

ceo*

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Responsibility. Professor Ernst Fehr on the ground rules for fair play.
Strategie. Martin Senn on the challenge and value of discipline.



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Non-financial assets: How businesses can boost their performance by capturing and respecting people's individual preferences.

Individualisation is a long-term business trend. Now there is a new method available for reliably identifying and recording individual perceptions and emotions. Used in conjunction with “hard” financial data, “soft” factors like these provide a dependable basis for implementing corporate strategy and managing service delivery.

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“Our organisation revolves around people.” Pick up just about any item of corporate communications, and you will find this or similar statements. But these days it's much more than a buzzword. Many companies have recognised that the true drivers of value are people – customers, employees and other stakeholders – and that financial performance is merely the product of the value these people generate. Even controllers are now realising that business performance depends primarily on the emotional relationships people have to a company and within an organisation. “Emotions are key indicators that help us assess the future development of a business, including its financial performance,” explains Roman Kurmann, CFO of Zurich private bank Clariden Leu. “This means that awareness of what clients want and need beyond mere products, and the ability to manage emotional drivers, are of strategic importance in our increasingly service-oriented economy.”

Image of people in economics is changing

Parallel to these insights in the practical world of business, there are also signs that economists' image of human beings is undergoing a radical change. Modern empirical economics, spearheaded by Professor Ernst Fehr, head of the Institute for Empirical Research in Economics at the University of Zurich (see interview on page XX), is based on real people whose decisions are driven by feelings as well as rational considerations. The title of a book by Uwe Jean Heuser – “Humanomics: Die Entdeckung des Menschen in der Wirtschaft” (“Humanomics: the discovery of people in the economy”) – is indicative of this trend.

There is no doubt that there are non-physical factors in every business that will influence its future performance. Of these

intangible assets, the most important are employee knowledge, customer loyalty, and a smoothly functioning operational organisation.

Employees: People who work for a company are motivated by different things. One of them is the desire to earn as much money as possible. Other important factors that influence an employee's loyalty, enthusiasm and motivation include the content of the work itself, training, the feeling of being part of a team, and career opportunities. If an organisation knows these individual preferences, it can create targeted incentives. The result will be greater employee motivation, better business performance and improved chances of success in a competitive marketplace.

Customers: Customers can be guided by price or quality. They may favour a particular brand or a personal relationship with their customer adviser. Cost-driven customers are unlikely to be impressed by innovative solutions, while those who focus on quality are not going to be made more loyal by price reductions. Particularly in the business-to-customer market, it's important to remember that consumers do not have the same preferences in all product segments. Independent research has shown how important context is in terms of buyer behaviour. Many consumers are extremely cost-conscious when doing their

Soft factors
Hard factors
Controlling



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day-to-day shopping, but rarely take price into consideration when it comes to products with high emotional or social prestige.

Consistently measuring individual perceptions

Companies wanting to boost their performance for the long term must recognise and manage intangible assets. The problem is that managing these assets means capturing them first. Intangible assets require non-financial units of measurement. The indicators that have been developed to do this are all geared to target groups, and they always output aggregate or average figures. So far there has been no methodology for systematically breaking down performance indicators at the level of individual people rather than target groups.

But now the ISG Institute (ISG), a social research and business intelligence specialist in St. Gallen, has developed a powerful methodology for capturing and measuring individual perceptions. The new methodology is based on the ISG's own empirical research that shows that people's behaviour is to a large extent guided by complex factors such as values and ideals, motivations and attitudes that are tied up with motivational psychology.

The ISG has joined forces with PricewaterhouseCoopers to adapt this robust measurement methodology to business-specific challenges and implement it in organisations. The new approach allows individual perceptions to be captured consistently and reliably. Three aspects are key:

- The method is robust because it systematically uses web-based technologies.
- It measures subjective perceptions regardless of whether they are objectively correct.
- Rather than averages, which in most cases do not even exist in reality, the methodology yields figures for individuals. Thanks to web-based technologies the methodology is user-friendly and allows

organisations and the people they are surveying flexibility to time the questionnaire as they desire. For example the company can schedule its research in preparation for a customer meeting, and the customer can complete the online questionnaire whenever and wherever it is convenient for them. This results in better return rates.

The method goes to the very source of value creation by capturing the individual perceptions of customers, employees or other stakeholders. It looks at two dimensions: showing where preferences lie, and revealing the extent to which the organisation takes account of these preferences within its value management.

Congruence between employee and customer types

Awareness of individual preferences opens up new perspectives in terms of managing the business and its value drivers, as the ISG methodology allows different types of employee and customer preferences to be seen in relation to each other. This way it is possible to create congruence between specific employee and customer types. This is particularly useful as a way of boosting customer and staff loyalty in industries involving a great deal of consulting and advice. Information on individual preferences is visualised in a KPI cockpit and combined with financial performance indicators. This provides the strategic controlling function and line management with a practical tool for comprehensively monitoring value drivers.

The ISG methodology can also be used to do research into other stakeholders such as business partners and suppliers. It also serves as a tool enabling investor relations departments to capture and classify the aims and goals of shareholders. This understanding of the interests of business owners can then be used in the formulation of strategic targets such as ROE or dividend policy.

The new approach enables companies to manage causes rather than merely observe effects. They will now know where sales originate, what motivates the individual customer to buy, and how to manage margins and costs. And they will understand what incentives will best motivate individual employees – all knowledge that creates a decisive competitive advantage.

SUMMARY

Thanks to new web-based technologies for measuring intangible assets, it is now possible to consistently capture information on individual perceptions rather than just averages. Performance management can now be geared to individual people. This approach is supported by the realisation underlying modern empirical economics: people decide emotionally as well as rationally.