

ceo

The magazine for decision makers

Living values

How to respond to change? What goals and ideals will outlast tomorrow? Leading personalities from the Swiss business community – entrepreneurs, networkers and the next generation of executives – provide answers.



Dr Markus R. Neuhaus,
CEO PwC Switzerland



Permanent availability for intellectual input and forward-looking ideas is essential.

Dear Reader

Summer is drawing to an end and with it the classic holiday period. During this time my thoughts turn to distance, in all kinds of contexts. I reflect on switching off – not only thoughts, but PCs and smartphones – and also on proximity or distance, on intellectual openness, curiosity for other places, worlds and cultures.

I believe that awareness of distant worlds and an interest in all things different and new are really important. I consider leaving the close and familiar, spending time away from the everyday and being inspired by otherness to be the central building blocks of innovation, adaptability and a willingness to develop. Accordingly, it is important to be open to the new, to seek out dialogue with others, to go away on holiday to experience things you would not encounter during the rest of the year.

Of course this openness should not be limited to the holiday period – ongoing receptiveness to different ideas and new ways of thinking leads consistently to new, progressive solutions.

In this context, permanent availability should mean much more than 24/7/365. It may not always be necessary to keep the smartphone

on, but nevertheless it often is, especially as this can reduce stress and build trust in others.

However, what is really essential is permanent availability for intellectual input and forward-looking ideas. These stimuli may come from near or far. And the readiness to connect and interweave these stimuli with the aim of continually developing new solutions and testing them – including on oneself – is what differentiates those who have a problem with change from those who actively contribute to shaping it. Change is happening all the time – it is up to us to influence it, whether on a large or small scale, in our private lives or for a whole organisation.

I hope you will be inspired by your reading and wish you a good start back after the summer break to a stimulating autumn, near or far.

Markus R. Neuhaus

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

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

Concept, editing and design: purpur ag, publishing and communication, zurich, pwc@purpurnet.com

© 2011 PricewaterhouseCoopers. All rights reserved.

The opinions and views expressed by the authors do not necessarily reflect those of the publisher.

ceo magazine appears three times a year in English, German and French. Circulation: 26,000

Free subscriptions and changes of address: sonja.jau@ch.pwc.com

Lithography/Printing: ud-print AG, Lucerne. Paper: Claro Bulk, silk, FSC, wood-free, coated, bright white



No. 01-10-902282 - www.myclimate.org
© myclimate - The Climate Protection Partnership



Forum reachable/unreachable

“Reaching people with information is a major opportunity for the future of our planet,” Eric Tveter, CEO, upc cablecom. 6



“People decide when to use technology, not the other way around,” Isabelle Welton, CEO, IBM Switzerland. 8

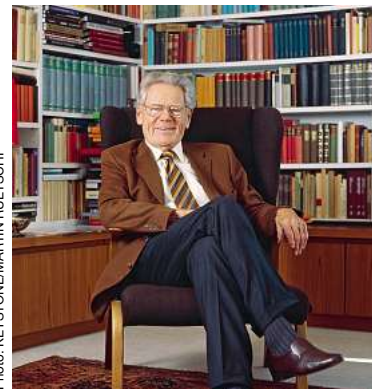


“We have to experience the unreachable to attain ambitious goals,” Stefan Linder, Peter Stähli CEOs, Swiss Economic Forum. 10



How does one get one’s bearings in times of change? What goals and ideals have the power to outlast tomorrow? Where are the role models? What do the next generation’s executives think? Leading personalities from the Swiss business community provide some answers 12

Photo: KEYSTONE/MARTIN RUEISCHI



“To be a great figure in business, you need deeply rooted and well-considered ethical values,” Prof. Dr Hans Küng. 14



“Swiss Railways is a motor for Switzerland, a powerful economic factor,” Andreas Meyer, CEO, Swiss Railways. 18



“The basic values are accountability, transparency, authenticity and reliability,” Peter Baer, board chairman, Sparkasse Trogen. 24



“If we hadn’t invested, we would have been pushed out of the market,” Dr Peter Schildknecht, CEO, CPH Chemie + Papier Holding. 40



“If we’re convinced of something and we have fun doing it, it generally results in success,” Monika Walser, CEO, Freitag. 46



“The idea of the symposium is to develop next-generation leaders,” Dr Toni Schönenberger, Stein am Rhein Symposium (stars). 52



“I investigate what the market wants,” Juliana Sutanto, assistant professor, ETH Zurich, invited participant, stars. 54



“When the time is right and you are given the opportunity, you have to seize it,” Simon Teng, COO, BT EMEA, invited participant, stars. 55



“I am dependent on a global network for my entrepreneurial future,” Badir A. Almusharrek, UAE, speaker, stars. 56



“Industry leaders have to be aware of the impact their decisions have,” Christina Oberli, ICRC, invited participant, stars. 57



“When I don’t like something, I don’t give up. I try and change it,” Richard Burger, Partner PwC, invited participant, stars. 58

Value insights

Transactions: Now that the deals market is moving again, buying or selling businesses or parts of a business has become an option again for many companies. Transactions can help an organisation achieve its goals more quickly and systematically. There’s nothing in the way of a deal – provided it makes strategic sense. 29

Internal controls: Three years ago Switzerland began to require companies undergoing a regular audit to have standardised internal controls in place. In many cases, organisations have set up these systems under time pressure alongside their existing processes. But if they want to keep costs under control and boost efficiency, now’s the time to get a clear vision of controls and put it into practice. 32

Commodity traders: Switzerland is one of the most important hubs of international commodity trading, and has seen the emergence of major clusters in both Geneva and Central Switzerland. The industry has great economic significance, but it’s almost impossible to quantify its importance precisely. 35

Service: Publications and events. Subscriptions and contacts. 38

Cover: Noë Flum, SBB

Dossier: Living values

Eric Tveter:

“Reaching people with information is a major opportunity for the future of our planet”

Being reachable anywhere in the world 24/7/365 has enhanced my life. I feel more relaxed knowing I can be contacted at any time if necessary. The certainty of being able to communicate with other people at any time is just as liberating – and that applies to both my professional and private life.

The new communication technologies have changed my life. Being accessible is vital for me, and most other CEOs probably feel the same. Crises can develop very quickly; you have to be informed and be able to take decisions, no matter where you are in the world and what the local time is. Apart from during plane take-off and landing, my BlackBerry is always on.

All the same, that doesn't mean I am constantly on the phone or sending e-mails. Being reachable is all about organisation. I have competent senior leaders and other team members who can assess the importance of messages. But I am there if needed. That security gives me peace of mind.

I belong to the generation that experienced the rapid development of telecommunications first-hand, from telex and the fax machine to the computer. I was given my first pager in 1988. Back then, it was a great little device! I can still remember the first portable computers too. They were the size of a suitcase and pretty heavy but a huge help at work because you could take them home with you at the weekend. Generally, new technologies have given us the means to work better and more efficiently than in the past. We are communicating more effectively, more concisely and more clearly because we are able to communicate directly and personally via e-mail and SMS. Video conferencing is growing in importance.

I have spent almost half of my adult life working in Europe. Although there are some cultural differences between Europe and the USA, we have more in common than not. On both sides of the pond people appreciate it when you communicate openly and respectfully. Perhaps work-life balance is slightly better in Europe than in the USA. “Make life and work fun” – that is the guiding principle of our company. We provide the technologies for communication – TV, Internet, video and

so forth. Our Fiber Power Internet runs at a speed 100 megabit per second, which is five times as fast as the competition. We are developing from being the largest Swiss cable network operator into a modern, integrated multimedia company with an international focus. We are working on future solutions that offer entertainment, information and communication anywhere and anytime. I still love my work every day, and I am convinced that we are helping to make the world a better place. Currently, we are seeing the changes that modern communication technologies and platforms can achieve. The Arab Spring would have been impossible without the Internet. Reaching people with information – anywhere in the world and at any time – is a major opportunity for the future of our planet. But there are also small personal experiences that show how good it is to be reachable. Many mornings, my 17-year-old gives me a ring before he goes to bed in the USA. That is my wake-up call here in Europe. We can swap news while we look at each other on the small screen; we can smile at one another. This brings joy to my life. At moments like these we are close despite the miles between us. And that's a wonderful thing.

Eric Tveter has been managing director of upc cablecom since 2009. The 52-year-old American was previously president of the British cable network operator Telewest Global Inc. and held various senior management positions at Time Warner Cable, Comcast Corporation and Cablevision Systems Corporation. He lives with his wife on the outskirts of Zurich; the couple's 17-year-old son is at boarding school in the USA and visits Switzerland regularly during school breaks.

Photo: Marc Wetli



Isabelle Welton: “People decide when to use technology, not the other way around”

In the age of the Internet, iPad and smartphones, today, more than ever, we feel we need to be reachable anytime, anywhere. With chat, telephone, e-mail, communities and social networks, we have never had so many tools for communicating at our disposal. The mobile Internet is increasingly blurring the lines between office and home life. Consequently, the real question is no longer whether we are reachable or not. Increasingly, it is about using the different communication channels for specific purposes.

This can be shown very clearly in everyday communication at IBM. The 400,000-plus employees have a broad range of modern communication tools available to them, in addition to classical e-mail. For instance, they send more than 4 million instant messages every day via the Lotus Sametime chat system. On the company-internal blogging platform at IBM, they share their experiences in 260,000 postings and organise their work in international teams through “Activities”, a Web 2.0 platform for organising collaboration in flexible teams. A file-sharing system, communities, Wikis and blogs are just as much a part of the standard communication channels as an internal social network in which teams and experts from various countries can network with one another and exchange ideas and experiences.

The idea behind this diversity is that every employee can use precisely the tools that correspond best to his or her individual working routine. Analyses by IBM experts have revealed that employees work most efficiently this way. It is interesting to see that there are fundamental differences between digital natives and digital immigrants. Whereas digital natives work on several tasks at the same time and solve problems with the help of their networks in chats and social platforms, digital immigrants tend to use e-mail more and work in a more linear manner.

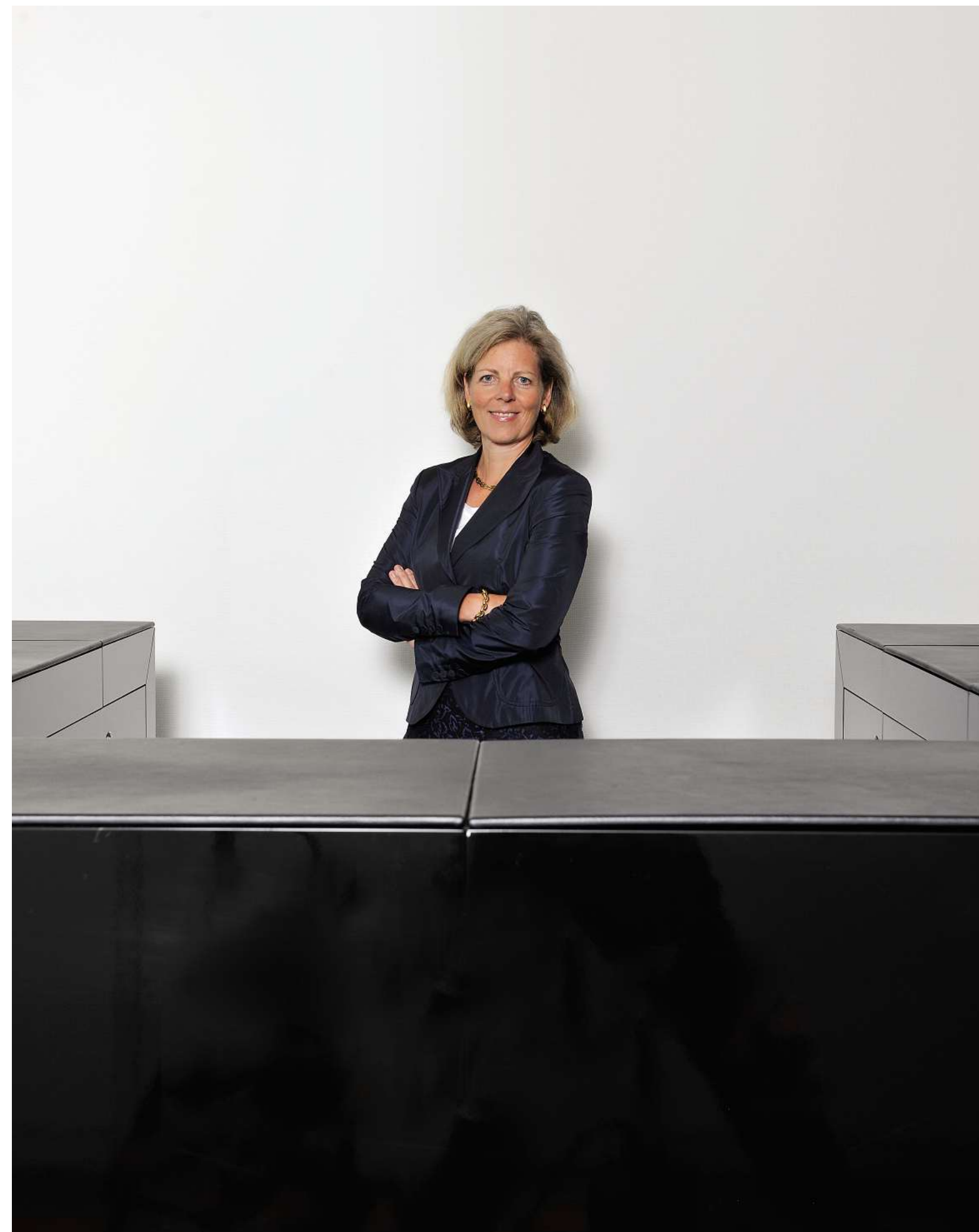
It is, of course, not only the difference in age that defines usage. That would be too easy an explanation and would not reflect the complexity of human communication. Rather, it is about using the right forms of communication in certain situations in a targeted

manner. This helps to organise the diversity and prevents users being weighed down by a mountain of information. People’s attention span is limited, and it is a proven fact that trying to be present in all channels is more likely to result in burnout than success.

As the CEO, it is important for me to be accessible to all my employees. Which is why, if my schedule permits, I set my chat status to “green”. This channel also enables me to exchange ideas promptly with experts in the company when I need a quick reply to a question. For discussions with as many employees as possible, I opt for an intranet forum, where I can explain a chain of thoughts in more detail and get valuable input from colleagues. All of this does not, of course, replace e-mail. It facilitates dialogue with colleagues and customers, during which more time can be reserved for answers. This creates a routine that also permits the PC to be switched off and the smartphone put to one side. These breaks are important to me, which is why it is good that every device has an “off” button. Why shouldn’t I use it? Ultimately, people decide when to use technology, not the other way around.

Isabelle Welton has held various management positions at the computer manufacturer IBM since 2003. Since January 2010, she has been CEO of IBM Switzerland. Before joining IBM, she worked at Zurich Financial Services and at Citibank. She hails from Baden and studied law at the University of Zurich. Welton is married and has two grown children.

Photo: Andri Pol



Stefan Linder and Peter Stähli: “We have to experience the unreachable to attain ambitious goals”

We have now been working together for 13 years, and there is little that we still have to discuss. When we travel to a meeting, we know where we are going to meet and who does what. We are reachable for one another around the clock, but we only call the other late at night in an emergency. We are also reachable for our children. They are allowed to phone us any time of the day – which they do. Our iPhones are switched to mute and we call back as soon as we can.

It is simply a matter of politeness for laptops to be shut and mobile phones set to mute during a meeting. Even so, you still see people busy texting during a meeting. That is par for the course, particularly in the IT industry, where people even reply to e-mails in the middle of a discussion.

Smartphones are the perfect tool for efficient working. Particularly in our profession, which has a lot to do with maintaining networks, they are a pivotal aid. But you have to be careful not to become a slave to the communication medium. You have to establish quality thresholds. It is better to compose fewer messages and ensure that the ones you do send are well thought through, clearly formulated and sent at the right time.

Part of our job is checking before we go to bed whether an important message has landed in our mailboxes. Many speakers whom we want to recruit for our events live in different time zones; you have to be able to respond at any time. Today, many of these sought-after figures are simply unreachable for outsiders. The art is tracking them down nevertheless. To do that, you need creativity and persistence.

For seven years, for instance, we tried in vain to get Richard Branson. He finally came to Thun in 2009. We were on the summit of the Jungfrau and shared a powerful emotional experience with him there. We took the winner of the Nobel Prize in Economic Sciences, Paul Krugman, who was at the Swiss Economic Forum last year, to the Kien

Valley and ate fondue with him in the Friends of Nature hut on the Griesalp. Prominent figures in public life are receptive to surprises like these. The people around them are more difficult. The staff want to know every detail beforehand and keep everything under control. We invest a great deal of time in maintaining our network, which helps us to make new contacts. Nevertheless, we also have to approach people who interest us directly, for instance at an event. There you have a tiny time window of just a few seconds to get yourself noticed. Sometimes, it works. Other times, however, you travel halfway around the world for nothing; you're turned down, or fail to get past the bodyguards. You have to learn to swallow defeats like that. But deep down, we know that we have to experience the unreachable to attain ambitious goals.

Stefan Linder and Peter Stähli are the founders and CEOs of the Swiss Economic Forum, which was initially held in Thun and now takes place in Interlaken. The two also successfully established the Swiss Climate Forum and the Swiss Innovation Forum.

Photo: Markus Bertschi



Dossier

Living values

Texts:
Corinne Amacher, René Bortolani,
Alexander Fleischer, Iris Kuhn-Spogat,
Kaspar Meuli, Bernhard Raos,
Alexander Saheb, Franziska Zydek

Photos: Noë Flum

Every society defines its own aims and values, which can evolve or even change completely over the course of time. Where do we look these days for guidance? Who sets the pace? What values will lead us as individuals and as a society into a worthwhile future? Collective and individual views of what is worthwhile and desirable are a powerful driver of progress in all sections of society, including the economy. But values are often seen as something personal, and rarely discussed in public. And while talking about values is one thing, putting them into practice is frequently another matter entirely. Our dossier features people who do put their values into practice, and in so doing help shape the Swiss economy – as businesspeople, as pioneering thinkers, as networkers, or as the leaders of the future.

“I don’t want to die without having been a valuable member of society.”

Badir A. Almusharrek,
speaker, Stein am Rhein
Symposium

“It is not sufficient to formulate a noble mission statement. A corporate culture can be defined in words, but what matters is how we act.”

Dr Peter Schildknecht,
CEO, CPH Chemie + Papier
Holding AG

“The bank’s basic values – accountability, transparency, authenticity and reliability – are central, both now and in the future.”

Peter Baer,
chairman of the board,
Sparkasse Trogen

“Doing business decently not only means outwardly correct behaviour within the law, but a fundamental moral attitude from within, an ethical behaviour that cannot be enforced by law and yet is owed to society.”

Prof. Dr Hans Küng

“If we’re convinced of something and we have fun doing it, it generally results in success.”

Monika Walser,
CEO, bag manufacturer
Freitag

“These are not people who want to implement the strategies of others; these are strong individuals who want to be in charge of things themselves.”

Dr Toni Schönenberger,
foundation board chairman,
Stein am Rhein Symposium

“Swiss Railways and public transport have always had to struggle for a healthy commercial basis. This system has been developed over generations and has been regularly supported by the country’s citizens at the ballot box.”

Andreas Meyer,
CEO, Swiss Railways

“I’d rather offer arguments than moralise”

In his new book “Anständig wirtschaften” (“Doing business decently”), Hans Küng examines undesirable economic developments over the past decades, explains the reasons behind them and shows the way to the future.

Professor Küng, you have written a book about the economy. Was it created under the shadow of the 2008 financial crisis?

No, it was not written as a reaction to the crisis. In this book, I define, specify and update a message that I first formulated more than two decades ago but which has constantly gained in urgency and acceptance over the years. Indeed, it has become more topical than ever as a result of the financial and economic crisis.

How does a theologian come to deal so intensively with business issues?

I am not an economist, or a banker, entrepreneur or manager. However, like many of my contemporaries I am worried about the state of our world. I try and gain a nuanced understanding of the business world through extensive reading and new discussions with people on a continual basis.

The title of your book says it all: “Doing business decently”. What do you understand by “decently”?

I consciously chose the simple, almost old-fashioned word “decently”. It can be under-

stood by everyone – unlike the trivialised euphemisms that dominate the language of business: “downsizing”, “outsourcing”, “sub-prime” or “structured products”. “Decent” can be readily understood in the meaning of “morally impeccable, upright and honest”. Doing business decently not only means outwardly correct behaviour within the law but a fundamental moral attitude from within, an ethical behaviour that cannot be enforced by law and yet is owed to society.

Do you think that business leaders are receptive to moral recommendations?

I am not a preacher of morals. I’d rather offer arguments than moralise, and not from above, but from within and from below, from the empirical side, and, insofar as I can, with specialists in other branches of science.

“Ethics comes first, followed by politics and then economics.”



Photo: KEYSTONE/RENE RUIJS

“Profit seeking is justified, provided that higher-level values are retained.”

As a result of globalisation, the financial crisis which was triggered in mid-2007 by the collapse of the property market in the USA had a worldwide impact. What’s your view on globalisation?

Globalisation was inevitable. It is the result of the technological and economic development of the modern world. It began centuries ago as a result of the opening up of new trade routes to America and Asia.

It is indisputable that all of us in the industrialised countries benefit from the globalisation of technology, goods, services and capital. It also offers entirely new opportunities for developing and, in particular, emerging countries.

In your opinion, what are the drawbacks of globalisation?

The global networking of the world only affects certain areas of life and population groups; others are not touched by it at all. At national and international level, there are winners and losers from globalisation. In many cases, the exploitation of cheap labour in developing countries has not had any long-lasting development impact up to now as there has been no supporting economic policy. The globalisation of economics and technology has resulted in a global expansion of ecological problems in many areas: catastrophic damage to natural environments, from the pollution of the seas and rivers to the poisoning and warming of the atmosphere; oil disasters, the hole in the ozone layer, climate change overall. The disadvantages are clear for everyone to see. I have named just a few of many.

In your book, you condemn the concept of neoliberalism, as implemented by the business politicians who advocated Reaganomics in the USA and Thatcherism in England.

The ultraliberal concept, as postulated by the economist Milton Friedman, can be described in three words: freedom, i.e. individualism; free market, i.e. capitalism; and restricted state, i.e. antistatism. In an article in the “New York Times Magazine” in 1970, Friedman put forward the idea that a company’s social responsibility consisted of increasing its profits. For Friedman, the ethics of busi-

ness is reduced to the “moral obligation” to increase profits: “The business of business is business!” I ask myself: What role do ethical principles play for the beneficiaries of this capitalist economic system?

What exactly do you mean by beneficiaries?

The crisis revealed who they are primarily. Many high-ranking bankers apparently find it even more difficult than politicians (and Catholic clerics!) to admit their failures and misdemeanours in public. They have thrown billions to the wind and used taxpayers’ money in the process. Countless people have lost their homes, their jobs and their savings as a result of the crisis that the bankers triggered. Hardly a word of apology, no honest confession and consequently no genuine turning back.

You also criticise excessive pay packets; where do you see the connection?

For a long time, people unabashedly maintained that the millions paid to managers in salaries were determined by the market: you take as much as you can. And for the rest, the wealth would automatically “trickle down”. However, at the same time, they ensured that the incomes of the workers stagnated as much as possible and that labour costs were reduced by mass lay-offs or avoided by relocating to low-wage countries. But the type of manager who acts according to the principle “Workforce down – stock exchange up” will not be the success model for the future.

Are you against profit seeking?

Profit is necessary from a business perspective but should not be the only thing that counts. Profit seeking is justified, provided that higher-level values that facilitate a good life and a fair coexistence of people in a free and democratic society are retained. But profit maximisation as an economic principle is not justified from an ethical perspective at all.

You counter neoliberalism – or ultraliberalism, as you say – with the concept of a social market economy like that implemented in the Germany of the post-war period by the national economist and subsequent German chancellor, the “Father of the German economic miracle”, Ludwig Erhard.

Erhard defined the term “social market economy” as early as 1949. Beyond the socialist

planned economy and unchecked capitalism, he combined the principle of freedom of the market with that of social compensation. This so-called ordoliberalism stands for free and functioning competition but also demands that the state create the legal boundaries for this to prevent any type of monopolistic or egoistic expansion of power by one group to the detriment of others in society. At the same time, such a consistent regulatory policy aims to protect the rights of those who have a weak position on the market. Only in this way are both the freedom of individuals and social justice realised at the same time.

You call for business to always be in the service of people, rather than a purpose in itself. Can you explain that?

People are part of the global market, but the market is there for people’s sake and not the other way around! In accordance with its possibilities, politics must create the legal framework for this so that as many people as possible can participate in the global market under human and fair conditions.

You go one step further and emphasise the primacy of ethics over economics and politics.

It is not a new insight that ethics comes first, followed by politics and then economics; this idea was already enshrined in the classical teachings of Aristotle. The interests, constraints and calculations of economic rationality must be taken seriously. But social Darwinism, which holds that only the able survive in the struggle for existence, cannot prevail in a globalised world economy. Instead, every person and every group of people must be treated in a human, not inhuman, way.

In your book you describe in detail the failure of managers for whom success justifies any means. What does it take to be a business leader of integrity?

To be a great figure in business, you need – alongside all the intelligence, analytical skills, decision-making power and assertiveness – a view of the overall reality that goes beyond knowledge of the industry and specialist expertise, an understanding of key interrelationships, a sense of the issues that really matter to people, and deeply rooted and well-considered ethical values.

Can you give us an example?

A person who remained a brilliant role model also outside of his own company – which is still flourishing – was the Stuttgart industrialist Robert Bosch. He explicitly advocated decent company management that is also commercially successful: “A decent form of company management is the most profitable in the long term, and the business world rates such a management much higher than one thinks.” Reliability, longevity and trust are terms that Bosch associated with entrepreneurial responsibility. He was also the person who coined the well-known phrase: “It’s better to lose money than trust.”

What is your challenge to today’s powerful top managers?

Do you stand by your personal ethical considerations and do you ensure that these are visible in your work?

And what advice do you give to ambitious young managers?

Too much ambition can make you blind.

You are the president of the Global Ethic Foundation. Together with scientists and entrepreneurs, you have written the manifesto “Global Ethic – Consequences for Global Businesses” which like your book demands that we “do business decently”. Do you think that you are being heard?

I hope so. This manifesto is not about any utopian world; it is about a vision of the future that is being slowly realised, i.e. it is realistic, and differs from the tired socialist and capitalist ideologies of progress. I believe no more in a “rejuvenation” of real socialism than I do in a “rejuvenation” of real capitalism. We need to forge new paths. —

“Hardly a word of apology, no honest confession and consequently no genuine turning back.”

“A powerful motor for Switzerland”

The CEO of Swiss Railways (SBB), Andreas Meyer, talks about the value of public transport, the price-performance ratio and the special characteristics of a company that in large measure has been developed by its customers over generations.

“Last year, we awarded contracts worth CHF 3.6 billion – 3 billion of that to Swiss companies.”

Mr Meyer, Switzerland spends a lot on its railways. The public sector pays CHF 2.6 billion a year to Swiss Railways. What do we get in return?

Thanks to Swiss Railways, more than 950,000 customers usually arrive at work, school or for a meeting on time every day. Without us, they would have to travel by car. Notwithstanding the burden on the environment, this would cause unimaginable chaos on the roads and in the cities. We would also have to forego all the things that we use rail for in our free time, such as attending sports events or art exhibitions, or spending the weekends in the mountains...

... but we can do that by car.

No, we can't. Just think of the Swiss traditional wrestling competition, the "Schwingfest", or a major pop concert or a football match. Without public transport, it would be impossible to stage events like these anymore. And we would also be very restricted in other ways without the railways. Many things that we take for granted and which constitute social, cultural and economic life in Switzerland today would simply no longer be feasible. That is the quintessence of Swiss Railways and public transport here: quality of life!

Is quality of life the main concern?

Swiss Railways is a motor for Switzerland, a powerful economic factor. We are the fourth-largest employer in Switzerland, with more than 28,000 employees. And we are an important customer for business. Last year, we awarded contracts worth CHF 3.6 billion – 3 billion of that to Swiss companies. But the macroeconomic benefit far exceeds these direct effects. A study in 2008 put the total benefit of Swiss Railways at CHF 21 billion per year.

Swiss Railways is transporting more and more passengers. In 2010, the figure was a record 951,000 people every day. Can the company continue to grow at such a rate?

Switzerland depends on us being able to transport a growing number of travellers. In future, private transport will no longer be able to transport the many people who commute to the city centres every day. What's more, the population is growing due to the influx of foreigners attracted to the high quality of life in Switzerland, and this too generates more traffic. However, leisure transport will also continue to increase. Residents and tourists alike will always want to see the natural beauty of our country. One thing is for sure: the railway's share of metropolitan transport will grow. We are assuming that our passenger numbers in conurbations such as Zurich, Basle and the Lake Geneva area will double by 2030.

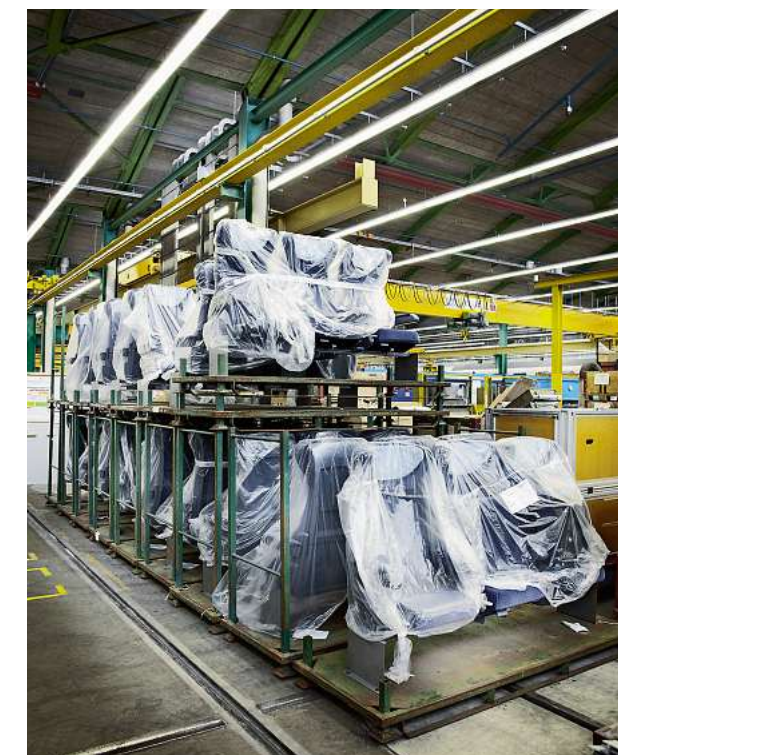
How are you going to cope with that?

Even today, thousands of commuters are forced to stand on trains in rush hour.

We are expanding our range of services considerably. Our activities extend from the Gotthard Base Tunnel and the Zurich Diameter Line to the new rolling stock for regional transport where we will be offering 40 per cent more seats by 2017. By 2030, we want to have invested a total of CHF 20 billion in modern rolling stock for our customers. Trains will be running more frequently and faster in the future and will be more comfortable. And let's admit it, with some goodwill, it's possible to find a seat on virtually any train today.

Doesn't the growth in passenger numbers worry you a little?

Above all, we are proud of what Swiss Railways achieves with its 28,000 employees on a heavily used rail network. No other railway



By 2030, Swiss Railways wants to have invested a total of CHF 20 billion in modern rolling stock for its customers. Trains will be running more frequently and faster and will be more comfortable.



Swiss Railways

The largest transport company in Switzerland is a joint stock corporation under public law, owned entirely by the Swiss Confederation. The Federal Council defines the strategic goals for the company every four years; prices are defined by the Swiss Union of Public Transport. In 2010, over 10 per cent of the population travelled by rail every day. Swiss Railways' Passenger division generated a positive result of CHF 293 million. Around half of the revenues come directly from customers; the rest is con-

tributed by the public sector or designated taxes and levies. Losses at the still struggling Cargo division stagnated last year at CHF 64 million despite a substantially higher transport volume. The financial challenges of Swiss Railways are its backlog demand with regard to the maintenance of its infrastructure and its growing debt burden, the interest-bearing part of which alone amounts to more than CHF 8 billion.

“Swiss Railways and public transport have always had to struggle for a healthy commercial basis.”

makes such intensive use of its network. And in no other country is rail travel as popular as it is in Switzerland. But a few challenges remain of course – in particular, financial sustainability.

What do you mean by that?

The expansion ordered by the federal government and the cantons now also needs to be financed by someone. Over the last few years, we have provided transparency with regard to the expansion, operation and maintenance of the rail infrastructure. I am glad that the transport minister, Doris Leuthard, has tackled the discussion regarding the future of public transport head-on. The issues of sustainable financing, however, have nothing to do with the operational performance of Swiss Railways, which was outstanding last year.

Which changes nothing about the fact that Swiss Railways is borrowing more and more...

... This development is a cause for concern. Last year alone, net debt grew by 10 per cent to more than CHF 17 billion. The amount of debt incurring interest amounts to more than CHF 8 billion. We pay more than CHF 220 million in interest each year.

Do you need more income to stop the debt getting worse?

Yes; a railway that works costs money. With the financing instruments available to us today, a considerable financing deficit will open up in the coming years. In regional transport, we cannot even break even with the current business model, let alone make money.

How do you intend to balance the books again at Swiss Railways?

Great effort is required from all involved – Swiss Railways itself, the public sector and our customers. Price increases are inevitable.

Swiss Railways is very popular among the general population and politicians. Will the problems with future financing jeopardise this goodwill?

These discussions are challenging for all involved – including me. But they are also part of our entrepreneurial responsibility. I do not believe that our image is at risk. Swiss Railways and public transport have always had to struggle for a healthy commercial basis. This system has been developed over generations and has been regularly supported by the country's citizens at the ballot box. We have overcome many other obstacles besides the current financial issues. Above all, I am optimistic because ultimately the costs will be offset by phenomenal improvements in the services we offer.

With this growth and these cost constraints, isn't there a risk of neglecting traditional Swiss Railways values such as cleanliness and punctuality?

They are the basis of our growth and the trust our customers place in us. We can only grow further and profitably if these traits continue to apply. Over the long term, our customers will only be willing to pay for a good range of services if we retain our values. If these values are lost, the federal government and the cantons, as the parties who commission our services, will no longer be willing to co-finance this system to the extent that they have done up to now.

Since you took over as CEO, there has been a lot of talk about a change in values at Swiss Railways. What values do you advocate yourself?

They are fundamentally our management principles: a clear commitment to profits and services, a constructive, critical and open dialogue, reliability in our dealings with one another, and the maintenance and further development of our railway expertise. It is important to me that we adhere to these principles of conduct and exemplify them in the way we think, feel and act.

There is also criticism of this new direction...

... I like things to be transparent and address problems in a dialogue with the board of directors and my staff. In the process, I have

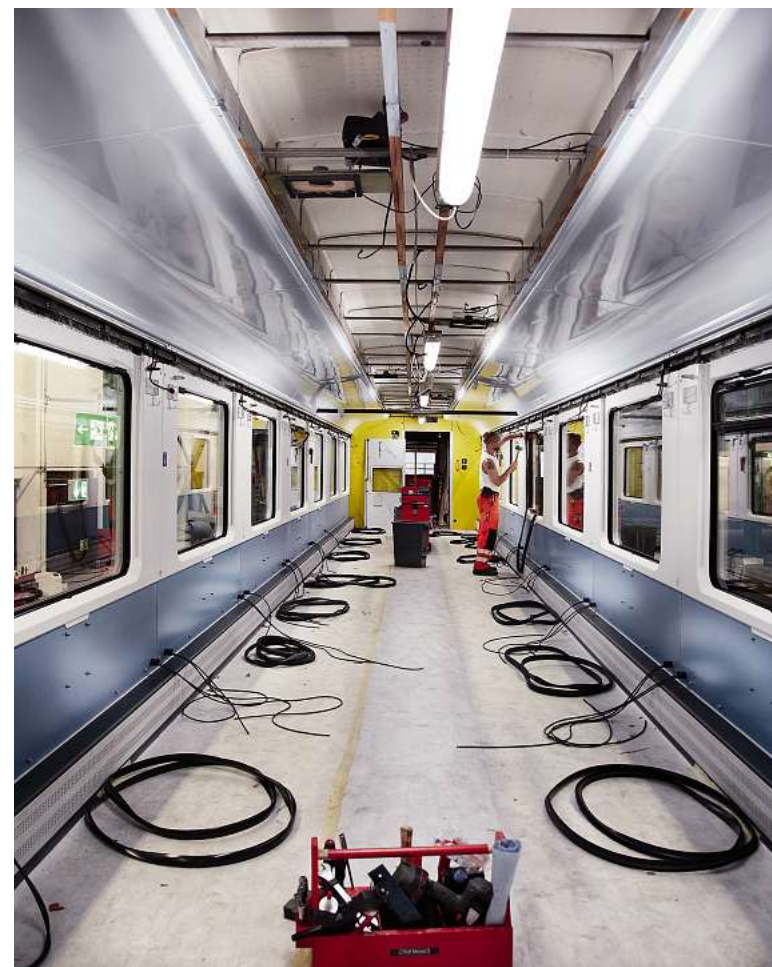
discovered that Swiss Railways, like any large corporation, has room for improvement when it comes to open exchange. It is important to me that we talk openly with one another about where things work well, where we need to be careful and where there are things that need to be clarified. Today, Swiss Railways has a management board with a common understanding – and in particular with regard to its values and conduct.

You sit in a glasshouse at the helm of Swiss Railways – watched like no other CEO in Switzerland. Were you prepared for that?

I was expecting to be under scrutiny. But the extent of that scrutiny has at times taken me by surprise.

The ticket prices are also particularly closely monitored.

We expect our prices to be discussed in public, not least because of the special relationship that the Swiss population has with Swiss Railways – everyone is an owner of the company to a certain extent. We primarily need to find a way of better ensuring our future competitiveness for our customers' benefit. We also want fair prices. In short, people who use more comfortable services more should also pay slightly more for them. I would advocate a greater sense of responsibility from all parties involved. We are not making profits to line owners' pockets. We are doing it to develop a range of services further and to remain an attractive company for our customers and our employees. It is in the interest of Switzerland as an economic location and tourist destination that Swiss Railways continues to carry out its core task successfully. —





Bankers with a personal touch

Sparkasse Trogen is known as the smallest bank in Switzerland. It imposes its own limits on growth and for almost 200 years has operated successfully on the basis of a business model consisting of two products. “Our customers come to us because they know us,” says board chairman Peter Baer.

Ideals and values are invisible, an intangible asset. But as you walk with Peter Baer through Trogen in the region of Appenzell, values such as customer contact come to life. Outside the post office, on the Lands-gemeinde Square or at the house where the Sparkasse founder, Johann Caspar Zellweger, was born, Baer is greeted, spoken to, drawn into conversations.

As chairman of the board of directors of Sparkasse Trogen, Baer has been a key figure in the business life of the community since 1997. The institution, often dubbed the smallest bank in Switzerland due to its balance sheet of just CHF 19 million, dispenses with the prestigious trappings usually associated with the sector. “We are bankers with a personal touch; our customers feel they can just pick up the phone and call us,” says Baer.

Bank and customer – a true relationship

The claim of personal approachability not only applies to the bank but also to its customers. Applicants for a Sparkasse Trogen mortgage do not need to visit the branch to justify their application. Instead, the bankers, usually Baer and branch manager Helen Preisig, make a personal visit to the applicant’s house. “We want to see the people and the place,” says Preisig, who has worked at the Sparkasse since 1983. “Provided they let us in,” jokes Baer with a grin. But of course doors are always open for the two bankers; and once Baer and Preisig have inspected a building from cellar to attic, they may well have some recommendations for the mortgage applicant, such as pointing out an unno-

ticed fungal attack in the cellar that needs attention.

Risk assessment just like the major players

Mortgages are usually granted – but only after a careful risk classification, the criteria of which, at the Sparkasse Trogen as anywhere else, must meet FINMA (Swiss Financial Market Supervisory Authority) guidelines. Critical transactions are not taken on, nor are loans granted for properties that would be difficult to resell or that require substantial renovation. According to Baer, the maximum mortgage granted is CHF 450,000. He believes that keeping to this size ensures a sensible ratio vis-à-vis the bank’s capital resources, thereby avoiding concentration risks. In 2010 Sparkasse Trogen had mortgages on its books totalling around CHF 16.5 million.

This cautious mortgage policy is in line with the bank’s main aims: the money made available should be well invested and should not result in a loss. This business principle has served the Sparkasse well for around 200 years since its founding in year 1821 by Johann Caspar Zellweger “for the good of the poor”. In an entry in the Ausserrhoden trade register in 1883, the business was defined in rather more detail and recorded as: “The acceptance of savings, and the granting of

Peter Baer

has been chairman of the board of the Sparkasse Trogen Cooperative since 1997. With a degree in economics from St. Gallen University, his main profession is as IT manager for the NZZ media group, and he commutes several times a week from his home in Trogen to Zurich and St. Gallen, spending about three hours a week on Sparkasse Trogen business. Baer is married and has two adult sons.



Around 10 per cent of the annual profit is spent on sponsoring local events, from brunch on the village square to ski racing for schools.

mortgage-backed loans and loans to public bodies, mainly within the local authority district of Trogen.”

Profitability is definitely an objective

This is still true today. The product range comprises just two items: fixed-interest savings accounts and variable-interest mortgages. Baer considers this limitation to be a positive thing: “Our business model is characterised by complete transparency. What we do can be understood by everyone and is easy to explain.” Self-restraint may not be a guarantee of success, but it does give the business a certain security.

Despite – or indeed, because of – this, the bank makes a profit, and has done so since it was founded. In 2010, as in previous years, this was around CHF 100,000. Striving for profitability is definitely an objective, but according to Baer, it is not about making ever more profit every year – nor does the total balance sheet figure necessarily have to increase annually. The emphasis is on the stability of the returns. Sparkasse Trogen is organised as a cooperative society, which means there is no shareholders’ interest to take into account.

Around 10 per cent of the annual profit is spent on sponsoring local events, from brunch on the village square to ski racing for schools. Baer and Preisig, as well as the other bank employees, also attend most of the events supported by the Sparkasse in person and are happy to lend a hand. As Baer says, they see themselves as “bankers with a personal touch”. In this spirit they are keen to ensure that the village benefits from the good business performance, and also to do something in person for the community from which this success has grown. “Our customers come to us because they know us,” says Baer.

The only concerns Baer has are regarding the increasing number of regulations the bank faces. It is becoming ever more difficult for to comply with the regulatory conditions and to meet the associated bureaucratic expenditures. They are supported well by PwC St. Gallen, for many years their auditors under the banking laws. Even so, “if this trend continues, we will think hard about whether it is viable for us to continue”. Nevertheless, Baer looks back very positively on the 14 years he has been with the Sparkasse: “The simple model has definitely been a good one for us.” The bank’s basic values – accountability, transparency, authenticity and reliability – are central, both now and in future. “Customers have to know that we are a good bank.”

Mr Baer, how is business at the moment?

I’d say it’s steady and within the usual bounds. In view of the expectations of higher base lending rates, the demand for mortgages has been a little more subdued.

Is it in keeping with the times to restrict your offering to variable-rate mortgages?

We are convinced that this is a good model in the long term because we do not want to have to react rashly to market developments. Over the years it has paid off for our customers, as interest rates ultimately drop back down even more quickly.

Is Sparkasse Trogen a shining example or yesterday’s news?

Neither, really. I believe we fit in very well with Trogen and the Appenzell region. It’s proved good; we certainly think so.

Do your customers think so too?

Around 80 per cent of our customers are from Trogen. We also have a few agricultural businesses from the cantons of Thurgau and St. Gallen. Many customers come to us and say: “We know where we are with you.”

Would you describe your business model as sustainable?

It’s normal banking practice. We want to stay in business in the long term and not to make a loss.

Do you avoid all transactions based on mathematical theories of investment?

Yes, that’s right.

What values do you embrace at Sparkasse Trogen?

Approachability for our customers and transparency of our business. And we like to give something back to the village.

What is your greatest preoccupation?

At present we still fit into the banking landscape, but small as we are, we have to ask ourselves for how long we can comply with all the FINMA rules and regulations. However, their attitude towards us has improved substantially in recent years, not least because we are successful and things are going well for us.

What do you wish for the future?

I would be pleased if our business model could continue to survive in Switzerland. It would also be good for the people here. Like a local small-scale hydropower plant, we provide a service right where it is needed. —

Sparkasse Trogen

was founded in 1821 and currently is constituted in the form of a cooperative. It has a total balance sheet of CHF 18.8 million and in 2010 made a net profit of CHF 0.1 million. It has mortgages amounting to CHF 16.5 million, and savings deposits totalling CHF 15.7 million. The two members of the management committee act in an honorary capacity. Two part-time employees, paid the usual wage for the sector in the area, handle the bank’s transactions. Sparkasse Trogen has one branch, in Trogen, and is also open on Saturdays.

ceo 2/2011

Value insights

Transactions	
Getting the timing of a purchase or disposal right	Page 29
Internal controls	
Companies need a holistic vision of controls	Page 32
Commodity traders	
The discreet giants of the economy	Page 35
Service	
Publications and events	Page 38

Beat Dällenbach,
Transactions



Transactions

Getting the timing of a purchase or disposal right

Now that movement has returned to the deals market, buying or selling businesses or parts of a business has become an option again for many companies. Transactions can help an organisation achieve its objectives more quickly and systematically. There's nothing in the way of a deal – provided it makes strategic sense.

You may have been toying with the idea of selling parts of your business for some time, but haven't done so because the market valuation of the businesses you want to dispose of is too low. Or maybe you're in the opposite situation: having managed your company's liquidity carefully during the downturn, you now have a nice cushion and have to decide how you can use this cash to accelerate the implementation of your strategy. Buying a suitable business could be the right route to take. Many businesses in Switzerland currently find themselves in a

similar situation. The downturn brought the deals market to a veritable standstill. Potential sellers feared they wouldn't fetch a good enough price, while companies in the market to buy found lenders unwilling to provide the necessary funding. And there was virtually no sign of syndicates emerging to finance international deals.

Now there is nothing standing in the way of a deal from a macro-economic point of view: there's plenty of cash in the market, and good assets are in demand again. If you're intending to buy or sell, chances are the conditions will be right to do so in the next two or three years.

Don't save on the wrong things!

This doesn't mean, however, that your decision to buy or sell should be influenced by the broader economic environment alone. Neither is the prospect of optimising your capital structure sufficient reason on its own to embark on a deal. Ultimately your decision always has to be guided by strategic considerations. There are two main strategic questions you should be

asking. Are there units within your organisation that do not (or no longer) match your strategic orientation? In this case you could consider selling. Or do you see strategic gaps that can't be filled by organic growth alone? Then it might be time for acquisitions. Any company should be considering the deal option, as buying and selling businesses is a proven way of implementing your own strategy as effectively as possible.

You also have to remember, however, that any transaction has to be thoroughly prepared. These days many large companies are in a position to handle a transaction professionally. But experience also shows that other organisations don't have the necessary expertise or experience. This should come as no surprise, as a purchase or disposal isn't exactly daily business, especially for a medium-sized company. But even organisations with the necessary know-how can make mistakes, for example by trying to save on the wrong things – on due diligence, for instance.

Development of the global M&A market

Big regional differences

End-June figures show the volume of the global transactions market at USD 1.56 trillion – USD 0.32 trillion more than in the prior-year period. This year promises to be a good year for mergers and acquisitions.

In 2008 we saw record market volumes, with global deals totalling USD 3.2 trillion. The market slumped almost 30% in the wake of the financial crisis. Even though it picked up again in 2010, at USD 2.8 trillion it still hadn't recovered to pre-downturn levels.

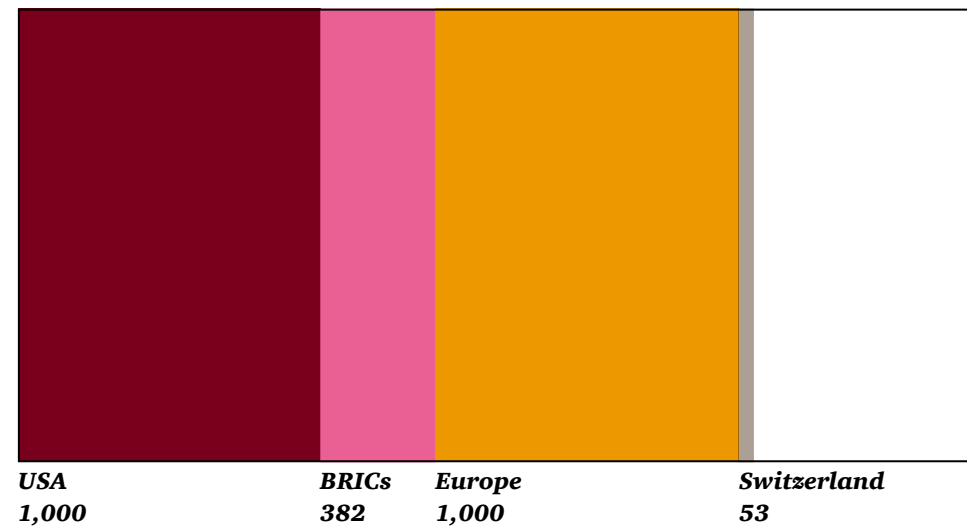
The geographic breakdown is revealing. The development of the transactions business was most dynamic in the emerging markets. The BRIC countries (Brazil, Russia, India and China) increased their share of the world transactions market from 12% to 18%. In 2008 they saw deals worth USD 382 billion. Volumes then fell 23% in 2009 before doubling to USD 494 billion the following year. Taken together, after a slight decline of 10%, other markets in Asia, Africa, South America and Australia saw record transaction volumes in 2010.

In 2008 Europe contributed more than a third of global volumes, with deals worth over USD 1 trillion; two years later the continent accounted for only 20% or so of the world market. In 2009 volumes shrank 45% to around USD 590 billion. In 2010 the market picked up by a mere USD 10 billion. The market recovered more quickly in the USA. After transaction volumes declined around 23% in 2009, in 2010 the USA made up around half of this lost ground.

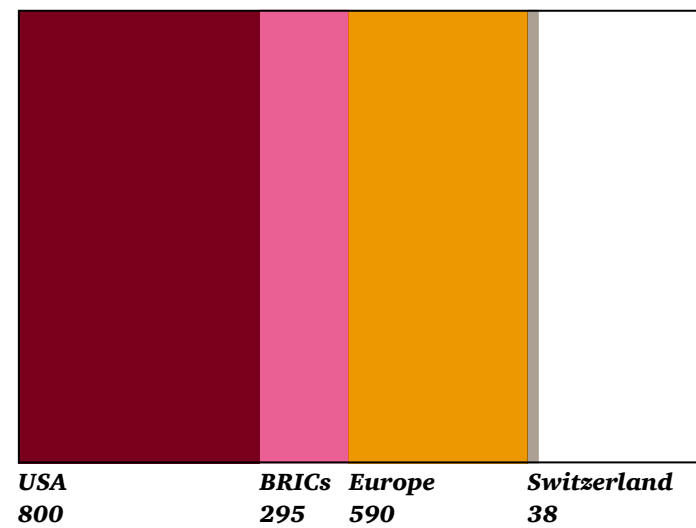
By 2010 the Swiss deals market had already recovered to above 2008 levels (USD 57 billion versus USD 53 billion in 2008). On the other hand, the Swiss market is small and easily distorted by major transactions. The acquisition of Alcon by Novartis, for example, accounted for half of last year's volume of deals.

Source: Dealogic, March 2011

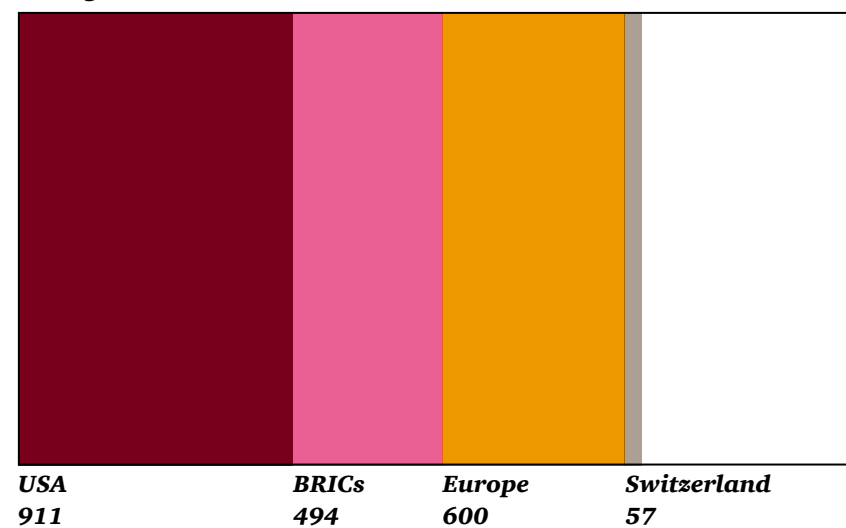
2008 global total: 3.2 trillion USD



2009 global total: 2.3 trillion USD



2010 global total: 2.8 trillion USD



Due diligence a must

Alongside solid financing, any purchase or sale stands and falls on due diligence. Whatever the deal, legal, tax and financial due diligence is a must. The extent to which you do look into specific areas in more depth, for example examining the impact on operational business or the environment, depends on the specific circumstances. But whatever you do, you have to take a detailed look at the legal, tax and financial implications. If there is a lack of compatibility in any of these areas, it could easily break the deal completely.

Due diligence can unearth facts that doom a deal to failure. This particularly applies to cross-border transactions. To assess the legal, tax and financial implications in all their nuances, you need local specialists. Any deal will also be easier to execute from a cultural and communications point of view if the evaluation team includes people from all the different areas.

If you want a transaction to be a success, besides due diligence you also have to make integration planning a priority. In most cases companies embark on this

process too late. Ideally, you should start thinking about how the target business can best be integrated during the evaluation phase itself. But many organisations are unwilling to invest time and money in integration at a point where the deal as a whole is still subject to uncertainty. But let's be clear: if integration doesn't pan out, the value you hoped the transaction would add can be destroyed very quickly indeed.

Integration is an intellectual process on which the buyer and seller should cooperate very closely. Apart from time, the key is corporate culture. People (and in particular people with knowledge) who join your company for the first time have to be managed and led. Management style can determine whether people continue to deliver their accustomed performance, and whether the people with knowledge stay. You have to strike the right balance between centralisation and autonomy. There's no patent recipe for this. For example if you want to integrate a business where researchers and scientists drive value creation, you should be giving these people a great deal of autonomy. After all, there are limits to the power of monetary incentives when you're trying to retain people whose main priority is to develop in their career.

beat.daellenbach@ch.pwc.com

Summary

The conditions are favourable again for deals. But there are many aspects to be considered when you embark on a transaction. They have to be prepared properly – on both the buyer's and seller's side. To add value, the deal has to be professionally planned and executed. The key factors are the strategic combination of businesses, proper due diligence, and early integration. If all these things are in place, only one thing counts: the price.

Deal breakers that can completely derail a transaction

Legal: Contracts can contain clauses that render a deal meaningless. Most frequent are non-compete or change-in-control clauses, for example a clause stipulating that a loan becomes due as soon as the sale goes through.

Tax: A company may have agreed certain tax privileges with the tax authorities in return for an understanding that the business may not be restructured.

Financial: The financial crisis has really shaken up the income statements of some companies. This can make it difficult to work out long-term business volumes and assess the reliability of the budget.



Jürgen Müller and
Paul De Jong,
Continuous Monitoring

Internal controls

Companies need a holistic vision of controls

Three years ago Switzerland introduced the requirement that companies undergoing a regular audit have standardised internal controls in place. In many cases, organisations have set up these systems under time pressure alongside their existing processes. But if they want to keep costs under control and boost efficiency, now's the time to get a clear vision of controls and put this vision into practice.

Internal controls are a time-tested way of maintaining control of a business and managing the risks. The idea of controls has long been part of operational processes, and financial controlling means it is an integral part of all areas of the business. The Sarbanes-Oxley Act, which unleashed a wave of regulation across the globe when it was passed by the USA in 2002, has lent even greater weight to internal controls. Now top management faces challenges from both a business and a legal point of view. Since 2008 the existence of

a system of internal controls has been one of the things examined in the regular Swiss audit (Art. 728a of the Swiss Code of Obligations). Having a system of internal controls in place – one that functions and is effective – makes sense. The problem at the moment, though, is that many companies have had to set up a control platform under great time pressure. What many have done in practice is to place a formal internal control system meeting the regulatory requirements over existing processes and the internal controls they contain. Few organisations have managed to create an effective management instrument by integrating the controls contained in this formal

system into their business processes. Another important point to remember is that the internal control system laid down in the law is only geared to financial controls. It is of little use when it comes to controlling operational activities. In the worst case it can even prevent processes from running quickly and smoothly. This has made employees in many organisations weary of controls: they feel “over-controlled”, and can't see the use of the new controls. This is a dangerous development, as controls are highly relevant in terms of achieving sustained business success.

Aligning objectives and controls

Two things are needed to prevent controls becoming a burden. First of all, companies need a holistic vision of controls. Secondly, they have to make sure that controls are better integrated into business processes again. Having a

New technologies for managing processes and controls

These days cameras can be used to permanently monitor the average speed of vehicles on a certain stretch of road. If the average speed measured by the system is too high, the driver automatically gets a speeding ticket. This type of speed camera is replacing spot checks and fixed radar traps. A positive side effect is that traffic flows more freely: traffic no longer backs up because drivers see a speed camera and brake suddenly. Because systems for monitoring average speed are scalable, in the longer term they're a more cost-efficient means of traffic control.

New software developments and offerings

New technology is also enabling similar progress in terms of the security and efficiency of internal controls within organisations. For the last five years or so, software developers have been working on a number of different solutions offering companies technical support. These are some of the key approaches:

- **Continuous controls monitoring:** This software offers functionality to help design and monitor systems' security parameters and embedded controls. This helps companies ensure that their systems' embedded controls are in accordance with their internal control requirements.
- **Continuous transaction monitoring:** This software enables the evaluation of millions of transactions and master data against specific criteria outside the ERP (enterprise resource planning) systems. This helps companies improve the quality of master data and detect any unusual transactions.
- **Business process management:** This software embeds and automates business process workflows in ERP systems. This helps companies to ensure that process activities are executed in the right order and with the right programmed procedures.

What to consider when choosing technology

There are many different technological solutions available on the software market. Some are specifically geared to one of the areas already mentioned, while others are hybrid solutions combining the functionalities of more than one.

Initial experience with software solutions of this sort has been promising: businesses using them have been able to make their processes more efficient and their controls more effective. Centrally monitoring compliance with the rules or unusual transactions, and regularly reporting to operational business units, has enabled these organisations to reduce error rates and remedy areas where controls are weak. Experience has also shown, however, that implementing solutions of this sort requires a great deal of care and attention. You have to be aware of the following points in particular:

- The right software solution will depend on your process organisation and process architecture.
- Even if the technical work and investment involved are relatively minor, the project as a whole can involve a great deal of work. It will often entail conceptual work, a rethink of the organisational structure, and a redesign of processes and controls. Projects of this sort are not only about IT; the line also has to be heavily involved.
- It's worth proceeding step by step. In most cases it makes sense to start off with one or two business units and processes.

vision of controls means having a clear and well-thought-out idea of how internal controls should be designed. The ideal internal control system is effective and efficient and ensures a high degree of security, while at the same time helping achieve the company's business objectives. But systems like this don't grow on trees. They have to be designed individually so that the specific objectives and controls of the organisation can be aligned. If management wants to develop a vision of controls, it has to ask some very practical questions as well. Are we running the right controls? Are controls carried out as intended? Do they run efficiently? International businesses also have to make sure that controls are carried out in the same way in all the countries in which they operate, but also that they are adequate to the specific circumstances and degree of development of local country organisations.

Designing an intelligent system

The second step is to implement this holistic vision of controls – analogously to the company's strategic vision – within the organisation. The control system has to match the company's organisational and management structures, its operating environment, and its corporate culture. As part of implementation it may be necessary to align the organisation to support the vision. The outcome should be an intelligently designed system

of internal controls that effectively and efficiently supports the achievement of the organisation's strategic objectives.

This can only happen if controls are made an integral part of business processes, and roles and responsibilities are clearly demarcated at all levels of the organisation. Recently the tendency has been to create additional functions to cover specific areas of risk. Besides financial risks, this has primarily been the case for compliance risks. Companies should give careful thought to where they assign responsibility for these controls. They have to consider whether special functions are the best route, or whether controls should be made the responsibility of the people responsible for the processes themselves.

Controls have to work on a permanent basis. Even relatively small businesses have such complex processes that it isn't sufficient to run controls once a month or once a quarter. In the course of a week a million or more transactions take place within the average medium-sized international business. In this situation, spot checks and sampling are unlikely to be of any use. Companies can only achieve

a reasonable level of security and a sufficient degree of efficiency by way of automated controls.

Monitoring controls automatically

The modern approach, continuous monitoring, builds on the fact that today's companies model their business processes in standard applications. This makes it possible to monitor processes and the controls they contain automatically. Continuous monitoring enables the organisation to identify, investigate and remedy discrepancies and exceptions before it's too late. Continuous monitoring also enables the efficacy of controls in different business units and country organisations to be evaluated and compared. But here too it pays to be careful: you should only compare areas of business that are at the same level of maturity and operate in a comparable market environment. Companies looking to expand into emerging markets or developing countries also have to adapt their controls to local circumstances. In such cases, targeted audits are often more effective than standardised controls.

However necessary automated controls may be, they don't make manual controls redundant. If a process is business critical, it's advisable to run additional controls to ensure that the information is subjected to another round of critical questioning. This is especially important when matters of valuation are at stake.

juergen.t.mueller@ch.pwc.com
paul.l.de.jong@ch.pwc.com

Summary

Companies need a vision of controls, which like their strategic vision has to be implemented within the organisation. This includes integrating controls into business processes. If controls fail or are lacking, the consequences can be fatal. A functioning internal control system is indispensable for directors and executives. It is also a valuable management tool. Thanks to new technology, it's now possible to monitor the efficacy of controls on a continuous basis.

Commodity traders The discreet giants of the economy

Switzerland is one of the most important hubs of international commodity trading, and has seen the emergence of major clusters in both Geneva and Central Switzerland. The industry has great economic significance, but it's almost impossible to quantify its importance precisely.

Commodity trading is a flourishing business, but a very discreet one. The industry tends to shun publicity, preferring to do business via relationship networks. Personal contacts are key to its successful business model, because as soon as the market becomes transparent, margins shrink – a phenomenon observed when electronic trading in cotton was introduced in 2008. There are no official figures to indicate the size of the market. The activities of commodity traders are only partially reflected in overall economic and customs statistics. There are a number of reasons for this. For one thing,

Jürg Niederbacher,
Commodity Trading



the physical flow of commodities does not run parallel with the relevant commercial and financial transactions; for another, most trading companies are privately owned and publish next to no figures.

Turnovers running into the billions

One result of traders' reticence is that the public is barely aware of the economic significance of commodity trading – even though the market leaders boast turnovers running into the tens and hundreds of billions. Switzerland is an attractive base for many commodity companies, with numerous major players headquartered in this country, particularly in Central Switzerland and Geneva. While Zug is primarily a centre of trading in mining commodities, Geneva specialises in oil and so-called soft commodities such as grain, cocoa and sugar. Last year Geneva superseded London as the world's largest oil trading hub. According to the Geneva Trading and Shipping Association (GTSA), nowadays one third of international trade in crude oil and oil products takes place

via Geneva. With London and Geneva vying for supremacy in physical energy trading ever since the 1973/74 oil crisis, this is a veritable coup for the Swiss city. Geneva is also number one in global grain trading, European sugar trading and, together with London, cotton trading. Added to this are activities related to the industry: according to the GTSA, Geneva also leads the way in financing commodity trading, in the inspection and certificates business, and – astonishing as this may sound – in shipping, with 22% of worldwide movements of commodities running via landlocked Switzerland.

Historic roots

Naturally classic advantages such as Switzerland's legal and political stability, tax framework, easy access to financial institutions, highly qualified workforce, central location and high standard of living are important factors. But there are also historical reasons

22%
of worldwide
movements of
commodities running
via Switzerland.

Since 2010
Geneva
is the world's largest
oil trading hub.

The main risks in commodity trading

The biggest risk for commodity traders is the unpredictability of the market. The most obvious risk – but by no means the only one – is price volatility, which has become more pronounced in recent times. The most important of the countless other risks to which commodity trading is subject are as follows:

Financing risks: Financing is the basis on which the whole business stands and falls. Financing trading is a particular challenge when commodity prices are rising: in what is a highly leveraged industry, traders reach the limits of their credit lines more quickly during these phases. On the other hand when commodity traders reach their existing credit limits and need new sources of finance, this creates opportunities for financial institutions wanting to get involved in the business.

Geographic risks: Commodities are finite, and most of them come from politically unstable countries. Resource bottlenecks, export restrictions, changes in the legal situation and political turmoil can all have a negative impact on business. And the more dependent a company is on a single region or commodity, the more susceptible it is to these risks.

Reputational risks: People increasingly expect politically correct behaviour from the players involved. Stakeholders are sensitive to compliance with human rights, working conditions and proper business conduct. Even if a company upholds these principles, in many parts of the world it's difficult to put them into practice.

Staff turnover risks: As a people business, commodity trading companies rely on having good employees – and in particular on retaining them. One of the main ways of attracting and retaining good people is offering competitive remuneration. On the other hand companies have to be careful that these pecuniary incentives don't lead to over-risky behaviour.

Operational risks: Some companies in this industry have seen very substantial growth over a short space of time, and in some cases their business structures haven't kept pace with this expansion. To be able to manage and monitor business processes and systems effectively, they have to be geared to the more complex environment in which these organisations now operate.

Regulatory risks: The current trend of using commodities as a financial investment has not gone down well with certain governments and supranational organisations. EU finance ministers, for example, want to see greater transparency on the commodities markets, particularly when it comes to commodity derivatives. France, which chairs the G-20 in 2011, has made speculation in commodities a key issue of its presidency.

for this country's popularity as a trading base. For example, the first trading houses set up shop in the area around Lake Geneva back in the 1920s because it was an area where they could conduct business as usual after the turmoil of World War I. Post-1945 it was a similar story: Switzerland was neutral, had a freely tradable currency, and an intact infrastructure. Added to this is the tendency of industries to form clusters: once companies engaged in the same business have operated successfully in a particular place, others are attracted to join them. This applies both to Geneva and to Zug, which has a long tradition in the metals business, and now also in energy. Clusters mean qualified people, suitable sources of finance, suppliers, and everything else necessary to do business.

With the promise of substantial tax revenues and plenty of employment, areas which become home to a cluster can count themselves lucky. In Geneva, for example, an estimated 1,400 people are involved directly or indirectly in commodity trading. Direct corporate taxes alone probably come to several hundred million CHF, not to mention the income tax paid by the people who work in the industry.

A multifaceted industry
Just as they underestimate the economic importance of commodity trading, many people also have a very undifferentiated

perception of the industry. It is, in fact, a very heterogeneous business, composed of many different players pursuing different business models. Alongside classic traders who deal physically in commodities or related products, there are vertically integrated companies that operate across the entire spectrum from extracting and transporting commodities to finance. And there are also companies specialised in financial trading, either for hedging or speculation. But the divisions are blurred: companies at the production end of the chain will also be involved in financial trading, if only for hedging purposes. And by the same token a whole series of major financial institutions have substantial interests in physical commodity trading, including the warehousing and transport business.

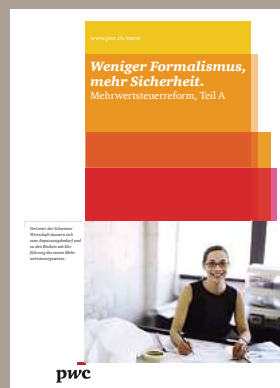
A playground for investors
There are two basic business models a commodity trader can pursue, although in reality there are many hybrid models as well. The first form is pure arbitrage, where supply and demand are brought directly together. Here the trader buying the commodity already knows the buyer. The trader's sole task as a merchant is to balance supply and demand. While this model holds the promise of relatively secure margins, the correlation between risks and returns also means that traders pursuing this strategy are unlikely to make disproportionately large profits either. The second model is more speculative. Here traders take positions and bet on the development of the market. This type of business can be more lucrative, but is also riskier, particularly if there is no way of influencing the development

of the market. Besides finance, the biggest challenge in commodity trading is risk management (see box). Since the financial crisis the commodity market has been a popular playground for financial investors. One upshot of this is that the industry has come under the scrutiny of the public and the regulators, with trading in commodity derivatives the target of particular criticism. Regulation is likely to prove difficult. Derivatives are not primarily there as a means of making speculative profits; more frequently they serve as a way for traders and producers to hedge. Classic commodity traders are unlikely to be very happy to see financial investors entering their market. This increases the market risk and forces an industry that prefers discretion into the limelight.

juerg.niederbacher@ch.pwc.com

Summary

Owing to a lack of transparency in some quarters and a lack of awareness of the industry, the public image of commodity traders could be better. There are also ethical concerns when it comes to trading in agricultural commodities. Whatever the case, there is no disputing that commodity traders enable trade in goods; trade without which the needs of consumers could not be satisfied and the requirements of the global economy could not be met. In other words, traders perform a fundamental role in the free market economy. These days Switzerland is a hub of worldwide commodity trading. It should strive to maintain and build this key locational advantage.



VAT reform: act I receives only muted applause

The first phase of the value-added tax reform was concluded with the new VAT law on 1 January 2010. Swiss companies hoped the first part of the reform would make the system much simpler, create as much legal certainty as possible, boost transparency and gear the process more closely to the needs of taxpayers. Around 18 months after part one was concluded, it's clear that these expectations have not been fully met.

Read more in our study "Weniger Formalismus, mehr Sicherheit – Mehrwertsteuerreform, Teil A", which you can download (in German) from www.pwc.ch/vat.



PwC industry magazine: the keys to success in banking

Our previous publication "Flash Finanzdienstleistungen" now sports a new look, and is devoted to finding out what makes banks successful. In the latest issue we show that real innovation in banking has to revolve around the bank's clients.

You can order our banking magazine (in German) by e-mailing sonja.jau@ch.pwc.com.

**Event:
Turnaround Community Forum**

The Turnaround Community Forum is designed as a platform for promoting dialogue among turnaround managers, bankers, investors, lawyers and corporate executives. At the forum we will be presenting and discussing challenging real-life restructuring cases. The forum will take place in Zurich on 26 September 2011.

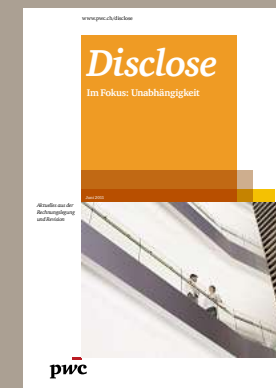
Please contact Jan Bolliger (jan.bolliger@ch.pwc.com) to register.



Insurance: food for thought for the regulators too?

What's keeping insurers awake at night? For once, all the groups polled in all the participating countries were agreed: the flood of regulation is robbing everyone involved of sleep – except the regulators.

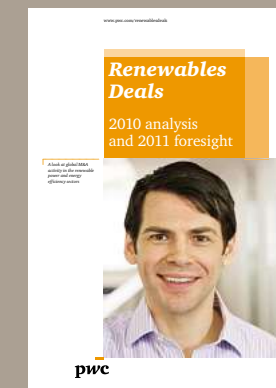
You can download our survey of the insurance industry "Versicherungen: Auch ein Denkanstoss für die Regulatoren? Insurance Banana Skins 2011" (in German) at www.pwc.ch/insurance.



"Disclose": the latest in accounting and auditing

PwC's 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 dynamic environment. In future the first part of each issue will be devoted to a special theme. The latest edition focuses on independence. An update on hot topics will appear in the next magazine.

You will find "Disclose" (in German) at www.pwc.ch/disclose. You can order print copies from sonja.jau@ch.pwc.com.



Renewable energy: North America's catching up

The number of deals in the global renewable energy industry climbed sharply in 2010. At the same time the total value of these transactions declined. Particularly in wind and solar energy, the trend is towards a greater number of smaller deals. With energy efficiency an increasingly important area, North America could soon supersede Europe as the leading region for renewables.

You can read more in the study «Renewables Deals: 2010 analysis and 2011 foresight», available as a free PDF download from www.pwc.ch/publications.



Pharmaceuticals: getting equipped for the future

The pharmaceutical industry all over the world is having to radically rethink its value chains. The production of modern forms of therapy is posing new challenges for companies: complex manufacturing and distribution processes, different supply chains for products, and shorter life cycles. Ongoing developments such as the growing importance of emerging markets, new forms of health care, the trend to live licensing, and environmental questions are leading to mounting pressure on pharmaceutical value chains.

A PwC study on this theme, "Pharma 2020: Supplying the future. Which path will you take?", is available as a free PDF download from www.pwc.ch/lifesciences.

Subscriptions:

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

Reader service:

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



Preserving values in a cyclical business

The Perlen paper factory, a member of the CPH industrial group, is investing half a billion CHF in a new paper machine. The system produces three times the volume of its predecessor with only a slight increase in fixed costs. This boost in efficiency will safeguard Switzerland as a manufacturing location in a demanding industry.



CEO Dr Peter Schildknecht



The 130-metre-long new paper machine for newsprint, called PM 7 is loud and unbelievably fast. Around 10,000 tonnes of steel was used to build the PM 7, about the same weight as the Eiffel Tower in Paris.

Dr Peter Schildknecht

joined CPH in mid-2008 and has been a member of the Group Executive and CEO since 1 January 2009. He studied mechanical engineering at the Swiss Federal Institute of Technology (ETH) in Zurich, was an executive assistant and lecturer at the BWI Centre for Industrial Management of the ETH and completed his doctorate in 1994. He then began his career as assistant to the president of the board of directors/CEO at Von Roll Holding AG, subsequently took over the company management of Von Roll Betec AG and the management of the Industrial Services product division. Between 2001 and 2007, Schildknecht held a number of management positions at the building materials supplier Sarna. Schildknecht is married and has four children.

Everything is huge. The premises of Perlen Papier AG and its Packaging division in the village of the same name near Lucerne alone cover more than a million square metres. A new production hall was built there in record time, and it is there that the showpiece of the company is to be found: the 130-metre-long new paper machine for newsprint, called PM 7. It is loud and unbelievably fast. At the end of the production process, a paper web just under 10 metres wide is rolled up, as on an oversized weaving loom. The machine manages 120 kilometres an hour, which per day equates to roughly the distance from Perlen to Cairo. Around 10,000 tonnes of steel was used to build the PM 7, about the same weight as the Eiffel Tower in Paris. "We are the number one in Switzerland and well positioned geographically in Central Europe – but globally we are a minnow of course," says CEO Peter Schildknecht. He has been at the helm of the CPH industrial

group since 2009. In addition to the paper factory and the Packaging division, the group includes a Chemistry division, and boasts a total of seven production sites worldwide. In 2010, the Paper division generated a good half of the group's turnover of CHF 417.4 million. With magazine paper, the company has a market share in Switzerland of 35 per cent; with newsprint the figure was 19 per cent last year. This ceo magazine might well be printed on paper from Perlen.

Difficult environment

Although the dimensions in Perlen are impressive, CPH faces major challenges. Its 49-year-old CEO, who is a keen endurance sportsman in his free time, also has a marathon ahead of him in his professional life. "We have currently covered around half of the distance," he says. Despite record sales of

paper and positive operational cash flow, the company posted negative earnings in the last financial year. One of the reasons for this is that Perlen paper is produced in Switzerland, where costs are in CHF. However, more than 70 per cent of production is sold abroad, primarily in the eurozone, and the exchange rate of the euro fell sharply in this period. At the same time, the major European paper manufacturers reduced their prices for 2010 by up to 20 per cent, whilst there was a huge increase in the price of old paper, the most important raw material. Below the line, Perlen received a third less per tonne of paper sold than in the previous financial year. The Chemistry division also suffered greatly from the consequences of the global economic crisis, and turnover fell by a third. Consequently, the last year – according to Schildknecht – was "one of the most difficult in our corporate history".

Communicating openly

The CPH Group is committed to sustainability at an economic, social and ecological level. Is it possible to live by these values when a company is suffering enormously from currency and margin constraints? "Live by values' is a good guiding principle," says Schildknecht. "It is not sufficient to formulate a noble mission statement. A corporate culture can be defined in words, but what matters is how we act." The head of HR, Michel Segesser, who is also present, refers to the results of the latest employee survey: "Overall satisfaction has remained constant at the level it was in the commercially successful year of 2007." At sites where up to a quarter of the workforce was laid off due to declining turnover, the assessment was less positive. Nevertheless, fluctuation – including lay-offs – was still only a low 6 per cent in 2010. The proportion of long-standing employees is high. "Overall, the managers managed to communicate difficult situations well."



The PM 7 manages 120 kilometres an hour, which per day equates to roughly the distance from Perlen to Cairo.



Perlen will process up to 460,000 tonnes of old paper. To deliver this huge quantity by the most eco-friendly means possible, 3 kilometres of railway track has been laid and a railway bridge built.



The entire facility has trebled the factory's volume – with hardly any increase in the workforce.

Structures were also adapted in an intelligent way, adds CEO Schildknecht. "We did not cut costs across the board. In areas where product development and innovation are possible, we deliberately did not make any reductions at all." In his experience, the willingness of employees to accept change is greater when a company is in trouble.

The fact that half a billion CHF is being invested in a new paper machine in "expensive" Switzerland in such a difficult phase is a commitment to the country as an economic location and an important signal for the employees. The CEO of CPH sees things from a business perspective: "Our people can add up the figures themselves. If we hadn't invested, we would have been pushed out of the market in the next five to ten years." There are substantial excess capacities in the European paper industry. Good cost structures are essential for survival.

Recycling and energy efficiency

In this industry, quality is taken for granted. Consequently, instead of differentiating themselves by their products, companies need to be cost leaders. The new PM 7 is a good investment in this respect because it is one of the most effective and efficient production systems in the world. The machine runs fully automatically and under video surveillance around the clock, seven days a week. Only a handful of employees are needed per shift. Robots pack and label the rolls, which are then stacked several metres high in the warehouse. It has space for up to 30,000 rolls. Eighty or so rail wagons and lorries leave the factory every day. The company's own heavy goods vehicle terminal can accommodate 45 lorries.

The entire facility has trebled the factory's volume – with hardly any increase in the

workforce. In addition, around 10 per cent less energy is required per tonne of newsprint. That makes a big difference in an industry as energy intensive as this one – in the paper factory, energy costs outstrip wage costs.

The figures will improve further when the planned regional waste incineration plant is put into operation in Perlen. The new plant will produce sufficient waste heat to supply the PM 7 with steam. This will result in savings of 40 million litres of heating oil every year and will reduce CO₂ emissions by 100,000 tonnes. Efficient use of raw materials has a direct impact on the profitability of the company's operations.

The paper factory is a recycling plant, as demonstrated on a tour of the premises by the receiving area for old paper, where a bulldozer is moving the mountains of paper around like a snowplough. In future, Perlen will process up to 460,000 tonnes of old paper. To deliver this huge quantity by the most eco-friendly means possible, 3 kilometres of railway track has been laid and a railway bridge built. The second important raw material is wood, mostly wood chips from sawmills and so-called thinning material. Last year, the figure here totalled 93,000 tonnes; the wood comes predominantly from domestic forests. The Paper division is certified with the FSC label, a mark of sustainable forestry.

Paper as an enduring value

Despite the structural changes in the media world, Schildknecht still believes in the enduring value of paper. "The 1990s saw the promotion of the paperless office – and the very opposite happened. In newsprint, we are anticipating demand to move sideways, or decline slightly. There will be processes of change, as in other markets too, but we will keep abreast of the times." The stable shareholder structure is something that the CEO can rely on. Approximately 75 per cent of the shares are held by the founding family and their successors who understand the company's highly cyclical business and think in the long term. With an equity ratio of 60 per cent after the investment in the PM 7, the company has a solid financial base. The CEO can therefore say with some conviction: "We have staying power." —

CPH Chemie + Papier Holding

CPH is an international industrial group headquartered in Switzerland. It is specialised in the development, production and distribution of papers, chemicals and pharmaceutical packaging films. The company has a tradition stretching back almost 200 years. Its Chemistry division has its roots in the oldest Swiss chemicals factory still in operation – the factory in Uetikon, which dates back to 1818. Today, the core segments of the division are fine and silicate chemistry. The CPH Group employs around 950 staff at seven locations worldwide and is aiming to globalise its operations even further in the future. In 2010, turnover was CHF 417.4 million. The Paper division (share of turnover in 2010: 52 per cent) with Perlen Papier AG is the largest producer of newsprint and the sole manufacturer of magazine papers in Switzerland. Shares in CPH have been listed on the SIX Swiss Exchange in the Domestic Standard since 2001.



“It isn’t easy to remain cool when you’re established”

Eighteen years ago, bag manufacturer Freitag was born of a trendy idea. The company has since come of age, as evidenced both by its new collection and the strategy of Monika Walser. Her job as CEO is to move the company forward to further expansion while preserving its original values.



Environmental awareness, durability and a certain unpretentiousness, together with participation, individuality and transparency.

From dressmaker to CEO

Monika Walser has been CEO of bag manufacturer Freitag since June 2010. She used to work as personnel and communications manager for electricity grid operator Swissgrid and as communications manager of telecom companies DiAx and Sunrise. Walser trained as a ladies' dressmaker, obtained her higher secondary qualifications at evening classes and studied for a communications degree at the University of Lugano. She is married and lives in Zurich.

In the autumn of 2009, communications specialist Monika Walser was given the job of both temporarily managing bag manufacturer Freitag and searching for a new CEO. Walser's job advert received dozens of applicants, whom she invited to "speed dating" sessions, half-hour opportunities for interviewer and interviewee to get to know one another. Of the 20 shortlisted candidates, none was satisfactory, so Walser took on the job herself. "It was never my intention to stay," she says. "But the interim situation showed that things were working well." Walser had one advantage that none of the other applicants did – a touch of nonconformism. She had trained as a ladies' dressmaker and later obtained a communications degree through continuing education. "As the former manager of a sewing studio, I have plenty of practical know-how to draw on," she says. She also gained management experience from building up the telecoms company DiAx in Switzerland. For Markus and Daniel Freitag, the owners of the eponymous company, these formed a promising basis for developing the company further.

Unpretentiousness and the right to have a say

In 1993, in a shared flat in Zurich-West, the Freitag brothers fabricated a messenger bag from old truck tarpaulins. The carrying strap was made from used safety belts, and the edging from a bicycle inner tube. They never foresaw that this prototype, devised to satisfy their own needs, would become a fashion trend, leading to the foundation of a company which today has a workforce of 120 people. Freitag is now to be expanded to become an international premium brand. Since June 2010, Walser has been the operations manager handling the expansion, leaving the brothers free to concentrate on the creative side of the business. Her most important duties include safeguarding Freitag's values even in a time of rapid development

– environmental awareness, durability and a certain unpretentiousness, together with the internal values of allowing everyone to have their say while encouraging individuality and transparency.

Freitag bags have hardly changed over time. But the expectations of the customer base have, as they grow older, more mature and acquire greater spending power – yesterday's bike-riding students have become today's managers. They are the target of Freitag's new range, launched last autumn, and the first in 18 years. The bags in the "Reference" collection are more elegant and timeless, not as brightly coloured as the previous designs in the "Fundamentals" range, and have a more subtle logo. With this collection Freitag is aiming for greater exclusivity – at prices between CHF 400 and 500, these items cost around twice as much as previous designs. In terms of style, they are inspired less by New York bicycle messengers and more by the 19th-century postal service. The Freitag brothers remain true to their principle of using old and recycled truck tarpaulins, but the second-hand safety belts had to go. In future, new "Reference" designs will be launched every six months, a new strategy in the company's history.

Gut feeling versus market research

The new collection may be modern in design, but the way it came about is typical Freitag. "As ever, we did without market research, relying instead on our gut feeling," says CEO Walser. Commercialism has never been a decisive criterion, although of course the company would like to make money. "If we're convinced of something and we have fun doing it, it generally results in success." Walser is reluctant to reveal how the new collection is being received by customers – it is early days yet for sales figures. The prototypes are neatly arranged in her office, and she constantly carries a test bag around with her, sending them back to the developers with suggestions for possible improvements. Another dozen or so employees do the same with samples from all the





Whether they are dealing with products, people or processes, everyone should have the opportunity to contribute. Meetings are arranged not according to rank, but by specialist areas.

batches. “Everyone has different preferences, so it’s important to get as many opinions as possible,” says Walser, who also stays true to the company policy of addressing both employees and partners informally. A Freitag bag generally has to go through three internal test stages before entering series production. Employee involvement is one of the company’s central values, and is something Walser wants to retain as the business grows. Whether they are dealing with products, people or processes, everyone should have the opportunity to contribute. Meetings are arranged not according to rank, but by specialist areas. Walser says that even the Freitags, who are the sole owners of the company, are not entitled to have the final say on decisions. The resulting structure can sometimes be protracted, but it is always enriching: “We often have heated discussions, and indeed we encourage it.” Because most people do not understand the word “argue” in a constructive sense, the company encourages the term “debate”.

ing senior ones, had to go, or chose to. Walser concedes: “It isn’t easy to remain cool when you’re established.” She also takes an uncompromising line when it comes to opening new shops. Once the Freitag brand had conquered the Swiss market, it expanded throughout Europe and then to Asia. The label is now established in Japan with a large fan base – when the brothers visit Tokyo, they are even asked for autographs. The company’s sights are now set on the USA. An ambitious flagship store, the eighth in the world, was opened at the beginning of May in New York. In these shops around a thousand unique designs from the “Reference” and “Fundamentals” ranges are offered in a specially designed drawer system. In addition to the company’s own shops, the sales network also includes 350 retail outlets from San Francisco to Madrid, and from Shanghai to Wellington.

The Freitag team’s response to comments about the fast growth is to point out that their expansion is fully self-financed and that all the doors that have been opened are still open. This may be the case for the flagship stores, but not for the retail outlets: a few years ago, especially in Germany but also in Switzerland, expansion was too vigorous and included shops that did not fully satisfy the requirements; these subsequently had to be dropped from the sales network. As a result, CEO Walser now takes even greater care to ensure that the retail outlets are in tune with the company’s culture. She has travelled several times to the Korean capital, Seoul, to check that the chemistry with their new business associate there is right. He does not run a fashion boutique but a chain of coffee shops. The alliance appears to be working – Freitag is set to have six future outlets in Korea. According to Walser, the idea of having a good coffee while at the same time looking for a bag represents precisely the lifestyle that Freitag wants to promote. —

Each year, 200 tonnes of truck tarpaulins are reprocessed into bags and accessories.

Freitag

Founded in 1993 by brothers Markus and Daniel Freitag, the bag-making company employs 120 people in Zurich. Each year, 200 tonnes of truck tarpaulins, 75,000 bicycle inner tubes and 25,000 safety belts are reprocessed into bags and accessories. The company does not reveal its figures, saying only that it is profitable and has an annual growth of 20 per cent. The products are sold from eight flagship stores in Berlin, Davos, Hamburg, Cologne, New York, Vienna and Zurich and a network of 350 sales outlets worldwide. The Freitag brothers are the sole owners of the company.

Photo: Stephan Rappo



After the Freitag brand had conquered the Swiss market, it expanded throughout Europe and then to Asia. The label is now established in Japan with a large fan base – when the Freitag brothers (above) visit Tokyo, they are even asked for autographs.



A platform for the leaders of tomorrow

The Stein am Rhein Symposium (stars) is aimed at the next generation of top managers. The international participants – a handpicked professional elite with proven experience – are given the chance to swap stories with the decision makers of today. A top-notch networking event – and a future laboratory for global solution finding.

Stein am Rhein is amazing. The Old Town appears to have withstood the transition from the Middle Ages to the present unscathed. The gates and towers of the town church, St George's Monastery, look as if they were painted by the old masters. In the alleyways stand historic patrician houses with original painted façades, ornate half-timbered structures, steep stepped gables and striking oriels. These wonderfully preserved and maintained reminders of the past are the reason why up to a million visitors flock to the town every year.

But the future, too, is at home in Stein am Rhein. In the town's cultural centre, the "Bürgerasyl", some 80 international managers of the next generation will meet up with today's decision makers in business and social matters for the fourth time in September to exchange experiences. The stars symposium makes this high-calibre exchange of opinions possible – with speakers like Sergio Marchionne and Josef Ackermann as well as many other renowned CEOs, politicians and scientists from all over the world. This year, the chairman and CEO of Bertelsmann, Hartmut Ostrowski, and the president and CEO of Airbus, Thomas Enders, will be leading the

discussions with participants. This year's list of speakers on the topic "Fit for the Future – Challenges and Choices 2020" also features a remarkable number of guests from the Far East.

stars is financed by sponsors from business and, to the tune of roughly 50 per cent, by the Jakob and Emma Windler Foundation – a private organisation that shines like a lucky star over Stein am Rhein. The Foundation has invested more than CHF 34 million alone in the renovation of the historical Old Town, plus another CHF 12.7 million in the conversion of the former Holy Spirit hospital into the "Bürgerasyl" cultural centre in which the symposium is held.

Sights on the future

Toni Schönenberger, who holds a doctorate in history and political science, is the chairman of the foundation board of stars and also the chairman of the foundation board of Think Tank Thurgau (TTT). The TTT Foundation



Toni Schönenberger,
foundation board chairman,
stars – the symposium for
leaders of the next generation

was established in Weinfelden as part of the 200-year anniversary celebrations of the canton in 2003. Its declared goal is to "initiate and accompany projects that deal with political, commercial, scientific and cultural changes and developments and can be of importance in the medium and long term for the canton and region". To fulfil this task, it is necessary by definition to seek "collabor-

ation with figures or similar organisations and institutions at home and abroad". The idea of the symposium is to develop next-generation leaders. "It seemed obvious," says Schönenberger, "to look to the future and set our sights on young managers around the globe who will soon have a say in international companies, business, politics and society." Between 35 and 40 years old, with an outstanding education and already with professional experience under their belts, these leaders of the next generation are an

interesting target group and an intelligent group of listeners for speakers.

Exclusive group of participants

As the CEO of the UBS Wolfsberg continuing education and conference centre in Ermatingen, Schönenberger – just like the other members of stars – has an outstanding network of contacts. In addition to a high-calibre foundation board, it has also been possible to recruit an advisory board for stars that is of equally high standing. "It has developed an astonishing dynamic of its own," says Schönenberger with delight. Which is probably due to the fact that the basic idea for participation in the symposium was born of a genuine need – "the need of top managers to groom a suitable successor".

The 80 to 100 participants at the symposium are selected with the greatest of care – by their own bosses. "We want to give the leaders of today the opportunity to appoint the leaders of tomorrow," says Schönenberger. "We invite the CEOs of major companies to reward people they see as having genuine management potential with a participation in stars." The young managers of the next generation in turn are offered a superb opportunity to establish their own international network of contacts by participating in the symposium. "And so that they really do that," says Schönenberger, smiling, "we leave nothing to chance." By that he means the symposium is perfectly organised with presentations, workshops and podium discussions from morning to evening. Even during the meal together, a carefully drawn-up seating plan prevents the formation of national, linguistic or industry-specific clusters. "We want to enable the participants to get the most out of the event so that they have a real chance of broadening their horizons."

Topics of tomorrow

The restriction to a small group of hand-picked participants who have already been successful professionally is the basis for the success of stars. More and more interested companies want to send their young talents to the symposium; an increasing number of successful CEOs and politicians are eager to discuss topics with the leaders of tomorrow. “Among the young managers and also among the speakers, we sense a strong need to exchange experiences and enter into discussions with like-minded people from all over the world,” says Schönerberger. “These are not people who want to implement the strategies of others; these are strong individuals who want to be in charge of things themselves.”

That can only be of benefit in the future. The topics of this year’s symposium alone indicate the changes that the leaders of the next generation will be confronted with: emerging countries and a new world order, social media and its influences, global risks. “This list could be extended infinitely,” says Schönerberger. “But the focus is on global challenges and megatrends such as demographic change, climate change, scarcity of resources and energy, migration.” New approaches and interdisciplinary, international solution-finding processes are required. “We want to make a contribution to this and help young managers gear up for the future.” In the meantime, stars has gained a fine international reputation. Just three years after it was established, the symposium expanded at the invitation of the Chinese Foreign Ministry to Penglai, an up-and-coming city, just one hour’s flight east of Beijing. Discussions are currently being held on a continuation of stars in China. Schönerberger does not want to push additional global sites – nor does he want to rule them out.

stars Stein am Rhein Symposium
www.the-stars.ch



stars participant
Juliana Sutanto

“I investigate what the market wants”

Name: Juliana Sutanto
Nationality: Indonesian
Position: Assistant professor at the Swiss Federal Institute of Technology (ETH) in Zurich
Age: 31
Marital status: Married, 1 child
Invited participant, Stein am Rhein Symposium, September 2010

If you send Juliana Sutanto an e-mail, you’ll get a reply right back. Whether it is Sunday, during the



stars participant
Simon Teng

week, 8 o’clock in the morning or 10 o’clock at night – Sutanto always seems to be online. The Indonesian scientist does indeed have a strong affinity for bits and bytes. She is an assistant professor (tenure track) for management information systems at the Swiss Federal Institute of Technology (ETH) in Zurich. As a teenager, she would never have believed that she would one day aspire to become a professor. In Indonesia, an academic career gets little recognition and even less support, and Sutanto admits that “it was not something I had my sights on”. It was fate, not planning, that led her to take this career path. A scholarship ultimately made it possible for Sutanto to study in Singapore, where a professor brought out her passion for academic research by encouraging her to write a specialist article about her work at the time. It was promptly published. This first success as an academic gave her life a new direc-

tion. “I noticed that I had an aptitude for it,” says Sutanto. After graduating with a bachelor’s degree in IT, she stayed on at university in Singapore. She became an instructor at the Department of Information Systems at the School of Computing and wrote her thesis concurrently with her work. She finished it in 2008 and successfully applied for a job at ETH Zurich. She has worked as an assistant professor there ever since. “I am happy that things have turned out this way,” says Sutanto. “Working in an academic environment has many benefits because the freedom to define my research topics myself means a great deal to me.” The corporate world is very interested in her research. The young researcher studies which IT systems are successful with users for which rea-

sons and which ones are flops although they are high performance and technologically sophisticated. “I investigate what the market wants,” says Sutanto, “and from that perspective, it is not the best technology that counts but whether it is accepted by users or not.” She has close ties with the corporate world, particularly in the field of IT. Together with companies, she develops information systems, drafts experiments and implements them with the companies. From the data gained, she analyses user behaviour with reference to the applications and sends her insights back to the appropriate decision makers. She likes what she does and it keeps her fit. When a visitor mentions the catch phrase “work-life balance”, she laughs. “Well, the older I get the more I try to reach a better balance,” the 31-year-old says. “But I don’t manage it particularly well.” That may well be because the goal she has set herself takes a rather special effort: a professorship at the ETH in Zurich. —

“My career is developing in the right direction”

Name: Simon Teng
Nationality: Malaysian
Position: COO, BT EMEA
Age: 42
Marital status: Married, 1 child
Invited participant, Stein am Rhein Symposium, September 2010

For Simon Teng, last September’s stars symposium was a welcome break from his day-to-day routine; he was able to “think about the big picture for a change”. At the time, he was still unaware that he was about to take the biggest step of his career to date. In February this year, Teng – COO of BT Global Services – was offered the job of COO for the Europe, the Middle East and Africa (EMEA) economic region. He jumped at the chance. The promotion was nothing less than Teng deserved; he had been outstanding in the market development of BT in Switzerland. And the 42-year-old is pleased at the step up the career ladder: it means more room to manoeuvre, more responsibility, more influence and more challenges. The best, however, is something else altogether: “I can work from Switzerland and remain here with my family.” It soon becomes clear that Switzerland is the country of Teng’s dreams. He left his home twelve years ago and settled here with his Malaysian wife and daughter, working as a product manager at Worldcom/UUNET. He had been honing his skills for the job since 1992. Back then, freshly graduated in politics from the National University of Malaysia, he joined his country’s up-and-coming telecoms industry and then worked his

way up the career ladder, step by step. In 1999, two offers from abroad landed on his desk: one from Phoenix, Arizona, the other from Zurich, Switzerland. “I was more interested in the job than the location,” he says, explaining why he opted for Switzerland. “I would never have believed that I would love it so much in Switzerland.”

His new position is a daunting one – “a great challenge for me” – that involves long working days, frequent travel and cancelled holidays. “I am from Asia,” says Teng, with a wave of his hand. “I always adapt to the situation whenever possible.” He is also extremely satisfied with the course of things: “My career is developing in the right direction,” he says. “I have always worked at an international level.” He is now doing that even more: as the COO EMEA for the British IT and telecoms giant, Teng is responsible for its Operations and Business Management divisions in 106 countries, which, in addition to Switzerland, include Scandinavia, Central and Eastern Europe, Russia, the Middle East and Africa.

Changeing jobs is not of course something that Teng is considering at the current time. But he does not rule out one day working for another company in another country. “When the time is right and you are given the opportunity, you have to seize it.” In particular, he likes the idea of changing industries one day; he has spent all of his career in the IT and telecoms industry. However, the biggest incentive that a future employer could offer him is neither a monetary nor a hierarchical one. “He would have to guarantee that I can come back again,” says Teng. “I would like to spend my retirement in Switzerland.”

“I am dependent on the network for my entrepreneurial future”

Name: Badir A. Almusharrekh
Nationality: Emirati
Position: Director and representative of the United Arab Emirates Ministry of Foreign Trade at the WTO in Geneva and trade attaché to Switzerland
Age: 36
Marital status: Married, 3 children
Speaker, Stein am Rhein Symposium, September 2010

When Badir A. Almusharrekh was appointed to his position at the World Trade Organisation (WTO) in Geneva just under two years ago, the move was announced as part of a United Arab Emirates (UAE) strategy to increase efficiency among the government’s institutions. Almusharrekh was experienced and competent enough to fit the bill. Almusharrekh is familiar with both theory and practice. Between



Photo: Cédric Widmer

stars participant
Badir A. Almusharrekh

1996 and 2006, he worked as head of external planning at the Emirates Telecommunications Corporation and then held a similar position in the mega-project Dubai Maritime City for three years. He also has a master’s degree in global business administration from London Metropolitan University, a bachelor’s in business administration from the University of Dubai and is currently writing his doctoral thesis. His current job is ideal for this. As the trade attaché of the UAE to Switzerland and his country’s representative at the WTO in Geneva, Almusharrekh has the time and energy for his PhD work at the end of the day. He wants to submit it to his professor at the

renowned Bradford School of Management in the UK by 2014. Then he wants to embark on a new career. Once he has his PhD in business administration, he wants to set up his own management consultancy for companies and investors who want to establish themselves in the UAE and those who want to branch out from the UAE abroad. “As one of the locals, I know my own country very well; I have direct contact to decision makers and many doors



Photo: Cédric Widmer

stars participant
Christina Oberli

open to me.” Events like the stars symposium in the autumn of 2010, where he was a speaker, are vital for Almusharrekh’s ambitions: “I am dependent on a global network for my entrepreneurial future,” he says. “In Stein am Rhein, I was able to make valuable contacts.” Almusharrekh doesn’t seem to be ruffled by much. It is only when he is asked about the motivation behind his career plans that there is a note of vehemence in his voice: “It is not about money!” he says. “I want to give my country and its people something, and I can do that a lot better as a businessman than I can as an employee.” Consequently, in his CV he states that it is his personal goal “to be of value”. Almusharrekh follows up by saying: “I don’t want to die without having been a valuable member of society.”

“Leaders have to be aware of the impact their decisions have”

Name: Christina Oberli
Nationality: Swiss/Canadian
Position: Deputy Head of ICRC Operations in Europe
Age: 39
Marital status: Single
Invited participant, Stein am Rhein Symposium, September 2010

Most alumni credit the stars symposium with having broadened their horizons. Christina Oberli does too – but from a different perspective. Whilst most “young leaders” from business praise the symposium

predominantly for honing their awareness of the “big picture”, the 39-year-old gained an insight here into the mindset and activities of success-hungry decision makers in this sector. As a delegate of the International Committee of the Red Cross (ICRC), Oberli is confronted with major international issues on a continual basis and is therefore very familiar with them. The world of business, however, is largely unknown to her. “For me, the days spent at the symposium offered a stark contrast to my everyday work,” says Oberli. “I realised how important dialogue with private industry is to ensure that its leaders become aware of their role and the impact their decisions have on people’s situation, their rights and their environment.” Oberli, the daughter of Swiss farmers who emigrated to Canada at the end of the 1970s, studied international relations in Quebec and started her career at the International Centre for Human Rights and Democratic Development in Montreal. “I was interested in social, societal and humanitarian topics even at university,” she explains. Her decision to work for an international organisation was therefore no coincidence. Since joining the ICRC in 1998, she has visited many poverty-stricken countries and seen many destitute people. She has lived in Columbia, Iraq, Ethiopia and in the Congo, and experienced first-hand how the ICRC can help to alleviate the suffering of the civilian population in war-torn areas: “We are not the only organisation to help those in need, but we offer shelter and aid in very isolated areas.” She is currently working at the headquarters of the ICRC in Geneva as the interface between diplomacy, coordination and management of all operations in Europe. Oberli makes no secret of the fact that she looks forward to having more operational responsibility again at some time in the future. Nevertheless, “it is important to also be familiar with the work of our organisation’s headquarters,” she says. “That will be very useful to me later on.” With all her experience at the ICRC, today Oberli is ready for her next career step in the future – as head of a delegation abroad. She will then be responsible for all operations in a country somewhere in the world – in a place that probably no other stars alumnus would want to visit. Could she also imagine working for another employer? Oberli thinks for a few moments before answering: “I wouldn’t ever rule it out, but at the moment I couldn’t imagine it.” She identifies closely with the institution, and there is a strong team spirit at the ICRC. “It is not easy to join the ICRC,” she says, “and it is just as difficult to leave it.”

“I would like to work for the big picture”

Name: Richard Burger
Position: Partner at PwC
Age: 42
Marital status: Married
Invited participant, Stein am Rhein Symposium, September 2010

Ask Richard Burger about the importance of work-life balance in his day-to-day business, and he replies: “I like doing what I do. I don’t feel as if I am missing out on anything when I work.” For him, the catchphrase “work-life balance” means “work-life choice”. Burger wants to climb the career ladder – and is prepared for the commitment and dedication that it requires.

Last autumn, Burger participated in the Stein am Rhein Symposium – which was a real privilege: PwC, a sponsor of stars whose CEO Markus Neuhaus is member of the foundation board, sends one employee to each stars symposium in the canton of Schaffhausen as part of its key talent programme. For Burger, a young partner with an international outlook, participating in the symposium was “a highlight”. Dealing with topics far removed from his day-to-day business, such as impending energy and food shortages, hearing from experts how they assess developments in China or learning from the top manager of an Indian industrial corporation where he

sees the challenges for the future, was a real broadening of his horizons, says Burger. Many weeks have passed since then. And Burger, who as a partner is responsible for auditing a global insurance company, has devoted himself in that time to his usual work and crunched mountains of numbers with his team. Nevertheless, the 42-year-old can still clearly recall individual presentations and speakers – for instance, a British medical scientist and professor who spoke about ever-increasing life expectancy and its impact on medicine, the labour market and old-age pensions.

As is the norm at such events, networking plays an important role at the meeting in Stein am Rhein. “I am still in contact with some people today,” says Burger, citing as one example a scientist from New York who is working on a doctoral thesis on team coaching. “I provide her with the practitioner’s perspective,” says Burger, “and report on the challenges that arise when you manage a high-performance team.” For the academic, the discussions with Burger are a reality check for the theory that she is following and for the thesis she is drawing up. For his part, Burger gets suggestions for his management activities from the researcher, who is in contact with countless other leaders: “Her questions have given me many ideas,” says Burger, specifying further: “She asked, for example, how we show appreciation here and how we ensure that the employees are happy. Good points!” Burger discussed these points as part of the Global People Survey, an annual feedback programme that PwC carries out, and undertook to ensure in particular “instant feedback”, “show appreciation” and “positive atmosphere”. He plastered his desktop with stickies bearing these phrases. They

are the first thing he sees when he switches on his computer in the morning and the last thing he sees when he turns it off in the evening. He has undertaken to show his staff his appreciation and not just to be quick with criticism, but also to give praise promptly when it is due.

stars brings together ambitious young leaders hungry for success. Burger was especially impressed with participants from upcoming countries like India and China. For him, these meetings serve the same function as his discussions with the PhD student from New York: a reality check. At stars, Burger found himself surrounded by like-minded people: “They want to achieve something and to progress, and they are willing to do what it takes.” Burger, too, has a long road ahead of him before he gets where he wants to be. “One day, I would like to hold a management position,” he says, “and work more for the big picture.” The big picture is PwC. This is where he has worked since graduating from the University of Zurich 15 years ago. He is not thinking of moving. “Why should I move to another company when I like it so much here?” he asks. “When I don’t like something, I don’t give up. I try and change it.” —

Photo: Noë Flum



ceo 2/2011

Value insights

Transactions

Getting the timing of a purchase or disposal right Page 29

Internal controls

Companies need a holistic vision of controls Page 32

Commodity traders

The discreet giants of the economy Page 35

Service

Publications and events Page 38