ceo*

The magazine for decision makers. July 2008

Reputation. Why the reality has to be right before you can work on appearances.
The Lucerne KKL. How to successfully manage a cultural monument.
Minergie. Why IKEA is saving energy and money with ecological concepts.

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

Contributors of this issue: Michael Craig, Ella Sarelli, Giselle Weiss
Concept, editing and design: purpur ag, publishing and communication, zurich, pwc@purpurnet.com
Photos: cover: Cédric Widmer, page 3: Andreas Teichmann, pages 5, 23: Martin Rütschi/Keystone,
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Change is no longer a project; it is a characteristic. So it is not surprising then that change, along with the agility that it necessitates, is increasingly becoming the core topic of our day-to-day work.

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

Accelerating, staying on course, maintaining speed, not losing anyone on the way – for me, these are concerns shared by any manager in the business world. Acceleration and stability are the two poles of a dilemma that has to be solved on an almost daily basis. For Formula 1 racing teams and top sportsmen and -women, this isn't a pastime, it's their primary occupation, and they set an interesting example for business. While racing cars aim to stay close to the ground at all times, ski acrobats have to relinquish any contact with the ground whilst following a precise path – when it comes to letting go in a controlled manner, business could learn a great deal from sport. The IT sector is also worth a closer look as only a few commercial sectors offer a comparable pace of development. Ultimately, CEOs too are affected themselves by the powers of acceleration and required to retain or regain their personal stability after setbacks. Change, after all, stops at no one.

The focus is on promoting agility

Change is the key issue at all times. You might think you've heard it all before in the 1980s and 1990s: change, value change, change management. But whereas it was individual events back then bringing change that had to be overcome, change today is a state of affairs. Actual change management is clearly becoming less important; in its place, the focus is on promoting agility. Change is no longer a project; it is a characteristic. It is agile companies with agile structures, processes and people that get ahead in the marketplace. So it is not surprising then that change, along with the agility that it necessitates, is increasingly becoming the core topic of our day-to-day work. In this issue of ceo magazine, the new Leader Advisory, Markus Bucher, explains the opportunities presented by entrepreneurial agility in more detail.

In with the new means out with the old

As a new member of our Management Board Markus Bucher is himself an example of agility as opposed to doggedness or paralysis. We also have a change at the top, in our Board of Directors. As the Chairman of the Board of Directors, Hans Wey will be contributing his substantial experience as a business consultant and manager in the implementation of the necessary target adjustments. In with the new means out with the old. We will not only miss Edgar Fluri, our departing Chariman of the Board of Directors, and Kurt Hausheer, our departing head of business consulting, on a personal and technical level but also as authors for the ceo magazine. In this function, I would like to take the opportunity to express my sincere thanks to these two highly respected colleagues. They have made a substantial contribution to our company's reputation.

The economic dimension of reputation

Reputation is an important driver of commercial events, and not only in our extremely trust-intensive industry. We also examine this economic dimension of reputation in this issue of ceo magazine. It is fascinating to watch how the concept of a company's reputation becomes increasingly clearer when seen through the eyes of different members of the business community.

I hope that in this issue too you will find ideas and information that inspire you in your work and creativity. I wish you an exciting read and a relaxing summer.

Markus R. Neuhaus

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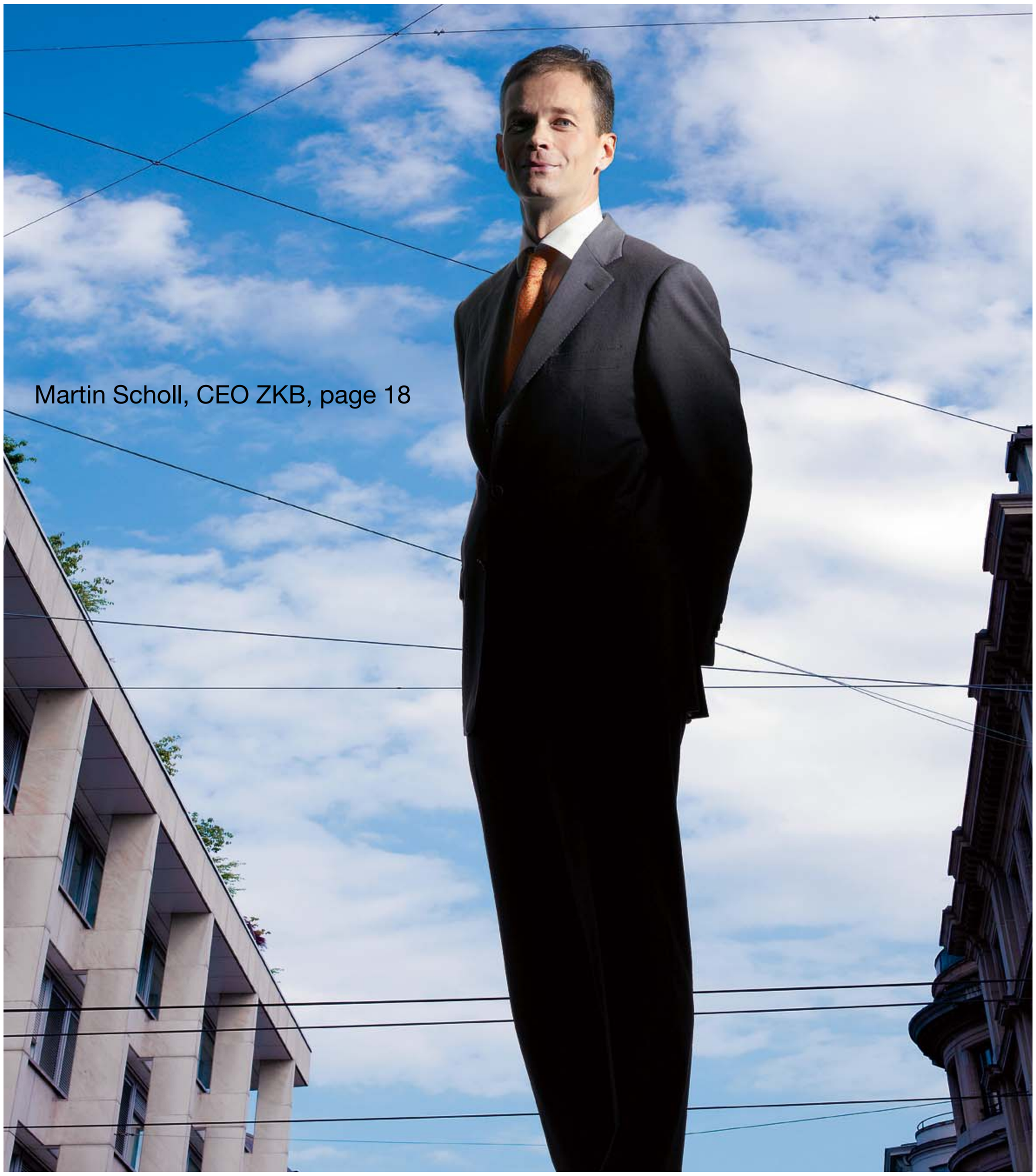
Cover picture: Cédric Widmer
The Lucerne KKL



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Roland Rasi: As a manager, you have to have a sense of how much acceleration you're allowed to unleash – and have the stability yourself to master all kinds of accelerations.

Dr Roland Rasi advises "fallen" CEOs. He knows the situation from his own experience. As a top manager at the former Swiss Bank Corporation, he lost out in an internal power struggle, left his job and began a new career.

The free fall from management level is hardly slowed by a golden parachute. Many managers, however, do not realise this until they've hit the ground. In my case, I had an "emergency parachute": music and culture – interests that got me going again. Although I jumped voluntarily, the landing was still hard. A moment like that is dramatic for anyone. Suddenly, your diary is empty, you don't get invitations anymore, nobody wants anything from you, friends avoid you and you haven't got any hobbies either, because you hardly had any time for them before. You would have ample time for them after the fall, but you don't know where to start. When life runs in slow motion instead of in the fast lane, we're dealing with an acceleration phenomenon. In the general sense, acceleration means any change of a direction vector, i.e. not only an increase in speed but also a slowing down or change in direction. I am convinced that many problems of our time are acceleration phenomena. An abrupt change in speed or direction can have a destabilising effect. The top management at SBB wanted to accelerate change; the workers of the cargo plant in Bellinzona wanted to slow it down. The acceleration in the sub-prime market was too much for the banks, and the economy started to lurch. Accelerations are nothing other than disruptions – sometimes they're intentional, sometimes they're not. By stability, therefore, we do not mean a state but rather the ability or talent to return to the initial state after disruptions.
If we assume that, in a complex and dynamic world, the frequency and the intensity of accelerations is on the increase, it can be concluded that the importance of stability is on the rise. Companies that recover after setbacks and crises and revert to normality again have an advantage.
This applies in the figurative sense to people too. In my professional practice, I regularly observe that managers who have a life outside of their job, who have an intact family, who have a broad circle of friends to call their own, are interested in sport, culture and other non-business matters are more stable than managers who only live for their job and their career. Tragically and wrongly, these people perceive non-professional ties as hindrances rather than stabilisers. I felt the same at the time.
I liked speed and got annoyed when people around me couldn't keep up. The high, yet constant pace suggested a stability that in reality was non-existent. I thought I was in the driving seat and enjoyed the speed. But in most cases you're not only the driver, you're also the passenger – you're both the accelerator and the accelerated. As a manager, you therefore have a double responsibility. On the one hand, you have to have a sense of how much acceleration you're allowed to unleash so as not to destabilise those affected by the acceleration. On the other hand, you have to have the necessary stability yourself to master all kinds of accelerations.
My diary is full again without my having lost the control over it. I enjoy being able to determine myself what I do and when I do it, and I appreciate the freedom of being able to go at my own pace. Although it is perhaps not as high as it once was, I now enjoy the ride. //

Photo: Anne Morgenstern

Anton Lüthi: Athletes set their bodies in motion and decelerate them again after their physical feats. In the time in between, they do not relinquish control for a single second.

Physician Dr Anton Lüthi works at the Swiss Federal Institute for Snow and Avalanche Research in Davos and, in collaboration with the Swiss national ski acrobatics team from Swiss-Ski, is researching the success factors for a perfect jump.

When you see ski acrobats performing their breathtaking somersaults and spins on television or live, as one of the uninitiated, you have no idea how precisely these jumps are calculated. The course of the flight is specified by the height of the jump; its curvature, which generates the angular momentum; the speed of the athlete, which is determined by the length and steepness of the approach; and the athlete's weight and equipment. From take-off to landing, physical powers such as centripetal force and gravitation are at work. And these are the same for every ski jumper.
Nevertheless, the performances are different. This means that during the dynamic sequence of a jump every athlete has the chance to make the best out of the given conditions – to control and optimise them. And to do so although the flight phase in which he or she is transported at a height of up to 15 metres lasts all of three seconds. The perfect jump is created out of the precisely timed interaction between acceleration and stability. Or put simply, athletes set their bodies in motion and decelerate them again after their physical feats. In the time in between these two actions, they control the flight within the realms of their possibilities and do not relinquish control for a second.

The Swiss ski acrobats have set themselves the goal of jumping a triple somersault with five spins by the next Olympics. There are athletes who are already able to do this – so far, however, it has not been a standard feature in a ski jumper's repertoire.
Thanks to sponsors and the support of a company specialised in biomechanical analyses, we had the opportunity to examine in detail the sequence of many jumps from take-off to landing. At the water jump, where sportsmen and women train, we built a huge frame with 20 infrared cameras. We then attached 48 mark points to the bodies of five athletes and had them jump for a whole night. Hats off to their sporting dedication! It paid off. For now, as in a cartoon, we can analyse every sequence of the flight path of each jump. We keep letting our matchstick figures on the screen jump in slow motion. We observe their movement in fractions of seconds, stop them, make them fly backwards. For me, it was amazing to discover that you can recognise the individual sportsman or -woman by his or her sequence of movement – although the matchstick people look entirely identical on the screen. This shows that the same movements are made in a highly individual way – and how much personal freedom of interpretation each athlete has, in spite of physics.
We now have a quite precise knowledge of many of the factors required for a successful jump. In a second phase, we have started to play around. We modified certain parameters and observed what happens in the simulation. What is the flight path like when the skis are shorter? Longer? Lighter? Heavier? What happens when you increase or reduce the speed? One consequence of this work is that the Swiss ski acrobats are currently having a completely new ski developed in collaboration with the company Oxess on the basis of the knowledge gained. This ski is intended to help them attain their Olympic goal.
To achieve new top performances in this sport, the interaction of different factors is required. A pivotal factor is a precise understanding of the processes that lie outside our sphere of influence. In ski acrobatics, these are, for instance, the constructional features of the ski ramp and the physical forces that an athlete is subjected to during the jump, as well as the effects of uncontrollable influences such as wind. We can then attempt to optimise everything that we can influence, for example the material. And ultimately it lies with the athlete to make the right decisions under time constraints and the stress of competition – or to instinctively initiate the right measures from experience in a fraction of a second.
In addition, from my observations, there are also soft factors, such as the interaction between coach and athlete that go beyond any calculations or axioms. You need someone to retain an overview of the situation during the jump-off phase and to guide the athlete when something unforeseen happens – for instance, when the wind conditions change. The right assessment of the situation, collaboration in a team, a common code – the calls must be extremely short and unmistakable – and mutual trust are undoubtedly just as decisive for success as the perfect ski. //

Photo: Roth und Schmid

Willy Rampf: We need to accelerate not only vehicles but also our development. We need to become faster quicker!

Willy Rampf is the technical director of the BMW Sauber F1 Team. In this position, he is responsible for technical concerns and for the vehicles used by the Formula 1 team on the racetrack.

The fastest car wins – in most cases. That is why when I hear “acceleration” and “stability”, I think of the vehicle first, and specifically of the acceleration at the start of the race, the braking stability and of course the output. That is the power that is generated by the air that flows above and around the chassis, the wings and the suspension parts and presses the car to the ground. This makes high speeds on bends possible, for instance. Formula 1 cars generate so much output that they could drive on the ceiling at a speed of approximately 170 kilometres per hour or more. More output means higher stability on bends and also more air resistance. Depending on the racetrack, one or the other feature is more important. In Monaco, a winding but slow track, output is everything. In Monza, a high-speed track, low air resistance is decisive. The racetrack is a given. The ideal tuning is therefore different for each track. Per lap, our vehicles are still currently around three- to five-tenths slower than those of Ferrari. Our first task is therefore to make our cars half a second faster. And we will manage that in the course of the season. But Ferrari, too, is developing and becoming faster. We need to accelerate not only vehicles but also our development. We need to become faster quicker!
This challenge is a very complex one, both from a technical and human perspective. In Formula 1, the technology is already at an extremely high level. Nevertheless, I believe that there are no limits to development. This is of course leading to increasing specialisation among experts. The staff know their particular area better than I do. My task is to specify the development direction, filter the ideas of the employees and ensure cooperation between specialists. For, as important as every single detail on the car is, its impact and efficiency is only as good as the interaction between the components. This is exacerbated by the rapid speed of development, a speed that we want to accelerate further, indeed have to accelerate further to reach the very top. But there’s scarcely time even to keep up. Our wind tunnel, for instance, operates 24 hours a day, but it is still impossible to test everything. You couldn’t win a teacup in Formula 1 with a policy of hedging your bets. You have to be willing to take risks and allow errors – at least in areas that are irrelevant to safety. It may sound odd but in Formula 1, which is overloaded with technology, you should not only trust your calculations but also your gut feeling – and that of your staff.

My second thought on the topics of “acceleration” and “stability” therefore refers to the team and the human aspects. An accelerated technological development is only possible with a stable team. Sauber was hugely “accelerated” through the merger with BMW. In 2005, the racing team had 280 or so staff. When we analysed the situation at the time and planned the future of the BMW Sauber F1 Team, it was clear to us that we would need more manpower to be successful in sport. Today, just under 700 employees work in our team; 430 of them work in Hinwil and the rest in Munich. We are thus still one of the smaller construction teams. Nor did we intend to be the biggest; our aim was to be the most efficient team. All the same, the increase in personnel at Hinwil by around 50 per cent was considerable. The new employees not only had to have a very high degree of specialist expertise. They also had to fit in from a human perspective. The expansion was completed in 2007; today, we are a top team. //

Photo: Helmut Wachter

Kurt Bylang: Technological progress has its own goal. For only in this way can developments become transparent and systematic.

Kurt Bylang is the general manager of Getronics (Switzerland) AG. The company is active in the area of information and communications technology (ICT).

The IT sector has long been seen as the quintessence of constant innovation. Today, it is in good company. The pace of change has generally become high – in the financial sector as well as in the machine industry or in retail. The driver behind the general acceleration is not solely IT but the people who operate in and shape the various economic sectors. IT supports this acceleration with fast, global and comprehensive access to all kinds of information.
The two terms “acceleration” and “stability” incorporate what it’s all about for us, as ICT service providers – innovation, on the one hand, and sustainability, on the other. Getronics verifies new developments of its technology partners Microsoft and Cisco and of other market leaders and integrates the individual components into a customer-specific work platform with high availability that, at the customer’s request, can also be operated by Getronics.
Stability and acceleration – they go hand in hand. Maintaining a balance between the two is a major challenge. As the general manager, I am confronted with this challenge on three levels: in the market, in our company and in my private life.
In the market, always having state-of-the art technology and being on the ball is a match decider for us. The requirements of modern and often mobile places of work are changing rapidly and continuously. As an infrastructure integrator and outsourcing company, we sit between the technology partners and users and make our living from the trust we inspire. People and companies must be able to trust us; ultimately, our customers put their IT infrastructure and thus an important production factor in our hands. As is well known, trust cannot be switched on and off. Instead, it has to be developed, with stable, interpersonal relationships and with impeccable services. They ultimately determine the day-to-day business and the added value provided for our customers.
It is also expected of us that we offer the latest technology at all times and are able to implement this smoothly and faultlessly; and that our solutions are robust and well tested and thus without any risk for the company. These are not projects with a beginning and an end. We are talking about business relationships with a long-term orientation. In short, although our solutions and tasks change quickly, as service providers we stand for stability – in the form of reliability and calculability.
The same applies internally. Motivating top performance from employees who are confronted with constantly changing technology requires a corporate culture of stability and reliability. For me as an employer it means finding and maintaining the balance between a high frequency of innovation and a clear orientation of the company. Our employees need to know exactly where the journey is heading. This means that calm can be maintained in the company in a time of constant change so that everyone can concentrate on the task at hand. Or, put another way, technological progress has its own goal. For only in this way can developments become transparent and systematic.
The buzzword of the hour is “unified communication”. It means that all communication, whether it be via mobile, PDA, fixed network, PC or laptop, operates throughout the company via a single communication platform and not, as up to now, via several different platforms that are usually independent of one another.
We provide the showcase – both for our customers and for our employees – in our company ourselves. All 24,000 Getronics jobs around the world are in the communication loop. Externally, we thus become a reference for the Future-Ready Workspace ourselves. Internally, everybody knows what it is all about because they are working with it. That, too, provides stability.
Personally, I know how important it is to be fully a part of everyday life and not to be defined by your profession alone. It is therefore important for me to spend a lot of time both in the office and at home. This means that, when I am at work, I am entirely here. When I am at home, I am entirely there. That, too, provides stability! //

Photo: Markus Bertschi

The reality has to be right before you can work on appearances.

Reputation management is a management task rather than a communication discipline.

By Alexander Fleischer, President of the Chief Communications Officers' "HarbourClub" and Head of Marketing and Communication at PricewaterhouseCoopers Switzerland.
Photos: Roth und Schmid

"Once your reputation's lost, just spend – no need to count the cost." Even though this statement might still have been valid in Wilhelm Busch's time, it is certainly not the case today. We live in an age of blogs and networking platforms, and the rule of these social media is "reputation by recommendation". Lose your reputation and you are ostracised in your private life and ruined commercially. The need to promote and protect our reputation influences our activities almost on a daily basis. Nor is it surprising that an ever greater industry sector lives from meeting this requirement – and promises to establish a good reputation and avert or contain damage to an existing one.

Ask what sector the maintenance and protection of a reputation belongs to, and you normally get the following answer: the communication industry. Indeed, the opportunity in this sector is constantly growing: reputation monitoring, reputation consultants, CEO consultants, PR agencies. Undoubtedly, image is a construction built by communication. But reality still matters more than appearances. James E. Grunig, probably the most influential PR researcher of the last decades, summarised it succinctly himself: "Reputation cannot be managed… only the behaviour of management."

Reputation management is more a management task than a communication discipline. And since strategy and management consultancies have started dealing intensively with the topic of sustainability, they can no longer bypass the topic of reputation. That is also the case at PwC. "With every strategy project, reputation is a dominant driver, even if it is an unstated one," confirms Ralf Schlaepfer, Head of Consulting at PwC. "The skill is in operationalising it in small, decisive steps." The global manager of sustainability consulting at PricewaterhouseCoopers, the Swiss Thomas Scheiwiller, sees the topic of reputation in a very matter-of-fact way, and his personal definition is just as dry: "Reputation is the aggregated metric for external relationships."

External relations – so public relations, after all? But in the literal sense? With his aggregation definition, Scheiwiller is on a wavelength very similar to that of today's communication research. The US professor Charles Fombrun is the founder and CEO of the international Reputation Institute and the creator of the RepTrak Scorecard. His model is based on reputation in the form of emotions, trust, respect and admiration developed in seven dimensions: 1. Products/services (high quality, good price-performance ratio, fulfilled consumer requirements), 2. Innovation (innovative, first on the market, adapts quickly to change), 3. Employer (performance- and employee-oriented, embraces equality of opportunity), 4. Governance (open and transparent, ethically correct, fair business practices), 5. Citizenship (responsible towards the environment, charitable, positive influence on society), 6. Management (well organised, inspiring leaders, superb management, clear vision for the future), 7. Performance (profitable, better results than expected, good prospects for growth). For Fombrun, the public perception of a company is measured in all these ways.

Good performance, good reputation?

And this leads us to the core of the dilemma in the modern-day practice of reputation management. Reputation is measured, honed and polished, and then measured again. Yet it would be much more interesting to know what needs to be done to ensure that it does not have to be honed and polished anymore – so that the reality speaks for itself. Viewed in this light, reputation management becomes less of a communication task and more of a job description for the company management:

- Generate a desire among management to be responsible entrepreneurs.

- Establish a functioning corporate governance (with checks and balances).

- Set up operational processes that ensure that no fraud, misconduct, inefficiencies or deviation from the specified goal will remain undetected.

- Be successful, i.e. act better than the competition (deliver performance; this is the real crux of the matter).

- Generate internal transparency with regard to how value is created in the company, where this is done and to what extent.

- And, ultimately, create external transparency.

When all these factors are taken into consideration, a company will perform well. And does this then lead to a good reputation? Not quite – because this is where communication comes into play again. Tests by Prof. Claudia Mast from the University of Stuttgart have shown that almost all medium-sized companies in Germany undervalue themselves. We can assume that a similar situation exists with regard to Swiss SMEs. The cause of this unused reputation potential probably lies in the unrecognised importance of corporate communication, reflected in how little is invested in it. But being a “hidden star” is not really worthwhile from a commercial vantage. As stated rather mercilessly by Marie von Ebner-Eschenbach: “Those who are satisfied with little fame do not deserve to have a lot of it.”

Getting both the performance and the communication right is a type of insurance for difficult times. Thomas Scheiwiller calls this “hysteresis” and explains: “It is like inertia with a magnet. A good reputation creates a buffer for times of crisis – then I can allow myself two or three errors without being punished straight away for them.”

Spelling things out clearly

So the board of directors and the CEO deliver the results, and the communications manager or consultant makes them public? In practice, the function of the Chief Communications Officers (CCOs) goes beyond this. They already play a pivotal role in many com-panies in shaping reality. From their daily exposure to the outside world they experience first-hand where the actual strengths and weaknesses of a company lie. These external impulses are im-portant in finding and formulating a strategy – particularly in the dialogue with the CEO, because reputation and communication are the boss’s job.

CCOs also have an important role vis-à-vis discipline in implementing strategy, namely that of the company’s conscience. If what a CCO is communicating does not tally with what employees, customers, shareholders and others experience, his or her credibility is soon undermined – as well as that of the company he or she represents. That is why it is also one of the tasks of the CCO to spell things out clearly: To tell it like it is. To exert influence. To ensure that in the eyes of the general public – whose advocate he or she is in this role – things proceed in the right direction. In the process, CCOs often have to dig in deep and defend positions internally; otherwise they will be taken apart in their external relationships. They know that the satirist Lucian was right when he declared: “The label should not be bigger than the bag.” //

“Nothing is more important.”

Martin Scholl, CEO of Zürcher Kantonalbank, on the lessons to be learned from the Sulzer case and the value of a good reputation.

Interview: Corinne Amacher

Mr Scholl, after the enforced resignation of your predecessor, Hans F. Vögeli, you, as the new CEO, had to restore trust in Zürcher Kantonalbank virtually overnight. What was that like for you?
As a member of the ZKB Executive Board, I was already used to standing up in front of customers and employees. When I took over the operational management of the bank, everything focused even more on me. It was a hectic time, but with the trust of customers and employees, you can master difficult situations too. I have always been true to myself throughout my career and therefore have never had to pretend to be anything to anyone. When I say that the situation is under control, people believe me. Aside from that, the main part of a company’s reputation is formed without any input from the CEO. It is our customer advisers who contribute to the bank’s good reputation on a day-to-day basis with their specialist and personally competent work.

What did you undertake yourself to strengthen the bank’s reputation?
My colleagues on the Executive Board and I conducted an intensive dialogue with all the stakeholders and in particular also with our employees. We allowed ourselves to be interviewed twice by TeleZüri programme manager Markus Gilli in front of 400 employees each time. These were very intense podium discussions. Markus Gilli didn’t go easy on us, and the feedback from the audience was good. We then attended customer events and conducted individual visits to important customers.

The ZKB had been criticised because it had a dual role towards its client Sulzer. What lessons have you learned from that?
There is nothing more valuable for a bank than its good reputation. Within the bank, we once again had to sharpen the sense of this principle, which you learn as a banker in your first year of apprenticeship. The awareness that reputation represents an important strategic asset is now firmly re-established in the minds of all employees.

Specifically, which measures were taken?
As always in cases like that, there were immediately calls for checklists and rules. But they’re no use at all because the next crisis will definitely go differently. Awareness of critical topics and an open culture of discussion are most important. The employees have to recognise when a business is problematical and they need to be able to talk about it. Once a sensitive topic has been recognised, it needs to be brought to light, and then a decision can be made. We have created a conflict committee specifically for this purpose that decides on business transactions with a potentially exceptional impact on the bank’s reputation. The business unit manager affected by the specific case, the Chief Risk Officer and I as the CEO sit on this committee; the head of the Legal Service has an advisory capacity. A conflict of interests between the client and the bank, a critical customer relationship, a trade deal with a country like Iran that represents a substantial political risk even if it does not harbour any direct material risks: all these are relevant to the bank’s reputation and cannot be dealt with using checklists. Here, it’s much more about balancing legally protected interests.

How great is the risk that the employees hold themselves back in their work because all they can think about is the risk involved?
This risk should not be underestimated. It is an important task of management to ensure that this does not happen. You need to ensure that risk awareness does not result in an overly conservative attitude. The banking business is based on risks; that’s just how things are. The employees have to know that they also have decision-making competences despite all the risks and that they should make use of these.

Which methods have you introduced to recognise sensitive topics?
Together with the Public and Social Affairs (fög) research department at the University of Zurich, we have developed a reputation monitoring that we combine with our own brand and market research instruments. So that this monitoring does not land in a drawer somewhere, it is integrated into the existing processes at the bank. Through systematic media analysis, we gain information about current and future topics that could have a negative and positive impact on the bank’s reputation. In the first quarter of 2008, a detailed report on the development

Martin Scholl: "The employees have to know that they also have decision-making competences despite all the risks."

of our reputation was drawn up for the first time. The results are now being discussed.

What lessons have you learned from that?
It is still too early to draw conclusions from the reputation monitoring. A broadly based stakeholder survey, however, gave us important information for our future strategy. Last year, we surveyed several hundred employees, clients, media representatives and politicians on the strategy, structure and culture at the ZKB. One result in particular is worth mentioning: We have a need for clarification with regard to our trading business. Our investment banking is not just a gambling division; it has an important function within the bank. But we need to live it accordingly too and depict it in a credible manner.

Crisis management is part of a CEO's job profile. Which type of conduct do you have planned for yourself personally in the event of a crisis?
Retrospectively, I have to say that we were too hesitant in our communication in the Sulzer case. In a crisis situation, it is important to disclose the facts of the case as quickly and as completely as possible instead of revealing the truth in measured doses. From experience, companies with an open, transparent communication strategy are only affected once by a crisis and not repeatedly, spread out over several weeks or even months. Almost as a prophylactic measure against a crisis, we would like to show the general public over the next few months that the management of the bank does not rest only on the shoulders of the CEO but is distributed across several members of the board. Otherwise, it will undoubtedly be the case that the CEO must take responsibility in the event of a crisis. //

Committed to ethical business conduct.

Compliance with a code of conduct is part of the performance appraisal for all Novartis employees and affects their remuneration. "We thus reward responsible rather than ethically risky behaviour," says Dan Ostergaard, Head of Corporate Integrity & Compliance.

Sometimes Dan Ostergaard likes holding up the mirror to others. When he gives a presentation, he tends to remind his audience of the different benchmarks that are applied, for example, between bringing up children and everyday business life. In the evening, a father reminds his son to do his math test without cheating; in the morning he succumbs to the temptation of acquiring a lucrative contract by unfair means.
As Head of Corporate Integrity & Compliance, Ostergaard, who is an attorney with an MBA, is primarily responsible for establishing the ethical values and principles of the health care corporation Novartis in everyday corporate practice. It's not an easy undertaking to get 100,000 staff around the world with a correspondingly broad range of social and cultural backgrounds to commit to one ethical line. But it's a worthwhile and essential task. "Responsible corporate management makes good business sense," says Ostergaard. "It helps us reduce our risks, become trusted by our stakeholders and motivate our employees."

Focusing on promoting ethical leadership
Since he joined the company in 2002, Ostergaard has established a comprehensive management framework – the Novartis Integrity & Compliance Program. It supports management to establish high standards of integrity, promote the company's values through leadership, objectives and incentives as well as training. It enforces these standards through specific decision-making processes, monitoring and reporting, complaint handling and auditing. It goes beyond traditional compliance programs – which rely on rules, awareness training and auditing – by focusing on promoting ethical leadership, fostering a speak-up culture, and creating incentives for the right behaviour.
The Corporate Integrity & Compliance organisation is a centralised one in Novartis to highlight that business integrity is a management responsibility that should be integrated into business operations. Therefore, Ostergaard has a small team in the Novartis headquarters in Basel and a network of full-time and part-time colleagues in the 98 country organisations of Novartis. They are responsible for

Dan Ostergaard: “Leading companies see integrity not as an obstacle to competitiveness, but as a driver of differentiation, for reputation and also for innovation.”

the local implementation of the Integrity & Compliance Program and inform local management regularly on the implementation status of the program and about cases of misconduct.
Under no circumstances does Ostergaard want to be seen as a kind of corporate policeman; he sees himself as the promoter of proper conduct. Because employees primarily do what they are paid to do and in particular because they need "institutional support", especially in ethical grey areas, he puts his faith in a sophisticated incentive system. Compliance with a code of conduct is part of the performance appraisal for all Novartis employees and consequently affects their remuneration. "We thus reward responsible rather than ethically risky behaviour," says Ostergaard.

Driving performance by building a culture of integrity
Training is important to build awareness and develop skills for taking responsible decisions. New recruits at Novartis are invited when they arrive to attend a course on the code of conduct that defines the standards valid throughout the corporation with regard to discrimination, conflicts of interest, insider trading, cartel agreements, data protection, bribery and compliance with local laws. In 2007, 210,000 of these courses were held around the world, most of them computer based. All employees – from the production department to the management board and board of directors – have to complete the course. "Managers often make their decisions under economic pressure," says Ostergaard. "It is therefore all the more important that they are sensitised to delicate situations."
To give the employees and external stakeholders the chance to be able to report on potential and actual cases of misconduct in a confidential and protected manner, the Business Practices Office (BPO), which is independent of the Integrity & Compliance department, was set up at the headquarters in Basel. The responsibility for the processing and decisions and sanctioning for reports of possible and actual misconduct was thus brought together in one office. "Because the Business Practices Office examines cases in a central, uniform and confidential way, the commitment of Novartis to impeccable corporate management is strengthened and also firmly established in the minds of the employees," says Ostergaard. So-called "Integrity Telephone Lines" have been set up in 70 countries and 51 languages. In 2007, 906 cases of suspicion were received by the BPO; of these, 290 proved to be entirely or partially substantiated; 168 employees had their contracts of employment terminated as a result.
At Novartis, Integrity & Compliance is not part of Legal Service, as with many other companies. Instead, it belongs to the Corporate Affairs department, where it is a pillar of the Corporate Citizenship initiative, focusing on the social responsibility of Novartis. "Doing business with integrity is not only the right thing to do, but also drives performance by building a culture of integrity, managing risks, strengthening our reputation and fostering competitive advantage," says Ostergaard. "Leading companies see integrity not as an obstacle to competitiveness, but as a driver of differentiation, for reputation and also for innovation." //

"A healthy dose of common sense will suffice."

Reputation is a question of credibility. No academic theories are needed to answer it, writes Rolf Dörig, Managing Director of the Swiss Life Group.

"A company's reputation is said to be its most valuable commodity. I would subscribe to that straight away. Broad acceptance is needed to develop a large organisation further. At Swiss Life, we have experienced for ourselves what it means when a company's reputation takes a bashing and the brand is no longer well positioned. It becomes embedded in people's minds and stays there. A damaged reputation cannot be overturned in the space of two years – and very definitely not with words alone. Reputation cannot be conjured up, and it cannot be made. It has to be developed.
The topic is also important for me because of its significance for our company. Yet, it doesn't have an institutionalised importance. To be honest, I don't think much of all the reputation management models; they are too theoretical for me. The same applies

to the trend of wanting to quantify a company's reputation. The idea behind it is easy to understand. Reputation is a decisive factor in a company's success; that is why it belongs on the balance sheet. The implementation, however, is too abstract. It attempts to put a value on something that cannot be expressed in monetary terms. Reputation is about questions such as: Does a company management meet the expectations that it arouses? Do its actions match what it has communicated as a goal? Do words and deeds tally? In short, reputation is a question of credibility. You don't need academic theories to answer it; a healthy dose of common sense will suffice.

Good figures but a poor image

In the assessment of credibility, business success, attractiveness for shareholders, attractiveness as an employer, the quality of the products and also the image that the general public has of a company do of course play a role. Each individual aspect is essential for a company's reputation, which is good when each subaspect is good as well, and only then. Or, put another way: A company can have good figures but a poor image.

Today, I am highly satisfied with the reputation of Swiss Life. We have a remarkable performance record, a good name and a stringent business model, although we are seen by many individual analysts as being too conservative. However, our long-term view is proving to be the right one, particularly at the moment. We have remained unaffected by the subprime crisis.

It's about fairness and respect

For a brand like Swiss Life, a code of conduct which everyone here commits too is decisive. It's about fairness and respect in customer relationships, and reliability and trust in business conduct – that is essential in our industry; that is what we survive on. The challenge is in living these values and defending them, including against the pressures and temptations of the market, for reputation is a fragile commodity. Losing it is infinitely easier than acquiring and protecting it.

However, you'll only get ahead if you are constantly prepared to take entrepreneurial risks. We examined this topic, for instance, in the run-up to the AWD takeover. AWD fits in with our growth strategy. We want to strengthen distribution. Because our business is ultimately local, we need access to customers locally and we can broaden this access substantially with AWD. The takeover was also positively received with regard to its strategic intention. However, we were also asked – but only in Switzerland – whether the aggressive AWD fits with the very solid and respectable Swiss Life. The answer to this came easy to us: the AWD Group is celebrating its 20th anniversary this year and its 2-millionth customer. This would not have been possible without satisfied customers. Not everyone believes us yet that the cooperation between Swiss Life and AWD will be a success. And here, too, the same principle applies: We cannot conjure up this success, we have to develop it. We will be presenting the first results in six to twelve months."

Recorded by Iris Kuhn-Spogat

"It set a great deal in motion."

H.S.H. Prince Max von und zu Liechtenstein, CEO of LGT, on the consequences of the tax affair and on the handling of sudden, unwanted media attention.

Interview: Franziska Zydek

Your Highness, how is the LGT doing?
The LGT is doing well. In the first quarter, we were able to generate good results under the circumstances, with a profit at the level of the prior-year period and a substantial positive new net cash inflow overall, even if it was below that of the prior year. The tax affair has primarily had an impact in Liechtenstein, where below the line we lost assets. In all other countries, including in our on-shore business in Germany, we were able to post cash inflows. That was not necessarily to be expected and is very gratifying for us.

In your opinion, how great is the damage sustained to your bank by the German tax affair?
It is difficult to quantify, and it will probably only be possible to estimate it after a certain period of time has passed. Financially, we are still not expecting any substantial impact. The data theft and the resulting great media interest have, however, undoubtedly resulted in a loss of reputation – and there's no point trying to put a gloss on it. After the crisis management phase, we are now very actively working on re-establishing the trust we have lost among our stakeholders.

What was your most important goal when handling the crisis?
Our main focus was on our employees and clients. Primarily, it was about limiting the damage and minimising the uncertainties. We wanted to make clear that the affair only concerns customer relationships of LGT Treuhand. The trustee business accounts for around 9 per cent of the assets managed by our overall group.

How did your clients react during the crisis?
The uncertainty was of course greatest among those directly affected. Most of the other clients were very philosophical about it. The affair had a highly polarising effect; the procedure adopted by the German authorities triggered great surprise and displeasure on the part of some people.

How did you define your communications strategy for the first phase of the crisis?
We realised immediately that it was a serious matter and that we would have to act outside of the usual processes and structures. On the very same day, we decided to put all the facts known to us on the table with absolute transparency and minimum delay.

What was unusual about that?
In the first few days, we were not entirely sure whether the affair was actually triggered by the data theft at LGT Treuhand in 2002. We were even less aware who had passed the data on to whom, and whether any other data were involved. In the press, sources close to the Federal Intelligence Service (BND) were quoted at the time, and they mentioned more recent data. The talk was of "breaking into the entire bank". It only became public a short time later that the data thief had sold the same data that he had stolen in 2002 to the BND. The normal reaction in such a woolly situation would have been not to communicate anything until reliable information was available. But our aim and top priority was to limit the damage.

Did you achieve this goal?
Yes. I think we managed relatively quickly to limit the case to the LGT Treuhand and to the time up to and including 2002. At no time was there a rush on our bank or any other extreme event. Our employees behaved impeccably, and normal business operations were ensured at all times. Our communications reached the target groups, and we were able to clarify the situation for our clients relatively quickly.

How could you be so sure that the BND did not have any additional, more recent client data?
We analysed the reporting on a continuous basis and compared each new piece of information with the facts known to us. Our managers know their staff and business divisions very well; they were able to pursue possible trails promptly and quickly exclude further leaks. When it came down to it, we noticed in the crisis how reliably our internal structures and systems work.

What structures and systems are you referring to?
At LGT too, there are the usual safety measures for data, IT, building protection, etc. Here, we are undoubtedly operating at the top level. However, when you analyse similar cases, you discover that the greatest risk factors are not to be found on the technical side but rather on the human side. In this area, we have learnt a lot from the data theft in 2002. We weight the human side very highly and have, for instance, reacted with rigorous training of managers.
I think that there is a culture today in our company – a particular mindset – that is

Prince Max von und zu Liechtenstein:
“The data theft and the resulting media interest have undoubtedly resulted in a loss of reputation – and there’s no point trying to put a gloss on it.”

sensitised to human and intrapersonal factors. In my eyes, this is an operative security provision that should not be underestimated.

Looking back, how do you rate the external communications – after all, Liechtenstein reacted harshly to the criticism from Germany?
There is not enough differentiation here. As the owner of the LGT, the Royal House follows a clear policy of corporate governance. The family members who are politically active for the Principality of Liechtenstein – the heir to the throne and my father, the Prince – do not have any function within the bank. As the CEO of the bank, I am not responsible for the politics. My brother reacted to the very vehement rhetoric from Germany in a level-headed manner and in the process also made reference of course to the legally questionable purchase of the stolen data. At the LGT, however, we have never offered a political opinion at any time.

Did the affair also have a positive side for you?
It is too early to assess that, but we are undoubtedly doing everything now to ensure that we turn the crisis into an opportunity. Today, we communicate much more actively than we did a few months ago, and our experience with this approach has been very good so far. We have also used the situation as a chance to review our image, our positioning and certain strategic nuances. This process is currently still ongoing. I think that we have survived the crisis well up to now. We are, however, more than aware that there is still a lot of work to do.

What is your personal conclusion?
Short decision paths, a good management team, loyal and motivated employees, and a strong internal culture are absolutely pivotal factors in mastering a crisis. It has been a gratifying experience to see that the LGT has these pillars. That is why I am also highly confident about our future. //

"Continuity; equality of treatment; deliver what you promise."

Lukas Winkler, CEO of Inficon, on the importance of the share price for his SME and on the principle of reputation through performance.

Text: Iris Kuhn-Spogat

To be or not to be – for Lukas Winkler, CEO of Inficon, the question is ultimately decided by his company's reputation. Firstly, because the company is listed on the stock exchange and in the financial markets, reputation is important. Secondly, because, as a niche supplier in niche markets (see box), Inficon has to be the market leader. By nature, niches are small; if you are not in control of them, you won't earn enough money.
Before Inficon was listed on the Swiss stock exchange in November 2000, the company was part of Unaxis (today OC Oerlikon). The topic of reputation first became important with the IPO, as the the company set about finding its own identity and honing its profile for potential investors. At the time, the financial markets were on a New Economy high. One obvious solution was to position Inficon as a supplier to the semiconductor industry; after all, 50 per cent of the turnover came from this sector. When the New Economy bubble burst, it dragged the share price of Inficon down with it – even though the other 50 per cent of turnover had nothing to do with semiconductors or the New Economy.
To date, Inficon appears in the category "semiconductors" with some analysts, although the share of turnover of this business division has since fallen to approx. 20 per cent. "We can't shake off this image entirely," says Winkler, "but it's our own fault."
One consequence of this problem of perception is that the share price of Inficon does not adequately reflect the company's value – in other words, it is too low. That is a temptation for financiers such as Tito Tettamanti: last summer, he bought a stake of more than 5 per cent via his investment company Sterling Strategic Value. Alongside UBS Fund Management, Corisol Holding, Polar Capital and Schroder, he is the largest shareholder today.
Is Inficon a takeover candidate? "As a company listed on the stock exchange, we are theoretically permanently up for sale," says Lukas Winkler. "Being seen as a takeover candidate does not necessarily have to damage our reputation as long as the operational performance is right."
Neither the options for correcting its image nor the importance of new major shareholders nor the ups and downs of the share price affect the day-to-day business at Inficon. "Our staff are not involved in events on the stock exchange in any way," says

Facts and figures
Inficon's holding company is domiciled in Bad Ragaz and its CEO/CFO office in Balzers (FL). The company produces instruments for the analysis, measurement and control of gases, in particular for demanding vacuum applications. Inficon supplies the four markets of semiconductors and vacuum coating (35 per cent of turnover), general (42 per cent of turnover), air-conditioning and refrigeration technology (16 per cent of turnover) and emergency and safety (7 per cent of turnover). Inficon produces at the three main sites of Balzers (FL), Syracuse (USA) and Cologne (D); including the sales staff who are spread around the globe, the company employs some 870 staff who in 2007 generated a turnover of USD 236.6 million.

Winkler. "Nor do we measure our success by the share price. Instead, we measure it solely by the profit that we generate." Winkler's philosophy is that if the performance is right, the company will flourish and this normally will be rewarded by the financial market with increasing share prices. He looks after the shareholders according to the simple principles of "Continuity; equality of treatment; deliver what you promise." The CEO also acts the same way with the customers. "Our customer relationships stand and fall with our technological know-how and with our reliability," says Winkler. "Our reputation is entirely dependent on it." Winkler is satisfied with the way things are turning out. Since he has been in control, turnover has been growing in the two-digit range year on year; operating income as a percentage of sales has more than trebled over this period, from 3.9 per cent to 13.8 per cent. So far, Winkler has not experienced any slumps, apart from those in the share price. He's prepared himself nevertheless: he has introduced a profit-sharing scheme for all the employees. When business is good, every member of staff will receive a cash bonus. In tougher times, Winkler can use the planned budget as a reserve – and does not have to react to slumps with staff lay-offs straight away. Winkler refers to lay-offs as "one of the biggest risks to reputation" for a company that has local roots as strong as Inficon's. //

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Agile organisations: Equipped for change.

Organisations operate in an environment of constant change. It is not enough to merely respond to changes in the market. To assure a successful future, organisations need a new core competency: agility, or the ability to find the right balance between standardisation and flexibility, writes Markus Bucher, member of the Management Board and new Leader Advisory.

markus.bucher@ch.pwc.com

It has long been commonplace to talk of the fast-changing times in which we live. But rapid change is a real phenomenon that companies experience. There has always been change, but it used to come in intermittent waves rather than the constant, ever-more relentless change that we face nowadays. Thanks to the Internet we're in permanent communication, which has changed the way the markets work. Globalisation has brought new, virtual forms of doing business. Domestically and internationally, in specific sectors or across industries, new regulations and codes of conduct have made compliance much more complicated than ever.

To operate successfully in an environment like this, organisations have to be in permanent readiness to tackle changes whose nature and scale are often impossible to gauge in advance. The challenge is not to let change take you by surprise, but to make sure you're equipped to deal with a number of different future scenarios and eventualities. The fact that many organisations are realising this is underscored by the eleventh "Annual Global CEO Survey" conducted by PricewaterhouseCoopers. Of the 1,150 CEOs polled, 88 per cent said that they viewed the ability to adapt their business model rapidly to internal and external change was one of the keys to competitiveness.

Strategy
Competition
Growth

Markus Bucher, member of the Management Board and Leader Advisory

Agility: a new core competency

But what does this really mean? How can an organisation cope with change or even turn it to its advantage without even knowing what direction it will take? The answer lies in agility: having the mobility, suppleness and skill to strike a balance between standardisation and flexibility and ensure that this balance is rooted in the organisation and its strategy. Agility means being able to anticipate change rather than merely reacting to it. Regardless of the industry, this will be one of the core competencies of the future.

The music industry is a prime example of the serious consequences of failing to adapt an operating model to a changing environment in time. The whole industry's highly profitable business model has been shaken to its foundations by the Internet. Thanks to e-commerce, on-line providers and, above all, the option of downloading individual tracks, the industry was faced with a raft of new competitors it hadn't thought would even dare enter the market, never mind conquer it. But the conventional music companies' struggle with the new competition has turned out to be futile, because the young pretenders have the consumers on their side.

Identifying core processes

Agility means finding the right strategic mix of standardisation and flexibility. The aim is for an organisation to hone capabilities that it doesn't need right now, but may need in the future. In its efforts to make existing processes as efficient as possible, a company can easily lose flexibility. By standardising things too much, organisations run the risk of failing to take sufficient account of change, so that every change in the market environment makes the business vulnerable, and the organisation fails to seize the opportunities that emerge when change does happen.

Standardisation and flexibility are apparently conflicting aims, one of which is often achieved at the expense of the other. Finding a balance means repeatedly and radically questioning the business model and the organisation. For this to happen, management must have a clear idea of which business processes are key to value creation. In turn, concentrating on these core processes entails two major cultural shifts: adopting a process-oriented approach which sees business processes across the whole organisation rather than focusing on isolated silos of activity, and adopting a collaborative management approach.

Processes must always be seen in the context of people. Business processes don't happen by themselves, but in the interplay with people and the way they behave. Here technology is of only secondary importance; it merely serves as a facilitator. Technology has enabled organisations to make huge efficiency gains. But this has come at a price, as organisations have lost a great deal in terms of their understanding of processes.

Four steps to agility

Basically there are four key steps involved in making a company agile enough to adapt rapidly to changes as they emerge:

- Detailed scenario planning: management teams assess the economic, environmental, regulatory and geopolitical factors that are most likely to impact their businesses in the next three to five years. Alongside the familiar SWOT analysis, tools such as PEST analysis are gaining in importance: analysing the political, economic, social and technological trends and placing them in the context of the business.
- Getting to know your business: through rigorous process assessments, executives gain a deeper understanding of which processes or business activities contribute to a company's core value proposition and which simply facilitate business as usual.
- Aligning around value-creating activities: with a shared view of their businesses, management teams can collaboratively identify best practices and performance standards for executing the value-creating activities that are common across functions.
- Re-examining value-creating activities in the context of likely change: with an outlook towards a number of possible futures, executives identify which processes must be made flexible and which must be standardised for the company to continue creating value through change. By putting this strategic mix in place, senior management creates a flexible operating model that can accommodate many different sources of change, rather than just one.

The result is a blueprint that will allow the organisation to operate successfully, however the environment changes and whatever scenarios come to pass. But the transformation to agility will only be possible if a culture of change pervades the entire organisation, and its people have really internalised the necessity of being flexible. This also means having systems of incentives in place that reward a willingness to change.

Strategy and performance measurement

The ability of an organisation to cope with change is a key factor in its efforts to improve business performance. The value proposition of PricewaterhouseCoopers' Advisory line of service reflects this: "We advise and we implement – to design, manage and execute lasting change." To improve business performance in a constantly changing environment means that the planning and implementation of strategy can no longer be seen as separate steps. Instead, they constitute an ongoing process – a cycle that is in a state of permanent renewal.
The measurability of success is always part and parcel of effective implementation. As soon as there is a discrepancy between the planned and actual results, it's time to take another look at the strategy. It may be that the original strategy is no longer the right way of differentiating the organisation in the present and future environment. So the trick is always to take account of both aspects: the measurability of success, and the strategic foundation of business decisions.

Promoting agility in dialogue

To gain agility, organisations must be able to foresee and recognise changes in their operating environment, incorporate these changes into their strategy, and implement this strategy to achieve a measurable improvement in performance. This is no easy task for management. In many cases talking to an external partner can make it quicker and easier to get a clear picture of where the challenges lie and what has to be done to tackle them. An expert sparring partner can help management find answers to questions like the following:

- How can we boost revenues?
  The industry expertise of an external partner can help a company identify customer expectations and efficiently produce or deliver the corresponding products and services.
- How can we manage performance?
  Performance management frameworks provide information and decision-making tools that help companies translate strategies into operational measures and achieve lasting process change.
- How do we manage our people in an environment of change?
  Systems of incentives can help influence employee behaviour to facilitate change and boost value creation.
- How do you deal with regulation?
  In most cases it's not the regulations as such that are the problem, but your awareness of them and the way you deal with the specific impact of rules and regulations on your own organisation.
- How do you make good decisions?
  Primarily by analysing all the possible chances and risk scenarios. Given the growing complexity of organisations and the environment in which they operate, coupled with the high expectations in terms of transparency and compliance, risk is an ever-more important consideration.

All businesses aim to create value and improve their business performance – something that is getting increasingly difficult in an environment of permanent change. The challenge for managers is to rethink their business model from the ground up and make change scenarios an integral part of the organisation, its processes and culture. By adopting a cycle of continually formulating strategy and measuring progress and success, an organisation can boost its performance even when the environment changes.

SUMMARY

The ability to manage change – as a chance – is what characterises an agile organisation. An organisation that takes a long-term view and is geared to operating successfully and improving its performance in a changing environment.

Ensuring effective and sustainable value management.

Management: Value management has many facets.

To succeed in global competition, organisations must manage their value creation consistently and effectively. Value management involves steering the interplay of strategy, management, structure and culture to focus the whole organisation on value.

franco.monti@ch.pwc.com
remo.schmid@ch.pwc.com

Do companies know their key value drivers and their impact on the value of the business? Do they have appropriate instruments and structures in place to manage these value drivers effectively and add value to the business? Both these things are necessary for survival as a successful player in a competitive arena. Any organisation wishing to systematically generate value should find out where the hidden potential lies and exploit it. But value-oriented management only works if the interests of both owners and management are aligned to adding value. So further questions arise: does the present compensation system give managers sufficient motivation to add value? Are they rewarded appropriately when they generate value for the business? A company can do a lot to encourage value-oriented business behaviour by ensuring that all management activities and decisions are aligned to long-term value creation.

Value-oriented management is independent of ownership

To enhance value creation, the first step is to ascertain the actual value of the business and identify its key value drivers. Corporate valuations and an analysis of value development are helpful for both listed and privately owned businesses. For companies whose shares are traded on the stock exchange, market capitalisation can serve as a benchmark of the way the value of the business is developing. But since market capitalisation is often affected by exogenous factors, many companies also use other methods to value the business. Unlisted companies that do not have this external benchmark are automatically reliant on alternative valuation methods. One of the main valuation approaches used nowadays is the discounted cash flow (DCF) method in conjunction with comprehensive value analysis and a process to model the key financial value drivers.

Once valuation has taken place, the organisation can identify potential improvements along the value chain and pinpoint hidden potential for adding value. At the same time it has to examine the possible strategic options and assess their impact. The most interesting options for the company in terms of value creation can then be translated into concrete action and embedded in corporate strategy, processes and culture. Only then is it possible to set measurable objectives for value creation; these objectives should also be built into the system of incentives for managers.
In the struggle to attract qualified managers, listed companies have the advantage of being able to offer equity and option-based compensation as a form of performance incentive. In the war for talent, private companies that are in direct competition with their listed counterparts need similarly attractive incentive systems to hire, motivate and retain good managers. For companies that do not wish to disclose details of ownership, systems such as phantom equity plans where, for example, shares are modelled in the form of certificates, are a suitable option.

Comprehensive value management model

Regardless of ownership, the fact of the matter is that companies wishing to succeed in today's highly competitive economy must manage value creation systematically and effectively – which means being aware of and managing all facets and dimensions of value generation. PricewaterhouseCoopers has developed and successfully tested a value management model that links questions of valuation, strategy, change management and compensation (see graphic page 31). While the model will typically be applied in the sequence outlined below, it is flexible enough to start at any point in the cycle, in other words where the organisation's needs are most obvious:

1. Business analysis: The first step is to ascertain the value of the business and its component businesses. Then the value drivers are analysed and evaluated in line with an industry benchmark.

2. Value improvement: If the business analysis revealed hidden sources of potential value creation or showed that the organisation does not have as firm a grip on its value drivers as its competitors, this means that there is room for improvement in terms of value creation. Depending on the specific situation, this potential may best be harnessed by adapting strategy, optimising processes or other operational measures. Parallel to this, the process allows the organisation to identify opportunities for organic or acquisitional growth, ways of mitigating cost drivers, and defining key performance indicators (KPIs). At the end of this phase, the company will have a practicable implementation plan.

3. Change management: The implementation phase is about making value creation an integral part of the organisation's strategy, structure and culture. Here the key is to systematically implement and communicate the concept of optimised, long-term value generation. The KPIs defined in the previous phase and the company's management model will help steer behaviour in the desired direction. To ensure that this value orientation remains firmly embedded in the organisation's culture, all stakeholders should be involved in the process of change.

4. Compensation: The goal of this phase is to align compensation with the organisation's value-oriented strategy. The key is to create incentives for long-term value generation. Short-term incentives are hardly likely to work. What is needed is long-term forms of compensation which reward the desired behaviours as well as the resulting financial improvements. The transparency of the compensation system is a matter of good corporate governance.

The implementation of this type of compensation system closes the value management circle, ensuring that managers have a vested interested in managing value drivers profitably and in identifying and harnessing new value creation potential on an ongoing basis. This holds for both listed and private companies. Unlisted companies in particular, which are not subject to sanctions from the markets or the scrutiny of analysts and rating agencies, face especial challenges when it comes to exploiting this value creation potential. Organisations that put all components of value management into practice will ultimately succeed in managing value in both senses: cultural and financial.

SUMMARY

Value management is a carefully coordinated process involving business analysis, harnessing value creation potential, change management and management compensation. As the market environment becomes tougher, the challenge for companies is to manage value creation effectively – in other words being aware of and managing all the facets and dimensions of long-term value creation.

Motivation
Added value

Franco Monti, Advisory – Strategy & Operations
Remo Schmid, Human Resource Consulting

Ferring – a practical example.
“The incentive plan strengthened cooperation.”

Dr Peter Wilden has been CFO of Ferring since 2000. In 2005, the company introduced a value-oriented management based on the concept of economic value added (EVA). The EVA key ratios are linked to a long-term incentive plan for the management.

What made you introduce a value-oriented management with EVA key ratios in your company?
We were looking for a model that brings together the goals of our shareholders and those of our management, and offers the right incentives. EVA goes beyond the concept of short-term success. It shifts the focus away from the profit and loss statement towards sustainable value creation. This is extremely important, particularly with private companies, because shareholders have a long-term rather than short-term investment horizon.

What have been the effects of the introduction of value-oriented company management on corporate strategy?
It is important for our shareholders to develop substance in a company over a longer period of time. This is reflected e.g. in investments in research and development. Sometimes, these goals are to the detriment of a short-term profit strategy. We base our long-term ten-year strategy on a five-year business plan that is revised at periodical intervals. Plans, however, are not deterministic. It is important to stick to goals; we can regularly redefine the path to reaching them, using the EVA key ratios. EVA makes both the goals and longer-term investment projects more transparent.

At Ferring, part of the management remuneration is dependent on the attainment of the EVA key ratios. Has this resulted in a convergence of management interests with those of the shareholders?
Our long-term incentive plan offers management the opportunity to participate in our long-term business success without altering the ownership structure. This incentive system reflects the weighting of our goals. With it, we have also found an additional argument to recruit and retain qualified managers. The programme has been running for a good two and a half years. During that time, we have not lost a single one of our key employees.

What role does the incentive system play in the recruitment of highly qualified managers ahead of companies listed on the stock exchange?
Working for a private company is attractive primarily because it offers the opportunity to develop the business yourself up to a certain degree. But managers also want to receive an appropriate remuneration for fully contributing their entrepreneurial thinking, their commitment and their performance. This is where the remuneration system kicks in. A long-term incentive plan like ours can by all means compete with the remuneration packages of major corporations listed on the stock exchange.

How did the change management process at Ferring go?
The idea for the initiative came from the shareholders and the Board of Directors, and this was also a decisive factor in its success. We agreed on the EVA concept in discussions between the management and the Board of Directors. In a second step, the remuneration committee of the Board of Directors weighed up the interests and translated the concept into an incentive system. The task of the management was to firmly establish the concept and the incentive system in the organisation. We gave ourselves a year to do this.

Has the process of reorientation now been concluded?
The process is still ongoing. The journey from the introduction of new key control ratios to working with these key ratios on a daily basis is a long one. EVA is a model that can be communicated and is easy to understand because the key ratios are derived from the audited annual statement. But education and training are necessary for the concept to be understood in all local companies. We have already managed this quite well. This year, the managers were also able to see for a second time how the incentive plan is developing.

In your opinion, what are the advantages of hiring one single external consultant for the different aspects of value management?
The advantage of a single point of contact is that all the aspects, whether of management, personnel management or taxes, are given the same amount of attention. In this respect, we are highly satisfied with the path that we have taken. Together, we have been able to develop high-quality solutions for all facets of value management and remuneration.

Looking back, what did the greater value orientation improve at Ferring?
The collaboration between the departments has become much more intensive. EVA is an overarching instrument, and the managers from the different divisions see at once that they are working for a common goal, namely long-term value creation. This is precisely the goal that our shareholders are pursuing.

Ferring is an international player in the biopharmaceuticals sector, generating turnover of well over EUR 750 million with 3,200 staff worldwide, 380 of whom work at the company’s headquarters in Saint-Prex, in the canton of Vaud. The company is privately owned.

Operational real estate: Harnessing unexploited potential.

Many companies have recognised and have started to harness the true potential of their operational real estate. Managing these holdings professionally can add substantial value to the business as a whole.

kurt.ritz@ch.pwc.com

For many Swiss companies, property is one of the biggest – if not the biggest – item on the balance sheet. This is reflected in the importance companies attach to their real estate portfolio: 43 per cent view real estate as an important or even irreplaceable resource, and for another 44 per cent, real estate is a necessary component of their operational processes. This view is shared by companies regardless of their size or industry.

This is one of the findings of a survey entitled "Kennen Sie den Wert Ihrer Immobilien?" (Do you know the value of your real estate?) conducted by Pricewaterhouse-Coopers among financial decision makers at Swiss companies. PwC wanted to find out how Swiss companies view, value and manage their operational real estate. Nowadays, the trend internationally is to treat real estate as a value driver rather than just a bundle of costs, and property-heavy companies such as retailers and hotel chains are increasingly choosing to actively manage their property holdings with an eye to value. Besides the tax and accounting benefits, this value-oriented approach also helps expand a company's refinancing options, can add (sometimes significant) value to the business, and can result in lucrative gains when property is sold.

Cost factor or value driver?

But not all Swiss companies have recognised the potential value of these assets. Of those polled, 29 per cent do not even formulate financial objectives in connection with managing their real estate. Of the remainder, almost two thirds emphasise the cost aspects and say that the primary goal of their real estate management efforts is to minimise the expense. However, value-driven management isn't just a matter of reducing costs. Operational or not, property is much more than a matter of write-downs and expenses; it also has the potential to add value to the business overall. But only 11 per cent of the companies polled expressly aim to increase the value of their real estate.

Another finding of the survey underscores the extent to which some companies underestimate the value-adding potential of their real estate: only around 60 per cent of those polled say they have conducted an internal or external valuation of their property. When companies do have their real estate valued, an interesting phenomenon arises: most real estate assets turn out to contain considerable hidden value, often 50 per cent or more of their book value. But because many companies still focus on the cost side, they carry real estate in their balance sheets at amortised acquisition or construction cost, less cost of maintenance, rather than following the international trend to fair value accounting and presenting their financial position and results of operations on a true and fair basis.

Companies that want to manage their real estate holdings professionally have to do two things. Firstly, they have to rethink their approach to property. Rather than viewing their real estate as a cost factor, they should be treating it as an asset that has to be managed like any other asset to ultimately add value to the business. Secondly, companies have to know what their real estate is worth: by having the market value or intrinsic value of their property holdings assessed, they have a basis for managing this value.

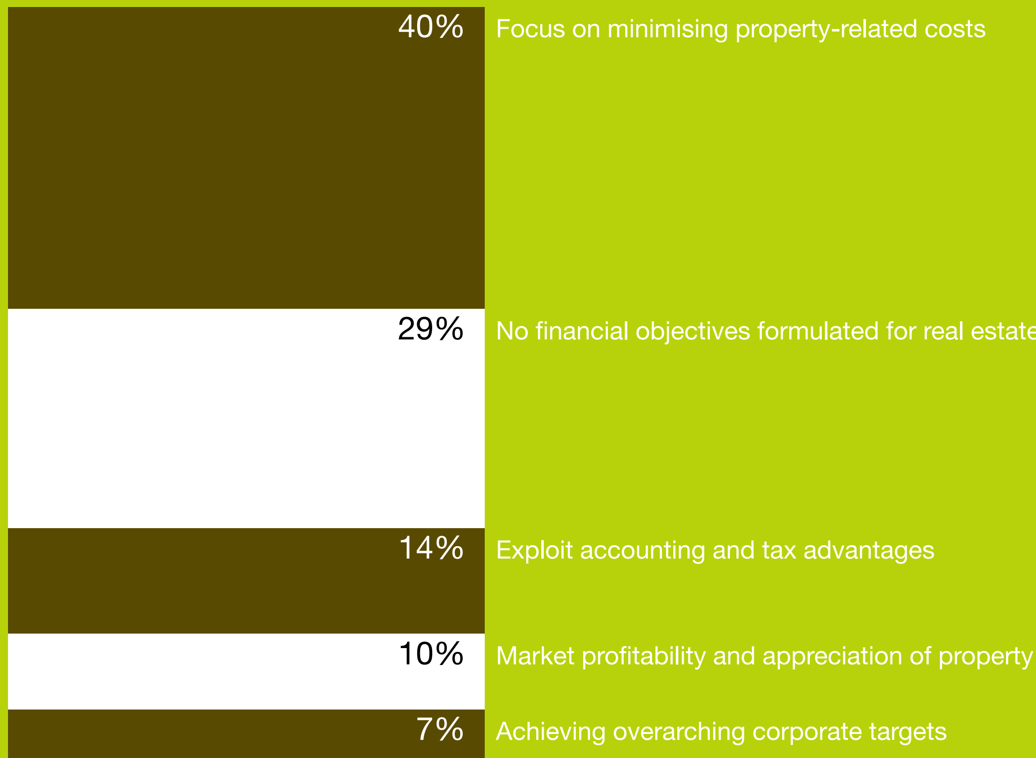
Internal management, or transaction?

Companies that do not wish to invest resources in managing their real estate themselves also have the option of exploiting the value of their holdings through transactions such as OpCo/PropCo. This type of transaction involves separating the ownership and operation of the property by creat-

Asset management Appreciation

Kurt Ritz, Swiss Real Estate Industry leader

What is your main financial objective in terms of operating real estate?



ing a structure where an operating company (OpCo) sells the operational property to a property company (PropCo) and simultaneously leases it back.

Some of the companies polled in the survey are still fairly sceptical when it comes to real estate transactions. The greatest obstacle as they see it lies in the relative or complete lack of a market for their operational real estate. They are also afraid of the loss of operational independence that selling property could, as they see it, entail. But both these obstacles can be overcome with the right long-term lease. This approach can enhance the company's long-term locational security as well as the marketability of their property. Experience has shown that there is a market for any property, regardless of its location or state of repair, with a lease of ten years or more.

The main considerations for companies that have conducted an OpCo/PropCo transaction or are considering doing so have to do with financing. Selling and leasing back property is a good way of generating cash, generally at better terms than with a loan or mortgage. OpCo/PropCo is a way for companies wanting or having to reduce debt to release the necessary funds without having to resort to any form of internal financing such as selling off a business. Besides these financing considerations, this type of transaction can also enable a company to manage its assets more efficiently, reduce the costs of capital and make its real estate costs more transparent. Since transactions of this sort reduce balance sheet assets, they can also be a way of optimising profitability, liquidity and debt ratios.

SUMMARY

Real estate assets, like any other assets, must be managed with an eye to adding value to the business. To harness the real potential of their real estate assets, companies must know their true, current value. Companies have the option of actively managing the value of their real estate themselves or outsourcing the function by selling and leasing back property.

Corporate reporting: Improved transparency will be rewarded.

Corporate reporting has become more transparent – in part because of tighter disclosure requirements, and in part because companies are realising that transparency helps ensure a fair valuation for their business.

peter.ochsner@ch.pwc.com

"I should be able to read an annual report and know what the business is doing and know the key drivers." With these few words an American financial analyst puts the expectations of the financial markets in a nutshell: when it comes to corporate reporting, they expect the management and board to paint an accurate picture of the reality of their business.

Getting an insight into the actual development of a company's business is important for all its stakeholders, but particularly for the investment community. After all, it's the decisions made by investors, and especially institutional investors, that determine the valuation of the stock. The reality, however, is that the needs and expectations of this key group of stakeholders are often not adequately reflected in either corporate reporting or the financial reporting requirements that govern it.

For more than a decade, PricewaterhouseCoopers has been asking financial analysts and institutional investors what information really matters to them. The surveys consistently reveal the huge appetite of professional investors and analysts for the information that management uses to manage and steer the company. And over the years nothing – including tighter rules from the standard 18 setters and regulators and the corporate world's growing awareness of transparency – has altered these findings.

Added value
Corporate communication

Peter Ochsner, member of the Management Board and Leader Assurance

Closing the information gap

Now two new empirical studies have been published giving an insight into the investment community's needs and requirements in terms of corporate reporting. Research conducted by the University of St Gallen entitled "Corporate Perception on Capital Markets: Non financial success factors in capital market communication" looks at information needs that go beyond purely financial data. The second study, "Corporate reporting: Is it what investment professionals expect? International survey of investors' and analysts' views on the information that companies provide", published by PricewaterhouseCoopers, concentrates on financial reporting, revealing that gaps still exist between the value the investment community places on key information and the way this information is actually reported.

To be able to value a business appropriately and thus ensure that capital is allocated efficiently within the economy, investors need information of both types: financial and non-financial. Information that gives an indication of a company's future prospects is generally qualitative or non-financial in nature. This is information that shows whether management is consistently pursuing a sustainable strategy matched to the market situation, whether it's aware of and effectively managing the factors driving value within the business, and whether all this is resulting in a convincing business performance. This in turn will be reflected in the company's financial figures – and in its reputation.

Disclosing strategy

The St Gallen study, which surveyed more than 200 financial analysts and institutional investors, is based on a model of the qualitative factors influencing the capital market's perception of a company. These factors fall into seven categories: corporate communications, management quality, corporate strategy, corporate governance, corporate culture, customer and industrial relationships, and public affairs. The researchers found that while participants rated almost all these categories as having above-average importance, three specific factors in particular were viewed as key: long-term strategy, management's ability to

5 minutes: Business information and research by PricewaterhouseCoopers.

The value of real estate.

For many companies, operating real estate is the biggest item on the balance sheet. Ten per cent of companies systematically seek to increase the value of their real estate assets. For 40 per cent, the priority is to minimise real-estate-related costs, while 29 per cent of companies say they do not even have any financial objectives with regard to real estate. Forty-one per cent of Swiss companies do not know the current market value of their own operating real estate. One third of companies have conducted property transactions in recent years, 44 per cent of which related to transfers within the organisation, and 56 per cent of which were conducted with a third party. Twenty-four per cent of Swiss companies are planning property transactions in the next few years. These are the findings of a PricewaterhouseCoopers study entitled “Kennen Sie den Wert Ihrer Immobilien?” (Do you know the value of your real estate?; see page 34).
www.pwc.ch/en/press_room

Climate change.

Fifty-five per cent of Swiss power providers believe that fewer statutory requirements facilitate investment in the energy infrastructure. Ninety-two per cent believe that prices will rise in the liberalised energy market over the next four or five years. According to 77 per cent of Swiss providers, technological innovation will lead to progress in terms of energy savings and efficiency in the next ten years. Here, Swiss power providers see the greatest potential on the consumer side, with household, commercial and industrial users. Mergers and acquisitions will also increase in the Swiss energy business. These are the findings of a report published by PricewaterhouseCoopers entitled “Energiestudie Schweiz – wie verändert sich das Klima im Schweizer Energiemarkt?” (Swiss energy study: how will the climate change in the Swiss energy business?).
www.pwc.ch/en/press_room

Telecoms deals.

In 2007 there was a global decline in mergers and acquisitions in the telecommunications industry, with transaction volumes shrinking to EUR 185 billion from EUR 332 billion in 2006. The acquisition of Italian company FASTWEB SpA by Swisscom AG was one of the top ten transactions worldwide last year. Two trends are emerging for the future. Firstly, emerging nations will see an increase in M&A. The acquisition of the Indian company Hutchison Essar by Vodafone was an indication of things to come. Secondly, there is great potential for mergers in the mobile Internet and infrastructure businesses. These are the results and predictions of the “M&A Insights” study conducted by PricewaterhouseCoopers for the telecoms industry.
www.pwc.ch/en/press_room

Look into the future.

The ongoing process of globalisation is shifting the balance of power from the established OECD states to emerging nations. China looks likely to overtake the US as the world’s largest economic power as soon as 2025. By 2050, per capita purchasing power parity in the emerging markets will be double that of the established economies. The purchasing power of the E7 nations (China, India, Brazil, Russia, Indonesia, Mexico and Turkey) currently comes to 65 per cent of the purchasing power of G7 states (United States, Japan, Germany, the UK, France, Italy and Canada). According to a PricewaterhouseCoopers study entitled “The world in 2050. Beyond the BRICs: a broader look at emerging market growth prospects”, investors should not be focusing exclusively on the BRICs (Brazil, Russia, India and China); new emerging nations such as Vietnam, Nigeria, the Philippines and Egypt also have outstanding growth prospects.
www.pwc.ch/en/press_room

The ten most important factors in market perceptions of companies.

With the support of organisations including PricewaterhouseCoopers, the University of St Gallen's Institute for Media and Communications Management conducted an empirical survey on the qualitative factors influencing corporate communications. These factors fall into seven categories. The findings from the more than 200 financial analysts and institutional investors who took part underscore the importance of non-financial information in corporate reporting. The table summarises the scores for the ten most important factors (1 = irrelevant, 5 = very relevant).

Factor	Category	Average score
Long-term strategy	Strategy	4.51
Implementation of strategic plans	Management quality	4.49
Comprehensive disclosure	Corporate communications	4.47
Understanding of business	Management quality	4.40
Shareholder value	Strategy	4.40
Management ability	Management quality	4.39
Accessibility of investor relations officers	Corporate communications	4.31
Ability to deliver on forecasts	Management quality	4.30
Continuity	Corporate communications	4.29
Proactive agenda setting	Corporate communications	4.29

implement strategy effectively, and comprehensive disclosure (see box).

A company's long-term strategic orientation is reflected most clearly in its investment and research and development activities. But it is also manifest in management's ability to pursue this strategy reliably over the long term. An organisation's ability to implement its strategic plans is closely bound up with the quality of its management; in other words, management must be credible and have a successful track record to match. However, the markets can only assess this performance reliably if management's objectives are quantified and published. The investment community thus values consistent, ongoing information – both qualitative and financial – very highly.

It's important to remember that the financial performance of a company is the result of strategic decisions and the ability to manage value drivers effectively. Reporting transparently on things like market positioning, strategy and value drivers in no way detracts from the importance of detailed financial figures allowing market participants to assess and value the business. Even though – indeed perhaps because – financial reporting standards have become more detailed and complex in recent years, annual reports often fail to completely satisfy the information needs of the investment community.

Explaining financial performance figures

The international PricewaterhouseCoopers study on corporate reporting mentioned earlier in this article shows that financial officers still have scope for boosting investors' understanding of the performance of their business and, in the longer term, for ensuring that their company is valued appropriately by the markets. For example, there is a call for more differentiated reporting on the specific sources of revenues and earnings, segment reporting, detailed breakdowns of costs, and revaluations of assets and liabilities. Investors also value summary earnings numbers such as EBITDA.

But PricewaterhouseCoopers' research also shows how much many companies have done in the last ten years to meet the investment community's information needs. Professional investors and analysts are convinced that these efforts work to the benefit of companies. An Australian analyst sums it up: "Improved transparency will be rewarded."

SUMMARY

The financial markets have sophisticated needs and high expectations when it comes to corporate reporting. A long-term strategic orientation, the ability to reliably implement strategy, and transparent information are the most important factors for professional investors and financial analysts when assessing a business. The investment community would like to see annual reports containing more differentiated information on factors such as the sources of revenue and earnings.

Events, publications and analyses.

Corporate Tax Reform II

On 24 February 2008, the Swiss electorate voted in favour of Corporate Tax Reform II. We at PricewaterhouseCoopers are convinced the model is the right one, and have argued for it from the outset. The task now is to implement the reform properly and ensure that the right steps are taken in a constantly changing tax environment. You too can benefit from these new solutions from the start. We have summarised the most important changes in a brochure entitled "Can You Benefit from Corporate Tax Reform II"), which is available free of charge in English, French, German or Italian from sonja.jau@ch.pwc.com

Chinese market

The experts at our China Business Group explain developments in the Chinese market and the opportunities that are emerging in terms of your investments. The themes of the current issue are the corporate tax reform, new rules on transfer pricing, the opportunities for foreign banks and insurance companies, and the impact on foreign investors of the new guideline catalogue of industries for foreign investment. The brochure "pwc: china compass" is available in German from sonja.jau@ch.pwc.com

Best Tax Firm in Switzerland 2008

PricewaterhouseCoopers has been awarded the Tax Firm of the Year award for Switzerland for a second year in a row. The award for innovative tax work was received by altogether 24 European national tax firms based on a broad survey made by "International Tax Review".

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Events

How do you rate?

A study on auditing and controls at medium-sized enterprises

PricewaterhouseCoopers and the Institute for Accounting and Controlling at the University of Zurich present the findings of their study.

Zurich, 4 November 2008
Geneva, 11 November 2008

For information and registration:
www.pwc.ch/events

2008 Tax Forum

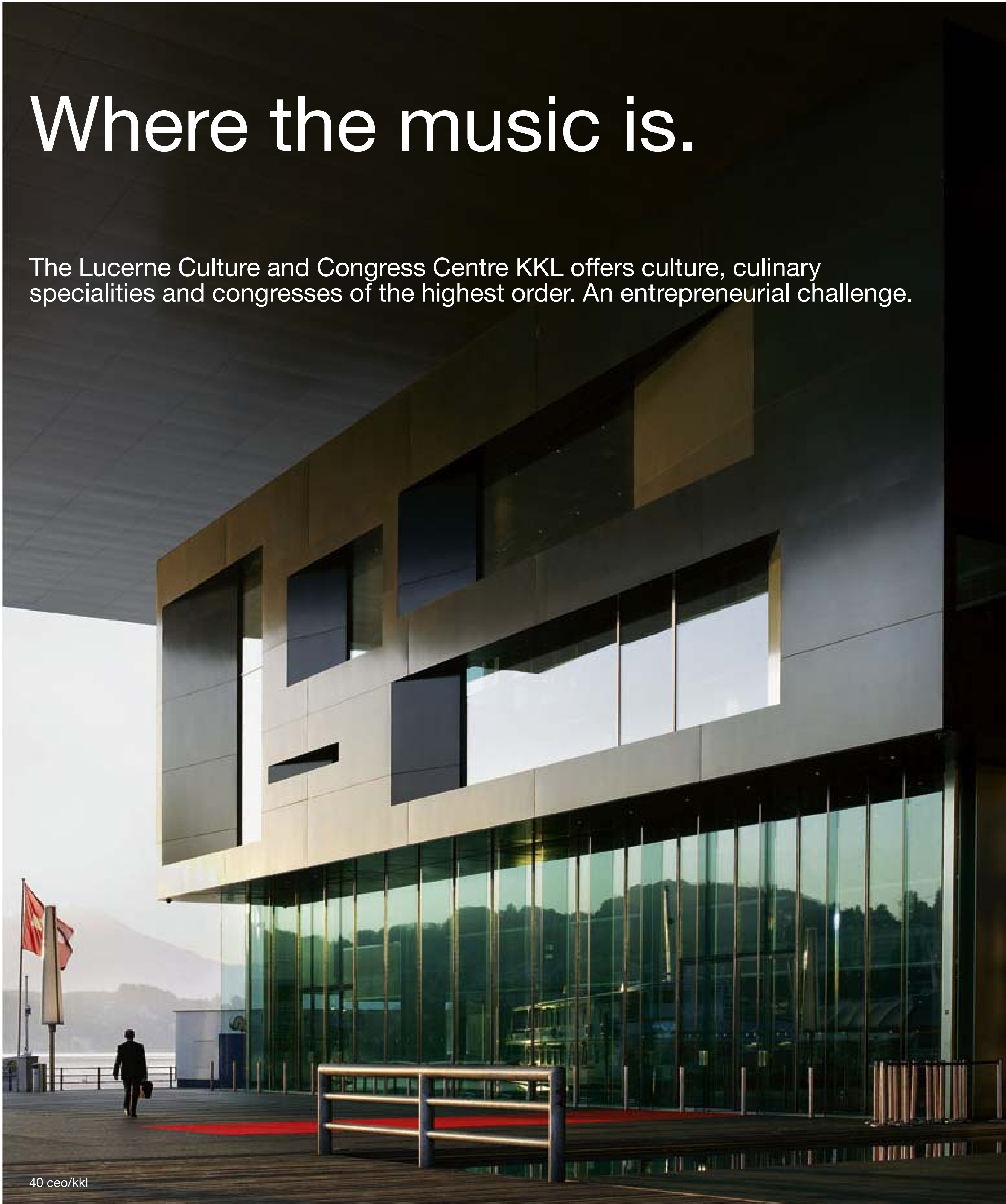
The Tax Forum is where CEOs, CFOs, business owners and tax officers meet to share practical knowledge and experience and discuss current tax issues. The 2008 forum will take a look into the future, asking the question "What direction is Switzerland going in terms of tax?".

Aarau, 25 November 2008
Basle, 2 December 2008
Berne, 12 November 2008
Chur, 20 November 2008
Frauenfeld, 18 November 2008
Geneva, 25 November 2008
Lausanne, 27 November 2008
Lucerne, 20 November 2008
Lugano, 25 November 2008
Neuchâtel, 26 November 2008
St Gallen, 26 November 2008
Thun, 20 November 2008
Winterthur, 20 November 2008
Zug, 26 November 2008
Zurich, 17 November 2008

For information and registration:
marc.thomas.steiner@ch.pwc.com,
tel. 058 792 18 49.

Where the music is.

The Lucerne Culture and Congress Centre KKL offers culture, culinary specialities and congresses of the highest order. An entrepreneurial challenge.



“I want to develop a team with motivated employees and thus take the company further.” Elisabeth Dalucas, CEO KKL

The KKL is organised as a public private partnership. This means that its privately managed side has to adapt to the requirements of the public sector and vice versa.

Text: Bernhard Raos Photos: Cédric Widmer

It's hard to miss a wall decoration in the office of Elisabeth Dalucas, the director of the Lucerne Culture and Congress Centre (KKL): a large poster of the jazz legend Keith Jarrett. When asked about it, the KKL boss's delight is immediately evident: "During his performance two years ago, Jarrett really put our concert hall to the test, finding the right music for our venue. He was in top form!"
Those of name and rank in the music scene perform at the KKL – from the Italian star conductor Claudio Abbado, and the Latvian cellist virtuoso Mischa Maisky, to the Viennese Philharmonic. Events such as the Lucerne Festival or the Blue Balls Festival are events with global appeal.

Acoustics are the trump card

The white concert hall with its 1,840 seats is the ace up the sleeve of the KKL to win the services of international music greats: "We get the stars we want," says Elisabeth Dalucas, with pleasure. "Many musicians want to perform in Lucerne solely because of the unique acoustics in Lucerne and don't press for their maximum fee." And the KKL architect Jean Nouvel takes his hat off to Lucerne: Not even the cosmopolitan city of Paris has a concert hall of this size and with these facilities.
The superb acoustics, the brainchild of the recently deceased American architect and acoustician Russell Johnson, are the culmination of his decades of experience. The hall volume of 19,000 cubic metres offers great space for the sound to develop, generating a round and soft echo. Thanks to a sound reflector above the stage, the musicians can hear themselves without any sound delay. Around 240 settings make it possible to adapt the acoustics to the individual piece of music.
In this environment, the expectations of the audience have also increased. "Our hall has ensured that the public's perception of music has developed. The demands on the programme are correspondingly high," says Dalucas. Facilitating superb culture and maintaining this standard over a number of years represents an entrepreneurial balancing act. The director makes no mention of a further increase in the services offered: "We want to consolidate our good position in Europe."
The KKL is an architectural masterpiece. Its striking roof with a soffit, almost as big as a football pitch, is a familiar sight to visitors from all over the world. Dalucas too pays homage to the prestigious building: "It is a privilege to work for such an institution." From the Basle-born graduate in fine arts, with a postgraduate diploma in management, however, more is expected than just artistic inspiration. The 46-year-old director of KKL Management AG and managing director of the supporting foundation has multiple feats to accomplish.

Making a cultural temple profitable

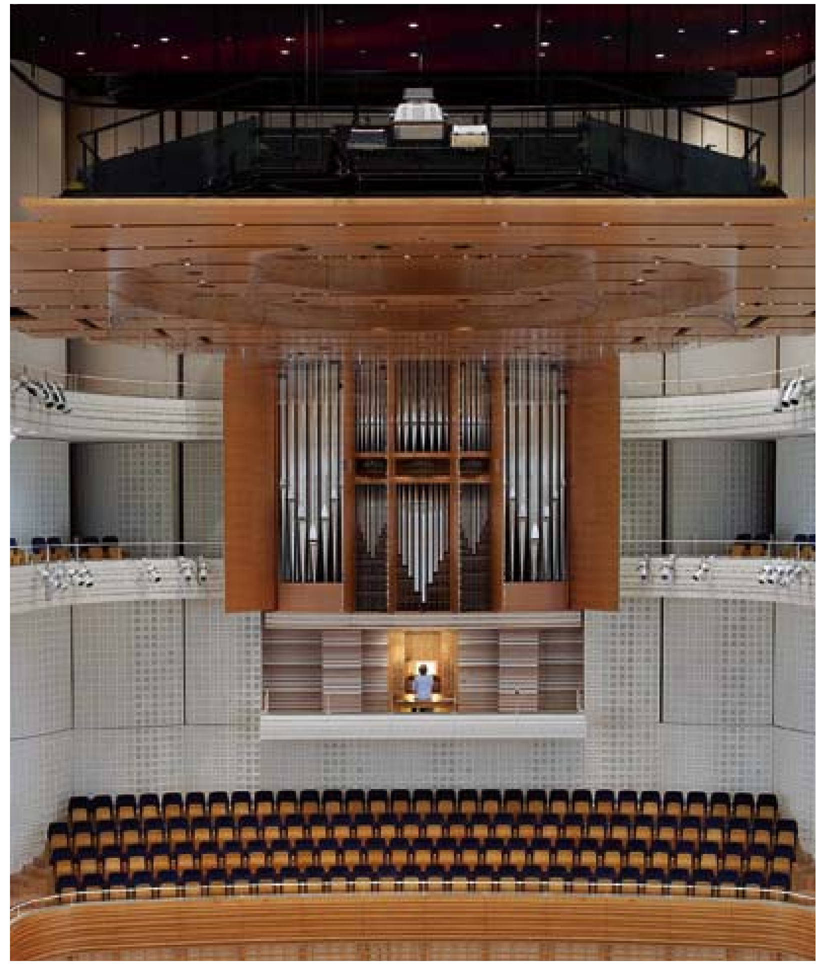
When Dalucas became CEO here five years ago, the KKL was in a critical situation. Her predecessors had departed on an almost annual basis; the fluctuation rate among staff was a record 30 per cent. In 2003, it was even threatened with bankruptcy due to unsecured maintenance costs and high building debts. The KKL was only saved from bankruptcy because the Lucerne voters approved CHF 18 million to plug the gaps.
Several factors were responsible for the precarious situation. The building, which was originally estimated at CHF 194 million, ultimately cost CHF 226.5 million – 32.5 million more than planned. The building debts were supplemented in the first years of construction by annual deficits of up to CHF 1 million, despite good booking levels. Above all, because of the usage rights: According to the rules of procedure, the city of Lucerne as the largest financial backer has 164 usage rights, which are used to subsidise clubs that use the KKL. For them, the concert hall, for instance, only costs CHF 2,900 basic rent instead of the CHF 20,000 required to cover costs. Since 2003, the city has been paying the KKL the difference.
The KKL is organised as a public private partnership. This means that its privately managed side has to adapt to the requirements of the public sector and vice versa. Listening to the market, maintaining contacts with donors and taking into account political sensitivities, that is a very delicate juggling act.
Dalucas knew what she was getting into. Challenging scenarios had always interested her, as she herself stated shortly after taking up her position in Lucerne. Previously, as the director of the Museum zu Allerheiligen and the cultural department of the city of Schaffhausen, she had managed to turn the institution around. Her style is not to manage with an iron rod but rather with the power of conviction: "I want to develop a team with motivated employees and thus take the company further."

Value creation in the region

This was necessary primarily with regard to the KKL catering which was ailing at the time. Dalucas invested CHF 1.6 million and totally revised the concept. Instead of third-party catering, there is now a broad, customer-specific range from the hotel's own kitchen – from the gourmet restaurant RED (14 GaultMillau points), the World Café with self-service, the Crystal Lounge and Seebar for drinks and snacks to the event catering, for which the KKL kitchen team has been working with top chef Heinz Witschi since October 2007. Last year, the KKL generated a turnover of CHF 11.2 million with its catering.

The Lucerne Culture and Congress Centre (KKL)

The Lucerne Culture and Congress Centre (KKL) is organised as a public private partnership. KKL Luzern Management AG manages the centre; the majority of shares are held by the supporting foundation. The grand opening of the centre, which cost CHF 226.5 million, took place in March 2000. Converted to full-time positions, the centre employs 223 people. In 2007, net revenues amounted to CHF 24.4 million.
www.kkl-luzern.ch



The KKL is an architectural masterpiece. Jean Nouvel has brought the lake into the building – with two water channels that divide the KKL into three: the concert hall section, the middle part with the Lucerne Hall and foyer, and the congress and museum area. The white concert hall with its 1,840 seats has unique acoustics that attract stars from all over the world to Lucerne.

An orchestra wants more.

The Lucerne Symphony Orchestra must pass the test on a world stage. For its director, this is an exciting starting situation.

"We are not yet at the end of our road. We want to and must be among the best in our league," explains Numa Bischof Ullmann. The dynamic director of the Lucerne Symphony Orchestra (LSO) is a passionate cellist with commercial training who brings good prerequisites with him for his job. For it's about both: art and commerce.

The LSO is the orchestra in residence at the KKL, the cultural and congress centre in Lucerne. It is also the permanent orchestra for all the music productions in Lucerne Theatre. Above all, at the KKL, the symphony orchestra must meet the highest artistic requirements if it wants to fill a concert hall that holds an audience of 1,840 – a provincial orchestra on a world stage. "More funds were needed for this institution," says Bischof Ullmann, looking back. Shortly after he took up office in the 2003/04 season, he succeeded in expanding the orchestra by 10 strings to 70 musicians – privately financed for three years and only partially subsidised with public funds.

On this topic, Bischof Ullmann says: "Whereas top orchestras such as the Viennese Philharmonic discuss how many Stradivari violins they purchase, we are just happy to be able to employ a sufficient number of violinists." In the past, it was not possible to play certain works because they didn't have the number of musicians required. Now, they are in a position to devote themselves to these fine works, he says.

Of the 11 million or so of the LSO budget, 60 per cent comes from public sources; 40 per cent is covered by admission fees, sponsors, foundations and private donors – the LSO has a higher degree of self-financing than most other orchestras in this country. And much of that effort falls to the LSO director: he invests half of his time in fundraising and sponsoring. He is regularly in contact with most companies in the region and in the cantons.

The LSO benefits from 24 usage rights for the concert hall at the KKL. The city of Lucerne thus offers a huge reduction on the rental for the hall. Money well invested: on average, booking levels are around 90 per cent. The orchestra has extended its repertoire to include modern works and, with the Club LSO U25, is aiming to make classical music attractive to a younger audience. Composing contracts are awarded on a regular basis.

This summer, the orchestra has been invited for the first time to tour Japan for three months. At the national level, music critics see the LSO as second only to the two leading orchestras, the Tonhalle Orchestra Zurich and the Orchestre de la Suisse Romande. A position which, Bischof Ullmann believes, represents "a nice obligation and challenge".

www.sinfonieorchester.ch

Today, at the KKL, there is a broad culinary range, from the gourmet restaurant RED and the World Café with self-service, the Crystal Lounge and Seebar for drinks and snacks, to the event catering, for which the KKL kitchen team works with top chef Heinz Witschi.

The KKL with its restaurants, multifunctional rooms of varying sizes plus the auditorium and spacious foyer offers what major event organisers expect today.

This pillar of business is also responsible for half the turnover; the other turnover is divided almost equally between culture, congresses and services.
Dalucas speaks of the important triad of the three areas of "Culture, Convention, Cuisine". Because the instruments have now been tuned to one another, they "are now entering a phase of integration, with control and optimisation of the processes", meaning that better use is being made of the synergies between the three areas today. The net revenues of the KKL grew from CHF 23.6 to 24.4 million last year. Below the line, the KKL posted an annual profit of CHF 114,000.
For Dalucas, a satisfactory result. "Our goal is to manage the company so that we cover costs." She also refuses to join the ranks of the doubters who complain about insufficient funds for culture: "Culture is doing well in Switzerland," she says. "There is strong commitment, both from the public sector as well as from foundations and private individuals." The CHF 226.5 million for the KKL is proof of this, she says. The centre on the lake takes but also gives. According to a study by the University of St. Gallen, the region accrues CHF 60 million every year in value creation.

Focusing on large events

Architect Jean Nouvel has brought the lake into the building – with two water channels that divide the KKL into three: into the concert hall section, the middle part with the Lucerne Hall and foyer, and the congress and museum area. The three sections lie under the 2,500-tonne roof like ships in port.
The convention section is fully booked for 2008, with the exception of a few single dates. Popular dates are often booked out well in advance. 160 congress events with 64,494 participants were held last year. Visitors benefit here from the special ambience, the space offered and from its central location. The KKL is close to the main station and has its own underground car park.
Congresses do not sell themselves. Today, event organisers expect multifunctional rooms for workshops, poster sessions and discussions in halls of different sizes, including inviting foyers. Dalucas also had this area optimised. She reduced the one-day events and increased the number of participants per event – within five years, from 150 to an average of 403 (2007). This brought more value creation.
That now new congress centres are being built on all sides and numerous hotels are expanding their infrastructure to include courses and seminars does not deter the KKL director: "We are focusing above all on larger congresses and events." Hotels are probably more suitable for smaller events. Unless money doesn't matter: The KKL is a well-positioned, major high-tech machine, and as such it has its price. //

Thrift on a grand scale.

When it comes to more efficient use of energy, many companies still have a lot of catching up to do. IKEA Switzerland, for instance, now builds only according to the Minergie standard, thus saving millions in heating costs in the mid-term.

A 150-square-metre extendable solar system on the roof of the building in Spreitenbach ensures efficient use of energy. The roof has been planted with greenery to compensate for the green area that was covered over. Green “islands” serve as habitat for micro-organisms.

Text: Kaspar Meuli Photos: Nik Hunger

Externally, the building reveals nothing of its ecological secret. The blue and yellow cube is impressive above all for its size: 200 metres long and 100 metres wide. Only when you look more closely do you see the panels of a solar system on the roof of the new IKEA furniture store in Spreitenbach. Inside too, the customers notice nothing of the “thrift on a grand scale” – as the Swiss Federal Office of Energy (SFOE) states in its praise of the building.

In the technology room on the first floor, there are two furnaces powered by wood pellets – the largest of their kind ever to be constructed to date. Yet the furnaces are just two of the many elements in the sophisticated building technology system. This system makes it possible for the energy requirements of the new building, which was opened at the end of 2006, to be reduced by more than a quarter compared to buildings constructed in the conventional manner. In other words, a substantial potential in savings, which was realised in particular through efficient insulation of the building shell and through heat recovery. This represents an important step towards reaching the climate goal that IKEA Switzerland has set itself. In the next three years, the company’s energy consumption is to be reduced by 25 per cent, the CO_2 emissions are to be drastically reduced. By the end of 2008, IKEA Switzerland intends to run its buildings so that they are CO_2 neutral.

Setting a sign

The exemplary management of energy in the newest IKEA furniture store in Switzerland – it replaces the branch in Spreitenbach which was opened in 1973 and was the first store outside of Scandinavia – has earned it the Minergie label. This certificate of quality is awarded by an association that brings together representatives from, among others, the Swiss Confederation, the cantons and commercial organisations. The requirement for certification is that the constructor adheres to a number of principles, of which the most important are: good heat insulation and efficient building technology systems, and these at costs that may be a maximum of 10 per cent higher than those of conventional buildings. The choice of tools with which to meet the clearly defined requirements with regard to energy consumption is left to the individual constructor. Beyond this, IKEA intends only to use renewable energies from now on.

At the top, the building's heat and cold distribution system. The light system distributes the cold; the dark one the heat. In the photo on the right, the two furnaces powered by wood pellets – the largest of their kind ever to be constructed to date.

Whereas ten years ago, when the Minergie initiative was launched, it was primarily idealists who attached importance to energy efficiency in the construction of their private homes, the situation is very different today. Based on the Minergie specifications, buildings of every size and complexity are constructed, from school buildings to administration and industry buildings to hospitals, indoor swimming pools and shopping centres. "In terms of floor space, we now certify practically the same number in the sales and office sector as in the residential sector," says the CEO of Minergie, Franz Beyeler. This is due to no small extent to companies like IKEA, Migros, or Credit Suisse who are increasingly opting for Minergie standards in their construction projects. According to Beyeler, large buildings such as the new furniture store in Spreitenbach "set a signal of course". And they make sense not only from an ecological perspective but also economically. Compared with its previous building, IKEA is saving around 200,000 litres of heating oil a year with its new building in Spreitenbach. The savings are far greater than originally calculated. But even in the planning phase, when the price of oil was considerably lower, the showcase project was expected to be profitable. "The project also needs to be commercially worthwhile," explains Hans Kaufmann, director of the real estate department and responsible at IKEA Switzerland for the construction of buildings worth CHF 500 million over the past eight years. "We have clear targets for a reasonable payback period. This pressure is good because we ultimately wanted to find solutions that can also be implemented at other sites in Switzerland and abroad."

Going renewable

Without this requirement, says the business economist, the construction project realised by IKEA in Spreitenbach, which was the largest Minergie building in Switzerland at the time of its opening, would have remained "nothing but a test balloon". Now, however, the furniture chain is consistently building and redeveloping in Switzerland based on the Minergie standard. And doing so at full steam. In the space of 13 months, five large buildings have been certified. The capital invested additionally due to the high building standards will pay off after various lengths of time, depending on the local circumstances. For instance, ground water that is used in the Pratteln and Lyssach stores as a source of heat is slightly more expensive than pellets are in Spreitenbach. But generally it is true that, to quote Hans Kaufmann, "if you plan carefully, you will have saved the additional costs in less than ten years."

Under the slogan "IKEA goes renewable", the group is now pursuing its ambitious energy policy worldwide. The goal is to completely do without fossil fuels for heating and air-conditioning/refrigeration and thus the comprehensive use of renewable energies. Currently, all 37 country representations are having to draw up a report on the actual energy status in their buildings. IKEA Switzerland owes its interest in Minergie to no small extent to the Aargau-

Hans Kaufmann: “We have clear targets for a reasonable payback period. This pressure is good because we ultimately wanted to find solutions that can also be implemented at other sites in Switzerland and abroad.”

based construction director Peter Beyeler. When the positions of the constructor, on the one side, and the Zurich and Aargau sections of the Transport and Environment Association (VCS), on the other, became entrenched during the agreement negotiations in Spreitenbach, he suggested that IKEA should set an ecological signal by constructing according to the energy-saving standard. The furniture chain accepted the proposal but was unable to pacify its opponents in the dispute about the number of parking places at the new stores. The dispute with the VCS ended as usual before the Federal Supreme Court of Switzerland. “It was utopian to believe that constructing according to the Minergie standard would help us in the approval procedure,” says Hans Kaufmann, looking back.

Management of energy

It is difficult to estimate the extent to which the Minergie strategy has had, and will have, an impact in general on IKEA’s reputation. The communication department has done its part, depicting the company’s pioneering role appropriately. For instance, after the opening of the showcase building in Spreitenbach, it placed large newspaper ads with the headline “Do you know where the largest Minergie building in Switzerland is located?”. Yet the head of real estate, Kaufmann, believes that the general public still does not know enough about all that his company does in the environment sector.

IKEA’s own workforce is more informed. All 2,600 employees were sent the environmental report of IKEA Switzerland, which was published for the first time last year. Construction according to the Minergie standard is given pivotal importance in this report. The reason given for this is that “the cost-efficient and effective management of energy is one of the main concerns of our global environmental strategy”. A concern that appears to be supported by the grass roots. In a survey recently carried out, nine out of ten employees thought it important for their company to be active in social and environmental topics and 81 per cent were of the opinion that IKEA is a company that implements its social and ecological responsibility in practice.

The newest IKEA building in Switzerland is located in Pratteln, near Basle, and is an office building. It offers a well-lit and friendly place of work to 350 employees – including Hans Kaufmann, who remarks that the company fulfilled the Minergie requirements “with ease”. Not least because there is so much know-how about environmentally friendly building technology in Switzerland. “Today our Minergie buildings are buildings just like all the rest,” says Kaufmann. //

The PwC "Ulysses" team analysed the local markets in Ethiopia. Anne-Sophie Preud'homme on the right next to her Australian colleague.

"Ulysses": Help for self-help in Ethiopia

Anne-Sophie Preud'homme's stay in Ethiopia began with a misunderstanding. With her "Ulysses" colleagues, the 38-year-old partner was all prepared to put together a concept for developing local markets. The local employees of her host, the organisation World Vision, however, were expecting a professional training course on marketing. "In the first few days, we had to discreetly make clear that we were not the right people for that," recalls the partner and real estate specialist from Luxembourg. After lengthy discussions with the – initially disappointed – Ethiopians, they agreed that the four-man team from PwC would gain an overview of the local markets and the work of World Vision and would then help to draw up a business plan for the organisation's next tasks.

It was already obvious during these initial, not particularly easy negotiations that her team worked very well together, recalls Preud'homme. Unlike most "Ulysses" teams, four instead of three PwC people had been sent this time. Cooperation between the two women, Preud'homme and an Australian, and their two colleagues from Germany and Brazil soon ran smoothly. "We were with one another constantly for two months and did everything together. It was an amazingly intensive and very good team experience. Nobody took the lead – our strengths were well balanced."

For eight weeks and on many trips into the interior of the country, the PwC team got some idea of the prevailing conditions there and, in countless interviews, managed to gain an overview of the situation. The results of this work were astonishing for all those involved. "We very quickly noticed that although the people in Ethiopia talk a lot to one another and for a long time, they do not always succeed in exchanging the relevant information," reports Preud'homme. "Solutions that were found and successfully implemented in one region were totally unknown in other regions. Everyone worked on their own, without benefiting from the experiences of others."

In return, the PwC team learned that it is not sufficient to transfer solutions that work in one region to another merely by communicating them. "In Ethiopia, I understood that you have to give people time and the opportunity to find their own solution. Lecturing from above or conjuring up a good idea out of a hat will end in failure," says Preud'homme. "I learned that as a good leader you don't say what has to be done – you have to be at the heart of the game and ensure that everyone plays in the right direction." This insight has had a fundamental impact on her style of leadership. "Today, I work in a totally different way than before I went to Ethiopia, and this is also reflected back to me by my staff."

It was the first stay in an African country for Preud'homme. Even today, she is still overwhelmed by the cordiality and hospitality of the people, who have very little and yet share it generously as a matter of course. That knowledge and experiences can also be shared is something that the PwC people have conveyed to their hosts. One lesson, however, that they have learned for themselves personally and for their day-to-day professional life: "Within every organisation, it is important to share information. A good leader is like a moderator who ensures that all information that could lead to a solution is exchanged." //

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

ceo* dossier. reputation

Martin Scholl:
"You need to ensure that risk awareness does not result in an overly conservative attitude."
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Dan Ostergaard:
"We reward responsible rather than ethically risky behaviour."
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Rolf Dörig:
"Reputation is a question of credibility."
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H.S.H. Prince Max von und zu Liechtenstein:
"We are doing everything to turn the crisis into an opportunity."
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