An end to isolation

Switzerland's secure position in the world is under threat in an increasingly global economy, says Paul Betts

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Virtually no day has gone by during the past few weeks without some venerable Swiss financial or industrial institution shocking the usually self-confident - some would say smug - business establishments along the banks of Lake Leman and the Limmat with announcements of top management sackings, boardroom battles, profit warnings and even bankruptcies. Only this week, SAirGroup, the parent of Swissair, reported the biggest net loss in the airline's history of Fr2.7bn ($1.6bn) in 2000. The shares fell 21 per cent on Tuesday. The airline group also replaced its board and appointed a new chairman.

The same day, Roche, the Swiss pharmaceutical giant, was accused by one of its largest shareholders, Martin Ebner, the Swiss financier and corporate raider, of failing to appoint enough independent directors and misleading investors about the company's real condition and outlook. The day before, shares in ABB, the Swiss-Swedish engineering group and until recently one of the most admired companies in Europe, dropped 16 per cent after an analyst downgrade.

Sulzer, another engineering conglomerate under siege from a corporate raider, replaced its chairman last week after barely 11 months in office. Societe Generale de Surveillance, the world's biggest testing and inspection company in the midst of a furious boardroom confrontation between family shareholders and management, also disappointed the market by badly missing revenue and profit growth targets.

These are only the latest on a growing list of corporate mishaps. As a result, many Swiss observers are beginning to ask if the country's tradition of producing strong companies is falling apart. The Tribune de Geneve newspaper described recent disasters as: "a chain reaction: a butterfly effect: or the law of sequences . . . big businesses are cracking up after decades of impunity".

The view inside some of the country's more rarefied private banking institutions is more sanguine. "Is it so different from elsewhere? Switzerland is still holding its own in corporate earnings," says Ivan Pictet, a senior partner of Pictet & Cie, one of the country's leading private banks, "Yes, there has been a certain complacency but what is happening is a typical mutation of family-run companies into publicly owned ones."

Whatever is occurring, it represents an unnerving break with Switzerland's corporate past. Although some Swiss multinationals, such as Nestle, have adapted to a changing business environment, traditional industrial and financial groups are facing severe pressure. The over-riding force leading businesses to reassess their strategies is the erosion of Switzerland's past insulation from the outside world. Instead of being free to pursue its own management approach, it is having to meet outside expectations.

In the past, the country was a safe and stable haven amid economic and political turmoil elsewhere. "Since the end of the cold war, where is the threat?" asks John de Salis, a Swiss banker who runs European Capital Partners, a Geneva-based investment boutique. "This country has traditionally been held together by compression because it is surrounded by large and powerful neighbours and, until a decade ago, by the Communist threat. Once you take that compression away, there is much less to hold it together."

Mr de Salis traces the so-called Swiss model back to the revolution of 1848 when a newly dominant middle class assumed power from the patrician regime. The new government created a consensual, collective approach reflected in an educational system that...
encouraged efficiency but not individualism. This encouraged a similar approach to the management of companies.

This was reinforced by the Swiss military system, under which every male aged 20-40 is officially in the army. The military was regarded as a training ground for management, and senior figures in banks and corporations tended to be senior officers as well. Personal initiative and a willingness to defy convention were not valued highly. "When the consensus is broken, there is a problem because the model is not equipped for people taking leadership roles," says Mr de Salis.

Larger Swiss companies are moving away from this reliance on disciplined senior managers, and seeking executives who are happier to be disruptive. Instead of regarding the army as a training ground, big companies are seeking recruits from business schools who are versed in American management methods. As the country has opened up, younger managers are looking outside for guidance in how to operate.

As a result, the idea of shareholder value is making inroads in a country where it was traditionally seen as a threat to social and corporate cohesion. Swiss companies preferred to deliver low returns on equity than risk the volatility and potential conflicts between managers and workers inherent in an aggressive drive for higher returns.

Before his recent death, Pascal Delamuraz, a former Swiss president, reminded his country that its motto was: "One for all and all for one", not "shareholder value". Mr Delamuraz praised Switzerland's stable labour relations, which he believed were at risk. "Social cohesion has been part of the Swiss quality of life," says a private banker based in Geneva. "It may lead to a less efficient form of capitalism, but a more pleasant society."

Society is having to adapt. The arrival of corporate raiders such as Martin Ebner has not been welcomed by many industrialists. But even the more traditionalist members of the establishment concede he has forced them to confront the problem of defending shareholder value. "They may not like his behaviour but, after all, that is what capitalism is all about: ask Adam Smith," says Mr de Salis.

Such pressures are not only affecting industrial groups but also private banks that have traditionally been able to select the customers they wanted. Switzerland offered rich foreign customers not only a rare degree of stability but virtually complete secrecy. Other banking territories can now boast comparable stability, and Switzerland's secrecy laws are being eroded.

Tax evasion has long been a quiet contributor to Swiss gross domestic product. Money parked in Switzerland was essentially there to preserve capital; hence the old joke that the real Swiss banking secret was poor performance. "Now clients also want performance," says Tim Brockmann, chief executive of Amadeus, a Geneva asset management boutique. "What are you offering except confidentiality? Should confidentiality disappear it has to be compensated with other things that we have long tried to offer such as performance, accuracy in executions and quality of service."

Another Zurich banker warns that bank secrecy will become irrelevant in the next few years. "Banks are having to go to on-shore markets; if they lose clients in Switzerland, they have to find them elsewhere," he says. The two largest Swiss banks - UBS and Credit Suisse - have been actively acquiring foreign operations to establish a global reach. The larger private banks have also been recruiting and expanding overseas.

The breaking-down of Switzerland's borders with the world, and the weakening of its traditional social cohesion, mean that companies have little choice but to make such efforts. The problem is that they must now compete head-on with international companies and banks without any of their traditional reserve. The risks of failing have been illustrated graphically in recent weeks by companies including Swissair and Sulzer.

The challenge for Swiss enterprises is daunting. What can Swiss banks offer these days
that large French, UK or even Italian banks cannot provide rich customers in their own countries? As one Zurich banker put it, Swiss enterprises can no longer charge a first-class price and offer a second-class service. "Look at Swissair," he says sadly.