

# ceo

**The magazine for decision makers**

***The value of relationships***

Integrity and trust are among the most important prerequisites for business success. In many sectors, nothing is possible without stable relationships. Leading Swiss managers share their experiences.



Dr Markus R. Neuhaus,  
CEO PwC Switzerland



### **Again and again, Switzerland manages to build on its strengths.**

Given that writing the editorial for ceo magazine is the prerogative of the CEO, this is the last one you'll be reading from me. Having completed the maximum of three three-year terms as CEO of PwC Switzerland, I'm handing over the baton to Urs Honegger, who was elected chief executive by the Swiss partners last autumn. Through the same democratic process so typical of our partnership, I have been chosen to serve as the chairman of the board of directors. As I am still CEO, however, I have the pleasure of writing this editorial. Starting 1 July I'll be giving my full attention to my new role and I'll be taking on other duties in addition.

The theme of our forum in this issue is "All or nothing". This could easily be my own personal motto. Five years ago, in addition to my role as Swiss CEO, I also assumed leadership of our European organisation. Since then I have overseen an international development which has got the voice of Switzerland heard in the firm's global leadership bodies. I will continue to serve as a member of the global Network Executive Team, with an expanded portfolio of duties as of 1 July. My extended global role will involve developing strategies related to quality, regulation and the rele-

vance of our business, in other words ensuring that our advisory and consulting, tax and assurance services are relevant.

In this issue of ceo magazine, PwC partner Julie Fitzgerald talks about regulatory developments related to the audit in the EU. Now you could say that the EU's rules aren't so interesting for us in Switzerland. But we all know that these regulations will have an immediate impact in this country. And you could say that rules for auditors aren't very interesting for you as a businessperson. But again you'd be missing the fact that it's organisations like yours that will feel the effects directly if the changes are implemented as proposed, in the form of additional administration and responsibilities, and ultimately additional costs as well. The regulations under discussion pose major challenges for our industry. We understand the desire for new rules, and acknowledge that the financial system as a whole didn't function properly during the crisis. We're in favour of some of the proposals, but believe others will be damaging. The article in this issue is designed to give a clear picture of our position on these matters. We'd love to hear your views too. We also have to question the relevance of our tax services. With all the political shifts taking place and the way the world is getting smaller, the issue of tax justice and the funding of massive public debt are increasingly taking centre stage. At the same time, the debate is increasingly moving away from the individual level to the level of corporations

and states – is someone holding something back from someone? This too is an issue that concerns not only us tax consultants, but also businesses in Switzerland and Switzerland as a place for doing business. As the study on corporate headquarters presented by PwC partner Clive Bellingham in this issue of ceo magazine shows, our tax system is one of the main things that make this country so attractive.

Again and again, Switzerland manages to build on its strengths. The portrait of a project to build a pumped-storage power plant in the Poschiavo valley is just as impressive an example of this as Art Basel. While the first capitalises on geographic advantages and the second on cultural assets, both are built on the ability to skilfully build and maintain relationships. This magazine contains many impressive examples of the fundamental value relationships have within the economy, and the way the ability to skilfully build and manage these relationships will be of increasing importance in an ever more highly networked society. In this issue of ceo we hear from clients, business partners and business friends. I think the fact that again and again, people like this trust ceo magazine as a place where they can present themselves and air their views is great confirmation of our ability to maintain good relationships. Relationships aren't just the main theme of this issue of ceo magazine. For me they're the thread that runs through the entire business community – a community I've been lucky enough to have had a part in shaping over the last nine years. I'm especially looking forward to seeing how these relationships will develop and evolve with our new CEO Urs Honegger at the helm. And I know that he's looking forward to building his relationships with you.

I wish you stimulating reading.

**Markus R. Neuhaus**

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## Anton Affentranger:

“I do not like doing things half-heartedly, either in my private life or in my job. Life is too short for that.”

I grew up in a family that believed everyone has been given talents and should therefore use them, and that those who live according to their strengths also have something to contribute. My father always said to me it didn't matter whether I went to university or became a baker. If I became a baker, it was only important that I baked the best rolls. I've told my children the same thing.

As for me, I am frequently pigeonholed as an all-or-nothing person. That bothers me as I dislike pigeonholing per se. However, there are many situations where I would probably describe myself like that too if I had just three words at my disposal. I do not like doing things half-heartedly, either in my private life or in my job. Life is too short for that. I do what I do either with my full commitment or not at all – anything in-between I consider a waste of time.

Black or white – that is the question as soon as anything fundamental is involved and there is no room for compromise. Opting for white and rejecting black is one thing. But sticking to it is another. When Implenia was the subject of a takeover by the hedge fund Laxey, we opposed it. We knew we were on the right side from the outset, both with regard to the matter itself and also from a purely legal perspective. We knew that we were right. But did we do the right thing? I have regularly discussed this question with my closest executives. We always came to the same conclusion and stood by our position. There was a time when Laxey owned 50 per cent of our capital and I was advised by all sides to give up. Today, I am delighted that we did not bow to the pressure. If we had done so, Implenia would no longer exist.

The conflict took up a lot of my time and that of the company over three years. It was also very unsettling for our 6,000 employees. But it strengthened Implenia. If there was an issue that we neglected during this period, it was careful planning for a successor to the CEO. We thought that we had found the best solution for our company, but we were wrong. It was therefore clear to me that I would have to accept a request from our board of directors to take over operational respon-

sibility again. I also did so in the conviction that I have a personal responsibility here. As soon as I had found a solution for my own company and knew that I had the backing of my family, I moved back from Geneva to my old office in Dietlikon.

Having goals is important for me because it motivates me. When I decided to give up smoking and take up running, I was able to go through it because I had the New York City Marathon in my sights right from the start. That was what I wanted to do. I have since run the marathon several times. Without my running, I could not cope with my current work pace. Nevertheless, I would not do it if there were no New York City Marathon. I want to know where I am going with what I do; otherwise I am not interested in it. All the training and hard work are worthless if there is no passion. That applies to a 42.2-kilometre run as much as it does to the task of inspiring more than 6,000 employees.

**Anton Affentranger, 56, was appointed the new CEO of Implenia in October 2011. Before that, he had already worked for Implenia and its predecessor company Zschokke for 13 years. From March 2006 to September 2011, he was the chairman of the board of directors of Implenia and from April 2009 to August 2010 the interim chairman of the board of directors and CEO.**

Photo: Helmut Wachter



## **Esther Süss:**

**“Cycling is the only sport that literally involves climbs and descents. My motto: A rapid ascent; a steadier descent.”**

The most important day for me this year will be 11 August as this is the day of the Olympic mountain bike cross-country race. Until then I am totally focused on that day; everything centres around that race. It even pursues me at night, when I dream of becoming an Olympic champion. The Olympic Games are the crowning glory of any athlete's career. London will be my first Olympic Games – and probably my last.

I became a professional sportswoman relatively late, when my partner Erich Birchler, whom I met in 1998, introduced me to the sport of cycling. At first I rode racing bikes, but in time I came to love mountain biking. In order to keep up with Erich, I had to train ever more frequently. As I spent more time on it, my ambition and desire to measure myself against others grew – so I began to enter races. In 2003 I became the amateur World Champion in the Marathon (84 kilometres); in 2010 I won the professional World Championship. At 38 years of age I am one of the oldest cyclists. This means I have to train around 15 to 22 hours per week. However, my experience makes me better at assessing risks. As your age increases, you tend to consider more what could happen when you hurtle down a slope; you learn to recognise your limits.

Cycling is the only sport that literally involves climbs and descents. And with mountain bikes it is over rough terrain, which can be dangerous and requires courage. When you face a “rockery” for the first time, you have to conquer your own fears. A rockery is a slope scattered with a substantial number of rocks and large stones – nothing to do with the garden feature, of course. If you don't dare to ride down it, you can take the “chicken line”, a section that is not so dangerous, but which represents a detour and loses you time.

You have quite a few falls when mountain biking, but these falls are rarely serious, causing little more than a few scratches and bruises. On the other hand, broken bones or torn muscles can cost you a season. I'm much more aware of that at the moment as the Olympic Games approach, although I can't wrap myself in cotton wool, in

training or competition. My wait was finally over at the end of May, and now it's official – the Swiss Olympic Selection Committee has chosen me, together with mountain biker Katrin Leumann, for the 2012 Olympic Games in London!

My respect for hair-raising descents probably explains why my greatest strength is in the climbs, which is where I can make the most of my condition and competitiveness. My motto is: “A rapid ascent; a steadier descent.” I am always aware of a fear of the descents, but the greater my self-confidence, the less significant my fear. It's possible to train yourself to have self-confidence. I am also constantly refining my technique with my trainer Beat Stirnemann. I work with a mental trainer as well, but I probably have too much of a rational mind for that.

Even if I were to win gold in London, I would not be set up for life financially; I will still have to work until retirement age. It would be lovely if professional cyclists were better rewarded, but what really bothers me is the lack of appreciation for the sport. We are usually marginalised in the media.

Mountain biking is currently the focus of my life, but I also know that my happiness is not totally dependent on it. I pay a high price for my sporting activities: they do not leave me with enough time for social contacts, for my friends – or for myself.

***Esther Süss, 38, became Mountain Bike Marathon World Champion in 2010. She wants to crown her career by winning a medal at the Olympic Games in London. She lives in Küttigen, in the canton of Aargau, and works part-time as a teacher of textiles.***

Photo: Anne Gabriel-Jürgens



## Christoph Sigrist:

“One thing I cannot handle is when I experience indifference. The loss of faith in God drives me mad.”

When I was about five, a black hat went by our kitchen window. I asked my mother, “What’s that?” She said, “That’s the minister.” Ever since then I knew I wanted to be a minister. But if I wore a black hat, which I consider an ambivalent symbol, I would not use it to create distance and a sense of deference towards the minister, but would raise it to everyone.”

A minister has pastoral duties. If he fulfils them well, he helps people who approach him. But these people, in turn, help me. Looking at others enables me to recognise myself. I am totally convinced that the way others see you is what counts most.

I am a minister with my heart and soul, without reservation. Pastoral care, helping and mediating between people of all social strata and groups, is close to my heart. I am there for anyone who seeks me out. I do not need special motivation for my daily work; I have never had a period of exhaustion. What does tire me, though, is bureaucracy, which ignores the concerns of people.

My belief in God helps me to see and hear what preoccupies others. It forms the foundation of my concern for people and their dignity. God appeared to me eleven years ago, when I fell 15 metres down into a crevasse and was trapped there. I was rescued and only afterwards did it become clear to me what had happened: God can make the ground disappear from beneath your feet; at the same time he keeps you safe as you fall.

One thing I cannot handle is when I experience indifference. When things are lukewarm, neither black nor white, when innocuousness takes hold, when people lose their curiosity to try something new, when there is no desire to take an initial step without knowing where the second will lead. The loss of faith in God drives me mad.

I make up for it, in addition to my daily pastoral work, with my job as Chairman of the Zurich Donors’ Parliament. Zurich was the first Swiss city to establish a body of this kind, in 2006 – the first such institution was formed in Hamburg in 1996. The Parliament meets to debate which projects should be given financial support. They may be social

projects, such as the “Marktlücke” (Gap in the Market) project, which enables unemployed women of any age to continue working despite difficult conditions and to pursue opportunities on the labour market. Alternatively, they may be cultural projects, such as the “Midsummer Night’s Dream” performance, rehearsed and staged in Affoltern am Albis by 30 young asylum seekers and 20 young people with special educational needs.

What all projects have in common is their aim of integration. The applicants present their ideas in person, which enables direct contact to be established between the donors and the recipients. An individual member of the Parliament pays an annual subscription of CHF 500, a corporate body CHF 2,500. By the end of 2011, CHF 820,000 had been distributed among around 70 projects. It is amazing how many people quietly donate money for a good idea. I am enthusiastic about chairing this Parliament and am doing all I can to ensure that it becomes better known. Its motto is one that I like for its simple, direct message: “You have. You do. It works.”

**Since 2003, Christoph Sigrist, 49, has been a part-time minister at the Grossmünster in Zurich. He also has a lecturing post in pastoral care at the University of Berne and has been an army chaplain since 1990. Sigrist chairs the Zurich “Spendenparlament” (Donors’ Parliament), which finances projects in the canton of Zurich that contribute to social integration. He is married and has two sons.**

Photo: Markus Bertschi



## “We have to invest in relationships”

Ambassador Luzius Wasescha is one of Switzerland’s most experienced and successful trade diplomats. Chair of the WTO negotiating group on the liberalisation of trade in industrial products since 2008, his network of contacts has been as useful to him over many years of awkward negotiations as his Graubünden doggedness.

**In your work as a trade diplomat you cultivate professional relationships. What does this involve?**

In our field there are three raw materials: specialist knowledge, a network of contacts and experience. However, the main difficulty in maintaining international relations is that they need to be constantly renewed, as the contacts change every two or three years.

**How do you deal with this constant change?**

You have to invest in good relations from the start. There are certain accepted formulae, such as the initial visit. When I was first appointed in Geneva, I went round all the diplomatic missions, of which there were around 70 at the time – that is still paying off to this day. There are also farewell receptions and welcome dinners. These rituals have the purpose of facilitating closer contact with new colleagues. Of course, chemistry is also an important factor. But even those who do not naturally hit it off must find a way of getting on with each other. These personal relationships can be crucial when you end up sitting together overnight in a badly ventilated room during an active round of negotiations. In addition to personal affinity, cultural fac-

tors also play a major role. You cannot behave in the same way in talks with an Asian representative as you can with one from the USA.

**How important are personal relationships in a major international organisation such as the WTO?**

They are crucial! One of the reasons multilateral conferences function less efficiently now than they did a few years ago is that personal relationships are lacking. Many negotiators believe that it is enough to talk to representatives from the USA, the EU, Japan, China, India and Brazil. Of course these are the most important nations, and contacts with them need to be cultivated. But there are a further 130 countries that could also be included. It is important to speak to their representatives too.

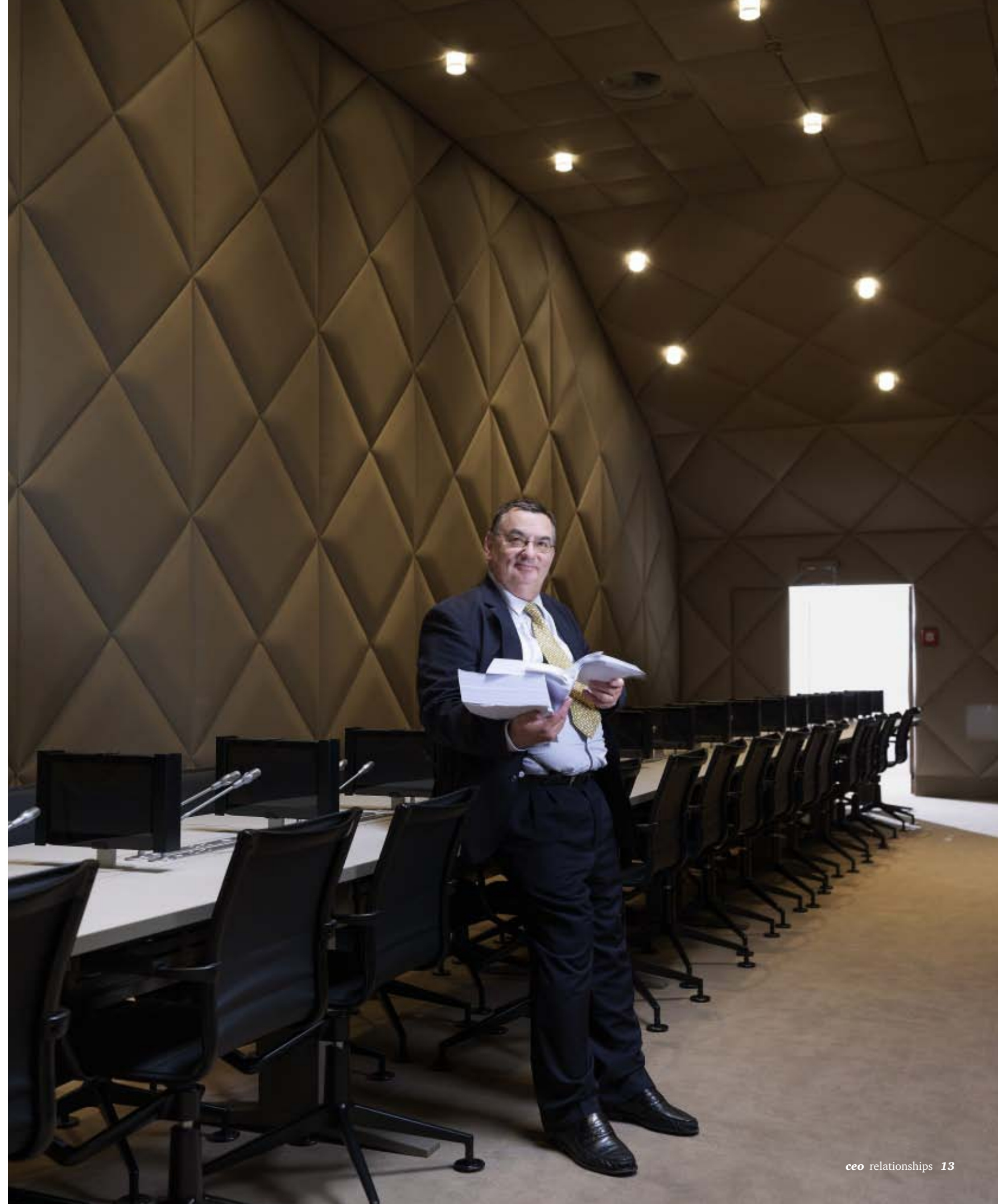
**What form does cultivating these relationships take on a day-to-day basis at the WTO in Geneva?**

The official meetings times are from 10 a.m. to 1 p.m. and from 3 p.m. to 6 p.m. This only leaves the lunch break and the evening for making and maintaining contacts – which

**Dr Luzius Wasescha**

A lawyer by training, he has been head of the Permanent Mission of Switzerland to the WTO and the EFTA in Geneva since 2007. As the Federal Council delegate for trade agreements, he is one of the principal negotiators for Switzerland at the WTO, and in negotiations for free trade agreements. Since 1980, Luzius Wasescha has worked for the Federal Government in various capacities. He also teaches international affairs at the University of St. Gallen and the State Secretariat for Economic Affairs (SECO). He will be retiring this summer.

Photo: Cédric Widmer



means that people dine together. These meals very often are associated with discussions on a particular topic. And then, of course, there are the receptions. I will be making a brief appearance at two events this evening. Poorer countries in particular are very grateful when their national holidays are honoured by representatives calling in.

**Geneva has more Michelin-starred restaurants than any other Swiss city. Is that because of the numerous diplomats' meals?**

Possibly, although I certainly don't always go to the most expensive restaurants. I try to introduce my contacts to local customs. For instance, tomorrow I have a bilateral meeting with a delegation from Georgia, and we will be going to a simple country restaurant. This is a place that appeals to people, as they often only see five-star hotels – which look the same all over the world.

**So the personal touch is valued in personal relationships?**

Absolutely! For receptions I usually invite people to a wine tasting. A winegrower from Geneva, Vaud or Valais comes and brings some of his wines for us to taste.

**But then when it comes down to business, you all have to represent the positions of your own governments. Surely it makes no difference whether or not you have drunk a glass of wine together the previous evening ...**

... but you perhaps understand the other party's point of view that little bit better. For example: right at the start of my career, in the EFTA (European Free Trade Association) we were involved in standardising the application forms for the registration of medicines. We all more or less agreed, but one representative was at odds with us. I invited him for

dinner. By the end of the evening I knew that he was the author of his particular form – and I discovered that he would be retiring in a year. So I proposed that we should wait a year! That was the solution. Personal contact is a good way of obtaining information. Exchanging ideas helps to gain a better understanding of the other person's personality, and therefore any problems they may have.

**You have already referred to intercultural aspects. Where do the differences lie, for example, between Japan and Russia, two countries with which you have negotiated free trade agreements?**

The Japanese way of communicating depends strongly on harmony, and practically everything needs the seal of approval from Tokyo. This means that you can't expect spontaneity from a Japanese counterpart. And because all the departments involved want to ensure that the representative puts across the united position accurately when on the front line, there can be large numbers of participants in the negotiating groups. This can sometimes be really exasperating, especially at a ministerial level, where the cultural differences are complicated by language barriers. A Japanese politician rarely speaks English; he speaks Japanese! This is when you start to get "lost in translation", to coin a phrase.

**And how do you find the Russians?**

They have a fantastic negotiator who has handled the entire process of accession to the WTO. We have known one another for over ten years, and by now I can read his body language. The relationship of trust I have with this colleague is amazing. Several years ago, when I was still working in Berne, he would call sometimes and ask for my opinion on two or three issues. This is when you see how valuable networking can be – something Ms Calmy-Rey was well aware of. She would often get bored at those multilateral OSCE (Organization for Security and Co-operation in Europe) conferences where nothing hap-

pens, and Hillary Clinton would be sitting by her side, also bored. So the two of them started to talk to one another, and at some stage Ms Calmy-Rey got Ms Clinton's private mobile number. When we were together in Moscow, at the President's office, the exchange really came in handy. She told Medvedev: "You know, Dmitry, I've got Hillary Clinton's mobile number, but I don't have yours." She got his number straight away.

**A free trade agreement is currently being negotiated between Switzerland and China. Is China at all interested in such an agreement?**

Yes, of course. It was the same with Japan. Both countries want to be strategic world powers and are therefore interested in contractual links with Europe. If this is easier on a bilateral basis with Switzerland than with the EU, it is tested out in this way.

**What does a trade diplomat actually do on a day-to-day basis when negotiations for an agreement take years?**

(Luzius Wasescha rises, goes over to his desk and returns with two thick stacks of bound paper.)

These are the lists of obligations for Russia's accession to the WTO. They were negotiated in bilateral talks with around 50 countries. This is the result, to which everyone agreed – three kilos of paper! And this here is the contract between the WTO and Russia. The negotiations lasted for 18 years. In the Doha Round, we had around ten negotiating groups who met regularly. I led one of them. There would be two-hour discussions on matters such as whether the word "promptly" or "immediately" should be used in a paragraph. If there is no collective will, such trivial details can bring the whole thing to a halt. In such cases you have to see what can be done.

**The Doha negotiation round of the WTO is perennially declared to have collapsed. Will it now be continued?**

In theory, yes. But the differences are simply too great. It has to do with the fact that a negotiation round in the past always had the objective of achieving a balance. In the current round it has been a matter of correcting the imbalance created by the strengthening of China. Ten years ago China was not even a member of the WTO. Now it is the second most important export nation. The other states cannot open up their markets, because if they did, they would be flooded by Chinese products and local businesses would have to close down. The significance of this became clear to me in a bilateral conversation with an Indian colleague. He told me: "Our problem is not the strength of China, but how we are to employ the 10 million people who are entering working life each year."

**You have repeatedly stated that the EU, and with it Switzerland, have become seriously marginalised on the international stage in recent years. What do you make of this development?**

The world is gradually becoming accustomed to the reality that, in addition to the USA, Brazil, India and China also carry weight. Japan and Europe are falling behind – and with them, Switzerland. But this does not necessarily mean catastrophe for our economy. It is, however, catastrophic on a political level, where we can no longer rely on the understanding of the EU countries as we used to. Most of them are still on our wavelength; however, it is not the individual members who negotiate, but the European Commission. In trade politics, a politician such as British Prime Minister Cameron is like a Swiss cantonal president. Trade politics are not within his sphere of competence.

**No branch of Swiss industry is as seriously affected by tariff reductions, one of the measures called for by the WTO, as agriculture. Does this damage your relationship with farmers?**

The farmers' representatives know that I make every effort to represent their concerns – provided these concerns have been adopted by the Federal Council, of course. I am a Graubünden man and know what it means to work in agriculture. In the Uruguay Round we were the only ones to talk about the multifunctionality of agriculture, which enabled us to succeed in cementing direct payments in law. There has been a shift in our agri-



cultural policy – but since the acute threat from the Doha Round has gone, the issue of these reforms has quieted down. I find this a shame, and in all my speeches I warn the agricultural sector to take note – one day it will have to be able to live without tariff protection!

**Are your roots in Graubünden the reason for your being the head of the largest national park in Switzerland, Parc Ela?**

Yes. Parc Ela was created by the 21 municipalities of the Albula and Julia valleys. Of course there are rivalries – a Bergün villager does not like to be told what to do by someone from Savognin. I came to them as someone who hails from Graubünden yet is not involved in regional conflicts that go back generations. I find it really exciting to be implementing a practical model of sustainability here, even if it means sometimes falling between two stools.

**Does negotiating with 21 rival mountain municipalities require cultivating relationships in a different way than one would in trade diplomacy circles?**

No, the basic principles are identical. What matters is knowledge, the ability to express oneself and a network of contacts. And the greatest asset in any relationship is trust. —

**The World Trade Organization (WTO)**

is responsible for global rules governing trade between nations. Its aim is to break down barriers to trade, such as customs duties, subsidies and barriers to access for companies in the service sector. It works towards liberalising the international exchange of goods, from which export countries such as Switzerland benefit in particular. With its headquarters in Geneva, the WTO currently has more than 150 member states. The measures and disciplines contained in the WTO regulations apply to goods (since 1947, GATT), services (since 1994, GATS), intellectual property (since 1994, TRIPS) and procedures for government procurement (since 1979, currently applicable to 40 members, GPA). [www.wto.org](http://www.wto.org)



## “Personnel is our most precious asset”

Ruth Sandelowsky, CEO of the Zug-based commodity trading and service providing enterprise Kolmar Group, talks about Switzerland as a business location, the finiteness of natural resources and the art of building long-term relationships.

**Ms Sandelowsky, in terms of sales, Kolmar ranks among the 50 biggest Swiss companies. Why is your firm virtually unknown to the public?**

Kolmar is a private company that does not see the need to publicise its activities outside of its own professional sector. Having said that, Kolmar is very well known to the major international players within its industry segment. It is considered to be an integrated part of the industry, successfully fulfilling a much-needed multifunctional role.

**Kolmar has a huge turnover ...**

... total sales value for 2011 was USD 6.7 billion. Whilst this figure as such is impressive, it is, on the other hand, also sensitive to market conditions and the crude oil value. Kolmar tends to concentrate more on the total transacted quantity, expressed in metric tons. In 2011 Kolmar transacted 6 million tonnes of products. Continued growth of this physically oriented number is more meaningful to us.

**Why did the Kolmar Group choose Zug for its headquarters when the company was founded in 1997?**

There were and still are numerous reasons for that ...

**Is the low tax rate in Zug among them?**

Yes, the tax system may seem the most obvious and widely recognised reason, but that on its own would not have done it. Switzerland is very business-friendly, particularly in the service providing industry. The country is centrally located geographically and has a well-developed infrastructure. The airports are easily accessible with regular connections to destinations all over the world. Business ethics are on an exceptionally high level. A person's word is their bond and, furthermore, the quality of work meets the highest standards. Importantly, the workforce is highly trained. There is a very skilled network of bankers, lawyers and other professionals such as doctors and dentists. In a nutshell, the country offers an attractive environment for both companies and their workforce alike.

**Ruth Sandelowsky**

For many years, Dutch national Ruth Sandelowsky worked for the commodities giant Phibro. In 1997 she set up her own company. In 2011 Kolmar Group employed 170 staff and generated USD 6.7 billion in turnover from its operations worldwide. Alongside its Swiss headquarters in Zug, the company is present in 26 locations, the most important locations for the company being Bridgeport, Connecticut, USA, and Singapore. Kolmar trades with a broad range of products, from crude oil and petrochemicals to bio fuels and coal. The company also offers financial and functional support to its clients and is active in the transport and storage of commodities.

Photo: Ruben Wyttenbach





**Switzerland has been facing growing international pressure regarding its finance sector. Some observers predict that the Swiss commodity sector will soon face the same kind of pressure, for example regarding tax privileges. Do you share this view?**

So far we have been very satisfied with the Swiss business environment and hope it remains so.

**Your company has just 170 employees. Other commodity trading companies of comparable size employ many more people.**

Kolmar is indeed a very lean and efficient organisation, and this is intentional. The company is global and works from many different locations as a coherent operation. It relies on high-quality local presence and expertise. At the same time, Kolmar is successful in getting maximum benefits from its organisational MATRIX model.

**You call the Kolmar Group a “virtual” integrated company. What does that mean exactly?**

Kolmar is, way beyond a mere traditional trading entity, a genuinely global service providing company, which to date owns no production assets. The range of products the company offers to its clients covers the entire

value chain within, and across, certain industry segments. Take the crude oil chain for example: Kolmar offers services in the crude oil and refinery products sector. It also offers services relating to various petrochemicals that are produced from the refinery products, which in turn form the feedstock for other processing steps, generating intermediates which, after further processing, result in raw materials for the manufacturing of consumer products. Hence, the output of one process serves as the feedstock for a subsequent one. Kolmar’s product range covers all of these intermediate and interconnecting steps, which is a rather unique feature in itself. I have chosen to describe this characteristic of Kolmar’s unique contribution to the smooth running of the economics of commodities as being in a sense “virtual” because Kolmar does not manufacture these products.

**Is the Kolmar Group also involved in the extraction of raw materials?**

Conceiving of its role essentially as a service providing company, Kolmar offers its business associates a comprehensive range of services – such as sourcing and marketing of products, financing, logistics, storage, market information, project advice and more that can help them to achieve and optimise their business objectives. Tolling, for example, is an arrangement made with the processor to employ – at times idle – capacities by means of Kolmar supplying the feedstock as well as managing the off take and paying a tolling

fee for the processing step to the plant owner. Ownership of, and participation in, mines or refineries may be considered in the future.

**Personal relationships lie at the heart of trading and any business. How do you establish, entertain and cultivate these?**

Kolmar enjoys long-standing relationships with its business partners. This is not something that comes easily but is the result of a growth process over time. Many of Kolmar’s executives have been in this business for more than 20 years and in some cases even longer. During this time, relationships have been built based on trust, proven track records and continuous dialogue on how to best serve our business partners and to help them achieve their business goals. Unlike other trading companies, Kolmar doesn’t believe in speculative trading. We are in a service providing business to the mutual benefit of the parties concerned.

**The Kolmar Group was founded, like many other trading companies, by a team of executive traders who had left their former employer. How do you make sure your employees won’t eventually form their own independent company?**

Kolmar was indeed founded by a team of people who had left their former employer. The

founders of Kolmar had a clear vision of how to build a flourishing business, in terms of finance, but more importantly, to also create a working place where their employees would feel good and have confidence in the future, both in terms of longevity of the company as well as for themselves in terms of job satisfaction, continuity and career growth. Kolmar has a strong company culture that is seen as unique in the world of trading companies. This is reflected in the very low turnover of staff. The management of the Kolmar Group considers its personnel as its most precious asset and accordingly does its utmost to provide them with stimulation and satisfaction in their jobs. Offering employees internal courses and constant opportunities to expand their professional horizons – and develop themselves on a personal level – are integral parts of this policy.

**The products which the Kolmar Group sells rely on finite resources. What does this mean for the long-term development of the company?**

As far as crude oil is concerned that is indeed the case. However there is a constant search for alternative energy resources. Alternative raw materials such as gas and coal are available. It’s usually not only a question of environmental concern, but also one of cost. Ultimately we have to be aware that our present standard of living is heavily dependent on the availability of these resources. As a company, operating within the basic tenets of social responsibilities, we are very flexible and can adapt rapidly to many changing market conditions very rapidly where the need for adequate service providing remains and even grows.

**What is the future of biofuels? The production of ethanol is heavily criticised as competing with food production.**

Sustainability in terms of the environment, energy and food supply – as well as preserving the standard of living – are matters of great concern for businesses and governments alike. Kolmar is very conscious of these issues and endeavours to play its part by following present regulations and actively supporting measures aimed at maintaining strict compliance procedures. The German biofuels market, for example, can only be served by us – and other suppliers – with materials that are accompanied by sustainability certificates.

**Many smaller commodity trading firms have disappeared over the past few years or merged with the big players. Will only a few major firms survive that are involved in the whole value chain of producing, selling and delivering commodities?**

This question is difficult to answer. There is a big market out there and there is always room for niche players that don’t need a huge organisation to achieve profitability. However we strongly believe that if one aims at a global operation, it requires a business model that foresees a certain size and capacity and that is globally structured. Such structure will ultimately be more beneficial for the market we serve. —

**“Kolmar enjoys long-standing relationships with its business partners. This is not something that comes easily but is the result of a growth process over time.”**

**“Networks can create dependency”**

The market situation for airlines is difficult, and the pressure correspondingly high. Swiss International Airlines Ltd. CEO Harry Hohmeister talks about conveying unpleasant news, political conditions and cultivating relationships.

**Harry Hohmeister** has been CEO of Swiss International Airlines Ltd. since 2009. He trained in airline management and worked from 1988 to 2000 for Lufthansa, mainly in managerial roles. After a five-year period at Thomas Cook AG, where he exercised various executive management functions, he joined SWISS in 2005 as a member of the management board and head of network planning, and later assumed charge of the company's sales and distribution. He is 48, married, has a son and lives with his family in the vicinity of the airport.

Photos: Cédric Widmer

**In early 2012 SWISS was registering losses and the Lufthansa Group was shedding jobs. How do you pass on such bad news?**

It is part of business life. Of course you get worried every now and then, and it gives you sleepless nights – at the end of the day, colleagues are affected. But we have to use projects for change to regain positive energy as soon as possible. 2009 was also a difficult year, but we overcame the challenges. We will succeed in doing so this time, too, although we are not anticipating a fast recovery of the market in 2012.

**That sounds like forced optimism.**

You always have to be optimistic in our sector. However, if you merely hope things will get better, you won't be able to win. In the airline business you have to work constantly on improving. A certain degree of optimism is good to stop you from being ground down, but that's simply a matter of attitude, not the solution.

**SWISS aims to achieve an annual operating profit of CHF 400 million. Have you not set the stakes rather high here?**

We need this income to be able to make investments and succeed in the long term. We have initiated various specific projects to enhance results. For example, we are working with Lufthansa to optimise local travel, we are trying to improve our procurement processes and we are yet again reviewing our procedures. I am confident that we will be back on track by 2014.

**Will the planned measures have an adverse effect on your staff relations?**

We have implemented substantial improvements to the collective agreements with employees since 2006. But now that times are harder, there is no scope for higher pay. At the moment the most important consider-

ation is job security – ultimately it would make more sense to reduce someone's salary by 5 per cent than to make them redundant. Up to now we have actively implemented a good social partnership at SWISS.

**So are pay cuts envisaged?**

Not at present, as our company is earning money. We are doing everything possible to try and ensure that everyone can do their job with as few worries as possible. But if oil prices rise to the USD 200 mark and the Swiss franc gets even stronger, we will have to discuss lower pay. For the present, though, we are not talking about salary levels, but about increasing efficiency. And I can already hear you asking if things have not already been squeezed dry ...

**Have they?**

When I took on the post of CEO in 2009, we brought in a consultant from outside to do a realistic analysis of the current situation. The result? We were quite a bit better than the worst, but still only in the middle range of our sector. I was not satisfied with that. Since then we have reduced overhead costs, in other words the administrative unit cost, by 22 per cent – without having to lose people or exploit them. Using automation and standardisation we can reduce overhead costs by a further 15 per cent over the next three years.

**In difficult times is the boss also required to act as communicator?**

I need to stay on top of the situation. Anyone who is afraid of presenting unpleasant news to 500 people should not be doing this job. We regularly hold communication events for employees.

**You have stated that you will never stop spreading unrest through the organisation. At present there is plenty of unrest from the market.**

Yes, at the moment I have less need to spread unrest than before. The high price of oil, cur-



New image, new offers for customers: SWISS Arrival Lounge at Zurich airport.



**“Without air travel a substantial part of Switzerland’s gross national product would be lost – its contribution is six times that of the agriculture sector.”**

rency developments with the strong Swiss franc, and our competitors, many of whom are state supported, are very challenging developments for us. But the world is one of constant changes. An organisation that has set an unchanging course is not a good organisation in the long term. Managers are needed who question things and implement initiatives to remain competitive, creative and innovative.

**Would you have got where you are today without your professional network?**

Ultimately, the decisive factor is what you are capable of. Networks have various dimensions: my private network is very important to me – family and friends who listen to you and voice their opinions honestly. As a boss you soon tend to overvalue yourself. Networks help here by providing a degree of objectivity and helping you keep your feet on the ground.

I also have my airline network. Basically, I have always taken care to ensure that I retain my independence and do not become too closely involved in networks, as that always creates dependencies.

**Did you apply for the post of CEO at SWISS?**

No. I have only ever submitted one job application in my life, and since then I have always been headhunted. I have always shown myself to be open to new tasks and have never followed a fixed course. That’s still the case today. I have been CEO at SWISS for three years and would like to stay here for a

few years to come. But the ability to adapt to the employment market is an important success factor, as from a certain level you no longer shape your own destiny – others are also involved in shaping it with you.

**SWISS is part of the Lufthansa Group. Is this operational relationship vital to survival?**

It is certainly true that SWISS in its current form would have ceased to exist without this association. The connection means that we have won back customers’ trust, and we benefit from economies of scale in fuel purchasing, aircraft acquisition, sales and customer loyalty schemes. This accounts for mutual savings of CHF 150 million per annum. Over a ten-year period we are investing a total of almost CHF 4 billion in new aircraft. We would formerly never have got that kind of money from anywhere, unless the state stepped in.

**So size is everything?**

Size in an association brings economies of scale. But our strategy is to cover the home market in Switzerland. If we were much bigger we would have to promote transfer journeys to a huge extent, which in turn would have a serious effect on the cost structure. In this industry size alone is not the answer.

**Air transport is not only governed by the market, but also by politics. To what extent do you have to be a politician?**

Politics creates the framework; there is no getting around that. Consequently, I cultivate relationships with those in power in Berne, Berlin and Brussels. Business people and politicians, regardless of political flavour, have to work more closely together in air transport to find the best economic solutions.

**As an airline boss you are surely not happy with the political restrictions on air travel ...**

Last autumn, voters expressed clear support for the airport in Zurich. If you look out of my office window onto the airfield and the road, you see a substantial advantage for mobility. Some people in politics have the attitude that air travel is a luxury industry. That is sheer nonsense. We do not fly for pleasure, we are creating billions of francs worth of value, and here in Switzerland we are as much part of the public transport network as the rail operator SBB.

**You still have plenty of work to do to convince people of that.**

Yes, as a business we need to get more involved, as is the case in other sectors. Those who seek to make political capital at our expense, such as with the issue of noise, could ultimately be damaging the economy. Without air travel a substantial part of Switzerland’s gross national product would be lost – its contribution is six times that of the agriculture sector.

**The Zurich-Kloten airport can handle a maximum of 66 take-offs and landings per hour, while the capacity in Frankfurt is 120. Yet there is resistance to new runways here.**

Switzerland has to decide in which direction it wants to go and what should be done with the airport infrastructure – what is needed to maintain the attractiveness of an economy? Air travel is set to double again by 2030. And if that is the case, all these people – from the Far East, for example – will travel to the places served by direct flights.

**Many would perceive a doubling of air travel as a threat.**

But for many it is an opportunity. The demand is not created artificially; we are satisfying customers’ requirements. And we are developing in line with technological progress. If we look back 20 years, Zurich-Kloten had substantially less traffic with almost 70 per cent more noise than today. People should stick to the facts and not demonise the airline industry on the basis of gut reactions.

**You are German. Do you need to understand Swiss German for the purpose of maintaining relations?**

I think the most important thing is to fit in by the way you behave. I honestly don’t expect my Swiss colleagues to speak standard German in meetings. If I don’t understand something, I can ask. Although there is clearly an automatic reaction in these situations in Switzerland – when I come along people use their dialect for two or three seconds and then switch to standard German.

**You are seen as a quick thinker. Is that a help or a hindrance?**

It certainly helps with decision making if you are able to think through complex issues quickly. In our environment, winning or losing often depends on the speed of your reactions. However, on an emotional level it can be a hindrance if you race ahead too quickly and leave others behind. —



**SWISS**

Swiss International Air Lines Ltd. (SWISS) is part of the Lufthansa Group and a member of the world’s largest airline network, Star Alliance. The SWISS fleet of 90 aircraft carries around 15 million passengers every year. In 2011 the airline, with a workforce of 7,600, had an operating income of CHF 4.9 billion and made an operating profit of CHF 306 million.

There were once two small natural lakes on the Bernina pass: Lago Bianco and Lago della Scala in the south. In 1910–1911, the two dams Scala (southern side) and Arlas (northern side) were built, creating a reservoir with a volume of 18.6 million cubic metres.

## *“Electrifying thought process”*

With the project for the Lagobianco pumped-storage power plant, the operator Repower is opting for cooperation rather than confrontation. Building relationships with environmental protectionists is bearing fruit but remains a challenge for both sides.

Photos: Ruben Wyttenbach

**Since 2009, they have been meeting up and “seeking solutions rather than problems”.**

Roberto Ferrari shows how complex processes can be depicted in the meeting room of the energy producer Repower in Poschiavo, in the canton of Grisons. Taking his glass of water and pushing it gently to one side, the project manager for the new Lagobianco pumped-storage power plant explains: “When we had a problem in the planning process, the glass was not broken but instead viewed from a new angle.”

By “we”, Ferrari means, in addition to his project team, primarily the monitoring group, which includes representatives from environmental organisations, fishermen, communities near the site and the canton. Since 2009, they have been meeting up and “seeking solutions rather than problems”, says Ferrari. For a long time, this was not the case. WWF, Pro Natura and the Greina Foundation had objected to an initial project for a major pumped-storage power plant in the Puschlav valley from the 1980s and 1990s and had taken the case to the Swiss Federal Court. Repower had previously prevailed in all legal challenges. There was considerable disagreement among the opposing parties. The electricity producers wanted to produce more energy in the winter by raising the level of a reservoir lake at the Bernina pass by 17 metres. Such a move would only have allowed a small amount of residual water in the effluent stream, whereas environmentalists were campaigning for much of the landscape to be left as it is.



Open to discussion: Roberto Ferrari, project manager for the Lagobianco project.



Exploration shafts: shifting in the stone can result in adjustments to the project.



Dam heightening: the old south wall of the Lago Bianco reservoir.

Pressure tunnel  
approx. 18 km

Pressure shaft  
approx. 2.5 km

Lago di Poschiavo

Lago Bianco

**New start around the round table**

The positions seemed irreconcilable until the Greina Foundation proposed a round table in September 2008. Felix Vontobel, deputy

**The Lagobianco project**

In the upper Puschlav region, Repower wants to set up a pumped-storage power plant with 1,000 megawatts of output, which corresponds approximately to the output of the Gösgen nuclear power plant. The future power plant will make use of two reservoirs: Lago Bianco on the Bernina pass, at a good 2,200 metres above sea level, and Lago di Poschiavo at around 1,000 metres. Power is produced when the demand and the price are right. Then the water flows downwards and drives the turbines in the central power station. Conversely, cheap electricity is obtained in times of low demand and used to pump the water back up into Lago Bianco.

The two lakes are connected underground via an 18-kilometre-long pressure tunnel along the valley side and a 2.5-kilometre-long pressure shaft. The water drives turbines in an underground power station in Camp Martin on Lago di Poschiavo. The connection to the electricity grid is provided by an already existing international 380-kilovolt cable. The application for the approval of a concession was submitted to the canton of Grisons at the end of 2011 by Repower and the three municipalities of Pontresina, Poschiavo and Brusio. The investment costs amount to around CHF 1.5 billion. Repower is looking for production partners willing to participate in the project. The construction time for the pumped-storage power plant is six to seven years.

*“We suspended the proceedings before the Federal Court for half a year and saw the dialogue with the objectors as both an experiment and an opportunity.”*



Val Poschiavo: the construction of the pressure tunnels and the underground power station will create more than 3 million tonnes of excavation material. The construction will be a major burden on the valley – but also generate jobs and money.



Team oriented: Felix Vontobel, deputy CEO at Repower, in the village of Poschiavo in southern Grisons.



CEO and head of assets at Repower, recalls: “We suspended the proceedings before the Federal Court for half a year and saw the dialogue with the objectors as both an experiment and an opportunity.” Ferrari, who is 54 and has a degree in energy technology and high-voltage engineering, has been at the company since 1987 and describes himself as being team oriented. “We frequently run the risk of giving too much weight to the topics and not enough to our relationships with one another. Other ideas can open up new paths.” Vontobel, who himself has operated a solar collector system privately for 16 years, ignored warnings from friends and colleagues who were against a collaboration with the allegedly unpredictable environmentalists. The environmentalists also had to abandon their traditional ideas of the “enemy”.

“There was total confrontation for years,” says Gallus Cadonau, managing director of the Greina Foundation. The ecologically minded pragmatist was pessimistic about the Federal Court case and feared the setting of a precedent with regard to the residual water volumes, in other words the water level in the effluent streams of the reservoir lakes. Negotiation was the better alternative.

**Energy transition requires storage power plants**

In fact, says the Repower vice-president, a “creative thought process” developed. From his perspective, a change in mindset among the environmental representatives was decisive: “It was recognised for the first time that an energy transition towards the new renewable energies is only possible with storage plants.” Up to now, pumped-storage power plants have had the reputation of turning

cheap nuclear and coal-driven power into expensive hydropower, which dries out rivers and streams in the process – an ecological blunder in the view of environmental organisations.

With the boom in new renewable energies in Europe, primarily wind and solar energy, the market is now changing. Electricity from sun and wind is not produced only in response to demand but rather when the sun shines and the wind blows. Batteries are therefore needed to store the electricity when there is a surplus and release it when demand requires. “We have to use this opportunity to bring about the energy transition,” says Greina Foundation director Cadonau.

**The ups and downs of power production**

At times, so much wind and solar power is produced that prices hit rock bottom.



Lago di Poschiavo: when there is a surplus of electricity, water will be pumped 1,200 metres up into Lago Bianco and turbed in the opposite direction when there is a demand for electricity.

#### The Repower energy company

In 2000, several Grisons-based power plant companies joined forces to form Rätia Energie, present-day Repower. Forty-six per cent of the shares are held by the canton of Grisons, 24.6 per cent by the energy company Alpiq and 21.4 per cent by the electricity company Laufenburg. In 2011, Repower generated a turnover of CHF 2.5 billion with 700-plus employees. Consolidated profits totalled CHF 54 million. Repower has a solid financial basis with an equity quota of 40.7 per cent. Around two-thirds of the electricity turnover of 18.0 terawatt hours are generated by trading; a third by supply and distribution. The group has its own power plants in Switzerland (hydropower), in Italy (combined gas power plant, wind) and Germany (wind).



In 2011, Repower generated a turnover of CHF 2.5 billion with over 700-plus employees.

In extreme cases, money may be paid for buying excess electricity. Pumped-storage power plants make it possible to exploit such a situation: if there is excess electricity at Lagobianco, water would be pumped 1,200 metres upwards from Lago di Poschiavo into Lago Bianco at the Bernina pass and turbed in the opposite direction when there is increased demand (see box page 27). “If Switzerland wants to play a role in the European context, it can only do so by providing storage solutions for the new renewable energies. Otherwise, we will be marginalised and will fall under the wheels of European politics in the energy sector too,” says Vontobel. Because pumped-storage power plants have a compensatory effect, they also make an important contribution to the stability of the grid. In Switzerland, three new pumped-storage power plants are currently planned or already under construction. “There is sufficient demand. However, the transmission grid needs to be expanded for additional capacities,” explains Vontobel.

#### No energy transition yet

The Repower manager does not mince his words on the energy future: “Because there is a lack of consensus in society for new nuclear power plants, we will have to find a substitute for around 40 per cent of our current electricity generation. It is not realistic for us to achieve that solely with the new renewable energies once we abandon nuclear energy altogether. Consequently, we will need a generation of new gas- and coal-driven power plants.” But there is strong opposition to such a development throughout Europe. Vontobel points to the consequences: “Because nobody is investing any more in this uncertain phase, some plants with a poor level of efficiency and high CO<sub>2</sub> emissions continue to be in operation. The average age for Europe’s power plants is already at a critical level.” Vontobel wants clear and reliable political guidance so that his industry can invest. He also puts the situation into context: “Electricity accounts for 24 per cent of the total consumption of energy in Switzerland. The lion’s share of 76 per cent comes primarily from fossil sources of energy. But that fact is often conveniently ignored.”

#### A three-legged stool

During its construction phase, the Lagobianco project will have a significant impact on the environment. During the construction of the pressure tunnels and the central underground power station, more than 3 million tonnes of material will be created; the work will place a heavy burden on the valley. In subsequent operations, there will be considerable fluctuations in level at the two reservoir lakes. The project group were looking for solutions that were as environmentally friendly as possible. The results are exemplary: around 40 per cent of the excavation material can be reused for concrete production; most of it for the project itself. The dam on Lago Bianco will be heightened by 4.3 metres rather than 17, and the fluctuations in level will be defined and limited. In the valley river, the hitherto frequently alternating water levels (hydropеaking) will be eliminated as a result of the power production. New developments mean that turbines will be fed via pressure tunnels, and sufficient water will be supplied to the Poschiavino river. Fish can migrate again and lay their eggs. Important revitalisation measures are envisaged at both lakes and the Poschiavino river. The participatory process of relationship building remains challenging, however. Repower and the environmentalists do not agree on everything. For instance, an initiative from Grisons is demanding that domestic producers do without coal-driven power from abroad. But Repower wants to use this source of energy primarily for its important Italian business. If the concession for the Lagobianco pumped-storage power plant is granted, a scenario for unforeseen events needs to be drawn up with the monitoring group during the construction phase – for example, with regard to geological aspects, where shifting rock formations could result in adjustments to the project. “We do not yet have all the answers,” explains Ferrari. What could still stop the project if the concession is awarded? Ferrari answers with the metaphor of the three-legged stool. “The legs symbolise technology, ecology and economy. They have to have equal weighting; otherwise the stool will fall over.” —



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## Value insights

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Clive Bellingham,  
Headquarters Initiative Leader



## Switzerland

### The first choice for European HQs

**Multinational companies are opting to centralise business functions in increasing numbers. With its many competitive advantages, Switzerland is benefiting from this trend as a preferred location for European or even global headquarters.**

The decision to centralise and the choice of where to locate headquarters are inextricably linked. Multinationals often opt to centralise as the result of a business transformation. Once you've decided to centralise certain functions, you have to find a place to locate them. This usually involves expanding existing offices or setting up a new HQ. For many multinationals Switzerland is a very attractive location from which to coordinate European or global operations. In 2011 there were around 500 companies with regional or global headquarters in Switzerland. PwC has investigated this phenomenon by asking multinationals why they opted for centralisation and what made them

choose to locate centralised functions in Switzerland. The findings make interesting reading.

#### **Efficiency gains thanks to centralisation**

Centralisation is an attractive option for multinationals, and likely to remain so in the future. A business transformation based on centralisation:

- boosts efficiency because it harmonises business practices,
- creates economies of scale which help reduce cost.

What's interesting is that Swiss and foreign multinationals weight these two arguments differently. For domestic companies

improved efficiency was fully (87%) or at least partly relevant, with cost savings through economies of scale less so. Foreign multinationals, by contrast, rated both criteria as more or less equal in relevance.

#### **Tax appeal**

Many arguments speak for Switzerland, among them legal certainty, the possibility to work in partnership with the authorities, good infrastructure and quality of life. Tax too. All of the foreign multinationals and almost all the domestic companies polled named tax rates and the tax environment as relevant to their choice of location.

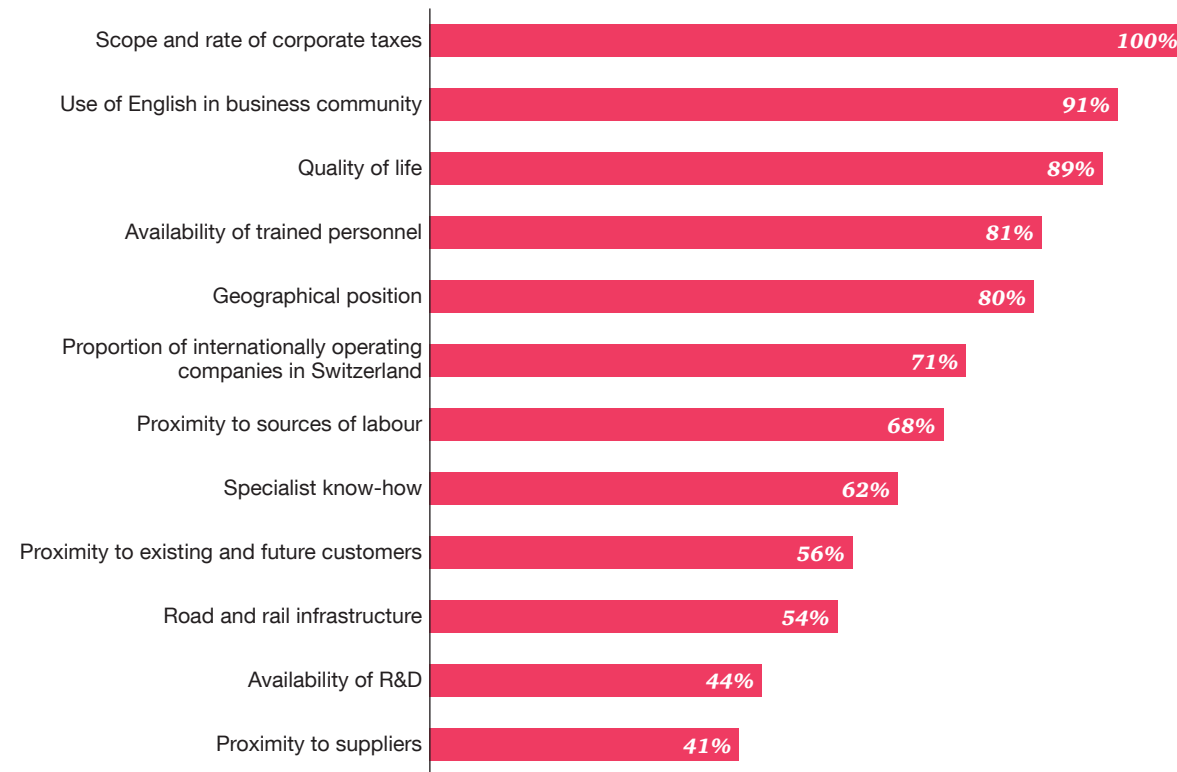
Language was another key criterion for multinationals in selecting where to centralise. The use of a common language by the business community was ranked ahead of quality of life and the availability of trained personnel (see graphic).

The financial crisis and its aftermath have made Switzerland even more attractive, with foreign multinationals in particular viewing the country as a safe haven.

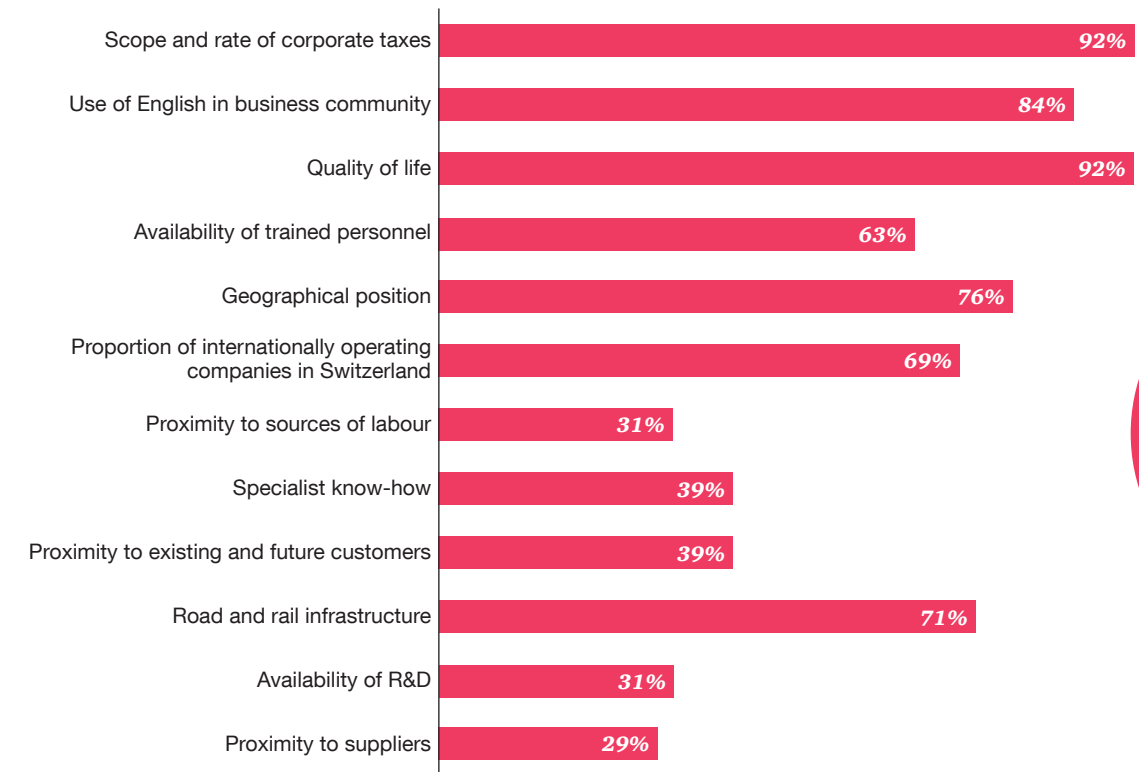
#### **Centralising key functions**

It's striking to see to what extent the foreign multinationals plan to increase their presence in Switzerland. Over 90% of the foreign multinationals surveyed

### Relevance of site-related factors



### Relevance of site-related factors



#### Foreign companies in Switzerland

In 2010, foreign multinationals accounted for CHF 39 billion (7.1%) of Swiss GDP and 423,000 jobs (approximately 10% of total jobs).

#### How the study was conducted

The original intention was to focus on foreign multinationals with headquarters in Switzerland. But as the study progressed it became clear that many of the challenges and opportunities around centralisation are the same for both Swiss-based global groups and regional international groups, so it was extended to include Swiss multinationals as well. The findings distinguish between the responses of these two groups.

The survey covered 93 individuals from 74 companies. Of these, 68 were holding companies, 27 of which were legally registered in Switzerland and the USA, 10 in Europe (excluding Switzerland) and 4 in Asia Pacific. The high number of US-based companies polled may be a factor in the popularity of the use of a common language in the business community as an important criterion in choice of location.

Of the companies surveyed, 21% post global sales of less than EUR 1 billion and 32% have global sales of more than EUR 10 billion. Participants operate in the following industries (from most to least common): industrial products, retail and consumer goods, life sciences, technology, telecommunications, entertainment and media, energy, utilities and mining, and public.

The prominence of the industrial sector is in line with a PwC observation that over the last 20 years or so it has been primarily manufacturing companies that have opted to centralise functions in Switzerland. This may be because standardising and centralising processes and functions within physical supply chains enables greater efficiency gains and cost savings through economies of scale; and also because standardisation and centralisation are still at a relatively early stage of development in the services and financial sectors.

You can order the study «HQs in Switzerland – maximising benefits and handling challenges» by e-mailing [sonja.jau@ch.pwc.com](mailto:sonja.jau@ch.pwc.com).

have centralised or plan to centralise their procurement function here; 81% have similar plans for sales and marketing. The finance and tax functions are also prime candidates for centralisation for both Swiss and multinational companies. Centralising IP – which is increasingly used to refer to intangible rather than intellectual property – is another extremely important concern for Swiss multinationals. Swiss companies apparently set great store by registering trademarks, copyrights and patents under their own legal system.

#### Not without challenges

Relocation is no routine task, even for large companies. It poses challenges very few said they had experienced before.

So while centralisation has many benefits, it also demands considerable effort:

– New structures and responsibilities have to be established, maintained and adapted. How will staff react?

- Employees have to relocate and get used to a new working and living environment. What are the implications for remuneration? What additional work will it involve for HR?
- Processes and systems have to be changed. New controls have to be introduced, and risk management has to be adapted in line with the new set-up. How can all this be handled without disrupting the business?
- New invoicing and transaction flows have a direct impact on VAT reporting. What happens if invoicing flows no longer correspond to the physical flow of goods?
- Centralising in Switzerland means paying tax in Switzerland. Foreign tax authorities are looking with sharper eyes at structures to confirm they are being used legitimately.

These and many other aspects of the process have to be considered

when you undertake the transformation. Any mistakes in centralisation can have serious consequences. For example, a failure to establish the new responsibilities within the organisation will result in a lack of credibility externally, which can undermine the whole strategy of running the business from Switzerland. Centralisation requires professionalism and thorough preparation. It's not something that can be accomplished overnight. Even when the process is under way, each step has to be questioned and adjusted as circumstances change.

#### Insights for Switzerland

What can Switzerland learn from the survey about the strategic considerations of multinationals? Government and the business authorities have only to look at the main arguments stated by the companies polled and gear their policies accordingly: tax, language, infrastructure and quality of life. Switzerland already ticks all these boxes. But it can't afford

to rest on its laurels. It has to play to its strengths to achieve an even stronger position in the relocation business.

The centralisation trend will continue. As the balance of power in the global economy shifts from West to East, more and more multinationals will be setting up hubs in Asia. There have been concerns that Singapore will become the "next Switzerland". But a more realistic scenario is that multinationals will opt for three hubs: one in Europe, one in America and one in Asia. Singapore or Switzerland is not an either/or decision. For Switzerland, the major challenge is to ensure that it's first choice on the continent Europe – and that it continues to play a global role in Europe.

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Julie Fitzgerald,  
Assurance Markets Leader

# Audit and advice in parallel

## Boosting quality and efficiency

Audit regulation has been back in the limelight since the European Commission published its Green Paper on audit policy in autumn 2010. Now that the ensuing consultation is complete, the commission has presented its legislative proposals on audit policy. It's already clear that the new rules will be tighter. But it remains to be seen how far-reaching they will be. While the compatibility of assurance and advisory services is just one aspect of the future regulation, it's a key issue in terms of audit quality. Experience shows that a strict prohibition on providing non-audit services to audit clients leads to a loss of knowledge and efficiency. In the course of its

work on the audit, the audit firm gains deep insights into its client and a growing understanding of its business. This is knowledge the firm can then draw on if it's involved in another project for the same client. And the experience it gathers in the course of the project will, in turn, feed back into the audit itself. A good example is deal due diligence. The auditors know the company and its strengths and weaknesses. They can shed light on the financial, tax, personnel and operational implications of a deal and place them in the right context. And after the transaction, the auditors will know what specific deal-related risks they have to keep a closer eye on.

**Advisory services parallel to the audit can often make sense because they enable a company to harness the full knowledge of the audit firm. Thanks to fundamental rules prohibiting auditors from auditing their own work or performing a management function there are clear statements of permitted and non-permitted services, and there are strict procedures to ensure auditor independence.**

Giving advice on other assurance-related issues enables the auditors to get to know all the facets of their client's business. They are then in a position to look at business transactions from an operational as well as from a financial point of view. They have a better understanding of the risks, which enables new insights into the way business transactions are presented in their client's financial statements. Because it makes them more alert to discrepancies, and immediately able to respond critically when discrepancies arise, the fact that their firm has also provided non-audit services actually enhances the auditors' professional scepticism. Another factor is the complexity of modern audits. Especially at multinationals, the audit is such a complex business that the auditors rely on the support of specialists in areas such as tax, IT and valuation. The major audit firms have this knowledge in-house. Their auditors and advisors follow the same standards, and their work is closely coordinated. Buying in expertise from other companies invariably leads to difficulties in understanding and inefficiency, which in turn lower the quality and raise the cost of the audit.

### Restrictive rules already in force

Those against the provision of non-audit services by audit firms often argue that giving advice leads to conflicts of interest and prejudices auditor independence and audit quality. But in many areas precisely the opposite is true: parallel accompanying advice, especially in related areas of assurance, can significantly improve the quality of the financial statements. Who is more aware of the weaknesses in a company's financial statements than its auditors? The current rules already take account of this,

allowing firms to provide non-audit services to audit clients, but only under very restrictive conditions. These rules are the legacy of the Sarbanes-Oxley Act, which unleashed a wave of regulation all over the world when it was passed by the United States in 2002. The restrictions on the non-audit services provided by audit firms rest on three principles:

1. Independent auditors may not function in the role of their client's management, i.e. make decisions.
2. Independent auditors may not audit their own work.
3. Independent auditors may not do bookkeeping.

These principles make sense. Auditors must always be able to form an independent opinion. They should be able to make suggestions and proposals, but not decisions, as it's the company and its board of directors who bear responsibility for the financial statements. In Switzerland, auditor independence is enshrined in the Code of Obligations (CO) and the Audit Supervision Act (ASA). One of the provisions of Art. 728 f. CO, for example, is that auditors may not audit their own work. The law thus prohibits all services where there is a risk that the auditors may audit their own work.

### Only permitted services provided

On the basis of the three principles, audit firms have separated out services that are compatible and services that might conflict with the principle of independence. The result is a statement of permitted services. Although the

rules governing what goes on this list are very restrictive at PwC, it does contain more services than people often assume (see sidebar).

But statements of permitted services and strict internal rules aren't much good if people don't comply with them. That's why PwC has a uniform process in place across the globe to ensure that no advisor in any territory provides a service that is not permitted. Roughly speaking, the procedure for obtaining authorisation for services runs like this: responsibility for the audit of a multinational group always lies with the PwC territory where the group is headquartered. The lead auditor must record all the subsidiaries of the client group in a so-called central entity services system, and keep this information up to date. If an advisor in any PwC territory wants to provide a service to one of the entities within the audited group, they have to send a request to the lead auditor giving reasons why they believe the service is permissible, and describing the guidelines to which the service is subject. Having reviewed this request, the lead auditor is obliged to reject it if there is any indication that the service might jeopardise independence. In particularly sensitive or unclear cases, the lead auditor consults the partner responsible for risk management. Once a decision has been made, the advisor and territory in question must accept it without argument.

### Safeguarding independence

Under the current rules it is possible to clearly demarcate permitted and non-permitted services. Audit firms have institutionalised far-reaching measures designed to safeguard independence. The process described above is only one of a range of measures including enterprise-wide quality management systems, internal

## The European Commission's legislative proposals on audit policy

With audit quality inseparably bound up with the quality of financial reporting, high-quality audits are crucial if the financial markets are to function properly. The explicit aim of the European Commission is to reform the European public interest entity audit market to improve audit quality. Many of its proposals will do just that, and are welcomed by PwC:

- The consistent use across Europe of ISAs (International Standards on Auditing) to enhance consistency and confidence in the quality of audits
- Comprehensive reporting from the auditors to the board of directors
- A requirement to set up an audit committee or augment its responsibility, and closer dialogue between the auditor, the audit committee and the full board of directors
- Improving two-way communication between supervisory regulators and auditors
- The removal of barriers to auditors' working across the EU

### On the other hand there are other proposals that PwC does not support:

- Mandatory rotation not just of the key people involved in the audit, but of the audit firm itself. This would constitute interference in the corporate governance of the audited entity by restricting the choices of its meeting of shareholders. Empirical studies have also shown that mandatory rotation diminishes audit quality and increases costs.
- A prohibition on providing non-audit services to audit clients. This would prevent companies from drawing on the full experience of their audit firm, reducing efficiency and – even more relevant from a governance point of view – restricting their ability to determine the most suitable service provider.

There is no empirical evidence to suggest that either of these two proposals would strengthen auditor independence or improve audit quality.

codes of conduct, general and engagement-specific confirmations of independence, and the disclosure and recording of all personal financial investments. Despite all these safeguards, in Switzerland in particular companies seem to have adopted a kind of informal law of prudence. Fearing criticism from their stakeholders, directors and audit committees often tend to err very much on the safe side when it comes to buying other assurance services from their auditor. This is a result of a greater awareness of good corporate governance. Sometimes companies anticipate the expectations of the public and the media, but in doing so they miss an opportunity to potentially boost efficiency and harness useful knowledge.

The present situation could be described as follows:

- In practice the current rules on combining audit and non-audit services have proven to be adequate in terms of ensuring that auditors do not audit their own work.
- Organisations have substantially improved their corporate governance in recent years, also with regard to the external audit, and are very cautious when it comes to giving work to audit firms.
- An audit combined with other assurance services can improve the effectiveness and efficiency of the audit itself.

There is no empirical evidence to suggest that even tighter restrictions on permitted services will raise audit quality, and indeed the opposite is likely to be the case. Despite this, the European

Commission's latest legislative proposals contain four options, two of which are favoured by the commission: a complete prohibition on delivering non-audit services to audit clients, and – the most draconian alternative of all – the creation of audit-only firms.

#### **Further restrictions will prejudice audit quality**

PwC is in favour of many of the EC's proposals, because they will help improve the quality of the audit (see sidebar on page 37). But like other audit firms, PwC rejects rules to strictly separate audit and non-audit services. Prohibiting other assurance services fails to recognise the reality within organisations and the audit process. A prohibition will do nothing to improve the quality of the audit.

As the 700-plus contributions to the Green Paper consultation show, this isn't just the opinion of PwC or the auditing profession. An evaluation of the contributions by the Goethe University in Frankfurt has shown that only 15% of companies, their stakeholders and the academic community are in favour of prohibiting the provision of non-audit services (audit firms were explicitly excluded from this evaluation). Not only this, but 77% of those surveyed in PwC's June 2011 "European Audit Committee Chair and CFO Poll" believed that the existing safeguards in place to ensure audit firm independence are adequate.

#### **Greater responsibility for audit committees**

We should be taking a different approach to improving audit quality, one that addresses the powers and responsibilities of the individual bodies involved in the reporting process and the way these bodies communicate. The responsibility of the audit committee, for example, should be augmented – also vis-à-vis the CFO – and dialogue with the external auditor should be stepped up.

The key to improvements in audit quality lies in communication. Experience has shown that dialogue between the auditor and the audit committee in particular has to be intensified. Communication is never a one-way thing. The auditors rely on the cooperation of the entity they're auditing. Stakeholders within the organisation should be seeking dialogue and giving the auditors information on the company's strategy, the way its business is performing, the risks, and important business transactions. The European Commission's proposals also include welcome moves in this direction. Another point is the way audit firm independence is understood. This is primarily a matter of personality. Independence doesn't mean that the auditor keeps their distance from the people responsible within the client's organisation. To be able to form an objective opinion, the auditor has to meet and discuss with people at different levels of the company. The only guarantee of independence are the powers of judgment and personal integrity of the auditor. Companies should treat their auditors as partners with the ability to think critically, rather than as a scrutineer.

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#### **Summary**

*Under the present rules audit firms are only allowed to provide non-audit services under very restrictive conditions. Generally advisory services are prohibited if they could conflict with the auditing role or raise doubts as to the independence and objectivity of the auditor. Further restrictions, or even the creation of audit-only firms, could prejudice the quality of the audit without doing anything to strengthen auditor independence. Other assurance services, for example advice on tax or due diligence matters, can significantly improve the quality of the audit, especially in complex cases.*



Stefan Gerber,  
Middle Market Leader Switzerland

## Start-ups Young enterprises inject life into the economy

**The prospects for start-ups in Switzerland are excellent, with half of all new businesses surviving their first five years. But to succeed, start-ups need three things more than anything: a good team, a sense of timing, and a solid network of relationships.**

Start-ups give the economy new impetus. Young entrepreneurs have new ideas, enthusiasm, and belief in their ability to make things happen – all of which helps breathe life into the business landscape. New businesses drive the whole economy forward. Their innovative energy also boosts Switzerland's reputation as a centre of research and development. You just have to look at the many spin-offs that have emerged from the Federal Institutes of Technology in Zurich (ETH) and Lausanne (EPFL) in recent years. The knowledge and pioneering spirit of these businesses also help make Switzerland the leading centre of innovation in Europe.

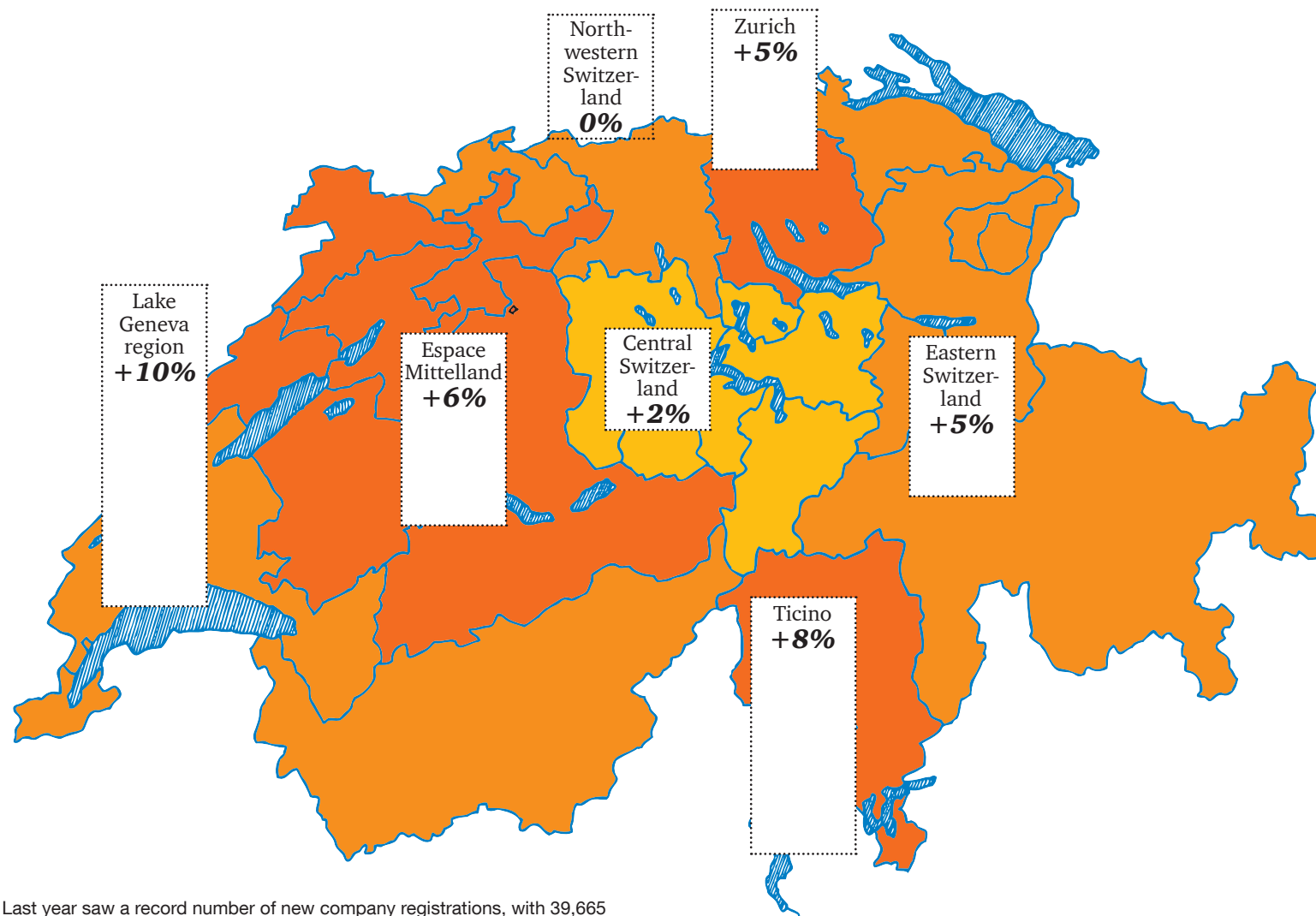
Start-ups also create jobs. According to the Swiss Federal Statistical Office (FSO), for example, the 11,471 companies established in 2009 employ a total of 21,793 people. The Federal Council is well aware of the economic potential of start-ups, and has set up a commission dedicated to support their development: the Commission for Technology and Innovation (CTI) reinforces the interplay between practical research and development, entrepreneurship and the promotion of start-ups. The CTI's venturelab scheme offers train-

ing modules, assesses projects, provides financial resources and connects public and private institutions.

#### **Start-ups well prepared**

The CTI may be one of the reasons why people planning to start a business are so well prepared nowadays. They tend to approach projects with a healthy mixture of caution, consideration and ambition. This is reflected in relatively high survival rates for newly established companies. Official FOS statistics for 2003 to 2007 show that half (49.2% to be precise) of new businesses survived their first five years. At 57.4%, the percentage is higher in the industrial sector than in services. That's an excellent track record. But there's also no disputing the fact that embarking on a start-up requires more than just courage and a good idea. It's a step that has to be carefully thought through, prepared and structured. There are plenty of challenges to be faced at any stage in the development of a new business, from founding and setting up the company to growth and – as the case may be – opening up to outsiders. Funding is a good example. If you're not lucky enough to have won one of the competitions for good business ideas, when it comes to raising capital you're generally going to be reliant on friends and family. But if you want to develop further, or are even considering going international, you'll need additional sources of funding. These days professional investors are very critical. As well as analysing business plans they'll examine every single product and project under the microscope. They'll calculate internal rates of return, and take a close look at value creation. And they'll

## Start-ups in 2011



Last year saw a record number of new company registrations, with 39,665 businesses entered in the commercial registry for the first time, 5% more than in 2010. At 10%, the Lake Geneva region saw the greatest increase. Only in north-western Switzerland did the number of new registrations stagnate.

Source: Dun & Bradstreet (Schweiz) AG

### PwC also supports young entrepreneurs

PwC is the sponsor of the Venture business plan competition staged every two years by the Swiss Federal Institute of Technology (ETH Zurich). PwC's head of Consulting Holger Greif sits on the jury, and CEO Markus R. Neuhaus is a member of the advisory council. PwC has also been directly involved in promoting young enterprises for many years as a premium partner at the Swiss Economic Forum (SEF).

### Why external audits make sense for start-up companies

In the set-up phase, what start-ups need most is advice. But once they start expanding their business or want to go international, they need to be audited by an established external auditor. An audit gives young entrepreneurs comfort on their financial situation, provides the basis for doing the necessary calculations internally before embarking on growth plans, and builds external trust in the reported figures. Not only this, but the auditors sometimes come across shortcomings that don't have anything directly to do with the financial statements but which have important implications for the business. This creates additional value.

not only evaluate the business, but the team that runs it as well.

### It's all down to the team

A good team is the most important prerequisite for success. This doesn't just apply to financing, but to the management of the business itself. The term "team" has to be broadly defined. It's an enormous help to a start-up to have scientists, researchers or experienced managers on the board of directors or advisory board. The success of university spin-offs shows just how important input like this can be. Most of these entrepreneurs have included professors of their former universities on the board, and these professors for their part bring a network of contacts in the business world. A high-calibre board gains a company start-up prestige and important know-how. Added to this, new businesses are also often reliant on these people because they lack resources in operational functions such as finance, con-

trolling and HR. And experience shows that established businesses like helping young companies. In addition to a core team consisting of the management and advisory board, a start-up should also have an external team that can provide advice on specific issues. This external team might include lawyers to advise on patents and intellectual property, or specialists to provide guidance on auditing, tax or employee participation. This external team can help make sure that a start-up evolves in the right direction. What's important is that these advisors are also entrepreneurial and business minded, and make the people running the start-up aware of aspects of management they may never even have thought of, for example project accounting or the choice of location and legal form. A business-minded approach should also be taken to compensation and the choice of advisors. Young entrepreneurs need young, uncomplicated advisors who think and

work the same way they do. That's also part of having a good team.

### Products must be ripe for market

Besides the team, the other main key to success is time. A good idea or innovative product isn't much use if the market isn't yet ready for it. By the same token, a start-up may have correctly identified a market need, but still lag behind in terms of product development. The secret to timing is market maturity. For the CTI, for example, market maturity is one of the criteria for granting its seal. A CTI start-up label indicates that a new product has market potential. Market maturity facilitates access to risk capital, and at the same time makes the business attractive for people in the scientific, academic and business communities. And this, in turn, is precisely what it takes to build the right team.

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### Summary

*Start-ups breathe life into the economy. They create jobs and strengthen Switzerland as a centre of innovation. A successful new venture needs good timing and the right team. If start-ups take this message to heart, an even greater number of them will survive. And this will make this country younger, more dynamic, and more successful in the long term.*

### A real-life example

The budget for a very promising start-up that PwC had audited for the first time showed a loss. That's nothing unusual for a business in the start-up phase. But the end-year equity position was looking very thin, and the auditors concluded that the company would be overindebted the following financial year. Subordinating debt wasn't an option since the start-up had almost all its borrowed capital via banks. To avoid ending up in the courts, the company had to raise capital over the course of the year. The question was how much, and by when. Calculations revealed that an extra half-million francs in financial resources would be required

in the fourth quarter of 2012. But more important than the fact that it would have to raise funds was the realisation that while the start-up had done its liquidity planning, rough budgeting and sales forecasting, it didn't have tools to assess its capital structure. To make sound financing decisions it needed a solid basis for analysing its balance sheet. PwC worked with the company's financial officers to create a comprehensive planning tool that allowed it to make balance sheet, P&L and cash flow forecasts on a monthly basis.

### Value added by the audit

For an internal audit to create comfort and add value, intensive, two-way dialogue is really important to enable the auditor to get

to know the business. There are checklists and templates that make preparing for the audit itself easier. But a good auditor has to know what's really important to the company; in the example described it was dealing with long-term orders and capitalising research expenses. The company was able to discuss with PwC the pros and cons of the various options and the impact on its financial statements in the current year and subsequent periods. The added value of an audit for a start-up is that it can draw on the huge experience of an international network when tackling its own individual challenges.



Dr Robert W. Kuipers,  
Leader Reward Switzerland

# The psychology of incentives

## Keep it fair and simple

**Most studies of compensation systems foreground the benefits for shareholders and the costs for the organisation. But how are they perceived by the executives for whom they are designed in the first place? What are their expectations?**

PwC joined forces with the London School of Economics to find out how executives rate and assess different pay scenarios. More than 1,100 people in 43 countries were interviewed. The findings show that it's psychological factors that determine whether a system of remuneration works and gives managers sufficient incentive to up their performance. It also emerges that different types of incentive are rated differently from country to country. But there are certain common threads:

### **1. Executives are risk averse**

The study involved a game simulation to find out respondents' attitude to risk. Participants had

a choice between receiving a specific amount of money today, or receiving a much larger sum at a later date but at the risk of losing it all (for example the certain prospect of CHF 40,000 now, or a 50:50 chance of a deferred payment of CHF 90,000 in two years – with a 50:50 chance of coming out with nothing). More than half of those polled chose the safe alternative. The striking thing is that contrary to popular perceptions, executives in the financial industry were just as risk averse as the rest.

### **2. Complexity and ambiguity destroy value**

Executives want to understand the rules. Given the choice of different bonus systems, most will choose the straightforward option. This should be food for thought for people designing incentive plans. With all their deferrals, claw backs and risk adjustments, most incentive plans end up being very complex. Whether an executive actually receives the amount held out in

prospect depends on many different performance criteria, most of which are linked mathematically. A long-term incentive plan (LTI) can be pegged to an absolute figure such as the development of the share price, or to a relative yardstick such as a peer group. Internal figures may also be used to relativize the general development of the market. And incentive plans may also incorporate qualitative indicators such as customer or employee satisfaction. A complex, ambiguous system will give executives little incentive. To ensure their performance is properly rewarded, it has to be as straightforward as possible.

### **3. The longer you have to wait, the less it is worth**

LTIs contain promises for the future. These promises are always bound up with uncertainty on whether they will be kept, whether a payment will be made in future, and how much will be paid. It's an economic truism that a payment in the future is worth less than a payment today, which is why executives

discount deferred pay to assess its present cash value. What's striking, however, is that the people in the study applied much higher discount rates than the economic theory would suggest. So while a rate of around 5% a year would seem appropriate in terms of economic theory, the subjective rate applied by the executives polled averaged around 30% on a global basis. Executives in Latin America discount deferred pay by as much as 45% per annum, the highest figure in the study. The lowest figures were in Switzerland and the Netherlands, with 12% and 11% respectively. This shows just how important the economic, cultural and social framework is. In Switzerland people obviously trust a promise to pay more than in Brazil.

### **4. Fairness is fundamental**

Companies try to make their remuneration fair. But what's perceived as fair? Does it have to do with the absolute amount of the pay you get in return for your own performance? Or is it the amount you get relative to a peer group? The study shows quite clearly that it matters less to individuals what they are paid in absolute terms than what they are paid relative to those they consider to be their peers. There are, however, exceptions, with pay in absolute terms more important in terms of motivation for executives in Eastern Europe, Brazil and China.

### **5. People don't just work for money**

People work in return for a reward. But they also seek satisfaction in their job. Can this personal sense of satisfaction be reduced to a monetary value? How much pay would a manager sacrifice in return for the ideal job? The study's answers to these

questions are astonishing. When asked to imagine what pay cut another executive offered their ideal job would be prepared to take, participants named a much higher figure than when asked how big a pay cut they personally would accept to do their ideal job. So for example they imagined that a senior executive would be prepared to take a 60% cut in pay in return for a job offering personal satisfaction. But they personally would only be willing to take a 28% cut in pay for their ideal job. The results are similar regardless of the position, salary bracket, region or industry. People have got accustomed to their level of income and have difficulty imagining working for less than two-thirds of their current pay, even in their ideal job. But perceptions are different when people are asked to imagine what other people would be prepared to accept.

### **6. The mere existence of an LTI is motivating**

Executives appreciate it when their organisation offers LTI plans. Most feel motivated by the mere fact that such plans are in place and they can participate. This reflects a psychological need to belong. People are proud to be among those whose performance is valued most highly by their employer. So it's no contradiction that not everyone who feels motivated by LTIs also sees them as effective. In Switzerland, for example, only 38% of respondents believe in the efficacy of long-term incentive plans.

### **Match your LTI to your audience**

What can companies learn from this? One of the important insights from the study is that an incentive plan has to be tailored to the organisation and its executives. Your LTI has to fit your audience. There's no standard model that will work for all companies, industries, executives and

regions. International companies should be aware that the effect of individual incentives varies from region to region. In Brazil, India and China it's not only the employment market that functions differently, but the individual psyche as well. LTIs have to be adapted in line with these factors. But at the same time it's also important for global companies to have a uniform incentives philosophy to underpin their strategy. Within this framework, however, they have leeway to take account of individual preferences. When designing an appropriate model it helps to bear in mind how the various components mesh together:

## **Jean, Jacques, and the question of fairness**

Jean and Jacques are two friends leaving business school. Jean is offered a job to join the management team of Company A, paying a total of CHF 187,500. Jacques is offered a comparable job at Company B for CHF 195,000.

Jean finds out by chance that the average pay in the management team at Company A is CHF 180,000. Jacques then discovers that the figure at Company B is CHF 202,500.

Who is more motivated: Jean, who would earn more than average, or Jacques, who would be paid more in absolute terms but would be worse off compared with other members of the management team?

The executives taking part in the study were almost unanimous in saying that Jean is more motivated than Jacques. It's more important to earn more than your peers than to earn more in absolute terms. Fairness, in relative terms, is key.

- Basic salary should be dependent to a large extent on the function and the local market.
- Short-term cash bonuses should be linked to the goals and results of individual departments and corporate functions.
- Incentive plans should enable executives to share in long-term business performance.
- Given the differences in pension plan legislation from place to place, pension plans tend to be set up on a regional basis.
- Fringe benefits should be largely geared to things valued by the executives in question. In some countries, for example, status symbols such as a company car are valued more highly than in others.

#### Simple LTI models

The most difficult component to get right is the long-term incentive plan. The very existence of an LTI in which they get to participate is enough to give most executives a positive feeling. But if it takes years for an LTI to pay out, people get frustrated. For incentives to work, companies have to take care to create balanced models that give executives a fair stake in long-term business performance. This isn't easy. For a start, external factors such as market volatility, economic uncertainty and changing business models mean LTIs have to be adjusted on a permanent basis. And then there are the psychological factors. This means that incentive systems should be kept as straightforward as possible and be linked to only a small number of strategic performance indicators.

Responsibility for the incentive system has to lie with the board of directors or remuneration committee – not with the shareholders or annual general meeting. It makes sense to consult the owners, but it's a mistake to leave them to decide on the right system of incentives.

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#### Summary

*Most executives prefer their rewards to be immediate and certain. They're less keen on deferred payments that are subject to terms. The challenge for companies is to come up with an appropriate and attractive system of remuneration geared to the business, its owners, and the executives who work for it. This is a complex undertaking, especially when it comes to long-term incentive plans. LTIs should be as fair and straightforward as possible.*

*You can download the study «Psychology of incentives» in English as a free PDF from [www.pwc.ch/reward](http://www.pwc.ch/reward).*

#### Award for joint PwC Switzerland and Swiss Re project

In a joint project with Swiss Re, PwC Switzerland showed how to successfully implement organisational change in finance. The two companies worked together to deliver F1, a cultural and behavioural change programme covering 33 offices in 21 countries. The aim was to renew and make clearer the vision and strategy of Swiss Re's finance department, as well as to define and implement values and desired behaviours – such as cross-departmental collaboration – to improve performance by making the working environment more attractive for employees.

To date the project has received two awards. The Association of Management Consulting Firms (AMCF) gave it its AMCF Award for the most innovative and efficient consulting project in the human capital category. And the project earned an MCA Award in the finance and risk management category from the Management Consulting Association (MCA).

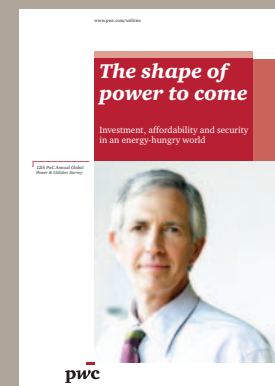
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#### Academy newsletter

PwC's Academy is there to help leaders like you prepare for the challenges of tomorrow. It's an opportunity to network and advance your professional development. The Academy is underpinned by our extensive know-how in a wide variety of sectors, and driven by our high standards of quality. From the choice of themes to the selection of expert speakers and seminar leaders, everything about our events and courses is designed to help you build your knowledge and expand your networks.

Receive periodic updates on our events and courses by subscribing to the Academy newsletter: [pwc.ch/academy\\_newsletter](http://pwc.ch/academy_newsletter).



#### Risk of power blackouts increases

When it comes to assuring the supply of electricity, the challenge faced by governments and the energy industry is to strike the right balance between costs, security and sustainability. In a PwC survey of 72 energy utilities in 43 countries, most respondents also reckon that there will be a growing risk of power blackouts in Europe and North America in the years to come. The reasons include the growing scarcity of fuel and growing obstacles to investment in infrastructure projects. You can download the "Annual Global Power & Utilities Survey" in English as a free PDF from [www.pwc.ch/energy](http://www.pwc.ch/energy).



#### Instant shopping via multiple channels

The retail trade is set to change in the next few years. More and more consumers are doing so-called multichannel shopping. In the run-up to a purchase they compare different suppliers and consult with friends before buying via the channel of their choice. One characteristic of this new consumer behaviour is that different channels are often combined: people do their research online or use print catalogues, and then make the purchase. You can download the study «Customers take control» in English as a free PDF from [www.pwc.ch/multi-channel](http://www.pwc.ch/multi-channel), or order printed copies from [sonja.jau@ch.pwc.com](mailto:sonja.jau@ch.pwc.com).



#### 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 focus of the June issue is on integrated reporting as a forward-looking corporate reporting model. Integrated reporting covers a broad range of relevant information alongside financial reporting, enhancing the quality of reporting for addresses by linking and going into the individual components of the report in more depth. The publication also includes an update on other current topics. You'll find the online edition of "Disclose" in German and French at [www.pwc.ch/disclose](http://www.pwc.ch/disclose), or order printed copies from [sonja.jau@ch.pwc.com](mailto:sonja.jau@ch.pwc.com).

#### Events

##### Regional and global HQ Conferences

The HQ Conferences taking place in Zurich and Geneva are now an annual event. They are organised and hosted by the PwC HQ market team and look at topics of interest to the leadership of the regional HQs of multinational companies based in Switzerland and Swiss companies with similar centralised operations. In 2012 the theme of the conferences will be "Enhancing the value delivered by your Swiss principal company". Speakers at the events are a combination of our clients and figures from the Swiss political sphere and tax authorities together with input from PwC's HQ market experts. Past events have been attended by up to 100 clients. Participation is on a first come, first served basis and there is a CHF 300 fee.

##### Dates

4 October 2012, Zurich, Renaissance Zurich Tower Hotel  
20 November 2012, Geneva, Starling Hotel Geneva

Sonja Riccoboni ([sonja.riccoboni@ch.pwc.com](mailto:sonja.riccoboni@ch.pwc.com)) will be delighted to receive your registration.

## “Evolution not revolution”

The Zurich Insurance Group started 2012 from a position of strength. CEO Martin Senn regards this as a sign that the group’s strategy is the right one: “We are exclusively focused on doing what we do best – managing insurance risk – and we try to keep the business model as simple and agile as we can.”

**Mr Senn, between January and March 2012, the Zurich Insurance Group posted USD 19.63 billion in business volume, and thus 10 per cent more than in the previous year. Are you happy with that figure?**

We are very pleased with this excellent result. Delivering such strong numbers in this challenging environment shows our strategy is working.

**You’re credited with bringing Zurich through the 2009 crash with minimal damage. How did you do that?**

First, let me credit my team for that. No one person runs a company or a major division. Our success was a great team effort. What we did then – and continue to do – is stick to the basics. We invest our assets relative to liabilities on a risk-adjusted basis and we only invest in things we truly understand. For instance, we consider the effect that instruments such as CDOs could have on our overall balance sheet. We are exclusively focused on

doing what we do best – managing insurance risk – and we try to keep the business model as simple and agile as we can. We select the best asset managers from around the world. Working with the best and constantly refining our understanding of the market gives us a competitive edge.

**You’ve been Zurich’s CEO for more than two years. Have you instituted any changes in strategy?**

The company was in good shape when I became CEO, so what was required was evolution not revolution. We’re on a stable course with a strong balance sheet, we generate strong cash flows, and have a well-diversified portfolio of insurance risks. Our main strategic move has been expansion into emerging markets. One example of that is our acquisition of Banco Santander’s insurance business in Latin America. This is an important strategic move. We’re also expanding in Asia; we acquired Malaysian Assurance Alliance last year and have now renamed it to the Zurich brand. In April this year we signed an exclusive distribution agreement with HSBC in the Middle East. Balancing our strength in

### Martin Senn (55)

has been CEO of Zurich Insurance Group since 2010. He joined Zurich as Chief Investment Officer and member of the Group Executive Committee in 2006. His career path has included various management positions at the former Swiss Bank Corporation and at the Credit Suisse Group. Between 2003 and 2006, he was Chief Investment Officer at the Swiss Life Group.

Photo: Cédric Widmer





Europe and the US with our growing strength in the emerging markets is an important strategic priority for us.

**So with a strong balance sheet, you can pick up some bargains in these crisis times?**

Clearly, in the current market environment our strong capital position provides us with opportunities. Another example of this was our acquisition of 21st Century Insurance in the USA about three years ago. However, it's still important to stay disciplined with acquisitions. Controlling temptation to only buy for the sake of growth is paramount. Principles must be applied stringently; this is particularly important because there is a lot of uncertainty. And uncertainty carries risk, which must be counterbalanced.

**With respect to your expansion into developing markets, could Zurich go it alone? Or are partnerships and acquisitions preferable?**

For a multinational company such as Zurich, the greenfield approach is suboptimal. It takes too long to make a meaningful contribution to the group. So we employ other options: cooperations and acquisitions. Our alliance in Latin America with Santander enhances our distribution capabilities there. We've been establishing these sorts of co-operations for quite some time. For example, we've just concluded similar arrangements with Deutsche Bank in Germany; and with Credit Suisse here in Switzerland. These are exclusive agreements. But we also have non-exclusive agreements with other banks around the world. And of course, we have our

own people on the ground. We've maintained a presence in Latin America for many years, and the Santander deal strengthens our established position there.

**We're in a period of historically low interest rates. Does that change the way you run the insurance business?**

Low interest rates are a challenge for the industry. It means that the largest sources of income for the industry are under pressure. And the effects will most likely accelerate over time because insurers tend to invest for the long run. So, as we reinvest our assets, we have to put them into lower-returning vehicles. Nevertheless, Zurich is in a strong position. We have shown that we're able to generate strong cash flows. We have a very strong balance sheet. And we are highly diversified.

**Is it your view that, for the medium term, interest rates will remain low?**

Yes – other scenarios do not seem realistic for the time being.

**You're aware of the criticism of the financial industry. What is your reaction?**

I understand that the public at large is upset because of the mistakes that were made. But mistakes were made by a number of parties – not just the financial sector. The insurance sector has actually been a stabilising factor during the crisis. I understand the outcry, but there's a risk that if the regulators respond in a populist way, the recovery could be threat-

ened. The public and the private sectors went into the crisis together; now they need to come out of it together. So for us, a constructive dialog is very important and something that we pursue.

**Zurich Financial Services Group changed into Zurich Insurance Group. What is the reason behind this change of name?**

The name change from "Zurich Financial Services" to "Zurich Insurance Group" reflects the fact that our business portfolio focuses on insurance, providing a clear brand message to our customers, shareholders and other stakeholders.

**Josef Ackermann was appointed new Chairman of Zurich. Do you expect a change of strategy?**

Zurich has a clearly defined strategy which is based on continuity and has worked well. There is a distinct, continuous process involving both board and executive management to control and adapt this strategy. We will continue to adhere to this set-up and procedure.

**Which would you choose: better innovation or faster innovation?**

Clearly, better innovation that results in sustainable, meaningful contributions to the business. Quality in everything we do comes first.

**Do you see innovation flowing from the developing to the developed world?**

Yes – and that is one of Zurich's most promising opportunities. We are a large organisation and we have our fingers on the pulse of many markets. An opportunity in Latin America,

for example, can also be applied in Asia or Europe. So we encourage our people to speak up, to take the risks, and to think innovatively in order to create solutions for customers around the world.

**Is recruiting talent more of a challenge today than it was, say, a decade ago?**

Certainly, it's more a topic of discussion today than it was a decade ago. But at Zurich, we see the recruitment of talent as more of an opportunity than a challenge. As a strong, successful multinational company, we can provide people around the world with rewarding careers. Clearly, we want to do even more to develop and motivate our people because people are our most important asset.

**What traits do you look for in new joiners?**

I look for globally minded people with the capacity to anticipate change and the flexibility to accept it. I also put a lot of emphasis on character. Good character, honesty, and consistent behaviour – that's what we're looking for.

**Switzerland's «Freizügigkeitsabkommen» (covenant on freedom of movement) has had a major effect on your operations here. Are there any negatives to it?**

No, not at all. Zurich is truly a global organisation. At our corporate centre, we have over 1,000 people from 45 different countries. The opening of the Swiss borders has been important for our company and for the economy of Switzerland as a whole. It's one of the reasons that such a small country has such a large impact on the global economy.

**Will the global movement of employees increase or decline?**

It will remain important. In my own career, I had a chance as a young employee to go to Hong Kong and to learn many new things. We will continue to support people who want to move into new cultural zones. It's an important element in developing an organisation's talent.

**Stable relationships and mutual trust seem to lie at the heart of the insurance business. How do you establish and entertain relations to your providers and customers?**

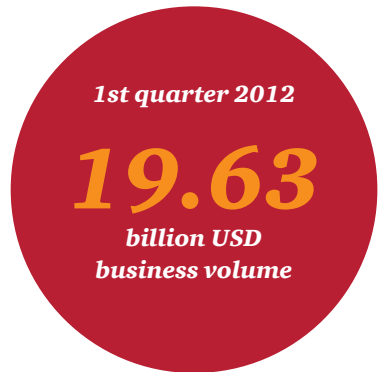
Good relationships, whether they are personal or professional, are very important. As with all relationships, the key ingredient is a mutual trust and understanding between all parties. Of course, trust needs to be earned and takes time to develop but in my experience, it is very worthwhile to invest the time necessary as good relationships are invaluable.

**Has the allocation of your time changed significantly in the past few years?**

I'm spending more time with regulators. These discussions revolve around ways to address the current crisis. I'm pleased to say that the regulators' doors are open to us because as a company, we managed the crisis well and are dedicated to maintaining a strong relationship with our key regulators.

**Do you foresee a day when your time will be allocated more normally – if there is such a thing?**

I'm not sure what normal really means. But here at Zurich, we are positive thinkers. We believe that no matter what happens, there is always a day after. It's part of our culture, our way of thinking. We stay focused on our strategy and disciplined in its execution. And I'm confident that we can look forward to better days for the economy. —



**“Better innovation results in sustainable, meaningful contributions to the business. Quality in everything we do comes first.”**

## “The system is founded on trust”

Art Basel has been in existence for 43 years, during which time it has become the most important rendezvous for galleries, collectors, dealers and art lovers from all over the world. Co-director Annette Schönholzer talks about her role as an intermediary, the exchange between West and East, and tapping new markets.

### Annette Schönholzer (48)

Since 2008, Annette Schönholzer has been co-director with Marc Spiegler of Art Basel, the world's most important contemporary art fair. She started with Art Basel in 2002 as project manager for Art Basel Miami Beach. Her previous jobs included project manager for the Swiss national exhibition Expo.02 and curator of the VIPER film festival. She studied English and German Language and Literature and Film Sciences at the University of Zurich, and gained a Master's degree in Culture Management at the International Centre for Culture and Management in Salzburg. She has dual American and Swiss citizenship, grew up on the East Coast of the USA and now lives with her husband in Basel.

Photo: Andri Pol

### **The art trade depends on relationships. What exactly is their function?**

An extremely important one. There are three levels of relationships: firstly, the relationship between people and works of art, which in addition to material value also has a strong intangible and emotional value. Then there is the relationship between the gallery and the artist, which is often a lifelong connection. Finally you have the relationship between gallery and collector, which often works three ways, also involving the artist. It is interesting to note that all contacts are founded on trust and are rarely governed by contracts. They are usually sealed informally with a handshake.

### **Why?**

Because the value of art is not something that can be set in stone. The price of a work does lie within a certain bandwidth, but it varies up or down depending on the desire of individuals or institutions to own the artwork. It is similar to human relationships, which are also based on trust. Like a person, every work of art is unique and therefore has an intangible value.

### **Where do you see yourself as co-director of Art Basel in this network of relations?**

We are a service organisation, forming a platform for exchanges and transactions between galleries and collectors. I am simultaneously at the centre and at the edge of what goes on. The global contacts of Art Basel are not specific to me personally, but they obviously open a lot of doors for me. I've had the opportunity to gain insight into some of the most impressive private collections, but I am always well aware that I am only a guest. Someone who could not make that distinction would find it unsatisfying, because huge amounts of money are often involved.

### **The 300 or so stands at Art Basel are sought after and are a mark of prestige for any gallery. How do you deal with the risks involved in dependencies and conflicts of interest?**

Co-director Marc Spiegler and I are responsible for ensuring that the selection process



Art Collectors Lounge, Art Basel Miami Beach.

Photo: Christoph Kern

operates smoothly and fairly. The decision about who will participate is made solely by the six-person selection committee. Although Marc Spiegler and I are great art lovers, we are not allowed to buy any artworks in the context of Art Basel. We have imposed this ban on ourselves to avoid any claims of bias. We also keep our favourites to ourselves.

**You speak of Art Basel as an exchange platform. Why does it function so well?**  
The basic model is relatively simple: a committee uses a strict selection procedure to choose the best galleries. These are then required to present their best works and artists. Done properly, it draws in the right people. We can do no more than facilitate and promote interaction, and to be honest we are on tenterhooks every year to see what results it will bring. In addition to the exhibition itself, we can encourage the various encounters by means of events that bring people with specific interests together ...

**... the renowned VIP events. What do you do to keep your demanding group of customers – the wealthiest art collectors – constantly satisfied?**

I don't believe we have to offer more year on year, but we definitely have to maintain the top quality of what we do provide. One of the challenges of Art Basel is the growing circle of collectors who are interested in visiting during the first few hours. This international growth has been enormous in recent years and has led to us having to impose new admission criteria. In order to satisfy the basic requirements of the collectors – plenty of time to be able to view the works closely and in peace – we have extended the preview period by a day. We have also established a network of twelve VIP agents who act as Art Basel ambassadors in the individual markets and maintain contacts with collectors and galleries.

**The art world used to be dominated by Western Europe and North America, but for the last ten years the Asian and Latin American markets have been gaining in significance. What effect is this internationalisation having?**

All those involved in the art markets are travelling more and further afield. The success of

**“The art markets in countries such as Mexico and Brazil have developed enormously over the last ten years; we are also seeing increasingly more of India. Indian collectors begin to take an interest in Western art; they look set to be a large market.”**

Art Basel in Miami Beach with Latin American collectors has also drawn more and more collectors from this region to Art Basel. Europeans and US Americans usually come to the exhibition individually, in pairs or as museum parties. Latin Americans also come in privately organised groups. We often see whole delegations from Asia, which can sometimes present us with problems as we are unable to admit all the members of a party. In Asian countries they have high expectations of the hospitality and the availability of the host. Many expect the directors to accompany the delegation, and are not always understanding if this isn't possible. This is also a great challenge for us.

**The Asian market is one of the fastest-growing art markets in the world. How does the exchange between West and East operate?**

The systems are fundamentally different. In Europe and the USA the majority of art fairs have arisen through the gallery scene. In Asia the art market operates primarily via the auction houses, and trust in galleries, a cornerstone of the success of our system, first has to be built up there.

**How much progress has been made here?**

We are only just beginning. There are already a few galleries – including Swiss ones – that are active in China. In 2013 we will be running a fair in Hong Kong covering a net floor area of 15,000 square metre. The aim is to exhibit 50 per cent Western culture and 50 per cent Asian. In Basel the proportion of Asian art is currently around 5 per cent. The reason for this relatively low proportion is that it is not easy to position Chinese art in

the context of Western art. The Hong Kong Fair is an ideal opportunity to present a balanced cross-section of Western and Asiatic art.

**What other markets do you pay special attention to?**

The art markets in countries such as Mexico and Brazil have developed enormously over the last ten years; we are also seeing increasingly more of India. India is interesting because it has a strong internal market: Indians generally buy Indian art. This habit is now gradually being eroded as Indian collectors begin to take an interest in Western art; they look set to be a large market.

**You regularly travel to the emerging countries, both to gain an understanding of them and to establish and maintain contacts. How do you approach these foreign cultures?**

I notice again and again that although we have a mutual language in English, there are still some misunderstandings in terms of content. I have learned to be more careful when dealing with other cultures and not to judge people on their words but on their behaviour and actions.

**The Internet is also changing the rules in the art market. Internet fairs can generate a presence that physical fairs such as Art Basel cannot match.**

The Internet fairs do actually have a time limit, as no gallery is interested in displaying works online forever. Every work needs a window of availability – without this moment of excitement the market cannot function. It is also difficult to make buying decisions with respect to lesser-known artists over the Internet. Internet fairs are therefore an exciting and relevant development, but they do not represent direct competition with the physical market offered by fairs like ours. I consider them to be a supplementary service.

**How much of an effect did the financial and debt crisis have on the art market?**

Over the last four years we have repeatedly experienced variations in purchasing behaviour and prices, but viewed long term it is a stable market. Established names always sell well. Galleries that take a long-term view and work together with reputable collectors and institutions generally come through crisis periods well. Overall, the art market is anticyclical, one of the mysteries of this market.

**How do you explain it?**

Because of its concentration on uniqueness, the art market operates outside the usual economic cycles of supply and demand. Even if all other investment opportunities are closed, people can always invest in art. Apart from the material investment, a work of art also offers a lasting intangible value. —

## “I am the next generation”

Marc P. Bernegger studied law in Zurich. But a PC that he bought as a 15-year-old proved to be a defining purchase: instead of becoming a lawyer, the 33-year-old graduate (lic. iur.) became a businessman. His business field is new media; his focus is networking.

**When people google your name, they find you on Twitter, Facebook, LinkedIn, Google+ – there’s no network where you are not present. What’s the advantage?**

Multiplication of my activities! My address book contains just over 1,000 entries. Thanks to virtual networks I can manage those entries with relatively little effort.

**How many of those 1,000 plus people do you know personally?**

All of them. Although I work in the virtual world a lot of the time, I meet all the people whom I connect with in an online network in person. That is a basic rule for me.

**Why?**

For me, contact in the virtual network means that, for instance, somebody can approach me to ask whether you can do serious business with Mr X from my network. Or I can

approach someone because I know who I’m dealing with. I find it difficult to assess someone if I don’t know them, which is why I don’t include them in my network.

**Are you the rule or the exception with this practice?**

There are an increasing number of people who see it like I do. But I still receive many contact enquiries from people who I do not know, without so much as a comment. I ignore them; they’re no good to anyone.

**And what benefit are your 1,000-plus contacts to you?**

I have a very broad base when required and can activate my network at any time. But clearly the contacts relevant to me are hardly more numerous than they would be without social networks.

**Is the new media changing relationships?**

On the one hand, it is possible to have a great many more relationships than in real life and that undoubtedly results in a certain degree

**Next Generation Finance Invest**

In 2009, Thomas Winkler and Robert Lempka established the investment company Next Generation Finance Invest (NGFI), which has its registered office in Zug. The goal is to invest in companies that have a promising position by virtue of pioneering ideas and innovative technologies and to enable them to benefit from the new megatrends in the finance sector. Winkler was previously CEO at ABN AMRO Switzerland and Lempka CEO at ABN AMRO marketindex. Marc P. Bernegger, Internet entrepreneur, has been the third partner at NGFI since 2011. Next Generation Finance Invest is listed on the Berne eXchange (BX).

Photo: Marc Wetli



of standardisation. On the other hand, a lot more time today is spent managing relationships than in the past, when you only had a telephone, meetings and letters at your disposal. For someone like me who is also in a sector that frequently involves bringing people together, it can be very interesting to have a network that extends across all continents and industries.

*Bernegger is an Internet entrepreneur. As a 20-year-old law student, he founded the Zurich party platform usgang.ch together with his colleague Simon Virilis – and then sold it in 2008 to the Axel Springer publishing house. Parallel to this, he created the amiando online service with colleagues from Munich. This event registration system received the Global Technology Pioneer Award from the WEF in 2010 – and was acquired by XING the same year.*



**You sell your companies almost before they have had a chance to get established. Why?**

I find it exciting to be at the start of something. When a start-up develops positively, there will always be a moment at some point when I have to fill out a holiday form as the company's founder. That is the signal for me to move on. Having a lot of employees is nice, but it is also a major burden. At amiando, we also had well-known investors on board right from the start. In these circumstances, if there is a good opportunity to sell a company for a good price, that is the natural course of things.

**You then participated as a partner in Next Generation Finance Invest, which was founded in 2009 and has its registered office in Zug. What does that involve?**

The financial industry is the last bastion in which everything still functions more or less as it did 20 years ago. There is only limited

use of new and innovative technologies; the business has scarcely changed despite the digital revolution. We invest in business models that aim to use technological innovations to increase efficiency in the financial industry. The companies also have to be potential "game changers", i.e., we are looking for ideas that trigger fundamental changes in the financial sector, using the Internet as a basis.

**Can you give us an example?**

ayondo, one of our investments, is a platform that acts as an interface between professional dealers and investors. We work at the cutting edge of technology and so efficiently that it is possible to make good profits at the same time as our customers earn money. Investors can link up with a professional dealer of their choice for as little as EUR 100. Imagine what will happen when word gets around that there are alternatives to having to pay into a fund for exorbitant fees.

**You do not have a background in the financial industry. What's your role at Next Generation Finance Invest?**

I am the "next generation"! My two partners are a few years older than I am and were top bankers. You could say I represent the next generation in the company. Since I started working on the computer as a teenager, I have dealt with the issue of how established business models, their processes and value chains are transported into the virtual world. The mechanisms are always the same.

**You were a founder and entrepreneur twice; today you are an investor. How do you like your new role?**

I would not call myself an investor; I am still an entrepreneur. I'm not primarily concerned about money; I am more interested in building up something new and enduring. From a company perspective, we are heavily involved in these start-ups as soon as we have invested, which sets us apart from other investors.

**What industry is the pioneer in these changes?**

Up to now, the media world has certainly been the sector that has been shaken up most. However, there are only a few people in the management echelons of these groups who know and understand what is really happening; otherwise they would be much more aggressive in relocating their activities to the Internet. Retail is also undergoing fundamental change. Today, you can get a product at the cheapest price anywhere in the world. So

it's obvious that the established dealer with representative shops in good locations will have a problem at some time. These transformation processes are in full swing and unstoppable. A good example is smartphones. They have only been around for a short time and yet they have already radically changed a great deal. Everyone has access to everything, can go shopping, book flights and network – whenever and wherever they want. I get the impression that many of today's managers have no idea what is relevant for the younger generations. How do they want to get people like me interested? That is impossible.

*Bernegger grabs his iPhone, cradles it in his hand, looks up: "A representative office? I don't need that personally, not even a secretary. The next generation will do everything themselves, will know prices and will expect transparency. The current status quo in banking is not aligned to this new target group at all."*

**What do you think it needs?**

Changes that result in substantially leaner and more cost-efficient business models. There are ideas, there are technologies – start-ups in this area now have the best chances of competing with established financial service providers for market share.

**If your visions become reality, many people will lose their jobs.**

Is that a reason to prevent innovation? I don't enter into in-depth considerations – we tackle the whole thing from scratch, as if it were a greenfield site. Not understanding much about banking, not being closely involved in it, is very helpful here. Why does so little come from the banks themselves? In traditional industries, there are always people who have a lot to lose through change. Pioneering innovations must and will come from outside.

***"I get the impression that many of today's managers have no idea what is relevant for the younger generations. How do they want to get people like me interested?"***

**What is your greatest challenge here?**

People who hear about us for the first time say: Exciting! I didn't know anything like that existed. They would therefore not have found ayondo, for instance. Not even via Google. To google something, you have to know that it exists. It is therefore essential for us to proactively approach people who we think should know about such innovative solutions in the first place.

**And for that you activate your huge network.**

Precisely, as incidentally my two partners do as well. Together, we can thus set a great deal in motion in a very short space of time. —

### **Building bridges**

Simon Reding works as an auditor in the financial services sector for PwC in Singapore. His place of work – the PwC Building – is right in the city centre, enabling him to experience the cultural variety of this vibrant Asiatic metropolis on a daily basis.

I work in an office on the 16th floor in the heart of the financial district, and from my window I look out over the glass towers of the surrounding office buildings. The presence of 130 international banks in the city makes it one of the most significant financial centres in Asia. Unlike Switzerland, banking confidentiality remains untouched in Singapore, although Switzerland is still viewed as a model, including in matters of banking regulation. Singapore is an attractive location for companies wishing to establish a presence in Asia. The city-state is strategically well placed, just a few hours' flying distance from all the important markets in China, India, Indonesia and Malaysia. Its political stability and a well-developed legal system also create an attractive environment for companies that wish to move here. This is supported by authorities and national bodies with a favourable attitude to business, who work closely together with the commercial sector to pro-

mote growth in specific branches of industry. Further underlying reasons for the popularity of Singapore are the simplicity of its regulatory framework and its low taxes. Singapore is multicultural and attracts employees from all over the world. Most of my colleagues are Singaporean, Japanese, Chinese, Indonesian, Malay and Australian – people from a wide variety of backgrounds

with huge cultural differences. My Asian colleagues often live with their parents until they are married because living accommodation is very expensive in Singapore. Most expats live in condominiums, residential developments with a range of facilities. This means that private contacts outside work between locals and expats are quite rare. This is compounded in my case by the fact that I moved to Singapore with my family, and prefer to spend my leisure time with my wife and our three children. In Switzerland we are used to a good deal of freedom to arrange our working day as it suits us, whereas unified office hours are the norm here. The working day starts late and ends late. People often go for a brief supper together and then go back to work. Asiatic colleagues consider personal relationships in the workplace to be very important; there is high emotional attachment to the company, and they value joint professional activities. As many of our customers operate in Switzerland and China, and as I have very close contacts with my PwC colleagues in Zurich, I see myself as a link between the cultures. I try to find ways of reconciling differences between different mentalities and, above all, between the various rules and regulations. Building bridges is not always easy, but I believe it is a very important task, and one which allows you to grow both personally and professionally. —

Photos: Darren Soh/laif

***“I try to find ways of reconciling differences between different mentalities and, above all, between the various rules and regulations.”***



Financial District Singapore: a multicultural place of work for PwC auditor Simon Reding.

# *ceo 1/2012*

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