

Europe Asia Young Leaders Forum

**The St. Regis, Beijing
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“The Boundaries of Trust in a Borderless Economy”

Session 2

Jörg W. Wolle

President and Chief Executive Officer, DKSH Holding Ltd., Zurich

The Concept of Organizational Integrity

Script + Powerpoint presentation

How to create a culture of trust and integrity in a company.

What are the components of integrity and accountability.

What pricetag do we attach to trust and integrity in today's world? Establishing guidelines is the first step but how to get the buy in from our staff? Can we measure it? Or even more important – how can the right value system in a company contribute to increase enterprise value? Quite a lot of questions and only 20 minutes time!

Usually, the business community prefers to talk about increasing enterprise value. It is comparatively easy to talk about the hard facts of business plans, financial models, cash-flow analyses, strategic options, mergers & acquisitions. It is getting much more difficult and sometimes a bit fuzzy when people being asked about culture, trust and values.

If one checks the offerings of all the famous business schools or researches the books published about business and economy, the finding is truly amazing:

- Thousands of books about the so called “hard facts” [like for example due diligence, finance plans, audits, etc. in an M & A process],
- but very, very few – if any at all – about the “soft factors” on how to read, understand and influence people with the aim to get things done.

The art of effective inter-cultural communication is far away from being seriously dealt with at our universities and business schools. Yet it is those soft factors which are – at least in my experience – in many cases more important to finalize a deal than the most skillful crafted business plan on paper.

Over the last couple of years, the one-sided focus on shareholder value has, together with clear misconduct of so called “masters of the universe” who totally lost touch with reality, led to irrational exorbitance which resulted in many countries in a total shift towards a very negative image of CEO's in particular and management in general. I believe that the view of many of the employees and stakeholders and the public at large could be described with the word “trust crisis”.

At the same time, ethic and integrity seminars are booming as if one could learn good manners in a high-speed procedure. But people want to have their old and cozy world back. Over the last two years, the big consultancy companies have made a lot of money with seminars and programs on corporate governance. Now, the flavor of the season has shifted to corporate responsibility, a new umbrella theme under which

their clients are being offered – for healthy fees, of course – all kinds of rules and regulations to comply with an increasingly stricter legal corset. Following in the footsteps of the trouble created by our masters of disaster, the corporate governance campaign has certainly generated positive results, the least being a sense of increased awareness and alertness. While a few years ago, a board seat in a well known company was a big honor and not too much work, that ratio has totally changed.

Five years ago, one would have loved headhunters calling with proposals for board seats in reputable companies. Today, for most of us getting those calls, the risk / reward ratio in relation to responsibility and time constraints is so negative that one has to choose very, very carefully and limit such appointments to just a very few.

Corporate Governance is important, Corporate responsibility is a new catch phrase for decent behaviour many companies have displayed for decades. It seems to me however that we face the risk that those institutionalized procedures force board members and key executives into mechanical box ticking of the check lists prepared by the consultants, overboarding bureaucracy and simply fear to make mistakes. “From an entrepreneur to someone who leaves things undone.”

Having been invited to this event, I tried to dig a bit deeper for the roots of the problem or – the basic optimist I am – rather for the embedded opportunities. I would be glad if you devoted a few minutes to me on this subject.

Do we have a trust and integrity issue or an outright crisis of management within our companies? How did we end-up in a situation where, at least in the US and Europe, manager bashing has become the favorite pastime of every journalist? Do we have a different breed of managers and staff in our companies today? Are new guiding principles and structures needed? Or is it the usual culprit again, the globalization forcing new value systems on us? One thing is certain: demands on companies, entrepreneurs and managers have dramatically increased. On the one hand, we all easily agree that a long-term strategy is needed for sustainable development of our companies. On the other hand, many of those well defined targets are falling victim to opportunistic quick fixes to achieve the numbers; not necessarily the numbers of your internal business plans but the numbers the analysts are expecting you to make. Hence, a continuous trade-off between the the long-term development plans and the “terror of quarterly reports” – to quote an outspoken biker friend of mine, Daniel Vasella, recently voted the most influential European CEO by the Financial Times. It is a bit like juggling with five raw eggs at the same time in front of an admiring but critical audience, who is only too keen to see the one or other egg drop on the white shirt of the juggler.

That truly sounds difficult, doesn't it? So, maybe we just need a new group of business leaders up to the job.

While having studied all these questions carefully, I wouldn't pretend to have comprehensive answers. In my native German, however, we have a saying: "Asking the right questions is half the answer." What I have to offer, next to the questions we just touched, are findings and views which – I admit – are subjective and based on personal experience. In order for you, the leaders of tomorrow, to gauge that experience, I might need to share some of my own development steps in management with you. It is obvious that I was incredibly lucky to be at the right place at the right time to have a chance to listen, learn, engage myself and to acquire this experience.

To start with, I was not too lucky so choosing my birth place. The part of Germany I grew up was under Russian occupation, later known as Eastern Germany. Only at the age of 31 – about the age most of you are now – I was able to escape to the free world in 1988, about two years before the wall came down in Eastern Germany, and with almost zero (20 Deutschmarks in my pocket to be precise) but an excellent engineering education, I started a career.

For the Swedish SKF Group, world market leader in bearings, I traveled the world as Manager International Projects, a mission which brought me into contact and long and tough and mostly successful negotiation and business deals with partners in such different places and cultures like India, Russia, Iran and China.

The secrets of being successful in such diverse and challenging environments were always the same. In addition to the "hard facts", offering excellent and competitive products or services, it were the "soft factors" – or a few universal values, if you like – of respect, keen and genuine interest to learn about the cultural differences in order to bridge them and the ability to listen rather than lecture in order to understand what your customer really wants. This rather simple approach combined with inter-cultural communication skills did swing many deals our way. Three years and a couple of joint ventures later, I joined the Swiss SiberHegner Group – the oldest foreign company with uninterrupted business in Japan – as Marketing & Sales Manager for China and Hong Kong. In one of my first deals with a Japanese principal, the owner of the company greeted me like an old friend. Having just met him for the first time, I was – positively – surprised. He explained to me that his grandfather already did business with my company, ergo, I was included in this friendly relationship at one. The values of trust, understanding, accountability and long-term thinking resulting into partnerships which last, were a steady companion during these years.

While China has changed incredibly over the eight years until I became CEO – notably the first German in the 130 years of history in a privately held Swiss company, but I guess only the few Swiss among you or the Germans knowing Switzerland can relay to this – the values of our company and the basic business

codex for co-operation with our partners here in China has not changed at all. Just that we do not drink as much Maotai today at signing ceremonies as we did when I came here 15 years ago.

After two years at the helm of SiberHegner, we merged our company with two other old established Swiss trading houses and created DKSH, a highly specialized marketing, services and distribution company, the No. 1 in Asia in quite a number of our activities.

There was a compelling industrial logic speaking for that merger. Yet it was trust, accountability and integrity again together with a clear and transparent communication which enabled us to conduct the merger in a fast and smooth way. Very much to the dismay of the investment bankers and lawyers, we decided against a costly and long lasting due diligence and valuation process. What we did was a careful strategic due diligence, carried out by a few top representatives of the three companies visiting the most important business locations and checking hands-on, also based on hundreds of interviews with key staff, if our basic strategic believe that $1 + 1 + 1 > 3$ holds true. So it was again - not blind trust but a commitment based on understanding and knowledge combined with a pragmatic approach and a lot of common sense. That does certainly not sound too sophisticated but I guess that most of you have experienced already that common sense many times is not so common at all. And in case unexpected issues would come up later, we agreed that such issues would be solved in a pragmatic way among the shareholders who would still sit around one table after the merger.

While there are certainly a few universal values valid for good companies all around the world, the weighting of those is different as to the industries those companies serve. If you are a capital investment goods manufacturer, innovation may be key. At a car manufacturer, you are not only driven by engineering excellence, but also by design which appeals to your customers. And if you are a trading company with hundreds of thousands of interactions per day, your people and their networks are key. For all those companies, one thing is the same: The focus on their customers and the ability to understand and anticipate what their customers really want. But than, there are also a few things you don't want to do even for your best customer.

If anticipating their needs is already a difficult game for a company possessing own tangible products and a strong brand, you might imagine that it is even much more difficult for someone like us, who own no products or brands, but are focused purely on services. Bridging the supply and sales markets we serve two masters at the same time: Our principals and customers. A pre-condition for the creation of efficient tailor-made service packages is to really understand those partners.

Our main asset clearly are people. If you browse through different annual reports, every company claims that. But one needs to substantiate that claim through actions day after day. Basic rules on corporate governance and the companies' value system have one thing in common: They look good on paper but –

the same with strategy – they only become real and meaningful at implementation. The CEO and the whole management team have to live those values. You need to walk the talk. By doing so, they become tangible for your staff.

In China, we employ about 1'800 specialists in 40 offices. Some of our staff is working from home offices. It is impossible to supervise them every day. Ergo, the most important issue for us is a very sophisticated recruiting, selection and evaluation process. To keep it simple: We hire attitude; skills we can train.

One needs to live the values and continuously reinforce them. That is easily said. But what do you do with your young high potentials in an evaluation process, if they deliver excellent results but have shortcomings in attitude and character?

A is an easy decision. Out as quick as possible.

B has the right values and is willing to improve, but still underperforming. He or she deserves a second chance and training.

C is clearly your star performer in all aspects. The challenge is to keep her or him motivated and ready to take on additional responsibility.

D is the most difficult one: Excellent results but not a team player and lacking the values your company lives by. Believe me, it is a difficult call but for the sake of integrity and accountability, you need to part company with D, regardless of the star results.

In our Group, we have completely centralized Finance, IT and HR development. If people are your greatest asset, one should have HR development represented by a member of the Executive Board. We do. And we count on empowering our people in the markets and reinforce behaviour along the values guideline by incentivizing it through our MBO systems.

We also invest a huge amount of money into training and continuous education. For that reason, we established the Fantree Leadership Program, a one week management education course 3 times a year tailor-made to our needs in a co-operation with INSEAD's Singapore branch. In the two years since the merger, about 200 executives graduated from that program, which based on real life, own company case studies as well as state-of-the-art lectures reinforced the sense of belonging as well as the sense of purpose for our young leaders. To walk the talk and to show our staff the importance we place on them, the CEO or the chairman of the Group participates either at the beginning or the conclusion of each program.

To conclude:

In my closing remarks and staying within the allocated time slot, I would like to come back to our original questions and summarize. Rather than elaborating on the value of values and ethics from an academic point of view, I tried to share with you my personally beliefs on the paramount importance of a sound value system within a company and the need to skilfully communicate and reinforce these values in order to become accountable and in good and difficult times to all your stakeholders. Some values are culture specific, others, the real fundamental ones are valid universally.

To create, maintain and continuously invest into a culture of trust and integrity is an important and rewarding process which at the end also translates, at least in my experience, into excellent operational results and by doing so increases enterprise value.

I am looking forward to the panel discussion and the one-on-one questions you might have later during the day.

Thank you.

3rd Europe Asia Young Leaders Forum
Beijing, 11 September 2004

The Concept of Organizational Integrity

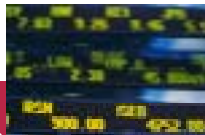
Presentation for
3rd European Asia Young Leaders Forum

Dr. Joerg Wolle
President & CEO
DKSH Holding Ltd.

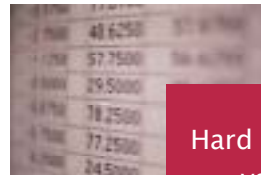
Beijing, September 11, 2004

Value vs. Values Hard Facts vs. Soft Factors

Value
vs.
Values



Hard Facts
vs.
Soft Factors



40 6250	57 7500
29 5000	78 2500
77 2500	24 5000



Masters of the Universe

- Swissair
- ABB
- Zurich Financial Services
- Credit Suisse
- Enron
- Vivendi
- Worldcom
- Arthur Andersen

Trust Crisis ?

„The German business elite is facing an image crisis. The public has made its judgement – managers are losers, job-killers and are cashing in.“

Manager Magazine, September 2004

Crisis (in Chinese) = Danger & Opportunity

- ▶ Every crisis comprises two elements: danger and opportunity. No matter how difficult the circumstances, no matter how dangerous the situation....
- ▶ ...At the heart of every crisis lies a tremendous opportunity !



Asking the right question is half the answer

„When in Rome, do as the Romans do“ One size fits all...

The listening, learning and
adapting approach



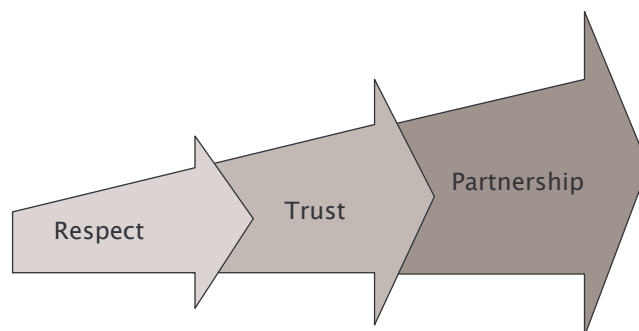
vs.

The lecturing „one size fits all“ attitude



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Building Partnerships



Building respect
through gaining a:

- Reputation as a reliable business partner
- Proven track record

Building trust
through:

- Traceability of actions
- Consistency
- Integrity

Building long-term partnerships
through:

- „We deliver what we promise“
- Loyalty in good times and bad
- Success stories



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Trust and Integrity as Key Factors in our Merger

Name	Diethelm Group	Keller Group	SiberHegner Group
Founded	1887	1887	1865
In	Singapore	Philippines	Japan

In 2002, the three businesses merged to create DKSH.

DKSH today

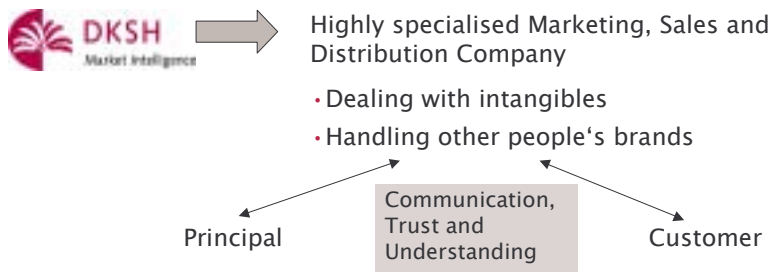
- ▶ Total sales > USD 4 billion
- ▶ More than 18,000 specialized staff covering 48 nationalities
- ▶ Operations in 35 countries
- ▶ Network of about 250 business locations in Asia
- ▶ 15 business locations in Europe and the Americas

DKSH – the No.1 Marketing and Services Group in Asia

DKSH is among the top 20 companies in Switzerland



DKSH's challenge: Win the trust of both Principals and Customers alike



Values live through people – Our five winning ways

Commitment

We are here to stay,
accountable in good
and bad times.

Integrity

We build on sound and
proven business practices.
We deliver what we promise.



Leadership

We inspire confidence
and enthusiasm. We get
things done.

Partnership

Not just building
partnerships but
keeping them.

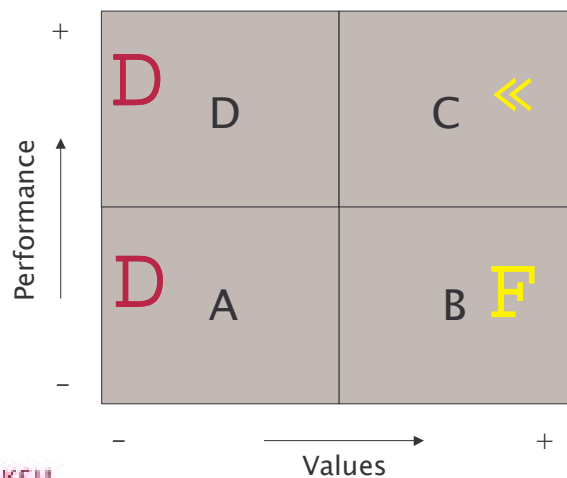
Roots

Preserving the glow and
not the ashes, that's what
tradition means for us.



11

Values and Performance



12

Control is good, Trust is better

- ▶ As a knowledge-based company, we trust and empower our people
- ▶ In Life as in Business, it's all about continuous learning



DKSH PRODUCT MANAGERS' PROGRAM
18 - 19 June 2004 in Singapore

DiethelmKellerSiberHegner



DKSH
Market Intelligence



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