liquidity by ensuring that your working capital is in good order, and managing your cost base.

Managing working capital

Especially in times of economic difficulty, it is essential for a business to have sufficient cash. In terms of financial health, cash flow is even more important than a company's profitability. And working capital has a key influence on cash flow. In recent years people have become much more aware of the need for working capital management. Managing working capital should be an everyday priority, but it becomes even more

important when the leverage of investment in growth tails off. When times get hard, investing management resources in working capital generates much more rapid returns than investing in growth projects – quite unlike the situation during periods of economic growth. But there is another very pressing reason for companies to manage their working capital: if suppliers and customers improve their working capital management to strengthen their position, a producer can quickly get caught in the crossfire and risk financing the entire supply chain. So getting your working capital in good order is a must merely to maintain your position. There are three components to working capital management: receivables, payables and inventory.

Receivables: There is usually an initial “quick win” to be had by reducing outstanding receivables: speeding up incoming payments is a relatively easy way of getting a more comfortable cash cushion. Experience shows that many companies need to get a clearer picture of their outstanding receivables. Streamlined, uniform payment reminder processes help keep untimely payments to a minimum. But in most cases, efforts to reduce receivables usually wind up as efforts to tackle symptoms of problems that have their origin much earlier in the order-to-cash cycle, for example a failure to check the creditworthiness of customers sufficiently carefully. Added to this, many accounts departments face a pile of outstanding payments because the company has too many differ-



Markus Koch, Leader Business Restructuring Services Switzerland

Ten priorities when it comes to managing in a downturn

1 Take a closer look and understand the true picture

The goalposts are moving: things you used to think were impossible are now reality. What core competencies are relevant in the light of the downturn? Understand the real causes, and not the symptoms of change.

2 Act decisively!

With increased volatility and uncertainty it's important to take tough decisions early. Focus relentlessly on the key drivers of value across the business. Every recession is an opportunity, and you want to emerge as one of the winners.

3 Remember: cash is king!

Protect your liquidity by proactively managing your finances and working capital.

4 Focus on what really matters

Lean management means only doing what is crucial in the interests of your customers and quality – and what will generate sustained cash flows.

5 Manage your cost base

Reduce unnecessary and costly complexity (structures, product range and markets). Go for targeted rather than across-the-board cuts.

6 Reliable management information is key

KPIs geared to compliance and large, wordy MIS reports are not much use. What you need is an easy-to-manage CEO cockpit.

7 Plan for different scenarios

No one can predict exactly what will happen. But what works for top athletes will work for your business: run through various scenarios in your mind, and understand your strategic options.

8 Recognise the value of your people

Regular and clear communication with employees is key to their engagement. Identify your key talent and give them incentives to make a contribution.

9 Take your stakeholders with you

You are not alone with your customers and suppliers; you're part of a complex network of stakeholders. Evaluate the likely impact of the downturn on your stakeholders and make sure you understand their agendas.

10 Take advantage of the opportunities

You don't just want to survive the downturn – you want to emerge stronger. Look at your scenarios with an eye to the future upturn. What innovations are important?

ent payment terms. In large corporate groups it is not uncommon to find as many as 150 different standard terms of payment. Reducing the variety of these standard terms to a minimum, and laying down a clear process to define who can deviate from them under what circumstances, is a good start for companies that want to ensure that payment is as timely as possible. Our experience as advisors shows that it really is possible to implement measures to reduce customer payment times.

Payables: Here the challenge is to negotiate favourable terms of payment for your own company. This calls for a degree of

caution and common business sense. It can be counterproductive, for example, to squeeze the terms of relationships with suppliers; they may be tempted to compensate by compromising the quality of their products or delivery or by upping the price. There are, however, modern alternatives, such as supply chain finance solutions, which can result in a win/win situation for both producers and suppliers. If the producer (i.e. the company buying) is more creditworthy than a supplier, it can transfer this advantage to a factoring company. This way producers can pay later, but at the same time suppliers get their money before they would have under the terms of the official payment deadline. This type of solution works for the supplier because the producer's good credit rating means they

pay lower interest overall than they would on a credit to finance their own working capital. In other words, factoring enables a company, with the consent of the supplier, to extend the deadline on its payables, while giving the supplier earlier access to the invoiced amount and a cheap means of refinancing.

Inventory: Again and again, PwC advisors see confirmation of the Pareto principle (the 80-20 rule): companies tend to generate around 80 per cent of their sales or EBIT (earnings before interest and tax) with only around 20 per cent of their products or

customers. Companies can draw up a matrix to see which products and customers earn them high or low margins. The real challenge is products that only earn a low margin but which the company supplies to customers that generate a high margin. These are often products the customer demands alongside high-margin products. To keep the customer satisfied, the company feels obliged to supply lower-margin products as well. However, there are ways of solving this problem. For example you can define limits for volumes or markets. Or you can come to an arrangement where you produce the products in question only to order rather than having them permanently in stock. While this slows down delivery, under certain circumstances the customer might find the arrangement perfectly satisfactory.

Gearing costs to capacities

Working capital management is a challenging task, not least because it affects so many different areas of the organisation. The head of sales, for example, is unlikely to welcome a situation where customers have to put up with restrictive payment terms or aggressive collection procedures. And there are obvious conflicts of interest when it comes to inventories: the head of production wants machines to be efficiently utilised, while the head of sales wants goods to be deliverable at any time. Meanwhile the CFO is looking to avoid the expense of tying up large amounts of capital and heavy depreciation on plant and inventory. Here too the key is effective change management. You have to communicate clearly to raise awareness of the importance of working capital, because understanding the mechanisms of cash flow and tying up cash is fundamental to understanding the business as a whole. Companies that fail to prepare will be forced to take panic measures when crisis strikes. But drastic cost-cutting, redundancies and

moves to cut back production are bad publicity that can damage a company's reputation, and are unlikely to get sustained results in any case. In a situation like the one we face now, however, companies can respond to the first signs of crisis by implementing projects addressing processes, products and markets that will lead to lasting improvements in profitability. It's a business truism that declines in earnings – at least to some extent – can be offset by reducing costs to prevent or minimise bottom line losses. Even at times when business is flourishing, cost structures should always be flexible enough to respond to capacity requirements. During the boom of the last few years, many companies built up extremely complex structures to capitalise on their growth opportunities. But complexity is a cost driver.

Achieving lasting cost reductions involves taking a thorough look at fundamental processes and structures and adapting them to present circumstances. Optimising costs also means acute cost awareness throughout the organisation, change management, cultural change, and communication between managers and staff. First, companies should get clarity on their costs and find out what and where the costs are. PwC's advisors repeatedly encounter a lack of cost transparency. In most cases a systematic cost analysis will reveal any inefficiencies. The next step is to then harness this top-down potential from the bottom up by setting up specific projects within the organisation.

Abandoning less profitable businesses

Companies can simplify processes and make them more flexible. They can also go further by concentrating on specific processes and structures that make a crucial contribution to business performance. The organisation should thoroughly analyse its product and investment portfolio and its markets in the light of criteria such as their growth potential and resistance to economic downturns. On the basis of this analysis the company may decide to divest certain businesses for reasons of profitability. Products and markets might be perfectly profitable, but if they put in a below-average performance they can drag down overall

margins and block resources that could otherwise be used to pursue new opportunities. Experience shows that companies that do this type of analysis – regardless of whether the threat of crisis is looming or not – are the ones that succeed. However, this is sometimes not done systematically enough, or is not done with the care and thoroughness usually devoted to the analysis of acquisitions. If the company does decide to divest, it has to make sure that residual overheads such as group-level functions are trimmed to the new, leaner structures and capacity requirements.

SUMMARY

Swiss businesses now have the chance to prepare for possible recession. To ensure they emerge as winners from the cycle, they should set ten fundamental priorities for managing in the downturn. To counter declining orders they should adjust their cost structures in line with capacities and actual market conditions, and reduce the complexity of their structures and processes. Systematic working capital management is the main key to avoiding financial bottlenecks.

Carbon management: Will “CCC” soon be as prized as “AAA”?

In the wake of climate change, companies are facing a host of new compliance and reputational challenges. But stakeholder expectations and tighter rules and regulations are also creating opportunities for using systematic carbon management to exploit new strategic options and potential for differentiation.

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In most cases, corporate value is primarily a matter of financials. Even so, stakeholders are also increasingly interested in non-financial factors and their impact on value. With the debate on climate change intensifying, public awareness of environmental sustainability is also increasing, and investors and other stakeholders are asking questions about companies' environmental risk exposure as well.

Many businesses are already seizing the opportunities emerging from this shift in perceptions. They are not only striving to reduce CO₂ emissions and boost energy efficiency, but are also systematically promoting climate-friendly product and service innovation. These companies are emerging as veritable climate change champions (CCCs). It could be that the “CCC” tag will soon be as prestigious as an AAA credit rating.

More than just “green marketing”

Many companies are still focusing on avoiding risks, concentrating on compliance with CO₂ emissions criteria and preventing reputational risks. But businesses are also start-

ing to address the issue of the environmental taxes laid down in the rules and regulations on emissions. All the same, it would be mistaken to reduce the debate on climate change to matters of compliance and “green marketing”. Many organisations are recognising that identifying ways of reducing emissions and saving energy is only the first step, realising that the process also opens up new strategic options for brand and service differentiation.

By taking a forward-looking approach and positioning the business with respect to climate change, companies have the potential to increase revenues with new products and services, reduce energy- and emissions-related costs, and boost their reputation. It therefore comes as no surprise that one-third of CEOs polled in PwC's latest “Annual Global CEO Survey” have dedicated substantial resources to addressing the opportunities and risks related to climate change.

Integral part of decision-making processes

Systematic carbon management is an important step for companies wanting to take strategic and operational steps to address the emerging challenges of climate change. Instead of merely reacting, management can proactively include the implications of climate change – including the tax aspects – in their decision-making and business processes. Systematic carbon management involves six distinct steps, each of which addresses specific issues:

1. Analysing the company's value chain with respect to CO₂ emissions: What risks and opportunities are bound up with climate change? What are the actual costs of climate change?

This type of analysis can be time-consuming. For example, it took the biggest US retailer more than a year to contact all its 67,000 suppliers and gather information on their CO₂ emissions. The company asked its suppliers for detailed information on the sources of their CO₂ emissions, and urged them to take steps to reduce them.

2. Setting up a system for tracking and documenting emissions: Does the system deliver the information required by management? Does it meet the expectations of stakeholders – including customers and regulators?

Differentiation
Costs
Compliance



Niklaus Honauer, Leader VAT Consulting Switzerland
Thomas Scheiwiller, Global Sustainability Leader

To make decisions on carbon management, an organisation has to be aware of and understand its CO₂ emissions, both direct and indirect. Stakeholders want to be confident that the information available on emissions and efforts to reduce them is credible. This information also serves as the basis for working out taxes and levies, which in turn must be reflected in the company's financial and controlling systems.

Environmental taxes have gained in importance in Switzerland. Since 1 January 2008, alongside the distance-related heavy vehicle fee (LSVA/HVF) and the tax on volatile organic compounds (VOCs), Switzerland has also had a CO₂ levy on fossil fuels. Companies will have to look at the question of whether it makes sense to seek exemption from the new levy, as well as considering the tax and financial issues this option raises. As in EU countries, trading in emissions certificates is viewed as a service subject to the normal rate of VAT in Switzerland. When emission rights are sold across borders, the transaction is free of tax. The purchase of foreign certificates, by contrast, must be declared as a service bought from a company based abroad. The way emission rights are treated for direct taxation purposes has implications for the way they are presented in the accounts. Even for companies that have not applied for exemption from the CO₂ levy, there are accounting implications, at the very least in terms of redistribution.

3. Forecasting future emissions and setting reduction targets: How does the company intend to position itself with regard to climate change? What measures to reduce carbon emissions and boost energy efficiency are feasible?

Besides plans to boost energy efficiency, more and more companies are announcing their intention of calculating, reducing and neutralising their carbon emissions. PwC

Switzerland has also taken steps to reduce its emissions, and has set the goal of operating carbon neutrally by 2010.

4. Internal and external reporting on emissions: Are the published data transparent and high quality enough to satisfy regulators, shareholders, customers and employees?

Companies are facing growing pressure to disclose the climate management strategies they have in development. The need to disclose non-financial value drivers raises the question of adequate corporate reporting and disclosure requirements. Initiatives addressing this issue, such as the Carbon Disclosure Project, already exist. The World Economic Forum (WEF) is also involved in this area. Another point in favour of transparency on climate change is that it puts companies in a better position in the competition for young talent.

5. Accessing new customers and markets: What business opportunities are emerging from climate change?

The opportunities include new products that run on clean energy or increase the energy efficiency of vehicles and buildings. Hybrid cars and zero-energy houses are examples of energy-efficient products that feature new technologies to reduce consumption of fossil fuels and use renewable resources such as solar power and wind energy instead. Other examples include products and services whose greenhouse gas emissions are offset by means of emission credits, or which make a company's value chain more climate-friendly.

6. Adapting and improving carbon management on an ongoing basis: Is carbon management fully integrated with business processes? Are duties and responsibilities clearly formulated? Is carbon management firmly established in the organisation's culture?

Carbon management is a dynamic system that has to adapt to societal expectations and changing rules and regulations on an

ongoing basis. Refining and developing the processes and methodologies of carbon management is a permanent endeavour.

Good carbon management is bound up with different aspects of management. It is shaped by the market environment and the company's product portfolio, has an impact on strategy, risk management and tax policy, and affects an organisation's communications with internal and external stakeholders. At the same time, good carbon management helps a company identify opportunities for new products and services. Twenty-eight per cent of the executives polled in the "CEO Survey" also said they viewed climate change as an opportunity to reduce operating costs or generate additional revenues. Carbon management makes all this possible, and paves the way for companies to become the climate change champions of the future.

SUMMARY

Systematic carbon management is a good way for companies to address the issue of climate change and meet stakeholder expectations. Carbon management involves identifying and recording the current emissions situation and the impact of climate change on the business, defining reduction targets, and evaluating options for boosting energy efficiency and minimising environmental taxes and duties. Carbon management also extends to transparent internal and external reporting and evaluating the business opportunities emerging from climate change.

Internal control systems: Reliable guidance for CEO decision makers.

A properly functioning internal control system is an essential management tool because it ensures that complete, accurate and reliable data flow into the management information system.

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Article 728a of the Swiss Code of Obligations does not go into any great detail. Point 1 of the article merely stipulates that the auditors verify the existence of an internal control system (ICS). Despite the terse wording, this provision, in force since the beginning of the year, turns out to have major implications for companies in terms of time and resources.

At first glance it might appear that putting an ICS in place or expanding an existing system of controls is a primarily a technical matter with which CEOs should not have to concern themselves in detail. But in this case, appearances are deceptive. First, it is management that bears responsibility for ensuring that the ICS is implemented and operated as laid down by the board of directors. Second, a functioning ICS is a very useful aid to good management.

Managing a company involves making decisions that help ensure the success of the business and safeguard its existence in the long term. But managers' ability to make good decisions depends on the quality of the information on which they base these decisions. How dependable are the processes used to gather the data in the first place? Was the information prepared and presented reliably and in an appropriate form? CEOs can only make the right deci-

sions if they can depend on the accuracy, completeness and validity of the available information.

Naturally, executives and business owners are often guided by their subjective assessments and feelings as well. But this does not make a solid source of information any less important. This is where the ICS, combined with risk management, has the greatest benefits for a business. It makes the processes used to gather and prepare data more secure, and thus builds confidence in the information available to managers. A management information system (MIS) is only as good as the data that flow into it. So it is clear that the quality of the ICS will determine the reliability, security and accuracy of the information that the CEO can access via the MIS.

Efficacy and cost-effectiveness

Management has the right – and indeed the duty – to require that the company's business activities be monitored effectively and efficiently. To strike the right balance between efficacy and cost-effectiveness, many companies choose an approach combining risk management and ICS. This involves analysing the company's risk situ-

ation, assigning probabilities to individual risks and assessing the impact if these risks occur. On the basis of this assessment, risks can then be classified into categories, for example high, medium or low. Whether or not controls should be assigned to the risks identified then depends on management's willingness to take risks – in other words, its risk appetite. This approach makes good sense. However, it will only succeed if the risk assessment is reviewed on a regular basis and controls are adapted to new circumstances where necessary. An efficient ICS is one that is designed to take account of concrete cost-benefit considerations, and is systematically geared to the risk structure of the business. And an effective ICS is one where the prescribed controls are performed and monitored reliably. Here, appropriate documentation helps ensure that the performance of controls is recorded clearly and transparently.

This is particularly important in terms of internal communication. Ultimately, the board of directors is responsible for the conception, implementation and operation of the ICS. Even if the board has not laid down explicit guidelines on reporting in connection with the ICS, complete, clear documentation has three key benefits for management – serving as a basis for discussing questions from the board of directors, as a tool that makes the external audit of the ICS transparent and efficient, and as an additional resource when it comes to assessing the long-term efficacy and cost-effectiveness of the ICS.

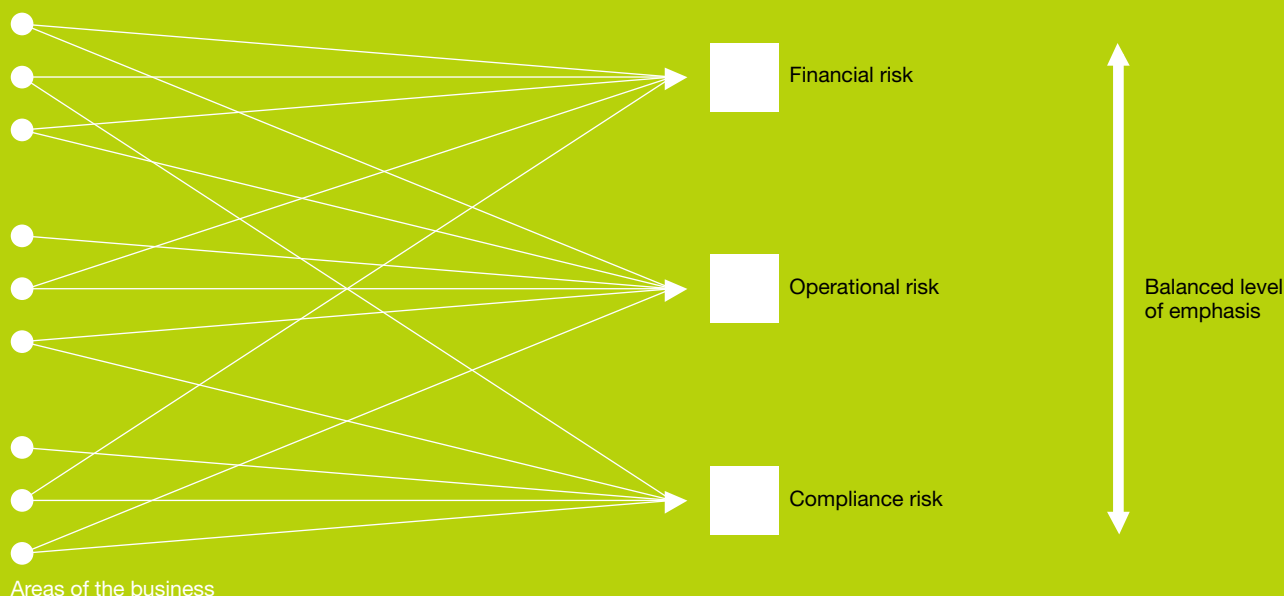
This is because in practice the CEO will generally delegate responsibility for the operational side of the ICS to the CFO, who in turn delegates these duties to an ICS project manager. Delegation makes sense, but it does mean that there must be adequate understanding of the relevant issues at lower management levels.

Efficiency
Risk
management



Rainer van Alphen, Leader Internal Control Services

Enterprise-wide impact of the ICS



Controls that also cover operational and compliance-related risks and the interconnections between these and financial risks optimise both the efficacy and the efficiency of the ICS.

Optimising the ICS

While the wording of the Swiss legislation does not refer explicitly to financial risks, the Federal Council has made it clear in communiqués that the ICS should concentrate on financial reporting. As a result, Swiss companies will initially focus on identifying and controlling financial risks. However, the narrow definition of the scope of application of internal controls does raise problems of demarcation. In practice it turns out to be very difficult to distinguish between operational and financial risks, as operational activities such as procurement and production naturally also have an impact on financial accounting. It makes sense to concentrate on purely financial risks as required by the legislators. But it is important to realise that this is only the first step. Companies should also channel their investment and exploit available synergies to take account of the interdependencies between financial risks and the other two levels of risks (see graphic). Another way of optimising the system is –

independent of the risk category – to systematically make greater use of automated and preventive controls. It is still widespread practice to perform controls manually or after tasks are performed. But manual controls are more error prone than automated controls, and detective controls conducted after the fact require subsequent corrections because the transactions in question have already been processed. Although it is never possible to completely dispense with manual controls and plausibility checks, and uncovering risks should also always be one of the goals, companies should be striving for an environment where automated controls predominate and risk prevention is the main priority. Because every company operates in a different business and has specific operational, accounting and tax processes in place requiring different underlying systems, an ICS has to be tailor-made to the organisation. CEOs who take the business of designing and operating an ICS seriously are making a sound investment that will place their management endeavours on a more solid footing.

SUMMARY

A properly functioning ICS generates considerable additional benefits: it sheds light on organisational structures, powers and responsibilities, sources of error and process inefficiencies. But the biggest benefit is that it ensures management has a secure and reliable source of information. To maintain a balance between efficacy and cost-effectiveness, the ICS should be combined with the risk management system. There is also scope for optimisation by making sure the ICS takes account of the interconnections between financial risks and operational and compliance-related risks.

Innovation: Switzerland scores heavily.

International studies rate Switzerland highly in terms of competitiveness and innovation. This country ranks second in both the WEF 2008/09 “Global Competitiveness Report” and the “European Innovation Scorecard”. These good results are due to a combination of a favourable business environment and effective R&D collaboration between businesses, research institutes and the universities.

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In most comparisons of the economic competitiveness and location attractiveness of a country, the issue of its ability to nurture and sustain innovation is among the top factors. When choosing a location, both businesses and individual talent favour places that give them access to new technology, knowledge, and business opportunities. In recent years, Switzerland has consistently achieved a remarkable position in terms of economic competitiveness and innovation. For this reason, Switzerland has also been one of the favourite locations for global companies to establish their headquarters, centres of excellence and research and development facilities. Some of the basic strengths of the Swiss system include robust industry, a good public infrastructure and macroeconomic balance, favourable conditions in terms of labour laws, working time, company laws and intellectual property protection, and its culture of innovation. Switzerland is also recognised as an international research hub. It is, for instance, home to two highly respected centres of research, the Euro-

pean Organization for Nuclear Research (CERN) and the European laboratory of US high-tech company IBM.

Education and the universities: capitalising on the strengths

One key component of Swiss innovation is the education system and the political status it enjoys. Both the confederation and the cantons have significant funds for higher education and academic research. In the latest academic ranking of world universities published by the Shanghai Jiao Tong University, the Swiss Federal Institute of Technology (ETH) in Zurich is ranked 24th and the University of Zurich is ranked 53rd in the world. The ETH Zurich ranks 4th among European universities. All in all, 6 Swiss universities are placed among the top 200 universities in the world and the top 80 in Europe. The latest OECD review of innovation policy concludes that Switzerland’s research infrastructure is of high quality and that, overall, education in Switzerland is

satisfactory at all levels. According to the report, Switzerland’s strong application-oriented professional education provides a foundation for the sustainable development of the country’s innovative efforts. In the “WEF Global Competitiveness Report 2008/09”, Switzerland is ranked second in the world in terms of the quality of its scientific research institutions. Switzerland also has very strong basic research capacity, which is only partly funded by the public sector.

An important indicator of Switzerland’s innovative strength is the fact that Switzerland has, in proportion to population, the highest number of patent applications at the European Patent Office, as well as within the triad European Patent Office, US Patent & Trademark Office and Japanese Patent Office. This country also leads the world with regard to the number of patents per million spent on research. And if you consider the number of articles published per one million inhabitants, Switzerland, together with Finland, is currently at the top of a worldwide comparison. Switzerland also boasts an impressive number of Nobel Prize winners for a country of its size. Swiss scientists have received 17 Nobel Prizes; 27 if dual nationals and naturalised foreigners are also counted.

Communication
Research
Business



Professor Georg von Krogh, Chair of Strategic Management and Innovation, Department of Management, Technology, and Economics ETH Zurich
Dr Markus R. Neuhaus, CEO PricewaterhouseCoopers Switzerland

Research and development: extending the lead

An important strength of the Swiss university system is its international outlook, reflected in the large number of foreign students and professors at Swiss univer-

Switzerland in the World Economic Forum (WEF) 2008/09 “Global Competitiveness Report”



The WEF report ranks Switzerland among the very top nations in terms of innovation and competitiveness.

sities. Sixty per cent of professors at the ETH, for example, have been recruited from abroad. In the 2007 IMD World Competitiveness rankings, Switzerland ranks second in terms of its attractiveness to highly skilled workers from abroad, which places this country in an advantageous position in the war for talent.

In the same study, Switzerland ranks first in terms of university-industry research collaboration. An example of the strong networking link is ETH Transfer, ETH Zurich’s technology transfer agency. ETH Transfer supports the ETH community in all matters relating to cooperation with industry, inven-

tions, and patent applications and licensing, as well as with setting up spin-off companies. An example of a successful ETH Zurich spin-off is Flisom, the first Swiss company to be elected Technology Pioneer by the WEF in 2007.

According to the OECD review of Switzerland’s innovation policy, Switzerland’s spending on research and development as a percentage of GDP is, with a value of 2.9 per cent, amongst the highest of OECD nations. Public funding of R&D, however, is average by international standards at about 0.65 per cent of GDP. There is a high degree of consensus among the Swiss government, economy and population that education, research and innovation (ERI) are of great importance to the country in strategic terms. Consequently, in recent years

resources for ERT have been significantly increased to more than CHF 20 billion for the 2008-11 credit period. Private sector investment in R&D is just as impressive. In the “Global Competitiveness Report 2008/09”, Switzerland is ranked first in terms of company spending on R&D. The Swiss Federal Statistical Office states that 70 per cent of R&D in Switzerland is undertaken in the private sector. The lion’s share of this expenditure stems from the chemical/pharmaceutical and machine industries. Twenty-six Swiss names figure among the 1,000 companies that invest the most in R&D worldwide.

Knowledge clusters: intensifying dialogue

Foreign companies that locate their headquarters and other knowledge-intensive activities such as R&D in Switzerland find strong knowledge-based clusters. These clusters typically consist of other companies, research institutions and universities. Knowledge-based clusters are important because they help organisations keep their R&D staff up to speed with technological developments by participating in research networks, hiring new talent, attending conferences, meeting informally and so forth. Three examples illustrate how these clusters work:

- Switzerland has an outstanding record in certain fields of life sciences, including medicine, genetics, diagnostics and pharmaceutical research. There are strong clusters such as BioValley, BioAlps and the greater Zurich area that provide global firms located here with access to partner firms, university-based research and talent. These clusters support more than 720 biotechnology and life sciences companies.
- Another knowledge cluster has emerged thanks to the strong presence of financial services, connecting small and large companies in bank-for-bank services and open-architecture products. This cluster is also backed by a strong supplier network, including specialist software firms.
- Swiss universities collaborate with small and large companies to develop alternative and more efficient energy technologies. ETH Zurich currently has several research programmes in progress exploring new technology, which are expected to lead to innovations that will be beneficial to the industry.

The first reason for the success of these three clusters is the exceptional openness of businesses, research institutes and universities to collaboration for mutual benefit. Over the years these clusters have developed, the physical collocation of executives, entrepreneurs and researchers has helped create high levels of mutual trust and understanding that are unique in the world. This trust is a lubricant that facilitates

effective innovation. More frequent communication between the education, research and industry sectors also fosters the development of educational programmes adapted to the current and future needs of employers.

Another reason for the success of these clusters is that Swiss domestic customers, both private and institutional, are known for being highly demanding when it comes to product and service quality. Confronted with demanding customers, companies quickly learn to meet needs through innovation. The third – and possibly the most important – reason for the success of these clusters is that foreign talent considers Switzerland to be one of the most attractive places to settle.

Service sector: recognising drivers of innovation

The service sector accounts for 73 per cent of GNP in Switzerland, and is currently the main source of economic growth. A striking 80 per cent of newly created jobs are in services. This sector plays a key role in innovation, and one major source of this innovation is efforts to boost customer satisfaction. Naturally this trend is slowing in the current environment. All things considered, however, in the long term the service sector will remain very significant. In the 1990s, innovation was about technology and controlling quality and costs. Nowadays it is about more than just new products, also encompassing the ability to transform new ideas into projects, find new applications and combine existing solutions. The “Oslo Manual” recently broadened the definition of innovation from technological product and process innovation to include organisational and marketing innovation.

Many leading companies in non-service sectors focus on the number of products in their product portfolio which have been

newly launched (within the last five years), and consider a percentage of up to 40 per cent or more as being strategically crucial. The service sector is ahead in terms of developing and applying new communication tools, which is a crucial element in a world of rapidly changing knowledge. The non-service sectors are ahead of service firms when it comes to structuring the innovation process. Innovation does not usually happen by itself, but it is the result of a very deliberate effort. What is changing today is the way these results are achieved. And this is where the lessons of the services sector come into play. Exchanging, sharing and collaborating are the keys to success in this industry, which results in much less protectionism on the part of companies. Multinational corporations, like service firms, can benefit even more from these trends. Since they have global reach, they can capture ideas and engage brains around the world.

Diversity is a key driver of innovation: a more diverse workforce located in more than one country allows you to look at things from different perspectives. Likewise, smaller companies can only compete if they embed themselves in an ecosystem and build a network enterprise beyond their own organisation. Diversity too, specifically in terms of language and culture, is the main source of Switzerland’s attractiveness as a site for innovation, and is a strength this country should endeavour to exploit going forward.

SUMMARY

The Swiss economy is a fertile ground for innovation. This is the conclusion of numerous studies on competitiveness and innovation. Switzerland has been very successful when it comes to establishing knowledge clusters, with businesses, research institutes and universities displaying an outstanding degree of openness to collaboration. It is a challenge for us all to exploit and build on this outstanding position.

Events, publications and analyses.



Human capital

All over the world there is increased awareness of the role of human capital in the sustained success of companies. The third edition of “Key trends in human capital” builds on the critical issues identified in earlier years, and introduces new developments of major interest. The report is specially geared to all executives involved in people management. You can order free copies (in German) from sonja.jau@ch.pwc.com

Swiss Company Law. Legal texts

The more than 350-page-long second, revised and extended compilation of legal texts is an excellent reference work. It is an ideal companion for companies who wish to better understand the latest regulatory amendments which they will be facing. You can order up to 10 free copies (in German or French) from sonja.jau@ch.pwc.com

Executive Compensation & Disclosure 2008

This survey by PricewaterhouseCoopers provides an overview of the adoption of the Swiss Transparency Act. It also comprehends an analysis of publicly available executive compensation data of companies included in the Swiss Market Index (SMI) focusing on the structure of executive compensation and current trends. The survey is available at www.pwc.ch/publications

PwC's 2007-08 financial year

In the last twelve months, PricewaterhouseCoopers Switzerland created 127 new jobs, and generated fee revenues of CHF 712 million with 2,618 employees at 15 Swiss offices. PwC closed the 2007-08 financial year (ended 30 June 2008) with revenues up CHF 38 million or 6 per cent over the previous year, and targets another increase of 7 to 9 per cent for the current twelve months. The headcount will increase in line with revenues. PwC invests 11 per cent of its revenues in learning and education for its staff. You can order free copies of the annual review from sonja.jau@ch.pwc.com



Events

Aperitif for banks and securities dealers

These events are a place where CEOs, CFOs, directors and heads of accounting, internal audit and compliance at banks and securities dealers can meet to discuss, share experiences and get an overview of current market developments.

Basle, Tuesday, 27 January 2009
Berne, Thursday, 15 January 2009
Geneva, Wednesday, 21 January 2009
Lucerne, Wednesday, 21 January 2009
Lugano, Tuesday, 27 January 2009
St. Gallen, Monday, 19 January 2009
Zurich, Monday, 26 January 2009

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trend. responsible leadership

Relational intelligence. Or: How to create values with principles.

Companies that demonstrate responsible behaviour internally and externally consequently have a competitive advantage, says Nicola Pless, a university lecturer and specialist in responsible leadership.

Interview: Bernhard Raos Photos: Nik Hunger

Dr Pless, you are carrying out research on the topic of responsible leadership. What is responsible leadership for you?

Responsible leadership is about leading business in society. It is based on values and driven by ethical principles focusing not only on creating economic welfare but also generating social and ecological value. We are talking here about a “triple bottom line”. That requires leaders who think systemically, have a socially responsible vision and are guided by ethical values and principles. As reflective practitioners they are capable of thinking beyond their own self-interest and are able to integrate the interests of different stakeholders and to win their support for the realisation of a shared vision that aims at creating values on all three levels.

What are the requirements for this? You write about relational intelligence being an important prerequisite for leaders.

Relational intelligence implies emotional, interpersonal and ethical competences.

Dr Nicola Pless is senior lecturer for responsible leadership at the University of St. Gallen and head of a research initiative on the topic that is being carried out in cooperation with the Business School INSEAD and PwC. Together with her research partner Dr Thomas Maak, she published the standard reference work “Responsible Leadership” (Routledge: London, New York, 2006).

Qualities like these can be developed throughout life, as our research in PwC’s leadership development programme “Ulysses” demonstrates. Partners of the firm are sent into developing countries to work for two months on social projects with social enterprises that benefit from professional expertise provided by the PwC participants. In return the participants get a unique learning opportunity and the chance to further develop emotional and ethical competences (editor’s note: see page 52).

Are responsibly led companies more successful?

We have been carrying out research on this topic as part of a long-term study on corporate character since 2005. Currently, it is still too early to make any empirically substantiated statements. The reverse, however, can be shown: companies that are managed irresponsibly expose themselves to extreme risks. They start to falter in crises, and can even collapse altogether. There have been prominent examples of this in the recent past. This sometimes has disastrous results for employees and shareholders alike.

Is corporate social responsibility a relevant topic today for the management of companies?

Yes, and this is proven by several studies. It applies in particular to the United Kingdom, Spain and the Scandinavian countries. The United Kingdom is actually the first country to have a Ministry for Corporate Social Responsibility. In the German-speaking region, there is a lot of catching up to be done. Corporate social responsibility is still a peripheral topic here.

How is responsible leadership implemented in a company?

It requires the necessary mission statement, management instruments and tools for promoting responsible action. These need to extend across all hierarchical levels and the entire supply chain. A mission statement remains just empty words if, for instance, purchasing managers are only appraised as to how quickly and cost-efficiently they source the goods and not according to whether this is also done in a socially and ecologically compatible manner – take, for example, the issue of child labour. Responsible leadership means that both the building and the access roads are kept tidy and that critical stakeholders are taken seriously.

Don’t some companies use catchy terms like “responsible leadership” as a marketing strategy?

From our experience, there are three groups. Some executives manage in a socially responsible manner out of conviction, others for PR reasons and a third



“It’s not only about profit maximisation but also about social and ecological value creation. In the global competition for customers and talent, it’s primarily about trust and values.”

group out of business strategy considerations. If you want to develop trust within society with your commitment and generate a sustainable effect, it needs an approach that is guided by principles and which, where possible, is integrated in the business model. Let me give you an example of target-oriented and successful responsible leadership: Anita Roddick, the founder of The Body Shop, implemented the fair-trade model as early as the 1980s. The guiding concept was to support indigenous communities in their development through fair trade relations. At the same time, the final product is given an additional social benefit that consumers appreciate, and the company can use its social responsibility effectively in its PR activities. Ultimately, therefore, everyone profited from it.

And what about the global responsibility of multinational companies?

Forty-nine of the largest economies in the world are companies and not nation states. This makes them political players too. In other words, they bear co-responsibility for social and political issues in the countries in which they operate. These are frequently developing countries. The food corporation Unilever, for instance, shows in India, what this responsibility can look like. The company gives Indian women the possibility of establishing a livelihood for themselves as microentrepreneurs. The women are trained

to market Unilever products such as soaps and shampoos in rural areas. The products are sold in very small quantities so that even the poor can afford them. In the longer term, these investments also pay off for the company.

Why should a successful CEO have a closer look at responsible leadership? After all, a company primarily has to be profitable.

Topics such as diversity, sustainability and integrity are becoming increasingly important. Today, stakeholders such as customers, NGOs and shareholders expect companies to make a positive contribution to society, exercise their social responsibility and reduce their ecological footprint. So it is not only about profit maximisation but also about social and ecological value creation. Today, in the global competition for customers and talent, it’s primarily about trust and values. Companies that position themselves as responsible and trustworthy players in society and act accordingly hold the better cards. Ultimately, responsible leadership as a competitive factor contributes to the long-term safeguarding of a company’s success.

Are the much-criticised bonuses for managers also part of these values?

Rewarding good performance is a legitimate instrument of recognition. It becomes problematical when, for instance, high bonuses

are awarded although the company’s performance is weak. This breaches the principle of appropriateness. Responsible leadership adheres to principles such as appropriateness and transparency, e.g. disclosure of wages and bonuses. It also examines new paths for taking these principles into account, such as the involvement of stakeholders in determining the level of remuneration.

Whether responsible leadership is actually lived is shown in times of crisis. Where are the sticking points for you?

You have to be able to handle different priorities. In traditional companies that are driven by profit maximisation, activities in social and ecological areas or also in employee training are frequently phased down in times of crises. With that, a company risks its credibility. However, it is possible to do things differently. Timberland, the manufacturer of outdoor products, actually extended its social partnership with non-governmental organisations in a commercially difficult phase. Forward-looking they nurtured synergies, which later on paid off from a business perspective. //

“Recognise the signs of the time. **And act.**”

One company, 50 nations, 22,000 employees: Adrian Keller, president of the board of directors at DKSH, on management and networking in an increasingly complex world.

Text: Corinne Amacher Photos: Cédric Widmer

Mr Keller, there is movement among the shareholders of DKSH. With the finance expert Rainer-Marc Frey, the car industrialist Robert Peugeot and the entrepreneur Stephan Schmidheiny, you have brought three prominent investors on board. Why?

DKSH needed additional capital to finance its future growth. At the same time, the two minority shareholders Christophe R. Gautier and Carolina Müller-Möhl wanted to withdraw either entirely or in part. We were looking for new shareholders to replace them. Combining both was a complex process that took more than a year.

What were the criteria that influenced you in selecting the new shareholders?

We wanted private investors or family-run businesses but no private equity companies. It was important that they contribute to the sustainable development of the company over time. After Frey and Peugeot joined the board, a third shareholder participated in the capital increase, namely Stephan Schmidheiny. Thanks to the networks of his Anova Holding in South America, we will have support in our expansion projects in the South American market.

You are ideally networked in the business establishment. What role did personal relationships play in acquiring investors?

When hundreds of millions are at stake, the selection process has to be a professional one. The investment needs not only to be based on a personal relationship but also to be sustainable from an

entrepreneurial perspective. We conducted this selection process with several parties as a professional capital market transaction that was accompanied by UBS.

Why did Frey and Peugeot take up seats on the board of directors?

That was one of our conditions. If investors have specific requirements, they should be able to participate directly.

The family-run company Diethelm Keller Holding dominates DKSH with a 65 per cent stake. It's difficult to imagine that minority shareholders have much to say.

The members of our board of directors are professionals who would never make themselves available for a token board of directors. A family-run business also needs a corporate governance that is independent and valid. For instance, the important Audit and Finance Committee consists of three independent members of the board of directors. The board of directors as a whole makes its decisions for the company's benefit. Based on numbers, the family members are even in the minority today, for we do not take up all the seats that we would be entitled to.

Neither you nor any other member of the family is active in the operational management. How do you balance the structure between the board of directors and management?

Although DKSH is controlled by Diethelm Keller Holding, management operates entirely independently. We are not a locally active SME but rather a company with 22,000 employees that is firmly anchored in Asia. A corporation of this size must be organised professionally and be managed independent of the whims of family investors. Individual interests must take a back seat to the interests of the company.



Do you do that?

Two-thirds of the dividend are invested year on year in the business. The shares are illiquid, and our investment is a long-term one.

How do you ensure that management pursues the same long-term interests that you yourself do?

We allow top management to participate in the long-term success of the company. Only in this way is it possible to ensure that thoughts and actions are also long-term.

Many family-run businesses break down in the third generation; you are running the company with three other representatives in the fourth generation. What keeps this small but solid core together?

The four of us do not feel like representatives of a family, but it was a conscious decision process to join together to form a family holding. For this purpose, we bought out various relatives and at the same time developed successor plans. What binds us together is a strong commitment towards the company. It is thanks to this unity that we were able to realise the merger of the Asia business of Diethelm Keller and SiberHegner six and a half years ago.

Is the next generation already in waiting?

No, and it is also questionable whether they will ever join. My children, for instance, are only five and eight years old. This is precisely the reason why a company such as DKSH should be under independent management. In Diethelm Keller Holding, which functions like a family office, we can appoint a CEO at any time who is not a

Facts and figures

DKSH was created in 2002 from the merger of the Asian business of Diethelm Keller Holding with SiberHegner and since then has set out at a rapid pace on a bold strategy of expansion. With 22,000 employees and a turnover of CHF 8.8 billion, DKSH is the largest supplier of marketing and distribution services in Asia – referred to as “market expansion services” in the jargon of the industry. In 2007, operating profit was CHF 130 million, twice the figure of 2003. Diethelm Keller Holding, which is dominated by four descendants of the company founders in the fourth generation, holds a 65 per cent stake in the group. One of them is Adrian Keller (57), who worked as a banker on Wall Street after obtaining a degree in economics at the University of St. Gallen. In 2000, he returned to Switzerland, accompanied the merger on the part of Diethelm Keller and then took over the position of president at DKSH. A capital increase by three new shareholders meant that the trading corporation recently received CHF 170 million, which will finance further expansion.

member of the family but who safeguards the latter’s interests at DKSH. In times of crisis like the present one, the commitment of the family is of course all the more important, and this is also much appreciated by our staff.

At its Zurich headquarters, DKSH employs just 18 staff and more than 20,000 in Asia. Do employees who work that far away know of your commitment?

Absolutely. They know that we think in the long term and do not simply cut jobs to generate profit in the short term or increase debt to take more money out of the company.

How often do you show yourself at the front line as the president of the board of directors?

Around five times a year, I travel to Asia and visit the country subsidiaries. I am involved in all strategic decisions, in the budget process and in the further education of the employees. I also give seminars at the company’s own Fantree University, and give the employees the opportunity to ask questions. I am undoubtedly known to more employees than the chairman of a comparable company listed on the stock exchange.

You are an expert in Asian customs; how do you maintain relationships in the Far East?

Asia is just as diverse as Europe.

Thailand, for example.

In Thailand, we have connections right up to the royal house. The Princess was our host at the 100-year anniversary two years ago. However, as companies, we don’t get involved in politics; instead, we concentrate on business relationships. We enjoy respect from all sides precisely because we do this.

And in China?

The Chinese control the economy at the most diverse locations, not only in China itself; they form a close network everywhere, are superb minicapitalists. If you let a Chinese go about his business, he’ll very soon recruit other Chinese. It’s important to know that.

What else is needed to do business in these countries successfully?

First, an interest and curiosity for their culture and people. Simply reading a manual or attending a course on good manners does not work. Going into a temple or reading a book would be a good start. You have to want to fulfil your role.

What do you mean by that?

I believe this is one of the biggest problems of our society: people see work as something that benefits them financially and not as something fulfilling. Today, networks are misused too often to develop and retain power instead of using them for the matter in hand. This leads to the proliferation that we are currently seeing.

How do you yourself behave?

I am not interested only in business people but in all people, say, a monk or an artist who enriches my life and makes it possible for me to pass something on that is interesting and relevant. The fact that I happen to come from one of the owner families and am now therefore president of DKSH is not very relevant.



“Today, networks are misused too often to develop and retain power instead of using them for the matter in hand. This leads to the proliferation that we are currently seeing.”

In your opinion, what is your main task?

First, I have to see that we are strategically well organised. Then I have to be a good partner for the management that has to implement the strategy. In continuous dialogue, the important questions are dealt with and new questions uncovered. For example, we have to consider very closely how and where we are affected by the current crisis.

How do you manage to recognise business risks early on?

It is important to recognise the signs of the time. And to act immediately and not simply to wait. When there are signs of a slump in the economy, for instance, new employees should only be recruited when required. Since the beginning of the crisis, we have been scrutinising every new project twice. For instance, we are currently putting expansion to South America on the back burner. It is also important to maintain contacts with banks and with our most important business partners.

In the age of virtual networks, how do you maintain your contacts?

Many people send mails with copies to dozens of recipients and feel that they have delegated responsibility in this way. But always telling everyone everything doesn't necessarily mean that you have communicated properly. Instead, you have to greet people in person every now and then. For instance, we have included employees and customers in the rebranding of DKSH and are conducting roadshows with great commitment in order to establish the brand with our employees. In the process, the name has

been given a new interpretation, namely “Dedicated to Keeping Stakeholders Happy”. This has a long-term ring to it.

Getting 50 cultures in 35 countries to agree to the same thing would appear to be an impossible task, especially as the management is also multicultural through and through.

Everyone's making a big deal about the topic of multiculturalism; we simply are multicultural. At our company, employees can wear a headscarf if they want to; those that don't want to, don't have to. Rules don't get us anywhere.

So what does?

Nothing is better for motivation than a feeling of success. I am there to make it possible for employees to have that feeling of success. We set targets that are high but not so high that they cannot be reached. At our company, employees, from the packer to the general manager, can submit proposals for a project as part of an annual competition. The winners in four categories can present their projects at our management meeting in Switzerland and will as a reward receive the DKSH Fantree President Award and a cheque for CHF 8,888. That figure is no accident – the eight is a lucky number in Asia. //



Above: Relaxed instruction outdoors. Right: The “Ulysses” team with their hosts. PwC Switzerland partner Didier Ehret is at left.



“Ulysses”: The school under the trees in Brazil.

The “Centro Popular de Cultura e Desenvolvimento” (CPCD) is a non-profit-making, non-governmental organisation that was set up in 1984 by the teacher and anthropologist Tião Rocha in Belo Horizonte, Minas Gerais, Brazil. The Centro has set itself the goal of promoting general education and community development. Each project is formulated as a question, such as: “Is teaching possible without a school building?” This question was the trigger for the very first project in 1984: “Sementinha: a escola debaixo do pé de manga” (The small seed: the school under a mango tree). The original question can now be answered with a resounding “Yes”: teaching is possible without a school building. Today, the project is being implemented in three countries (Brazil, Mozambique and Guinea-Bissau), five Brazilian states and more than 20 towns and cities.

Children in Brazil usually go to school for half a day and then have the rest of the day free. The CPCD invites the children and their parents to participate in an education programme in this free time. The focus is on

reading, writing and the interaction between community, school and family. Two partners from PricewaterhouseCoopers, Didier Ehret, auditor from Switzerland, and Stanley Hales from the USA, accompanied a CPCD educational trip as volunteers. The goal of the “Ulysses” team was to analyse the internal financial reporting as well as the entire organisation.

At the end of the assignment, a 50-page report was created, which Ehret sums up as follows: “For me, this is not simply a report. We really did try to put ourselves in CPCD’s shoes so that we were able to understand the actual difficulties and offer assistance. We gave our all to create a genuine, sustainable added value for the organisation.” However, he also learned a great deal personally in Brazil, says Ehret,

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

for instance how to act when you want to convey knowledge in a beneficial manner. “I experienced how children and teachers sat together in a circle as equals to decide on learning goals, discuss difficulties and recognise opportunities.” In the process, he says he learned that the place where meetings like this are held is totally unimportant. “The decisive aspect was that there was a genuine exchange and collaboration between the teacher and the pupils,” explains Ehret. “Since then, I have handled my own children differently. I take a lot more time and explain to them precisely what something is all about and why things have to be like this or that. And I notice the difference! It is easier to remember something when you know the background and when you have helped to draw conclusions yourself.” The crucial point, he says, is that the pupil is integrated in the learning process. “I also benefit from this knowledge in my day-to-day work,” says Ehret. “I have learned how I can develop better and more sustainable solutions in an intensive dialogue with my clients.” //

Does Swissness have a global future?*

Alessandro Cavadini, PricewaterhouseCoopers



FESTLAND

Will “Made in Switzerland” still be enough to guarantee a strong export performance? Will the Swiss financial industry continue to enjoy the trust of the global markets? Can the Swiss economy still compete with the best in the world? A strong country needs strong answers to questions concerning the future. For PricewaterhouseCoopers, Swissness isn’t just a matter of tradition – it means continuous reflection and innovation, as it has for more than 100 years. What’s your question? www.pwc.ch

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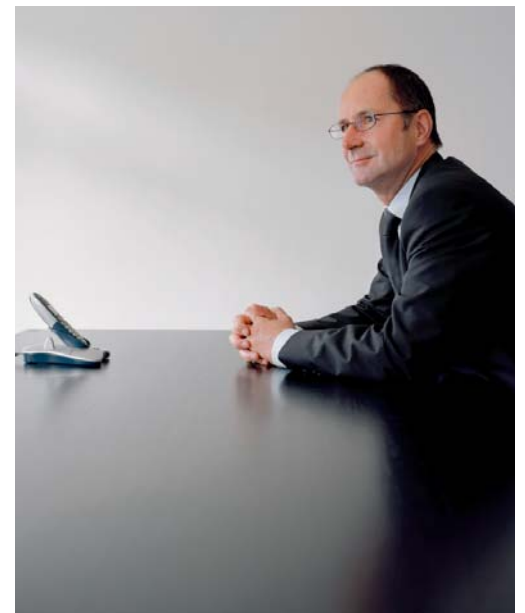
Gerold Bührer:
“The active exchange between business and politics is one of the pillars of a strong Swiss economy.”

06



Laura Sadis:
“We are witnessing firsthand how the importance and reputation of the state increase in times of crisis.”

08



Franz Egle:
“Politics is responsible for the debate on values. Business creates the material basis for our existence.”

10