ceo*

The magazine for decision makers. September 2009

Foresight. Thomas Schmidheiny on the joy of long-term investing.
Responsibility. Professor Ernst Fehr on the ground rules for fair play.
Strategy. Martin Senn on the challenge and value of discipline.

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Current developments have shifted the focus of businessthought and practice back to people, their emotions, motives, incentives and ethical principles. Business cannot disregard emotions either.

Dr Markus R. Neuhaus
CEO PricewaterhouseCoopers Switzerland

The crisis is rearing its ugly head. Although for a long time the nervousness in the financial markets and economy was an abstraction for the majority of Swiss people, the downturn is now becoming painfully real. Companies are restructuring or having to declare themselves bankrupt, staff are losing their jobs, and salary cuts for senior staff are the norm. People are reacting with fear, concern and anger. Hitherto concealed emotions are coming to the surface. Business cannot disregard emotions either. Nor should it. For it is undoubtedly right to articulate feelings and communicate clearly, particularly when such important decisions as restructuring, job cuts and lay-offs are at stake. At a higher level too, the importance of emotions is becoming increasingly better recognised and accepted in business. One indication of this is the calling into question of the idea of Homo Economicus – the purely rationally thinking and acting, benefits-oriented person – as exemplified by the research of economics professor Ernst Fehr at the University of Zurich.

The world is ruled by emotions

Current developments have shifted the focus of business thought and practice back to people, their emotions, motives, incentives and ethical principles. The financial crisis has shown us that purely rational or mathematical models have their limits for complex contexts such as finance. We have also learned that incentive models aimed solely at personal profit do not ensure sustainable economic activity. But what do we conclude from all this? Instead of repressing or rationalising individual perception and emotions, it is better to include them in the equation. Indeed, “soft” factors coupled with “hard” key figures supply a more reliable basis for implement-ating corporate strategy and controlling performance delivery than figures alone. In an article in our Spectrum, Thomas Scheiwiller shows how PwC is forging new paths with the small yet expert ISG Institute in St Gallen in examining the emotional basis of human motivation.

Emotions are a powerful force. Fortunately, that applies especially to positive emotions. Several articles in this issue of ceo* magazine bear witness to how they can be harnessed to achieve great things. The entrepreneur Thomas Schmidheiny explains why he had no reservations about investing CHF 160 million in the future of the high-class hotel industry in the Sargans region. The CEO of the Grand Resort Bad Ragaz, Peter P. Tschirky, tells us why you can’t manage a company as big and internationally oriented as his without trusting your feelings.

Whether positive or negative emotions get the upper hand frequently depends simply on perspective. We all know the famous glass that can be perceived either as halffull or halfempty. How we approach the glass often plays an important part in that perception. Four accomplished professionals give their views on this subject at the beginning of this issue of the magazine. They explain how they manage to achieve a balance between optimism and pessimism.

I wish you a stimulating read.

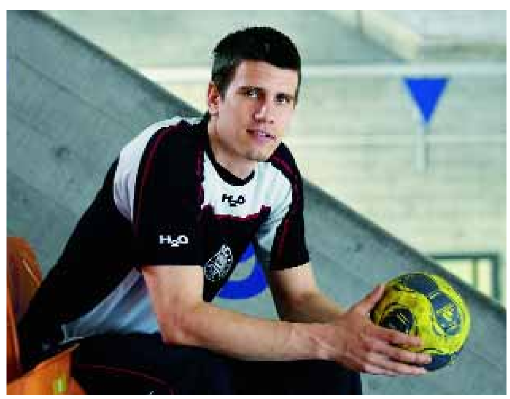
Markus R. Neuhaus

ceo2/09. contents

Professor Dr Susanne Suter, President of the Swiss Science and Technology Council, writes in ceo* Forum: “In Switzerland, education policy requires a sense of reality as well as of optimism.”
06

Jean-Marc Bolinger, Managing Director Eden Springs Switzerland, writes in ceo* Forum: “Companies need to be delivering services based on substance instead of on marketing blah-blah.”
08

Maja Storch, owner of the Institute for Self-Management and Motivation Zurich, writes in ceo* Forum: “Managers are entitled to feel uncomfortable in difficult situations and should be able to express it.”
10



Andy Schmid, professional handball player, writes in ceo* Forum: “I keep my feet on the ground. I trust my own strengths and believe that things will turn out OK. That’s not optimistic; it’s realistic.”
12

“Ulysses”, a leadership-development programme of PwC. An agricultural school in 50 countries.
50

pwc expertise

Swiss tax system: Switzerland must use tax policy as a strategic tool for boosting the country’s competitiveness while at the same time ensuring that the system is compatible internationally.
15

Non-financial assets: A new web-based approach to identifying people’s individual preferences helps businesses to better implement corporate strategy and manage service delivery.
18

Sustainable compliance: Compliance is more than just risk management. It can also be seen as opportunity management, a chance for a company to establish a culture of integrity.
20

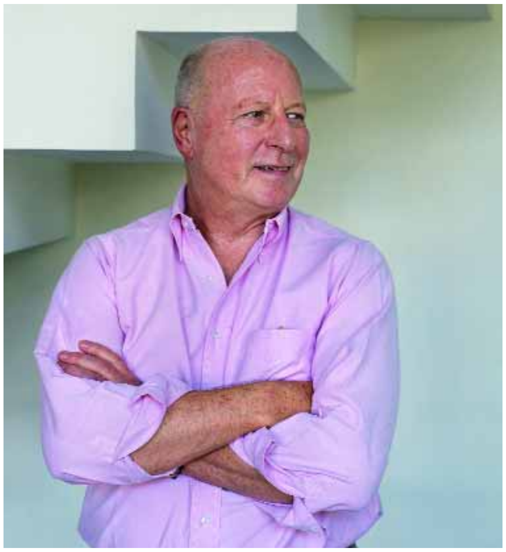
Management: The financial crisis provided the opportunity to cast a critical eye on management practices in the banking industry. Lessons learned? Three rules of thumb for good decision making: stay close to the market, foster an open corporate culture, and question data and assumptions.
23

Service: Events, publications and analyses. Subscriptions and contacts.
25

Cover: Cédric Widmer

dossier values

Current developments have highlighted the importance of permanent values. Swiss business leaders answer questions such as: What really matters? What will last?
26



Thomas Schmidheiny, Entrepreneur, on his personal commitment to the Grand Resort Bad Ragaz, worthwhile long-term investments and preserving values.
28

Peter P. Tschirky, CEO Grand Resort Bad Ragaz AG, on true luxury and the art of creating a company culture centred on the things money can't buy.
32

Professor Ernst Fehr, Director of the Institute for Empirical Research in Economics, University of Zurich, on fairness, altruism and the role of emotions.
36

Adrian Pfenniger, CEO Trisa AG, Triengen, on the importance of values such as empathy, fairness, decency and respect, particularly in times of crisis.
40

Martin Senn, Group Chief Investment Officer (and designated Chief Executive Officer) of Zurich Financial Services, on the challenge and value of discipline.
44

Professor Ernst Mohr, President of the University of St Gallen, on the impact of the economic crisis on his institute and the meaning of social responsibility.
47

forum1. optimism/realism

Susanne Suter: Education policy requires a sense of reality as well as optimism. What's possible and enforceable ends up being a compromise between the two.

Professor Dr Susanne Suter was Chief Physician at the University of Geneva Children's Hospital between 1994 and 2008. Since the beginning of 2004, she has been President of the Swiss Science and Technology Council (SSTC), advising the Federal Council primarily on research but also on education issues.

You have to have an optimistic attitude to have a career and family, bring up three children and gain recognition in a male-dominated society. I am clearly an optimist. Sometimes, other women ask me: "How did you do it?" My reply: "I don't want to know anymore." Now, the pressure has gone; I retired from my position as Chief Physician at the Geneva Children's Hospital a year ago.

Would I do it all again the same way? Yes, without a doubt. Working with children also makes you optimistic: getting to know both healthy and sick children, encouraging them and helping them to capitalise on their positive characteristics is a fulfilling task. With adults too, I tend to want to identify the positive aspects of their personality first. Everyone should be able to make the best of themselves. Paediatrics – a subject chosen primarily by women – is ideally suited to promoting women. In Geneva, the proportion of female professors in paediatrics has risen sharply.

My position as President of the SSTC enables me to be active at the interface between the academic and political worlds, across all sectors of research. The council is independent and does not represent any special interest groups. Nor does it distribute any funding.

With the federalist system in Switzerland, education policy requires a sense of reality as well as optimism. What's possible and enforceable ends up being a compromise between the two. The new higher-education act is currently being heard in parliament. Opinions are split on what the university landscape should look like. Nevertheless, I hope that the guiding idea behind this law, namely maximum autonomy for universities, is accepted.

The level of education and research in Switzerland is of a high quality, but more needs to be done quantitatively. Switzerland must not rest on its laurels; other countries are catching up. It is an undisputed fact that the demand for academics is on the rise, and it is conspicuously clear how much Switzerland depends on highly qualified foreign labour in certain areas, for instance as top managers in companies, teaching staff at colleges and universities, and doctors in our hospitals.

I support the exchange of knowledge between countries, and the free movement of knowledge and brainpower internationally. Switzerland is ambivalent here: on the one hand, certain political groups still advocate adhering to "the special case of Switzerland"; on the other hand, Switzerland has opened its borders to highly qualified personnel – and could do so even more.

If I could make three wishes, the first would be to hope that we succeed in Switzerland in giving every individual the same educational opportunities. Second, I would wish that the importance of the first three or four years of a person's life to their future becomes better recognised. Up until the middle of the 20th century, science shamefully neglected research on young children. Today, however, we have a wealth of knowledge from such research. This leads me to my third wish: public discussion regarding the education and training of young children should be based on the results of modern developmental research; we can no longer cling to old clichés, nor should we believe we will be able to increase the number of future Nobel Prize winners in this way. What we can do, however, is improve the educational opportunities open to children with a poor educational background. In this respect, our educational system is still deficient. //

Photo: Bertrand Cottet

forum2. optimism/realism

Jean-Marc Bolinger: Take a little pragmatic optimism, add companies with substance behind their services instead of marketing blah-blah, and the opportunities are huge.

Jean-Marc Bolinger has been Managing Director of Eden Springs Switzerland since 2006. Eden Springs supplies drinking water systems to companies and private individuals and employs 2,650 staff throughout Europe, generating some EUR 300 million in turnover.

If you want to be successful in our business, you need optimism and realism. In the mineral water industry, prices have been halved in the space of 10 years, while transport and material costs have risen sharply. We are primarily selling a service, which means we bring water right to where people need it. In Switzerland, with its normally impeccable-quality tap water, that is quite a challenge. Our product is not an essential item; what we offer is convenience and efficiency for our customers.

How does our business model work? We provide companies with our water dispensers – normally 19-litre tanks, filled with mineral water from our springs in Valais – at the office or at home, collect the empty tanks again and carry out the maintenance. Our customers get everything from one source. We mostly do not deliver on demand but rather at defined intervals. It works like the milkman used to do in the past, which makes it possible for us to ensure efficient logistics and reduce the number of kilometres travelled. The system is ecologically worthwhile and vital for our economic survival. Our water travels a maximum of 300 kilometres, for every extra kilometre reduces profitability. In addition, we distribute fresh water dispensers that are directly connected to a water pipe. The purified drinking water can also be enriched with carbonic acid. With 25,000 water dispensers in 12,000 companies and private households, we are the market leader in Switzerland.

In terms of turnover, we are not yet feeling the pinch, but we are not immune. If companies and individuals save on the additional services they order, this will affect us. But if we continue to do our work well, I will still be optimistic about our chances. Some companies are reducing their budgets and converting from bottled mineral water to water tanks or fresh water dispensers; these are potential new customers for us. The alternative to the “Age of Less” is not the “Age of Nothing”. This is not the end of the world; we aren’t going to see the worst-case scenario with mass termination of our contracts.

For our customers what’s at stake are small budgets; for their employees, however, the issue is huge. If companies turn off their people’s water, so to speak, the reverberations could go on for weeks. Companies sometimes underestimate the signal this puts out. Drinking water at the workplace is an extremely emotional issue, just like the coffee machine or the company car park. However, we are noticing shifts in priorities. Up to half a year ago, ecology was ranked at the very top. In collaboration with a spin-off from the Swiss Federal Institute of Technology (ETH) in Lausanne and partner companies, we developed software to measure the ecological balance of a company in real time. We assumed CO_2 emissions would be a key indicator. But now customers in the water segment are no longer asking for the most ecological product; instead, they want the most economical one. Ecology remains a selling point only when the price is right. Even with just 3 per cent higher costs, purchasing managers wave their hands dismissively. Personally, I regret that, but from a business perspective, it’s reality. We cannot put ecology ahead of economic factors. Nevertheless, I am convinced that companies that are able to combine ecology and economics under one umbrella will win in the long run.

What’s needed is pragmatic optimism and companies with substantial services, not marketing blah-blah. The current crisis was caused primarily by people who sold too much hot air and had lost sight of the real economy. You only recognise chances and opportunities if you are right in the thick of business operations and know what needs to be improved tomorrow and the day after tomorrow. Crises usually precipitate restructuring – and also lead people to ask questions that haven’t been asked before. Managers should put their cards faceup on the table for their staff. Employees often figure out for themselves that restructuring is necessary. If you are too optimistic and put a gloss on everything, you will lose credibility. If everything negative is blocked out, errors occur that put the company at risk. Based on our experience, even when bottled mineral water becomes too costly, not all customers opt for tap water. The opportunities for us lie somewhere in between. //

Photo: Andri Pol

Maja Storch: Managers are entitled to feel uncomfortable in difficult situations like these and should also be able to express that.

Graduate Psychologist Maja Storch, Owner of the Institute for Self-Management and Motivation Zurich ISMZ, has developed the “Zurich resource model” in collaboration with Frank Krause. It aims to help people act as they really want to more often.

There are two types of optimism. One is the rose-tinted-glasses type which is removed from reality and in no way purposeful. You can’t manage a company with unrealistic optimism – and even less so in situations of crisis. When bosses attempt it nevertheless, employees instinctively see through it and justifiably perceive it as “putting a gloss on things”.

The second type is healthy, functional optimism. The people who possess it are realists through and through. The human brain processes positive and negative feelings via two separate systems. You could say this is part of our fundamental biological make-up. People with a healthy, functional optimism can switch positive feelings up higher, as with a thermostat, and turn down negative feelings.

So how can this ability specifically help a manager who has to stand up in front of his or her staff and announce some unwelcome news? It makes him or her authentic! Honesty is particularly important here: many company managers believe that they are not allowed to show their concern openly. Yet nobody expects the boss to announce that everything will be all right if sales have collapsed by 30 per cent. Managers are entitled to feel uncomfortable in difficult situations like these and should also be able to express that.

Not providing information in a transparent and prompt manner is always a mistake. It leads to rumours and fuels uncertainties. Because many managers are afraid of openly communicating tough decisions, lay-offs, for instance, are often done in a very upsetting manner for those affected. The right way would be to disclose openly and in a timely manner why lay-offs have become necessary and to communicate the individual decisions with the greatest respect for each person’s dignity.

In the selection process for management positions, the people who frequently come out on top are those whom I would assign to the category “Rhino”, to put it bluntly. They are thick-skinned by nature, resistant to stress and particularly able to suppress negative feelings. Frequently, people like that tend to overestimate themselves; they lack the capacity for self-discomposure. Like someone who stands in the snow wearing a pair of swimming trunks and doesn’t feel the cold.

However, those who have a healthy, functional optimism do have this capacity for self-discomposure: negative feelings are an inner alarm system that tells them to switch on their common sense and find out why people are so concerned. We really need both: self-discomposure and self-composure.

Discomposure results in a hormonal switch in the body. But we are not made for coping with this state on a long-term basis! One consequence, for instance, can be burnout. Regulating negative feelings requires the art of self-management, something we convey in our Zurich resource model in courses and coaching sessions. Self-management is essential to reach goals and deal with a constantly changing environment in the best possible way.

I regularly hear in our courses that today there is often no time for well-considered approaches and interaction between common sense and gut feeling. Managers have to make quick decisions. I see it differently: if someone knows the “right” solution to complex issues today straight away, then he or she is lying. With complex issues, we can only make decisions by drawing on all our competences. And for that, time and often several feedback loops are required. We should therefore think twice about whether everything really has to be done so quickly.

Crises always offer opportunities. But in this area, too, it is the manager’s responsibility to put forward his or her optimism in a credible manner. A positive underlying tenor can only be generated at the attitude level because the limbic system – the functional unit in the brain that regulates mood and motivation – is reached via this level. Let’s take Barack Obama and his “Yes, we can” as an example. As far as “specifics” go, this is a statement completely devoid of content; but from the vantage of “attitude” it strengthens people’s belief in themselves. This attitude can make a great deal possible. Or to quote Antoine de Saint-Exupéry: “If you want to build a boat, do not drum up people to collect wood or assign them tasks or work, but rather teach them to long for the endless immensity of the sea.” //

Photo: Helmut Wachter

forum4. optimism/realism

Andy Schmid: I trust my own strengths and believe that things will turn out OK. That's not optimistic; it's realistic.

Andy Schmid is a professional handball player who had a lot to do with ZMC Amicitia Zurich winning the Swiss championship in the last two years. Beginning this summer, he has been playing for the top Danish club, Bjerringbro-Silkeborg.

I am a realist. For self-protection, among other things. If expectations are too optimistic, they are bound to end in disappointment. Many people say that they are optimists. But are they really? Can someone really be a total optimist? I sometimes think that people like that live in an illusory world. They convince themselves that everything they decide to do will turn out all right and are then flabbergasted when that's not the case. That's why I prefer to keep my feet on the ground.

In top-class sports, good preparation is essential for success. If I haven't trained in the fitness room three times a week, I don't feel strong enough on the day of the match. Mental preparation is of course hugely important too. Before a game, we analyse the task at hand, the opponents. I go through individual situations in the game in my head, the coach and the captain think about what tactic to choose when, for instance, it's all square with five minutes to go before the final whistle. With proper preparation, I can approach a game calmly. I know that a team will have to be pretty good to beat us. I trust my own strengths and believe that things will turn out OK. That's not optimistic; it's realistic.

Handball is a team sport. We win or lose together. When we feel strong and ready as a team, it generates a very special aura that makes us almost invincible. The trainer has a definite influence here. Individual doubters on the team become stronger if the atmosphere is optimistic. You need that to come out on top in international competitions too. In the last two years in Switzerland, there was only one club that could match us. But certain clubs, for instance from Spain or Germany, would have probably beaten us nine games out of ten. To prevail against opponents like that, you need to forgo too realistic a view of things for once. An optimistic illusory world can actually be helpful in situations like that. For example, it worked fine in the semi-final of the European Cup against the top Spanish club, Valladolid. Amicitia won by four goals. But then we were probably too optimistic for the return game. From a realistic perspective, Valladolid had simply had a very bad day in the first match – and still only lost by a narrow margin. Before the return match in Spain, we were caught up in the optimism of others: "You'll do it," said the fans – and the press were already talking about the final. We lost the return match by six goals and missed out on the final. That was the reality.

At the moment, I tend to set myself short- to medium-term goals. I would like to play for a top team in Germany at some time – a realistic goal. A few mid-table clubs from the handball Bundesliga have already made me some offers, but first I want to develop my game further. That is why I am moving to Denmark for the time being, to the third-best league in Europe. I like the mentality of the Scandinavians, and the style and manner in which they play handball: fast and technically demanding. If I can establish myself in Silkeborg – and I can – I'll be able to move to a top German club. The requirement for this is of course that I stay healthy. In this regard, I am neither optimistic nor realistic; I'm a fatalist. //

Photo: Markus Bärtschi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Swiss tax policy: Striking the balance between attractiveness and international acceptance. Page 15

Non-financial assets: How businesses can boost their performance by capturing and respecting people's individual preferences. Page 18

Sustainable compliance: The first step towards business integrity management. Page 20

Management: Lessons from the financial crisis. Page 23

Service: Events, publications and analyses. Page 25

Swiss tax policy: Striking the balance between attractiveness and international acceptance.

As the Swiss tax system becomes the target of criticism on the international stage, one thing is clear: Switzerland must use tax policy as a strategic instrument for retaining and boosting this country's competitiveness. At the same time, we should avoid a situation where our tax system gives grounds for exclusionary or retaliatory measures. Our system must be compatible internationally.

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Pressure on Switzerland from various governments and international organisations has intensified. Banking secrecy has always been a bone of contention for both ethical and fiscal reasons. But with budget deficits threatening to skyrocket in the wake of the financial and economic crisis, and finance ministers pressured to mobilise all the forces at their disposal to generate tax revenues to finance corporate and economic aid packages, economic reasons have now taken precedence – even though these economic interests often masquerade as arguments of fiscal justice. This has also resulted in more intense international tax competition.

These are the facts of the matter. Switzerland must come up with a strategy to adapt its tax system to this new state of affairs. But in doing so it faces a dilemma: it must ensure that it remains competitive as an attractive economic location, while at the same time reviewing any policies that give grounds for exclusionary or retaliatory measures. In other words, Switzerland must strike a balance between international competitiveness and compliance with internationally recognised principles and tax regimes. This will require an active, effectively communicated policy geared to clear strategic goals.

Switzerland
Taxes
Reputation

Andreas Staubli, Leader Tax and Legal

Sharing information is okay; automatically sharing information is not

In its communiqué of early April, the G-20 left no room for doubt: "The era of banking secrecy is over." In the run-up to the G-20 summit, Switzerland had said that it would retain banking secrecy but was prepared to accept Article 26 of the OECD Model Tax Convention on avoiding double taxation. The aim was to keep itself off an OECD blacklist and prevent any ensuing damage to the country's image. The Model Tax Convention contains guidelines and standards on cross-border taxation that apply worldwide as the basis for double taxation agreements (DTAs) between nations. Article 26 governs the exchange of information between the tax authorities of OECD member states. In concrete terms, the Swiss Federal Council's resolution of 13 March of this year means that in future Switzerland will be willing to generally give official assistance in matters related to tax, if there is a specific and justified request in each individual instance. In practice this means that quite a few DTAs will have to be renegotiated to take account of the new exchange of information arrangements. These negotiations are now well under way. Revised DTAs have already been initialled, and more will follow soon.

Switzerland is thus signalling that it is in favour of greater transparency on tax matters and will exchange information on the basis of the OECD principles. With European counterparts Austria and Luxembourg also going along with these arrangements, this is the right signal to be giving at the present time. Switzerland is not putting itself at any disadvantage. On the other hand, this country should draw the line at the automatic exchange of information (which the model convention does not require). So-called fishing expeditions, where a country makes general enquiries about accounts held by its citizens, should not be allowed, as they constitute a breach of the right to privacy – something on which there is broad consensus in Switzerland. So Switzerland's standpoint should be as follows: unreserved compliance with the OECD rules, but an equally unreserved no to the automatic exchange of information. It is interesting to note that it is only in connection with individual persons that information sharing leads to controversy. Because of the rules on transfer pricing documentation, corporations are in any case subject to more stringent disclosure requirements, and have had to live with the full exchange of information in tax proceedings for some time already. Even so, the debate on information sharing has strained Switzerland's reputation in tax terms. Rather different in nature is the long-standing tax squabble between Switzerland and the EU. The EU accuses Switzerland of having a tax regime that grants unjustified tax relief to certain forms of corporation, which the EU says is tantamount to anticompetitive subsidies and thus in violation of the 1972 free trade agreement. What is meant specifically is the taxation of holding companies, domiciliary companies and so-called mixed companies.

Country	Measure
Belgium	Excess profits Tax deduction of 80% on patent income Notional interest deduction
Ireland	Non-trading branch
Luxembourg	Tax deduction of 80% on patent income Goodwill write-downs
Netherlands	Taxation of interest Excess profits CV/BV structures
Portugal	Madeira
Spain	Goodwill write-downs

Ensuring equal treatment

Switzerland firmly rejects this interpretation, arguing that the free trade agreement is not sufficient basis for an indictment of Swiss corporate taxation. Given that Switzerland's stance was explicitly known to all signatories back in 1972, it cannot be called into question now.

Even if the EU's arguments are artificial, however, the matter of variations in the taxation of different taxpayers remains. It is precisely here that the crux lies: in the preferential treatment of particular categories of taxpayers over others. Any tax regime that fails to apply consistent standards is problematic. If a management company with revenues from foreign sources pays less tax than a company with revenues from domestic sources, there have to be differentiated reasons for this.

As part of the proposed Corporate Tax Reform III, the Swiss Federal Council is considering how these tax regimes could be amended or even replaced by regimes designed along different lines entirely. Possible measures under discussion include a general ban on the business activities of holding companies (both in and outside Switzerland), certain taxation of the additional income of holding companies, changes in the taxation of mixed companies by means of a minimum rate of taxation and the abolition of domiciliary company status. This would go some way to meeting the demands of the EU. On the other hand, Switzerland cannot afford to ignore the fact that tax competition is intensifying. Other European countries are already attempting to attract mobile corporate functions by means of special tax arrangements. Switzerland has to find forms of taxation that are competitive but at the same time justifiable from an equitable taxation point of view.

New models will be required to survive and flourish in a competitive international marketplace – models that make Switzerland more attractive while not giving other countries grounds for complaint. Such a strategy will have to include the abolition of certain taxes and duties. Take stamp duty, for instance: levying a duty on the issue of securities makes it harder to invest risk capital in the creation of new businesses. Now that Luxembourg has abolished stamp duty (at the beginning of this year), Switzerland is one of the last countries to have a levy of this sort. Switzerland also has to eliminate business-unfriendly taxation – rules on withholding tax and stamp duty – affecting corporate finance, which is also denting this country's locational attractiveness.

Whatever happens, any moves to introduce this type of corporate tax reform must have broad political support. Breaks for corporations and high-net-worth individuals, however, are not necessarily going to gain political acceptance in the present climate, even though they are all the more necessary

Competition between economic locations: tax incentives in other European countries.*

Short description
Under certain circumstances the Belgian tax authorities will grant a tax exemption for profits that an entity has been able to generate only because of its position within a corporate group. These are not arm's length profits, and could not have been generated by a stand-alone entity. Since they do not stand up to an arm's length comparison, they are not taxed. 80% of patent income qualifies for the deduction provided that this income is measured at arm's length. This results in an effective tax rate of 6.8% on this type of income. A deduction can be made for notional interest on net equity.
Financing activities within a branch may remain untaxed as long as they not exceed a certain low profile (e.g. the branch in question has only one loan on its books).
80% of patent income can be deducted. This results in an effective tax rate of 5.7% on this type of income. Principal structures: on migration to Luxembourg, goodwill can be claimed and amortised for tax purposes (market value is determined by a ruling; not recognised in statutory accounts). This may lead to an effective tax rate of 2% to 8%.
The Netherlands is endeavouring to introduce exemptions or substantial relief on intra-group interest payments. However, these plans still have to be approved by the European Commission. Similar to arrangement in Belgium. Corporations that are basically not subject to tax themselves are nevertheless treated as companies subject to tax for the purposes of the DBA with the United States if they pursue real business activities in the Netherlands. This arrangement is attractive for holding companies.
Companies that are registered in the International Business Centre of Madeira and create jobs pay reduced corporate tax on earnings on cross-border transactions.
Following acquisitions, goodwill can be amortised for tax purposes over a 20-year period. This regime still has to be approved by the European Commission.

* This list is not exhaustive, but is designed to provide examples giving a rough overview of the advantageous tax regimes that exist.

now from everyone's point of view because they make Switzerland more attractive as an economic location. The solution lies in combining this type of break with other tax relief in areas such as family taxation, and then communicating the policy convincingly. There is nothing abstract about locational attractiveness: it is something that really does promote economic value creation in Switzerland. This country needs a regulatory and business framework that allows companies based here to continue producing goods and services and making profits in Switzerland, and that attracts new business. The incentives to shift production to low-wage countries will not be any less tempting in future. There is fierce competition between different locations. And with no other country holding back, choosing not to engage in this competition would bring only disadvantages for Switzerland. So what should be the strategy behind Swiss tax policy going forward? Policy should centre on two principles: making Switzerland attractive as an economic location, and avoiding exclusionary or retaliatory measures. Rather than yielding unilaterally to international pressure, Switzerland should actively counter this pressure. And it should act quickly, because global pressure, combined with calls for greater tax transparency and consistently higher taxes, will go on creating new challenges.

SUMMARY

Public debate on the Swiss tax system has damaged Switzerland's reputation as an economic location. To restore this reputation, this country must come up with compelling responses, develop new approaches and market them effectively. Switzerland must intensify communication both with the public and with other nations. This means acting with conviction and confidence, but also understanding the new realities and putting in place any measures that are necessary and possible.

Non-financial assets: How businesses can boost their performance by capturing and respecting people's individual preferences.

Individualisation is a long-term business trend. Now there is a new method available for reliably identifying and recording individual perceptions and emotions. Used in conjunction with "hard" financial data, "soft" factors like these provide a dependable basis for implementing corporate strategy and managing service delivery.

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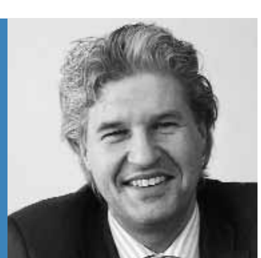
"Our organisation revolves around people." Pick up just about any item of corporate communications, and you will find this or similar statements. But these days it's much more than a buzzword. Many companies have recognised that the true drivers of value are people – customers, employees and other stakeholders – and that financial performance is merely the product of the value these people generate. Even controllers are now realising that business performance depends primarily on the emotional relationships people have to a company and within an organisation.
"Emotions are key indicators that help us assess the future development of a business, including its financial performance," explains Roman Kurmann, CFO of Zurich private bank Clariden Leu. "This means that awareness of what clients want and need beyond mere products, and the ability to manage emotional drivers, are of strategic importance in our increasingly service-oriented economy."

Soft factors
Hard factors
Controlling



Thomas Scheiwiller, Global Sustainability Leader

Image of people in economics is changing

Parallel to these insights in the practical world of business, there are also signs that economists' image of human beings is undergoing a radical change. Modern empirical economics, spearheaded by Professor Ernst Fehr, head of the Institute for Empirical Research in Economics at the University of Zurich (see interview on page XX), is based on real people whose decisions are driven by feelings as well as rational considerations. The title of a book by Uwe Jean Heuser – "Humanomics: Die Entdeckung des Menschen in der Wirtschaft" ("Humanomics: the discovery of people in the economy") – is indicative of this trend.
There is no doubt that there are non-physical factors in every business that will influence its future performance. Of these intangible assets, the most important are employee knowledge, customer loyalty, and a smoothly functioning operational organisation.
Employees: People who work for a company are motivated by different things. One of them is the desire to earn as much money as possible. Other important factors that influence an employee's loyalty, enthusiasm and motivation include the content of the work itself, training, the feeling of being part of a team, and career opportunities. If an organisation knows these individual preferences, it can create targeted incentives. The result will be greater employee motivation, better business performance and improved chances of success in a competitive marketplace.
Customers: Customers can be guided by price or quality. They may favour a particular brand or a personal relationship with their customer adviser. Cost-driven customers are unlikely to be impressed by innovative solutions, while those who focus on quality are not going to be made more loyal by price reductions. Particularly in the business-to-customer market, it's important to remember that consumers do not have the same preferences in all product segments. Independent research has shown how important context is in terms of buyer behaviour. Many consumers are extremely cost-conscious when doing their

day-to-day shopping, but rarely take price into consideration when it comes to products with high emotional or social prestige.

Consistently measuring individual perceptions

Companies wanting to boost their performance for the long term must recognise and manage intangible assets. The problem is that managing these assets means capturing them first. Intangible assets require non-financial units of measurement. The indicators that have been developed to do this are all geared to target groups, and they always output aggregate or average figures. So far there has been no methodology for systematically breaking down performance indicators at the level of individual people rather than target groups.

But now the ISG Institute (ISG), a social research and business intelligence specialist in St. Gallen, has developed a powerful methodology for capturing and measuring individual perceptions. The new methodology is based on the ISG's own empirical research that shows that people's behaviour is to a large extent guided by complex factors such as values and ideals, motivations and attitudes that are tied up with motivational psychology.

The ISG has joined forces with PricewaterhouseCoopers to adapt this robust measurement methodology to business-specific challenges and implement it in organisations. The new approach allows individual perceptions to be captured consistently and reliably. Three aspects are key:

– The method is robust because it systematically uses web-based technologies.

– It measures subjective perceptions regardless of whether they are objectively correct.

– Rather than averages, which in most cases do not even exist in reality, the methodology yields figures for individuals.

Thanks to web-based technologies the methodology is user-friendly and allows organisations and the people they are surveying flexibility to time the questionnaire as they desire. For example the company can schedule its research in preparation for a customer meeting, and the customer can complete the online questionnaire whenever and wherever it is convenient for them. This results in better return rates.

The method goes to the very source of value creation by capturing the individual perceptions of customers, employees or other stakeholders. It looks at two dimensions: showing where preferences lie, and revealing the extent to which the organisation takes account of these preferences within its value management.

Congruence between employee and customer types

Awareness of individual preferences opens up new perspectives in terms of managing the business and its value drivers, as the ISG methodology allows different types of employee and customer preferences to be seen in relation to each other. This way it is possible to create congruence between specific employee and customer types. This is particularly useful as a way of boosting customer and staff loyalty in industries involving a great deal of consulting and advice. Information on individual preferences is visualised in a KPI cockpit and combined with financial performance indicators. This provides the strategic controlling function and line management with a practical tool for comprehensively monitoring value drivers.

The ISG methodology can also be used to do research into other stakeholders such as business partners and suppliers. It also serves as a tool enabling investor relations departments to capture and classify the aims and goals of shareholders. This understanding of the interests of business owners can then be used in the formulation of strategic targets such as ROE or dividend policy.

The new approach enables companies to manage causes rather than merely observe effects. They will now know where sales originate, what motivates the individual customer to buy, and how to manage margins and costs. And they will understand what incentives will best motivate individual employees – all knowledge that creates a decisive competitive advantage.

SUMMARY

Thanks to new web-based technologies for measuring intangible assets, it is now possible to con-sistently capture information on individual perceptions rather than just averages. Performance management can now be geared to individual people. This approach is supported by the realisation underlying modern empirical economics: people decide emotionally as well as rationally.

Sustainable compliance: The first step towards business integrity management.

Compliance is usually seen from the risk management perspective. But in reality it is much more than this. Compliance can also be viewed as a component of opportunity management: a chance for an organisation to differentiate itself in the market by establishing a culture of integrity.

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These days the greatest strategic risks are connected with breaches of rules and regulations or internal guidelines. Some well-known international companies have already made the headlines because of unfair business practices in the acquisition of orders or violation of data protection rules. Surveys of executives put compliance with the rules first in the list of business risks. And rightly so, for conflicts with laws and regulations are often subject to heavy sanctions, and can destroy an organisation's reputation from one day to the next. For this reason, awareness of compliance is growing in many companies. But the issue is as complex as the word "compliance" itself. There is no universal definition: a Google search for a definition of compliance yields millions of results. In its circular of 27 September 2006, the Swiss Federal Banking Commission (SFBC) defines it as follows: "Compliance is deemed to be the adherence to legal, regulatory and internal provisions, as well as the observance of the customary standards and rules of professional conduct within the market." However, this definition is worded in very general terms, with the term "customary standards" in particular leaving plenty of room for interpretation.

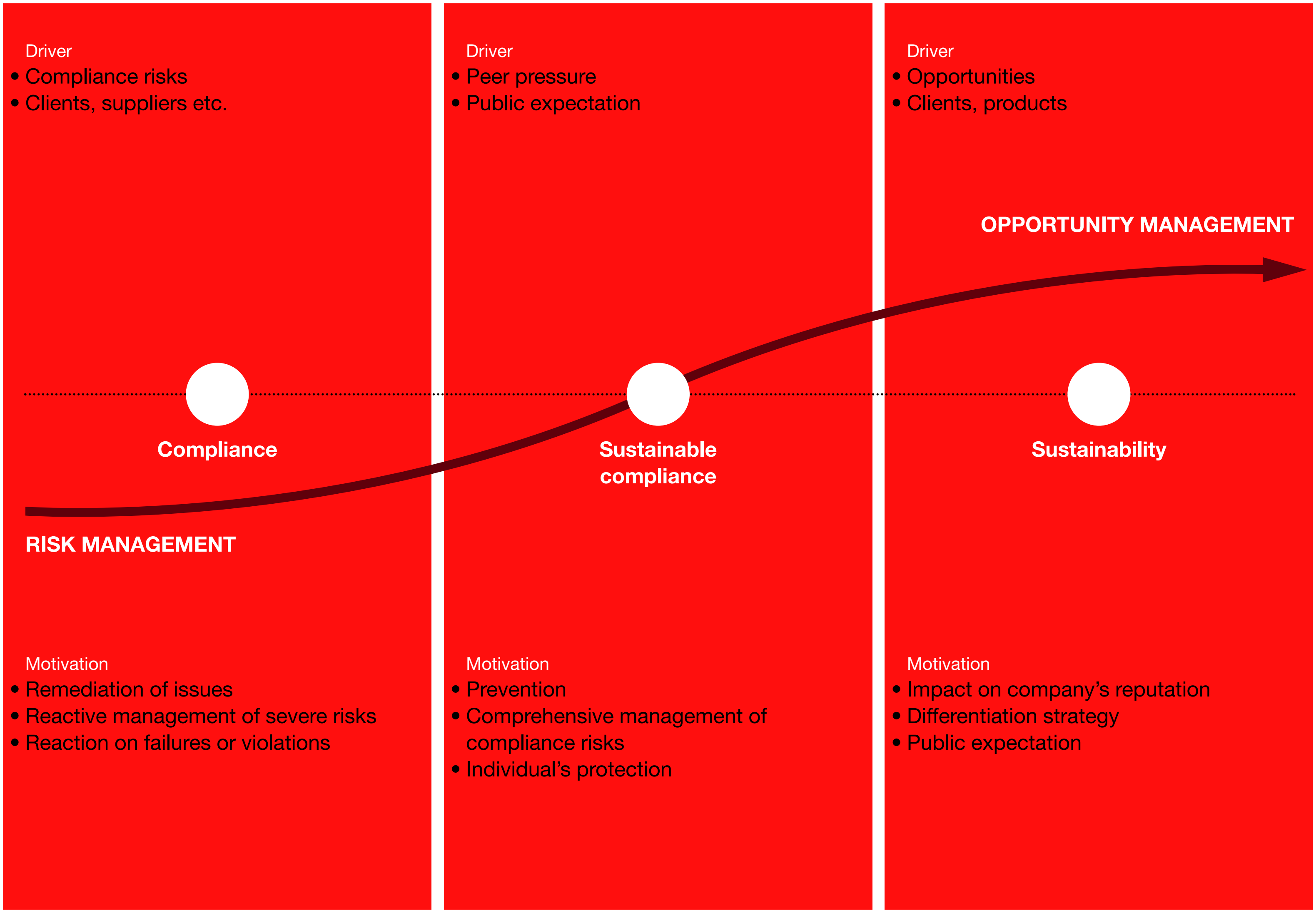
Compliance can be viewed from a number of different perspectives. In most cases, as in the SFBC definition, it is seen through the lens of risk management. From this point of view, compliance issues include things like anti-corruption legislation, antitrust law and, increasingly, environmental, health and safety issues.

Violations incur heavy penalties

The European Union and the United States – especially the latter – have laid down standards in terms of anti-corruption legislation: The Foreign Corrupt Practices Act (FCPA), which entered into force as long ago as 1977, prohibits bribery in any country in which it is a punishable offence, and requires complete and detailed documentation of all transactions and a functioning system of controls. In extreme cases the penalties imposed, which take account of any preventive measures and the seriousness of the breach, can run into hundreds of millions of dollars, quite apart from the threat of imprisonment for executives. Antitrust fines imposed by the EU generally come to between EUR 500 million and one billion. In May 2009, the European Commission handed out the heaviest single antitrust penalty yet, imposing a fine of EUR 1.06 billion on chip manufacturer Intel for abuse of its dominant market position. But it is Microsoft that was at the end of the heaviest overall financial penalty for violation of the antitrust rules. In March 2004, a fine of EUR 497 million was imposed on the US company, and in February 2008 the European Commission handed down a further fine of EUR 899 million because Microsoft had not kept to the terms of the 2004 ruling. Swiss companies have always been keen to comply with the European antitrust rules, not least because of the drastic penalties. But in recent years, many have paid less attention to the anti-corruption legislation. This is due on the one hand to the fact that fines have been comparatively mild in the past. But it is also because most companies have felt safe from the US authorities, because they are not listed on a US exchange and do not believe the judicial authorities have the necessary scope to

Jürg Wyser, Leader Compliance

From risk management to business integrity management.



Organisations that merely address compliance issues as part of risk management are always reactive. Comprehensive business integrity management, on the other hand, is an opportunity for companies to differentiate themselves in the marketplace. The first step is to make sure that compliance is firmly anchored in corporate culture.

intervene. But these arguments do not really hold up to scrutiny. Corruption is a criminal offence, which means that it cannot be insured, and does not depend on whether shares are traded or what exchange they are traded on. Proceedings for corruption can be initiated any time, any place. Added to this, there are growing signs that US authorities are clamping down more heavily on breaches of the law and imposing more serious penalties. In early February of this year, for example, Halliburton was given a fine of USD 560 million.

It is also a mistake to assume that only international companies face heavy fines. For instance the amount Intel had to pay corresponds to only around 4 per cent of the company's sales (the EU can impose fines of up to 10 per cent of sales). Fines could be even more painful for smaller companies. There are examples of medium-sized enterprises where the total costs – fines for corruption plus the damage to operations – have run into nine figures.

Not being "compliant" can cost a business dearly. The damage is not limited to fines. There is also the loss of reputation to consider. Added to this are other threats, including licence losses as the company is excluded from certain markets and criminal sentences for the officers responsible. The very fact that a company is involved in litigation can hit its market performance hard, as customers and suppliers keep their distance. The authorities are also entitled to force the company to draw up a compliance plan and make sure it is properly and permanently implemented (meaning that the programme will be reviewed by the authorities responsible).

These days no organisation can afford not to make compliance an integral part of enterprise risk management. The significance of compliance risks has less to do with the type of business the organisation is engaged in, and more with the degree of internationalisation of its value chain. It is no accident that the Swiss State Secretariat for Economic Affairs (SECO) has geared a brochure titled “Preventing corruption: Information for Swiss businesses operating abroad” to companies with heavy foreign exposure.

Internal codes of conduct count

But compliance is not only significant in risk management terms. Compliance does not just entail formal adherence to rules and regulations, but is also relevant in terms of opportunity management. From this point of view, compliance is a matter of attitude, authenticity and corporate culture. Only when compliance is given a sustainable component and evolves into business integrity management can it not only prevent damage, but create lasting value as well.

The key is to view compliance, corporate culture and sustainability as an integral whole. Almost all companies, in their corporate governance and branding policy, set down values which they intend to be embodied in their corporate culture. These values are translated into a code of conduct containing rules of behaviour for different areas of the business. In most cases, codes of conduct cover a broad spectrum, dealing with issues ranging from bribery and child labour to the environment. These guidelines serve as the basis for management processes and control and corrective mechanisms designed to ensure compliance with the rules of behaviour the company has laid down. But whether people within the organisation actually internalise these values and codes of conduct is quite a different matter.

The provisions contained in the Sarbanes-Oxley Act on codes of conduct have not necessarily helped in terms of internal compliance with the rules. Forcing senior staff to sign written declarations that they have understood the code and informed and trained their staff correspondingly quickly makes this into a mere formality that is not automatically put into practice.

Sustainable compliance not only in terms of external laws and regulations, but also in terms of internal rules of conduct, is the key step on the path to business integrity management.

Some companies are already favouring the term “integrity” over “compliance”. But it has to involve more than just changing the terms used. Business integrity management means putting corporate values into practice authentically, and acting with integrity. Here again the tone at the top – the example set by management – is decisive. Businesses that are already caught up in litigation, or who have been in the past, can often only put business integrity management into practice if they pursue the consequences single-mindedly. In extreme cases this means taking uncompromising action against decision makers who are guilty of misconduct.

Rigorous business integrity management can enable an organisation to differentiate itself strategically, meet the expectations of its shareholders, and thus influence its reputation for the better. A corporate culture like this reduces compliance risks at a systemic level. In any case, it turns out that it rarely pays to gain market share through unfair practices: in PwC’s experience, at the end of the day most transactions involving bribery fail to generate any financial advantage.

SUMMARY

Compliance entails many risks, but opportunities as well. Breaches of anti-corruption, antitrust and environmental rules in particular can result in drastic penalties. Damage resulting from violating laws and regulations is hard to repair for companies and their directors. Organisations that want to be properly equipped to meet these challenges are advised to make compliance an established part of a corporate culture geared to integrity, and put values into practice authentically. Those that do so will create a key differentiating factor in the marketplace.

Management: Lessons from the financial crisis.

The financial crisis was an opportunity to take a close and critical look at management practices in the banking industry. Three basic rules of thumb for good decisions emerge: stay close to the market, foster an open and critical corporate culture, and question the quality of data and assumptions.

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The causes of the financial crisis are complex. The stage was set by systemic factors such as inadequate regulation and the easy money policy of central banks. But besides these systemic factors, many banks got into difficulties for reasons specific to the institutions themselves: decisions made on the basis of false assumptions, or deficient risk management. It is precisely here that banks can draw useful lessons because unlike systemic factors, these internal inadequacies can be influenced directly. A closer look at what really went wrong reveals three classic pitfalls: hubris (overestimating oneself), groupthink, and blind faith in the quality of information and assumptions.

Hubris: the Icarus effect

It is striking that some of the companies that suffered the most precipitous fall were among the most successful and well-regarded in their business. Royal Bank of Scotland, UBS and AIG spring to mind. Dizzy with success, these companies set more and more ambitious growth targets that inevitably had to be reached in areas outside their core business. Many organisations were soon no longer able to realistically gauge the risks in these new fields of business, and like the arrogant Icarus, fell far having tried to fly too close to the sun. Managers who remain successful over the long term know how to avoid this Icarus effect, and are at deliberate pains to avoid the trap of hubris. When making decisions they call on a group of confidants – people who are as independent as possible – to give direct and open feedback and help make sure the decision does not lose sight of the reality of the market. In addition to this, successful banks apply a great deal of business sense and carefully weigh up the risks. A good example is Jamie Dimon, the CEO of J.P. Morgan. Dimon and his team make decisions on the basis of thorough management reports covering all areas of the business. The rule of thumb is that if the data show a particular business to be riskier than the margins justify, get out! When the costs of credit default swaps (an instrument used to insure against default invented, ironically, by J.P. Morgan) rocketed at the end of 2006, the data indicated that business with low-grade collateralised debt obligations (CDOs) should be dropped. Dimon gave the order to sell, even though his competitors ridiculed him for doing so and a number of his star investment bankers left J.P. Morgan in disbelief.

Groupthink: the danger of conformity

After the disastrous decision to invade the Bay of Pigs, US president John F. Kennedy commissioned psychologist Irving Janis to investigate this error of judgement. Janis came to the conclusion that because of Kennedy's dominant personality, none of his highly qualified advisers (the best and the brightest) dared voice criticism while the decision was being made. Janis called this phenomenon "groupthink", the conformity of thought that can emerge in organisations. Back then, the remedy suggested by Janis included appointing a devil's advocate (the Vatican had come up with the concept of "advocatus diaboli" centuries before) to disrupt conformity in the decision-making process.

Governance
Culture
Profit

Matthias Memminger, Advisory, Financial Services

Jamie Dimon again provides a good example of how to actively minimise groupthink: J.P. Morgan's CEO relies on the support of a management team of fellow executives, long-standing employees of the bank, and newly hired experts. He encourages managers to speak up against him, and forces them to come up with convincing arguments. At meetings, Dimon is not afraid to engage in debate and discuss diverging views. Goldman Sachs, on the other hand, is renowned as a place where news of problems spreads through the organisation like lightning, right up to management. This rapid flow of information is possible because the bank has a culture where rather than being sanctioned for identifying problems, employees are more likely to get into trouble for deliberately keeping problems to themselves.

Quality of data and assumptions: garbage in, garbage out

The Senior Advisory Group, consisting of representatives of various regulatory bodies, has published a report on pre-crisis risk management at 11 of the world's leading banks. One of the findings of this research is that the quality of data and assumptions underlying the banks' risk models do not always correspond to the reality of the market. It also found that the flow of information was a crucial factor in the proper functioning of risk management. Not all the institutions investigated had been able to ensure that the right information got to management when it was needed.

All banks have to struggle with the quality of data, information and assumptions. But well-managed banks recognise that there are weaknesses in these data. They respond by seeking creative and sometimes very complex and expensive solutions for improving data quality. They also calibrate decisions to compensate for the low quality of data.

It's a similar story when it comes to assumptions. Most banks that fared badly in the crisis had only one risk model, value at risk (VaR). This resulted in two weak points. Firstly, a VaR model does not cover positions that are hedged or insured. Since up to two thirds of positions were hedged, and most of these hedges failed when crisis hit, the banks affected only ever saw the tip of an iceberg of risks.

Secondly, VaR requires time series of at least 20 or 30 years to ensure that the model's extrapolations take sufficient account of upswings and downturns. But for subprime instruments there were only time series of 4 to 6 years, and these series covered only one upswing and no downturn at all. This meant that the model was much too optimistic in its forecasts. Some banks recognised this weakness in their assumptions and took measures to counter it by using additional models that analysed all positions (including hedged positions), as well as using stress tests to simulate downturns. These examples are relevant to all management decisions, whether or not they are part of risk management. Managers have to understand and question the quality of information and assumptions. And as a rule they should draw on different sources and compare the results rather than rely on a single source of information.

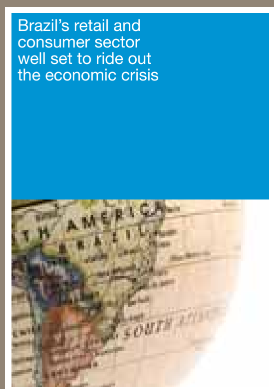
A model can only be as good as its data and the assumptions underlying it. If the data and assumptions are inadequate, so too will be the output of the model; or, to borrow an apt term from IT: garbage in, garbage out.

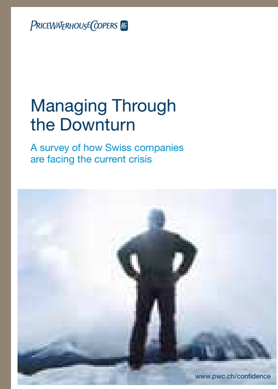
The studies cited, as well as PwC's dealings with directors and executives at banks, show that financial institutions can take structural and cultural measures to help them tackle future crises successfully. The basis for successful management is mature management information systems, risk models that match the reality of the markets, and balanced governance structures – plus a corporate culture that leaves room for debating the divergent opinions of people within the organisation and specialists outside the company.

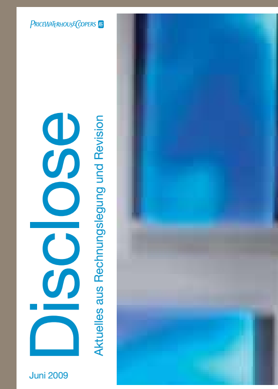
SUMMARY

Learning the lessons of the past year's turmoil means taking a look at successful – and less successful – business practices. A number of essential points emerge: corporate culture is moulded by governance and the people who lead businesses. Relevant, good-quality data, combined with flows of information from the entire organisation, facilitate decision making and help foster a culture of constructive argument and debate.

Events, publications and analyses.







Retail & Consumer Worlds.

"Retail & Consumer Worlds" is an international electronic newsletter published by PwC Switzerland that gives a twice-yearly update on developments and current issues in the retail and consumer goods industry. Besides global issues, the newsletter also looks at country-specific concerns, addressing the interests of decision makers at national and international organisations in the industry. You will find more information at www.pwc.ch/r&cworlds, where you can also subscribe to the newsletter.

Economic crisis.

Swiss companies are preparing for recession. Their efforts include enforcing cost management in human resources by means of early retirement or redundancies, reducing fixed costs, and developing and implementing alternative strategies. Smaller companies are not feeling growing pressure from the banks as much as larger ones, but all companies are seeing a deterioration in payment practice. These are the key findings of "Impact of the Economic Crisis on Swiss Companies/Managing through the Downturn", a report published by PwC on the basis of responses from 91 Swiss companies. www.pwc.ch/en/press_room

Financial reporting and the audit.

PricewaterhouseCoopers' regular publication "Disclose" looks into key aspects of financial reporting and auditing in clear and understandable language. The magazine is designed to help managers retain an overview in a very dynamic environment. The current issue focuses on topics such as the financial crisis and its implications for boards of directors, pension funds and financial reporting. You will find the magazine at www.pwc.ch/disclose, or you can order hard copies from sonja.jau@ch.pwc.com.

Events

PwC Energieforum 2009

PwC's annual energy forum will present and discuss the hot issues and challenges facing the Swiss energy industry. This year's themes include grid- and incentive-based regulation, and the findings of PwC's latest research on the Swiss energy business.

Zurich Oerlikon, Wednesday, 23 September 2009

For information and registration: jasmin.moser@ch.pwc.com, tel. 058 792 18 30

Total tax contribution: how much do large companies contribute to financing Switzerland?

At this free evening-before event, the results of a joint survey on TTC (total tax contribution) conducted at the largest Swiss companies by economiesuisse and PwC will be presented. TTC goes beyond corporate taxes to encompass all taxes paid by an entity. This is the first survey in Switzerland conducted on the basis of total tax contribution.

Zurich, Tuesday, 27 October 2009

For information and registration: romana.eichler@ch.pwc.com, tel. 058 792 44 96

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It's permanence that counts.

Current developments have highlighted the need for enduring values. The focus is increasingly returning to questions such as: What really matters? What will last? As a result, many companies and institutions are changing course – others, however, feel confirmed in their approach up to now.

Thomas Schmidheiny invested CHF 160 million in the Grand Resort Bad Ragaz and consistently opted for the crème de la crème in the process. He is convinced that "the key factor is preserving values".

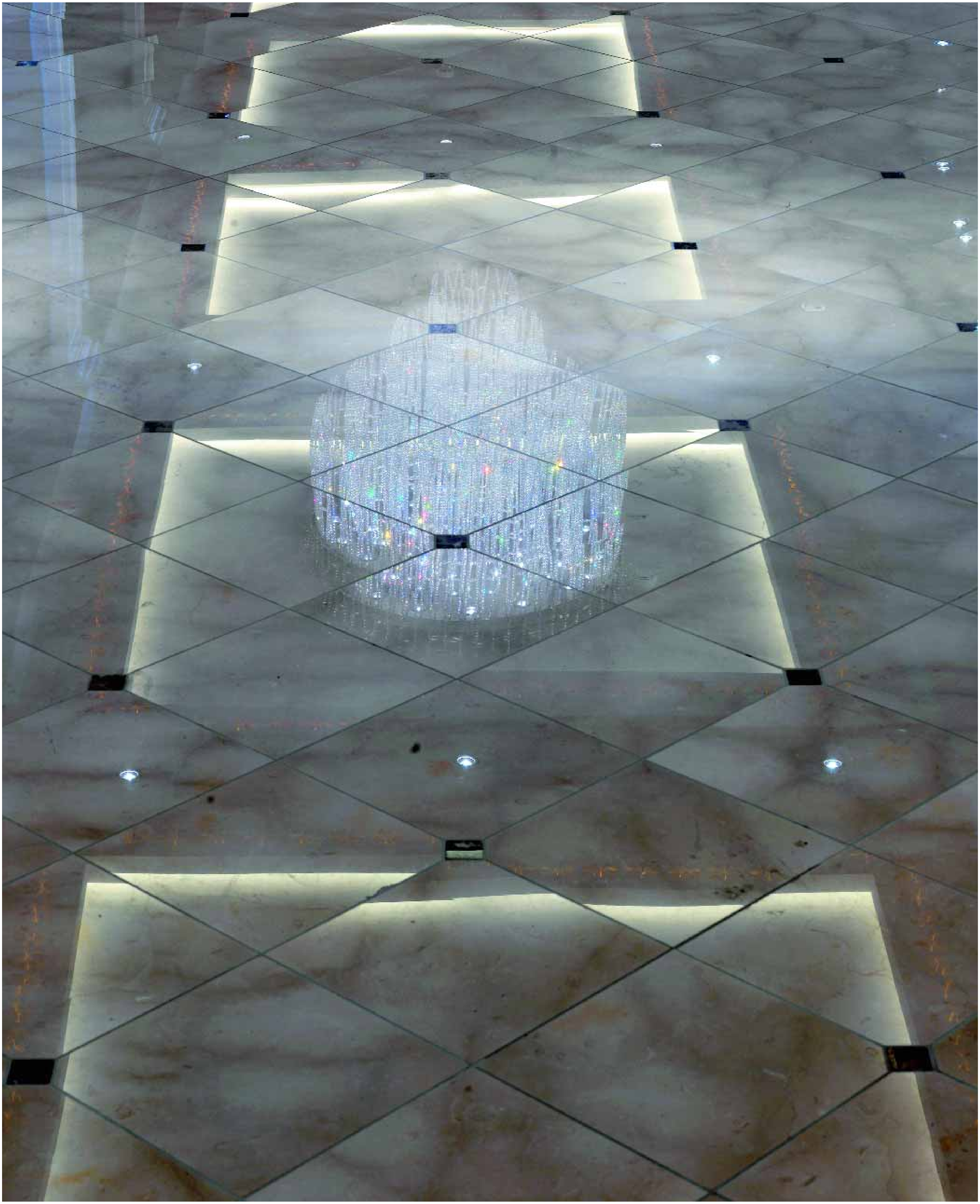
Martin Senn, Group Chief Investment Officer (and designated CEO) of Zurich Financial Services, has internalised values such as discipline, a clear philosophy and systematic procedures – to positive effect.

For Adrian Pfenniger, CEO of the Triengen-based brush manufacturer Trisa, encouraging values such as empathy, fairness, decency and respect is what gives a company the internal stability it requires, particularly in times of crisis.

Ernst Fehr, Director Institute for Empirical Research in Economics at the University of Zurich, investigates the role of emotions in making decisions that involve money.

And for Ernst Mohr, President of the University of St Gallen, social responsibility is a pivotal aspect.

Text: Corinne Amacher, René Bortolani, Samuel Dubno, Iris Kuhn-Spogat, Franziska Zydek



Simply “Wow!”

The entrepreneur Thomas Schmidheiny on his personal commitment to the Grand Resort Bad Ragaz, worthwhile long-term investments and preserving values.

Photos: Cédric Widmer

Mr Schmidheiny, one of the things your father left you were the Grand Hotels Bad Ragaz. You were 46 when he died in 1991. How did it feel to inherit one of the most renowned hotel companies in Switzerland?
I had been part of the scene in Bad Ragaz much earlier – to be more precise, since I was 28. The hotel's board of directors was my first experience of having my father delegate to me. That was 1973; I had just come back from Central America, where I had earned my spurs at Apasco, the Mexican subsidiary of Holcim.

Were the hotels in Bad Ragaz of particular importance to your family?
Yes, they were. In the mid-1950s, a group of eastern Swiss entrepreneurial families pooled their resources to reopen the thermal baths in Bad Ragaz. The town's main hotel was the Quellenhof, part of which had burned down. These families wanted to do something for the canton and the region. At the time, there was almost a depression in the Sargans region. Many companies had moved away or had been forced to close down. Our commitment was based on the desire to contribute something to the region's recovery. There was a great affinity right from the start. However, it would of course have been impossible to offer anything that wasn't in tune with customers' wishes and market conditions.

“Heart and commitment are also part of those assets. And for a strategy to be successful in the long term, heart and commitment need to be supplemented by efficiency, stability and reputation. These are values that I want to pass on to my children too.”

Was your trump card the springs?
Not our only one. Obviously, you need something special if you want to compete with the big resorts. And that something is the water in our town. The springs of Bad Ragaz belong to the canton, and we are the users. There is a contract, which I think runs out in 2067. But the entire region, the Bündner Herrschaft with its vineyards, rounds out the picture. It is not urban, but attractive for what we offer there: a place to wind down, enjoy treatments, rehabilitation. Only, back then, some of the hotels were hopelessly outdated and there was no way that the thermal bath could compete with a modern spa facility.

You had to invest to improve the quality of the services offered.
Some 15 years ago, we renovated the main parts in three phases: the Hotel Hof Ragaz, the Wellness Center and the public thermal baths. Originally, we had also planned to renovate the Quellenhof. Like the Hof Ragaz, however, around a third of the hotel was under heritage protection. After more than 100 years, the building was in a dilapidated state. The ravages of time had left their mark on the structures, resulting in the decision to demolish the hotel and rebuild it from scratch.

How was the construction financed?
We proposed a capital increase to our shareholders, yet only a few of them went along with it. Our financial commitment meant that our stake grew to around 50 per cent. The Quellenhof was then constructed in record time: demolition in 1995 and reopening on 31 October 1996 after a construction time of just 22 months! A tour de force!

You rebuilt the hotel in its original style – why?
There were ideas to implement something entirely new, for instance a glass building. Nevertheless, in restoring the building we decided to keep a classical look, primarily for landmark protection reasons. The result proved us right: the quality, the interior design, the infrastructure – everything was perfect. Our guests were delighted, giving rise to our vision of becoming one of the leading resorts in Europe.

This step was completed in the last two years with the extension of the Grand Hotels Bad Ragaz to form the Grand Resort Bad Ragaz.
We first applied for and received a licence for a “B” casino. It's worth noting that Bad Ragaz had one of the first casinos in Switzerland. The casino became an unlikely success! The revenues from the gaming business today will contribute to financing further expansion...

… which has been estimated at CHF 160 million. A major investment in the future. What's the strategy behind this step?
We asked ourselves how the resort could grow further and came to the conclusion that although the Quellenhof has a lot of traffic and catering areas, there was an insufficient number of really spacious rooms. This led to the decision to build a tower 36 metres high, with suites only.

The Tamina thermal bath was also completely rebuilt.
As we were posting fewer and fewer admissions to the baths as time went on, we had no choice. We had a look at around 20 competing facilities in Europe – and completely rebuilt our thermal baths. With today's solution, I think we are back among the very best. I believe the architecture that we have chosen will make history.

How great was your personal commitment during the reconstruction?
I was on site once or twice a month. That was and is time well spent. There's something fascinating about the construction of a hotel; you can see how it grows, how rooms are structured, and you are always personally involved – by the end, you even find yourself thinking about the colour of the curtains.

And your financial commitment?
Grand Resort Bad Ragaz AG now has some 700 shareholders. Our stake as the majority shareholder is around 75 per cent.

"In everything that I do, there needs to be a balance between the idealistic and the commercial. The interesting aspect is the preservation of value. Grand Resort Bad Ragaz is a business unit that is managed according to business rules."

What is your motivation behind this investment?
I am a bit of a homebody, really; the canton of St Gallen is my home canton, and as I already said, we decided as a family to promote Bad Ragaz. We feel obligated and bound to the valley in which we grew up. I have also restructured the family's own vineyards in Heerbrugg, where we are now producing recognised fine wines.

The Grand Resort Bad Ragaz was opened in June in economically difficult times. Does that make you nervous?
It takes a bit more than that to make me nervous! But I'm confident for two reasons: first, our management team and all the staff do a superb job; second, we are broadly positioned with regard to the services we offer and the profile of our target groups. 40 to 50 per cent of our guests come from Switzerland; around 30 per cent are German; the rest come from other countries. We have a relatively strong clientele from the golfing segment – and the Medical Health Center offers outstanding services in the therapeutic area. We thus benefit from the needs and requirements of an ageing society – with the Swiss Olympic Medical Center and also from the megatrend in sport and fitness. The economic crisis will undoubtedly have an impact on us. Ultimately, however, we are launching a product on the market that is simply "Wow!". That gives us a major competitive advantage.

You own hotels, grow wine, collect art. You appear to have a taste for the fine things in life. Is that right?
Yes and no. It is of course nice to own art. I enjoy this privilege. The fascinating thing about wine, however, and also the hotel industry, is that here – more than anywhere else – a product is associated with personal commitment. But in everything that I do, there needs to be a balance between the idealistic and the commercial. The interesting aspect is the preservation of value. For us, Grand Resort Bad Ragaz AG is a business unit that is managed according to business rules.

What does money mean to you?
In principle, for me it is a measure of performance. I was lucky in that I inherited the family's stake in Holcim from my father and was able to oversee the company's successful expansion for more than 20 years. Most of the family's assets are still invested in Holcim. Heart and commitment are also part of those assets. And for a strategy to be successful in the long term, heart and commitment need to be supplemented by efficiency, stability and reputation. These are values that I want to pass on to my children too. //

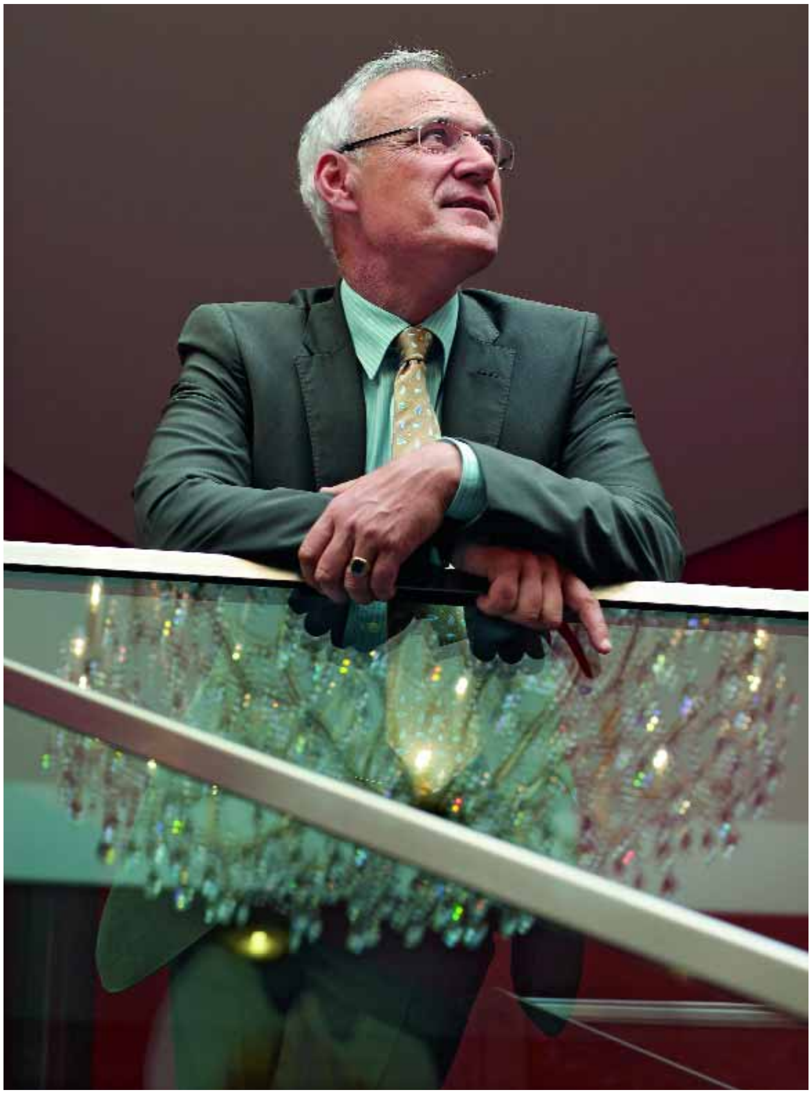
Luxury as a commodity versus true luxury.

The conversion and extension to the Grand Resort Bad Ragaz cost CHF 160 million – an ambitious investment in the future. But money alone does not guarantee success, says CEO Peter P. Tschirky.

Photos: Cédric Widmer

The Penthouse Floor in the newly constructed suite tower of the Grand Resort Bad Ragaz stretches over 560 square metres, almost the size of a ballroom. It is furnished in exquisite taste – everything is of the best, finest and most expensive material: the floors made of nut-wood; the huge bed, satin bed linen and ultra-exclusive feather pillows; the light in the bathroom reflected by Swarovski crystals, the whirlpool and the Finnish sauna; and the flat-screen TV hidden in the ceiling above the bed. Without a doubt, and at CHF 12,000 a night, guests are getting luxury here.

That luxury is tranquillity. It envelopes you like a veil of cashmere as soon as you enter the resort grounds. Lying in the park under a hundred-year-old tree and listening to the sound of… nothing! is balsam for the soul. The location of the wellness oasis at the foot of the Bündner Herrschaft region, with



"The glossiest brochure is worth nothing if the atmosphere's all wrong. For a hotel of our positioning, the best form of advertising is word of mouth."

a view of the Alps, is therapeutic in the best sense of the word – far removed from the noise of the towns and cities and yet so accessible: an hour's car journey from Zurich, two-and-a-half hours from Munich, three from Milan. "Luxury," as Peter P. Tschirky points out, "is where I feel good. And when applied to a hotel – it's where guests find what they are looking for." Tschirky, 57, has been CEO of Grand Resort Bad Ragaz AG since June 2006. After 30 years abroad, the manager returned home near the Weisstannental in the region of Sargans, "where all Tschirkys come from", where he grew up as the son of a mountain farmer. At the beginning of the 1980s, Tschirky was working as a hotel manager for the Sheraton Group in the Kingdom of Bahrain, the island state on the Persian Gulf. He managed to win the trust of the emir at the time, Sheikh Isa, who then commissioned the Swiss national to renovate his palace facilities. Tschirky thus became a construction expert too.

It was precisely this blend of building and gastronomic expertise that was required in Bad Ragaz when the extension and conversion of the Grand Hotel was being planned (see also the interview with the majority shareholder Thomas Schmidheiny). CHF 160 million has since been invested in constructing the tower with its 56 spa suites, converting and renovating the two hotels Quellenhof and Hof Ragaz, and developing the new medical centre and the Tamina thermal spa. The new Medical Health Center, which is affiliated with the Swiss Olympic Medical Center, offers rehabilitation and preventive care of the highest order. It is also available to patients who are not staying at the resort; they account for half of turnover. Around 30 per cent of the hotel guests come to Ragaz for therapeutic and medical reasons. The average age of the guests is 59.6; attracting a younger clientele is also envisioned. Tschirky's attitude in this regard is pragmatic: "Demographics offers huge growth rates with this target group – there is also a constant supply of new old people."

Travelling into the future

Even before construction began, Tschirky was already planning the "internal" conver-

“We want to ensure that our employees’ actions are determined by interest, care and respect, and not by indifference and egoism.”

sion of the Grand Hotel Bad Ragaz into the Grand Resort Bad Ragaz as a “trip into the future” with his management team of 62 staff. In seminars lasting entire days, they explored the elements crucial for turning the resort into the best of its kind in Europe. “It was about developing an all-embracing culture,” says Tschirky, “where the key word is love.” By that, he means a love of detail – and the ability to put yourself in other people’s shoes. “We want to ensure that our employees’ actions are determined by interest, care and respect, and not by indifference and egoism.”

Every member of the management crew is responsible for conveying the results of the “trip into the future” developed in the seminars to his or her staff. The “Business Excellence” department analyses the feedback from the guests and checks, using various other measures, whether the efforts to achieve a special culture are bearing fruit. “Your hotel has a soul,” wrote one guest. Another noted: “My wife and I travel a lot. We know no other 5-star hotel where the staff are so friendly and ready to help.” These statements prove to Tschirky that he and his team are on the right track.
In addition to the “trip into the future”, because the resort would be bigger and as another step towards excellence, Tschirky introduced an ISO-certified management system. “We knew that we would not be the same company after the conversion,” says Tschirky. “Now you can say every day that you ‘will do it differently in future’. But there is a risk that ultimately everything will stay the same because it’s easier to keep things as they are.” In the course of the switch to ISO standards, no stone was left unturned – change had irrevocably taken place. “This step required will, courage and humility,” says the CEO, looking back. “It brought us a lot, but at the same time, the process was nerve-wracking.”

A quantum leap
Today, the resort offers facilities for up to 550 guests. Their needs are attended to by 682 employees. From an operational perspective, the company is led by the Resort Management, which comprises

Only the best: CHF 160 million was invested in rebuilding and renovating the hotels Quellenhof and Hof Ragaz, a tower with spa suites, the new Medical Health Center and the new Tamina thermal spa.

Tschirky as the CEO and the four business heads of the sectors “Grand Hotels”, “To B. Wellbeing & Medical Health”, “Business & Events” and “Golf” as well as the CFO, the director of marketing and sales and the head of infrastructure.

The Resort Management meets once a month, and Tschirky has regular weekly or biweekly meetings with the business heads on fixed days. The board of directors, chaired by industry manager Willy Kissling and with Thomas Schmidheiny as its vice-chairman, is responsible for strategy.

“We have implemented our vision and achieved the quantum leap to become the leading well-being and medical health resort in Europe,” said BOD chair Kissling, at the opening ceremony. Nevertheless, the current crisis is also affecting Bad Ragaz – more in the restaurants than in room occupancy. “Guests are consuming less,” says Tschirky. “With turnover per seat, we are posting a decline of 18 per cent.” This trend was evident as early as 2008 before the financial crisis had begun to touch everyone. The company is trying, for example through adaptations to the menu and wine lists, to stimulate turnover again. This delicate task is based largely on psychology, says Tschirky.

Indeed, the management of a resort of this size and exclusivity has a lot to do with intuition as well as management expertise. “Observe carefully, and that will tell you what you have to change,” says Tschirky. On his endless tours through the resort, the boss follows his feelings. Uneasiness in response to this or that situation is a sure sign that something needs to be done. And, of course, feelings are ultimately what brings guests to Bad Ragaz in the first place: “The glossiest brochure is worth nothing if the atmosphere’s all wrong. For a hotel of our positioning, the best form of advertising is word of mouth,” says Tschirky, “when people tell their friends and acquaintances that they felt thoroughly at home in our hotel.”

The CEO has set himself three goals: “First, I want to be able to get back that CHF 160 million in return on investment. Second, I want to be the best hotel in the world for our customers. And third, in Bad Ragaz I want my name to stand for good and successful management.” The time-frame for reaching these goals: 2011. //


“People have a deeply entrenched need to ascribe good or bad intentions to others,”

says Professor Ernst Fehr, Director of the Institute for Empirical Research in Economics at the University of Zurich and the first economist to be awarded the renowned Marcel Benoist Prize.

Professor Fehr, to put it briefly: what do you study?
We deal with a wide range of issues: how labour markets work, how to create ideal incentives for employees and managers, how hierarchies are generated in companies, what role reputation plays in how markets function. In addition to these economic issues, we also look at the question of the influence of non-economic factors such as fairness and social norms on economic life and its players. Are these factors biological or cultural? And if the latter, what exactly about the culture? Our research programme has become very successful. Today, the University of Zurich is one of the world's leading centres in experimental economic research and neuroeconomics.

What grabs your interest at the moment?
We want to understand the biological basis of economic activity. We are carrying out genetics studies and investigating which brain processes underpin altruistic and egoistic behaviour.

How do you do that?
The participants in an experiment are networked in our computer laboratory interactively and given economic situations to tackle. They have to make decisions within clearly defined parameters. These can be very simple experiments, such as the ultimatum game, and also complicated market experiments with complex trading rules.

What is the ultimatum game?
In the ultimatum game, a participant, let us call him Participant A, is given a sum of money and can decide how much of this he or she wants to offer B. A makes an offer and B can only accept or reject the offer. The two do not negotiate. If B accepts the offer, then both of them get their money; if B rejects it, neither of them gets anything.

What results do you see?
Many offer 50 per cent of the sum because they consider an offer like that to be fair and expect it to be accepted. Players who are more willing to take a risk try to come off better with a more aggressive, i.e. a lower offer. The more one-sided the offer from A is, however, the greater the probability that B will reject it. B's willingness to reject unfair divisions, even though he or she will then not receive anything, punishes A and helps to ensure that fairer proposals are made. Experience shows that B subjects tend to accept lower amounts if the distribution of roles has been decided not by the toss of a coin, but rather based on a performance test. Or if a random generator specifies the amount that A has to offer to B.

“If a company sets incentives for tasks, the fulfilment of which can be measured, the employees primarily concentrate on these tasks and neglect others. That is the well-known problem of multitasking.”

So the game shows that subjects do not behave like the model Homo Economicus would?
That’s right. The assumption of Homo Economicus (economic man) is refuted because B is prepared to forego sums of money to punish A for a low offer. This is neither rational nor self-serving. Homo Economicus would not act in this way. Economists were surprised by the result of this experiment. But they were probably the only ones. It is clear to anyone with an ounce of social intuition and a healthy dose of common sense that a player will not accept any old amount if this would mean that another player received a disproportionately higher amount.

In your opinion, what model should replace Homo Economicus?
One based on a more complex, multifaceted type of person – a person who has a high degree of rationality but is also guided by emotions that are not always ideally suited to decision processes. He or she is a person who also demonstrates irrational behaviour. Someone who is willing, under certain circumstances, to behave in a fair way and to cooperate, even if cooperation costs something and is not in his/her own material interest. I am not saying that a person who always behaves in an altruistic manner is a saint. Quite the opposite, in fact. Self-benefit remains an important motive, but not the only one.

When are people – economically speaking or in professional everyday life – fair or altruistic, or selfish?
We can view the attainment of fairness goals or altruistic goals as commodities. A person for whom fairness is very important “buys” himself or herself fairness, with fair behaviour and, at times, foregoing material prosperity. If the costs for fair behaviour are too high, then nobody will “buy” this commodity anymore. However, this does not alter the fact that there is a preference for fair behaviour. If chocolate becomes more expensive, people will buy less of it not because they don’t feel like eating chocolate anymore, but rather because the chocolate is more expensive. Incidentally, the differentiation is not always easy. If an entrepreneur voluntarily gives his or her managing director a participation in profits, this can be out of an altruistic motive or for his/her own self-interest because the entrepreneur believes that he/she is thus motivating the managing director for the future.

In your opinion, are incentive systems really needed to motivate people?
With incentive systems, the question is always what they are intended to incentivise. Frequently, that turns out to be the wrong thing. People are also prepared to do something without receiving special remuneration in return. Material incentives can destroy voluntary cooperation. A job normally consists of many tasks. If goal attainment can be measured and incentivised for only a few tasks, it may be better to do without incentives. If a company sets incentives for tasks, the fulfilment of which can be measured, the employees primarily concentrate on these tasks and neglect others. That is the well-known problem of multitasking. One example of this is the payment of management according to absolute share prices. I consider this to be a poor incentive system.

Why?
The absolute level of the share price is a poor indicator of performance. It is determined by factors that a manager cannot influence. Why should the management participate in an increase in the company’s value that occurs because the economy is doing well? That is not down to the manager. The same applies the other way around: why should a manager be punished because the economy is in the doldrums? That doesn’t make sense. A more suitable metric would be share price relative to a benchmark index. The incentive system should be designed in such a way that the components which the manager does not have any influence over are not relevant for his/her remuneration.

What role does responsibility play in the economy in this respect?
The term “responsibility” is closely linked with moral judgment. It is interesting that the term does not exist in the business sciences. You will not find it in any textbook either. In an ideal market economy, however, responsibility has a pivotal role. In the ultimatum

game, for instance, either player A suggests how the money should be divided up, or the decision is made by a random generator. The reactions from player B vary. If player A makes an unfair suggestion, it is rejected more frequently than when the same unfair suggestion comes from a random generator. This shows that people have a deeply entrenched need to ascribe good or bad intentions to others, and to make them responsible for these intentions, although this inclination seems to be less widespread among the uneducated in society than among the highly qualified.

In the laboratory, a subject knows whether the distribution is done by a person or the "system". Isn't this distinction much more difficult in reality?
Yes, in practice it is frequently blurred. If a manager wants to prevent an increase in salary, he says: "I have no choice; the company results do not justify it." The statement "I have no choice" means that I am not responsible for my decisions. If I had a choice, I would be responsible. There is a difference between whether a person does something or the market does it. If a business partner does not pay his or her invoices, the responsibility can be clearly assigned. If the price of a share falls, the other capital market participants cannot simply be made responsible for it. This often makes it difficult in reality to examine psychological processes in a scientific manner.

Can lost trust ever be restored again under these circumstances – and if so, how?
Markets and market players can generate trust themselves. This is the case wherever trust in individuals is involved. I know whether a contractual partner is reliable or not. The market largely regulates this itself. Individual players generate trust by assuming responsibility and repaying a part of their remuneration. But when the issue is about trust in the system, the market does not regulate that automatically. This is where political action is required. State intervention to assist UBS was very important for the Swiss financial system. If we look at the recent movement of the share price, investors seem to have regained some of their confidence.

Doesn't classical theory teach that the good of the community is maximised when markets are free and that everyone tries to maximise his or her personal benefit?
That is the ideology on which classical teachings are based. However, it does not correspond with the facts or with prevailing textbook knowledge. Economics provides very clear conditions under which markets are or are not efficient. When external effects come into play as happens, for instance, with many public goods such as clean air and lakes, then decentralised free markets are no longer efficient. If my production activities pollute river water or the air, the market does not reflect the real costs of those activities. Environmental legislation in Switzerland is one example of how the state intervenes to compensate for markets that are not efficient. Traditional economics has a very scientific and completely non-ideological approach to this problem. There are circumstances where the market is the better system, and there are circumstances in which regulation is necessary.

For instance…?
A good example of this are the financial markets, which harbour enormous information asymmetries. One side of the market is often more familiar with the subject than the other. In situations like these, with imbalances of information, there is the risk of individual players being at an advantage. It is therefore necessary and worthwhile for the state to provide instruments wherever there are marked information asymmetries. But state intervention begins at the level of contractual enforcement! I can sue in court to have an agreement implemented. This is an elementary legal prerequisite for the functioning of markets.

You mean legal safeguards as a form of regulation?
If private players are better able to enforce agreements that they enter into of their own volition, this is a positive form of regulation. It makes it possible for private individuals to get more out of exchange deals. The idea that markets function efficiently without any regulation whatsoever was never right. //


"You can only be a top performer
if you feel good,"

says Adrian Pfenniger, boss of the Triengen-based brush manufacturer Trisa. He is convinced that preserving values such as empathy, fairness, decency and respect gives the company the internal stability it needs, particularly in times of crisis. Photo: Tom Haller

Every year, after the general meeting, Trisa boss Adrian Pfenniger makes a special tour through his company. Together with the company management, he goes through factory halls and office rooms and distributes envelopes with precious contents. The envelopes contain money – cash, counted out exactly – which the boss hands over to the employees in person. It is their share of the profits for the previous financial year. In 2008, it amounted to 6.5 per cent of the basic wage, from the machine worker to the members of the board of directors. Pfenniger also adheres to this ritual in the age of electronic payment transactions. The handover gives him the opportunity to say thank you to the staff and to gauge the mood "on the ground".
He conscientiously avoids the term "bonus", for Trisa introduced financial incentives long before they were in fashion and then fell out of favour. Since 1964, the brush manufacturer has enabled its staff to participate in the company's profits. Whereas back then they were scorned as "communists", today Pfenniger lectures at universities on his participative management model, which he refers to as the "most significant success factor" of his company. Each month, employees are given an accountability report on the business and the profit sharing associated with the performance. "It is a good management instrument," says Pfenniger, "Everyone can see whether we are on course."

Encouraging success

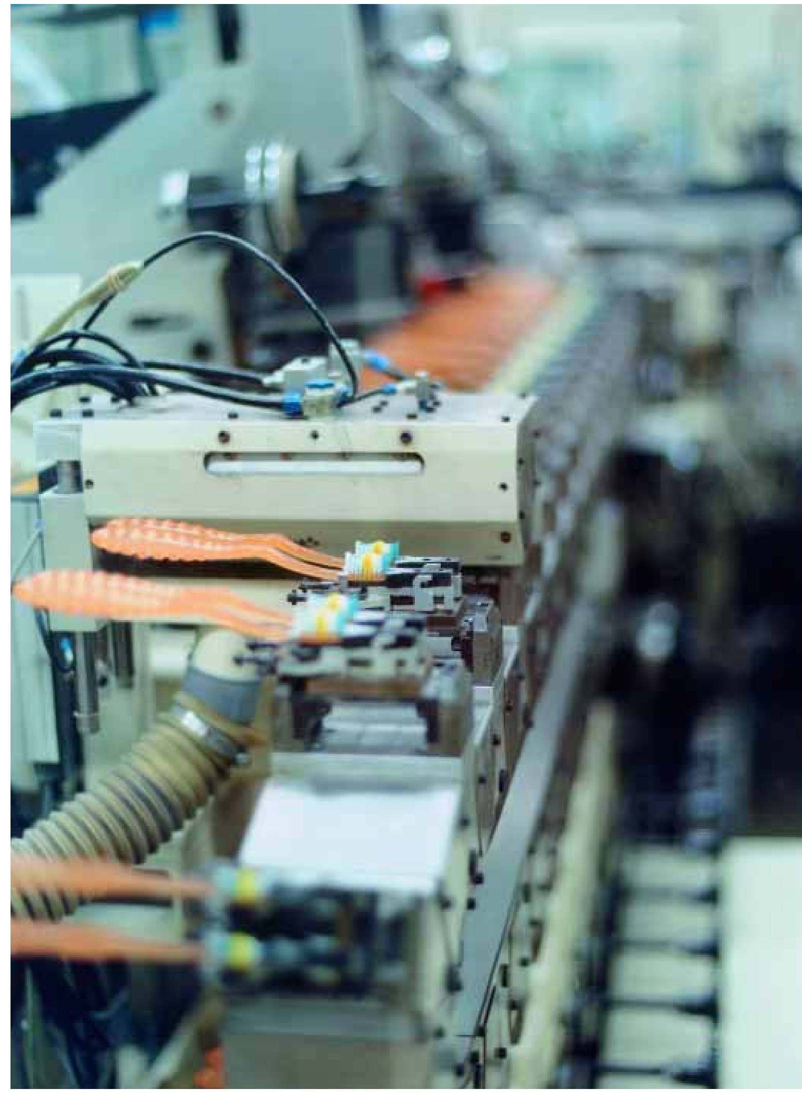
The method was developed out of necessity. At the beginning of the 1960s, Adrian's father, Ernst Pfenniger, experimented with new management models to save the then stricken company from collapse. The company boss invested in new factory halls and developed a system to spur the team on to outstanding performance. For this purpose, he not only introduced profit sharing but also made the employees shareholders and thus entrepreneurs. Thirty per cent of Trisa's shares have since been held by its employees; 70 per cent are in the hands of the Pfenniger family. Those who join the company receive the gift of a Trisa share after one year of service, which according to Pfenniger is "not intended as an investment vehicle, but rather as a ticket to participate in the shareholders' meeting and on the board of directors". Those who leave the company have their share purchased back at its taxable value.
There is thus a greater throng of people at the shareholders' meeting of the brush manufacturer than at the annual meeting of many a corporation listed on the stock exchange. After a phase of strong expansion, the group today has more than 1,000 employees, 750 of whom work at the company's headquarters in Triengen. Irrespective of the growth, the values that have been lived ever since the company was established still apply – with one difference. Now they are recorded in writing too. Adrian Pfenniger, who joined the company in 1989 and has been responsible for operations since 2005, wanted to ensure that the corporate culture grew with the company. He did not prescribe a business charter ex cathedra. Instead, together with the board of directors and the company's hundred managers, he defined the central management principles in the project "Trisa Spirit", which all the employees signed in person. At Trisa, business dealings are to be characterised by empathy, fairness, decency and respect without in any way diminishing the importance of motivation or ability to work under pressure. "You can only be a top achiever in the long run if you feel good," says Pfenniger with conviction. Everywhere in the company one sees plaques with mantras such as "We treat

All Trisa employees also have an ideas pass in which each idea contributed is recorded and subsequently also rewarded. “Trisa champions” are chosen at the end of the year.

each other with esteem”, “Innovation is our goal” and “We deliver top performance”. In this way, long-standing employees are not the only ones who are able to regularly call the values to mind; new employees also quickly become members of the Trisa “family”. Seminars on the topics of “praise and recognition”, “achieving better quality of life” and “teamwork” help to consolidate the spirit of cooperation in day-to-day work.

Investments of about CHF 100 million
What neo-liberal pioneering thinkers might laugh off as social romanticism, Pfenniger sees as a “clear strategic benefit”. The strong culture is the reason it still makes sense for the company to produce at the high-cost site of Triengen. Trisa is competing particularly in young markets such as China and India where suppliers factor in considerably lowerwage costs. Pfenniger, however, is sticking by the Triengen site and has even strengthened it over the last few years with investments of more than CHF 100 million in new production systems. Outsourcing to low-wage countries is out of the question.

For Pfenniger, there is only one way to survive in global competition: innovate. Prime importance is attached to ideas management in Triengen; the share of turnover accounted for by products that have been on the market for less than three years has grown from 5 to 35 per cent over the last ten years. Several innovation circles of employees from various divisions and external experts meet up regularly in a so-called idea house to develop new products. Ideas and knowledge about patents and technologies are systematically managed in a database. All Trisa employees also have an ideas pass in which each idea contributed is recorded and subsequently also rewarded. “Trisa champions” are chosen at the end of the year. This was how, for instance, the sonic toothbrush Sonicpower came to be launched on the market. A team spent four years working on



Trisa introduced financial incentives long before they came into fashion and subsequently fell out of favour. Since 1964, the brush manufacturer's employees have shared in the annual profits.

a solution to fitting a motor into the narrow neck of a toothbrush.

No fair-weather programme

The economic crisis is becoming an endurance test for Trisa too. Pfenniger wants to show that social entrepreneurship is not a fair-weather programme but rather can guide the company safely through times of recession. Trisa, which exports 97 per cent of its toothbrushes, was hit by falling currencies last year. High prices for commodities drove up costs. In the first few months of the current year, orders declined. Knee-jerk cost-saving exercises, however, would be counter to the company's ethos; instead, cost reduction is an ongoing process at Trisa. "Ideas management affects not only the creation of new products but also the entire manufacturing process, logistics and administration," says Pfenniger. "The internal procedures are continually optimised and rationalised at our company, not only in times of crisis." Currently, order handling is being examined. The Trisa CEO is preparing for a stagnation lasting two to three years and a slow recovery. The goal of increasing employee profit sharing to 10 per cent has accordingly been pushed back a bit, but Pfenniger thinks it is unlikely that no bonus will be paid out, as was the case in the economic crisis of the 1970s. He is convinced that retaining values gives the company the internal stability it needs, particularly in times of crisis: "Our values are an anchor in a fast-moving environment," says Pfenniger. "Thanks to them, a quantum of luck and God's blessing, we will also come through this difficult time." //

Facts and figures

Trisa was established in 1887 and today is one of the five largest brush manufacturers in the world. Last year, the company generated a turnover of CHF 236 million and a net profit of CHF 16.5 million with around 1,000 employees. Every day, one million or so toothbrushes leave the plant; 97 per cent of these are destined for export in more than 80 countries. Other business segments are haircare and commercial cleaning. Thirty per cent of Trisa AG is held by its employees; 70 per cent belongs to the Pfenniger family.

Discipline: the greatest challenge.

For Martin Senn, Group Chief Investment Officer (and designated Chief Executive Officer) of Zurich Financial Services, clearly structured investment procedures and a well-defined investment strategy are vital for success. His motto: do everything by the letter at all times.

Photo: Tom Haller

Mr Senn, as the chief investment officer of a global insurance corporation, you hold a key position. What is your task?
The Investment Management division of the Zurich Group has the mandate to generate superior, risk-adjusted return on its capital investments in relation to its liabilities. In other words, my team and I strive to create long-term added value with our revenues from the insurance business both for our policy holders and our shareholders.

You are aiming for an above-average return. What is your benchmark?
We are continually comparing ourselves with our 30 biggest competitors in the world. In the last three years, we have been among the top five on each occasion, both with regard to the absolute performance and the "relative performance", i.e. profit in relation to our liabilities. This is a nice affirmation of our work.

What kind of sums do you manage?
Our core business, the management of insurance funds, involves some USD 174 billion. The management of these funds is supplemented by diverse consulting activities within the Group – for another approximately USD 100 billion. We also act as consultants to our pension funds; across the Group, there are around 40 pension plans with a volume of USD 11 billion. And, what's more, we are also experts in the area of owner-occupied real estate. Here, we have great expertise as real estate is an important part of our portfolio and we have the corresponding specialists in our team.

Martin Senn, designated CEO of Zurich Financial Services, starting January 1, 2010, has been Chief Investment Officer and member of the Group Executive Committee since 2006. His career has taken in various management positions at the former Swiss Bank Corporation and at the Credit Suisse Group. Between 2003 and 2006, he was Chief Investment Officer at the Swiss Life Group.

How many staff do you employ in your division?
We have a very lean organisation; worldwide, around 300 Zurich staff are entrusted with investment management. They are supplemented by a network of external institutional asset managers with whom we collaborate on a mandate basis. This task sharing has a variety of benefits, one of which, for instance, is that we can recruit the best asset managers in their class anywhere in the world and can also part company with them at any time if they do not meet our expectations.

How much latitude do you have?
On the one hand, a considerable amount because we have access to very substantial funds and thus the corresponding influence. On the other hand, our radius of activity is limited by our liabilities, by our capital and by regulatory requirements in the various countries where we are active. The biggest restrictions are our capital and our liabilities. They form the perimeter boundaries for our investment strategy. As an insurer, we need to guarantee that the company's liabilities are covered in such a way that we never have to draw on the Group's capital even in a poor financial market environment. The most recent crisis has provided many examples of what happens when an insurer does not take this into account. Some of our competitors were in such difficulties that they had to

"Our philosophy will continue to be: We want to generate superior risk-adjusted returns in good times and a minimum loss in bad times."

increase their capital or were even dependent on assistance from the state.

What has your experience been with the current crisis?
It is not the first crisis that I have experienced. The global financial crisis has once again highlighted in no uncertain terms the importance of a clear investment philosophy and a correspondingly systematic and structured investment process. We have identified that our investment strategy is solid and robust. However, we too were surprised by the extent of the crisis, we were forced to accept changes in value, some of which were greater than we had expected. Now we are of course asking ourselves what lessons we should learn from that for the future.

Can you be more specific?
I can't be all that specific as a lot is still in flux. Nothing fundamental, however, will change at our company; at our core we have no need for action. Our philosophy will continue to be: We want to generate superior risk-adjusted returns in good times and a minimum loss in bad times – and we will not risk the company's existence in the process. Our overriding goal is very clearly to keep the balance sheet of the Zurich Group strong.

What is the greatest challenge here?
Discipline. We have a clearly defined investment strategy and clearly structured investment procedures, and the aim is to ensure that everyone adheres to these guidelines, irrespective of what temptations the market offers. The temptations in the market are huge – and there is a risk of succumbing to them, for people, not machines, are at work here. The most recent past shows that it repeatedly pays off for us to do everything strictly by the book. Without our exacting regime, we would be much more strongly exposed to the market. We might, like others, have been driven by greed on the way up and by panic on the way down. Thanks to our discipline, we had a positive investment return of just over 1 per cent at the end of 2008 – a significant success and clear affirmation that we are doing a lot right.

In your field, what is know-how and performance, and what is luck and intuition?
At our company, the expertise and, as I said, the discipline of the employees are the be all and end all. It is therefore absolutely pivotal to ensure that we have the best people in each position. Diversity too is a factor. Here, at the Group's headquarters, we employ 53 staff from 25 countries in investment management. That is not only part of our philosophy; it is also decisive for success. When we want to conclude a transaction in China, we need an experienced Chinese employee who has internalised the culture and customs of his/her country as well as the values of our company. I am very proud of the professionalism and the commitment of my staff. And on the topic of luck: that shouldn't of course be a factor at our company! After all, we're not playing the lottery. Our success is based on solid market research, empirical models and clearly defined procedures. Gut feelings and intuition can also play a role up to a certain extent – but are certainly not drivers. Far more important than intuition are insights based on broad internal and external research.

The market for investment opportunities is very agile and inventive. How do you invest?
Here we have a clear guiding principle. We only invest in risks that we understand. By that, I do not mean from a technical perspective, for we easily understand the structure of products. It's much more about understanding the importance and influence of various products on our balance sheet, in particular in the event of a crisis. Certain products are too complex for them to justify in sum the effort required to analyse them properly, to model them and then depict them in the risk systems. It is our experience that highly complex products only marginally prove themselves in an insurance environment. The most recent past proves us right.

When are you anticipating a recovery in the economic situation?
We are already seeing the first signs of a recovery, albeit at a very low level. I think unemployment will continue to grow in many countries, and consumer trust will be dented for a long time to come. Consequently, the glimmer of hope on the horizon does not yet signify a reversal of the trend. We will have to wait a while yet for that to emerge.

What is your own attitude towards risk?
Risk is the driver of return. I always take this link into consideration, both in my job and in my private life. I consider the relationship between return and risk before every decision. //

Building a mound to view the big picture.

Professor Ernst Mohr on the impact of the economic crisis on the University of St Gallen, human weakness and social responsibility.

Photo: Tom Haller

Professor Mohr, the HSG is often seen as a foundry for Swiss business executives. Does that please you?
I like the term "executive" more than the term "foundry". Foundry suggests iron which can be shaped and processed as you want it. That image does not fit with a university. What is correct is that the HSG produces executives.

Executives who are intended to serve the interests of business?
Not only. The HSG is not purely a business school; rather, it offers a broad range of services. I see the HSG as a social sciences university with a strong focus in the area of business studies and, more specifically, in the area of management. We also offer one course in law and two in economics as well as "Law and Economics" and "International Affairs". This distinguishes the profile of the HSG. Only around half of our graduates have studied business administration in its narrowest sense.

"I see the HSG as a social sciences university with a strong focus in the area of business studies and, more specifically, in the area of management."

One of the guiding principles of the HSG is: "We want students who can use their talents and their motivation not only for their personal success but also in a socially responsible way." The financial and economic crisis has shown that many managers in executive positions were primarily seeking personal success. Were they badly educated?
It takes around 15 to 20 years between graduation and gaining a top position. HSG graduates who are now in management positions studied at an institution that was very different from today's. I am not being judgemental in saying this; I am merely saying that the university conveys mindsets to students that always take effect with a certain time lag. That is why the HSG is always in a permanent state of flux. The financial world has also undergone radical change over the last 20 years. A technological revolution has taken place that has facilitated concepts and approaches to valuation that now appear to have got out of control. The financial crisis developed out of a combination of technical errors and human weaknesses.

How do you explain the "human errors"?
They have different causes. One is to be found in specialisation, which is not bad in itself but harbours certain risks. It can narrow horizons and restrict the view of the overall picture. The specialist has a tendency to say: "I'll keep my area in order, and if the other specialists do the same, things will generally be OK." As the crisis shows, this is a misguided view.

Human weaknesses can also be down to character. Can a university train character?
Pedagogical studies prove that early childhood, parents, surroundings and friends have a far greater impact than do school and university. Nevertheless, it would be a damning indictment of a university if it claimed: "We offer a scientific education – we're not interested in the rest." Our opportunities to influence the development of our students' character are restricted, just as they are in a company, for instance. Yet we have to make use of these opportunities.

Has character training become a topic at your university against the backdrop of the financial and economic crisis?
The discussion about the consequences to be drawn from the crisis is under way within the HSG. I am often asked what we are doing now, what we are changing. It is too early to give any answers. One of the topics that we are discussing is the relationship between contextual and core subject study. Here, we are dealing in particular with the risks of specialising.

In "contextual studies", students attend courses that are not directly linked to the subject of their degree and which are intended to broaden their horizons, for instance from a cultural perspective.
Yes, and here the question of how to integrate disciplines arises. Science is becoming ever more specialised; this is the nature of science. On the one hand, it is our task to offer a scientific education; on the other hand, we have to encourage linking of elements, for instance through contextual studies. This is an important point that we have been examining, and not only since

the financial and economic crisis. The crisis has confirmed that no single discipline can promise a solution to the problems. They need to be tackled on a broad front.

Is the discussion about the future of universities being carried out at the international level?
Over the course of the crisis, the HSG has become a focus of special attention – like all business universities. We are a member of the Community of European Management Schools and are noticing that all our partner universities are facing the same challenge: how do we react to the questions and demands from society? We are better placed than purely business schools. Because we offer a broad portfolio, students are given an environment in which they can also exchange ideas and information with students and lecturers from other subjects. This gives us a certain advantage over other universities. This does not mean, however, that everything is OK. We, too, have to review the courses we offer, in particular vis-à-vis the interaction I mentioned between contextual and specialist subjects.

You expect social responsibility from your students. What do you mean by that?
Social responsibility implies an interest in the community. This consists of different people with different backgrounds and different interests, perceptions and requirements. A lot is already achieved here if students are receptive to this subject. Through active membership in student organisations, students can generate benefits for all their peers.

“I don’t set much store by apportioning blame. More interesting is that the dimensions, the rich facets and the effects of the financial and economic crisis offer a huge potential in terms of lessons learned.”

You yourself are a lecturer of macroeconomics with “special consideration of the context of business and ecology”. Entrepreneurial activities that take the environment into consideration also involve social responsibility.
Primarily, it is about determining the basis for people’s prosperity. The environment plays a major role here – and you first have to ask yourself: “Is it worthwhile choosing a long-term perspective over a short-term one?” Of course, you should not lose sight of future generations; however, a company also has to take commercial aspects into consideration; the challenge is to combine the two.

Politics and business are still dominated by men. Is the HSG doing enough to encourage women?
The number of female students is constantly on the rise, but is still below average due to the specific subjects that we offer. Female students now account for around 38 per cent of students; ten years ago, that figure was only 28 per cent. But we still have the potential to increase that number further – compared to other universities that have a quota of women in excess of 50 per cent and also with regard to a different spectrum of subjects. We take the promotion of women seriously. Since 2008, we have offered the further training course “Women Back to Business” for women who are planning to rejoin the labour force.

Is it conceivable that the HSG will have a female president one day?
Yes, of course.

As the president of the University of St Gallen, what lessons do you draw from the last twelve months?
University teaching is researchbased; that’s what sets it apart. Research is becoming ever more specialised; that’s in its nature. The challenge is to ensure that increasingly specialised researchers not only dig down deep for their research but also build themselves a mound from which they can see the whole picture.

As you have said, the HSG is the focus of attention. Has the economic crisis harmed its reputation?
No. It spurs us on to find ways of doing better in future. I don’t set much store by apportioning blame. More interesting is that the dimensions, the rich facets and the effects of the financial and economic crisis offer a huge potential in terms of lessons learned and the chance to review and confirm old concepts or to replace them with improved ones. We have to seize this opportunity, for the cards are being reshuffled at universities too. //

Formative experiences: PwC's Philippos Soseilos in Paraguay.

"Ulysses": An agricultural school in 50 countries.

It was exactly one year ago that Philippos Soseilos, Business Advisory Leader and Head of the People & Change Team at PwC in Cyprus, was in South America as part of the "Ulysses" responsible leadership programme. Together with two other partner colleagues (one from Canada and one from Malaysia), he took on an agricultural education project in Paraguay, working with the local NGO Fundación Paraguaya. The school's model promotes entrepreneurship and provides young people in underprivileged, rural area with the opportunity to learn how to be self-sufficient using the means accessible to them. "Our task was to design a replication model so that the school's system can be transferred to 50 other countries," explains Philippos. "It was an amazing learning experience which got us out of our comfort zones and helped us form a wider and more realistic perspective of the world."

The three-month programme incorporated intense personal reflection and coaching. Philippos acknowledges that this experience allowed him to go through a number of personal shifts. "I observed myself through the eyes of others. I got to thinking about my values, strengths and the source of my energy. I identified my personal blocks (judgements and fears). I very much reflected on the evolution of societies, on the global issues of sustainability, the role of business in the community and of the global leadership challenges."

Philippos began to see his perspective on things change: "The trips that we made during the project brought us into contact with great poverty but also with actually very happy people. It was a humbling confirmation that possessions do not bring happiness. As one of them said: You have the watches, we have the time."

Through "Ulysses", Philippos' ability to listen has greatly improved. "Today, I am much more attentive in both my professional and my private life. I try to better understand people and create space for others. I focus less on my own agenda. I invest more on building trust-based relationships, and I have absolute conviction in the power of collaboration and the spiritual connectivity between people."

"Learning and changing is a lifelong journey. This experience has made me more confident to be myself in an authentic way. I have learned that leadership is about who you are and not what you do." //

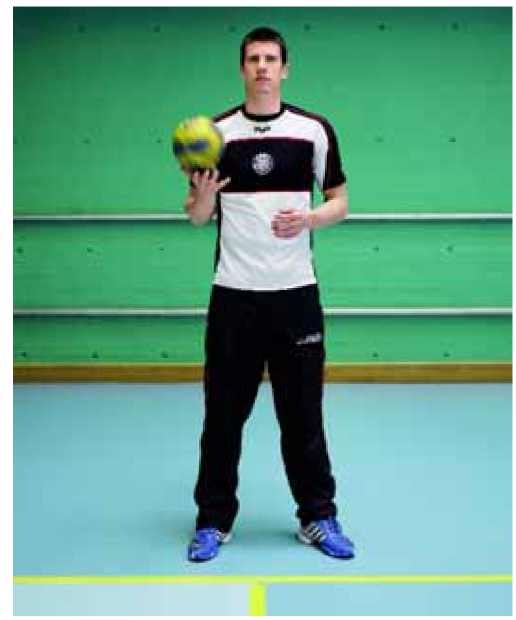
"Ulysses" is a leadership development programme of PricewaterhouseCoopers. The participating PwC partners demonstrate potential for a career in management and are nominated by their country organisations. In multicultural teams (comprising three to four persons), they spend two months in Third World 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.

ceo* optimism/realism

Prof. Dr Susanne Suter:
"A compromise of possible and enforceable."
06

Jean-Marc Bolinger:
"We need substance, not marketing blah-blah."
08

Dr Maja Storch:
"Managers are entitled to feel uncomfortable in difficult situations and should be able to express it."
10



Andy Schmid:
"I prefer to keep my feet on the ground."
12

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