



Zurich, 15 November 2016

## Key Swiss location factors for multinational corporations at risk

**Initially drawn to Switzerland by the country's well-known location advantages, many multinational corporations (MNCs) now feel that those benefits are at risk. This conclusion was the result of a joint survey of more than 850 foreign-owned MNCs with operations in Switzerland conducted by KPMG, the IMD World Competitiveness Center, Switzerland Global Enterprise and the Swiss-American Chamber of Commerce.**

When it comes to addressing rapidly changing customer needs, technologies, regulations and globalization, the challenges faced by MNCs are particularly tough. They carefully analyze every aspect of their value chains and redesign them, radically if necessary. So far Switzerland has been extremely successful in attracting key parts of these value chains and this has had a positive impact on thousands of suppliers, the job market and the state.

Working together with the IMD World Competitiveness Center, Switzerland Global Enterprise and the Swiss-American Chamber of Commerce, KPMG has identified and analyzed 850 companies with international activities in Switzerland and asked over 90 executives of such companies about which location factors were pivotal in their decision to locate their value drivers in Switzerland and what they feel are the main challenges of doing business in Switzerland.

### Corporate taxes remain the most important location factor

MNCs' decision to locate their key value drivers in Switzerland is inextricably linked to their tax planning. Some 68 percent of respondents stated that Switzerland's attractive tax system was one reason behind their decision. A majority of respondents benefit from a privileged tax status. Additionally, some 40 percent of MNCs located here are subject to the standard tax rate for at least part of their income.

While efforts related to CTR III are being met with widespread approval by MNCs, some of them doubt that these reforms will be implemented effectively. Merely 42 percent of the companies located here believe that a competitive tax system will still be one of Switzerland's main advantages over the medium term. In fact, 58 percent of the companies are convinced that Switzerland will be forced to adopt the increasingly restrictive international taxation standards of the EU and the OECD in the future as well.

### High salary costs – especially in middle management

One of the biggest challenges of doing business in Switzerland is the high cost level, with labor costs considered to be particularly problematic. Around 60 percent of MNCs responded critically on this point. While salaries for executives in Switzerland might be on a par with comparable rival locations in other parts of the world, compensation paid to middle management has risen more sharply than labor productivity when compared to other business locations. Uncertainty

surrounding the development of the strong Swiss franc exchange rate is exacerbating this situation: 47 percent are concerned about the impact of the Swiss franc exchange rate, which continues to strain the Swiss economy. Nevertheless, no respondent would like to see a return of the Swiss franc's peg to the euro.

### **Liberal labor law in danger**

Switzerland's flexible labor law is one extremely vital location factor: Almost every company located here believes Switzerland has far more flexible and business-friendly labor regulations than any other country in Europe. Some 47 percent, however, believe Switzerland will maintain its competitive advantage over the next three years. Given recent changes in labor regulations, however, large numbers of MNCs fear that this key location advantage will be lost in the years to come. Almost 30 percent believe that increasing labor law regulations will pose a challenge to doing business in Switzerland in the future.

MNCs not only fear the fallout from a possible restriction of the free movement of EU labor due to the mass immigration initiative, they are also concerned about Switzerland's attractiveness to a highly qualified workforce from third countries. One particular problem lies in the restrictive permit practice since qualified professionals are capable of finding equally attractive career opportunities at other business locations. Access to qualified workers is seen as absolutely key to companies' ability to respond to new conditions and adapt their value chains. Nearly 50 percent of executives are convinced that new labor market restrictions on foreign workers will present businesses with enormous problems over the medium term. Only about half of the companies located here anticipate that Switzerland will remain as attractive to qualified workers from abroad as it currently is.

One in every two MNCs located in Switzerland believes that the country will maintain a stable legal environment in the coming years. Some 23 percent think that Switzerland will remain relatively attractive in terms of the regulatory environment. However, around a quarter of the companies surveyed (26 percent) consider uncertainties created by popular initiatives to be an issue.

### **No increase in innovation expected in Switzerland**

Switzerland might have a global reputation as a leader of innovation, yet only a minority of foreign companies consider the capacity to innovate as a key location factor for developing new technologies or launching innovative business models in Switzerland. Just 44 percent of respondents believe that being in Switzerland makes their companies more innovative, and 35 percent feel that an innovative environment will distinguish Switzerland from other countries in the coming years. Merely 30 percent think that Switzerland as a business location will continue to benefit from the presence of leading universities.

### **Central location counts**

Quality of life and first-class infrastructures are two other key advantages that help Switzerland stand out as a competitive international location. Some 42 percent of respondents also see a business advantage in its geographically central location. Foreign MNCs in Switzerland cluster around the areas where they are close to their peer companies and also close to international airports.

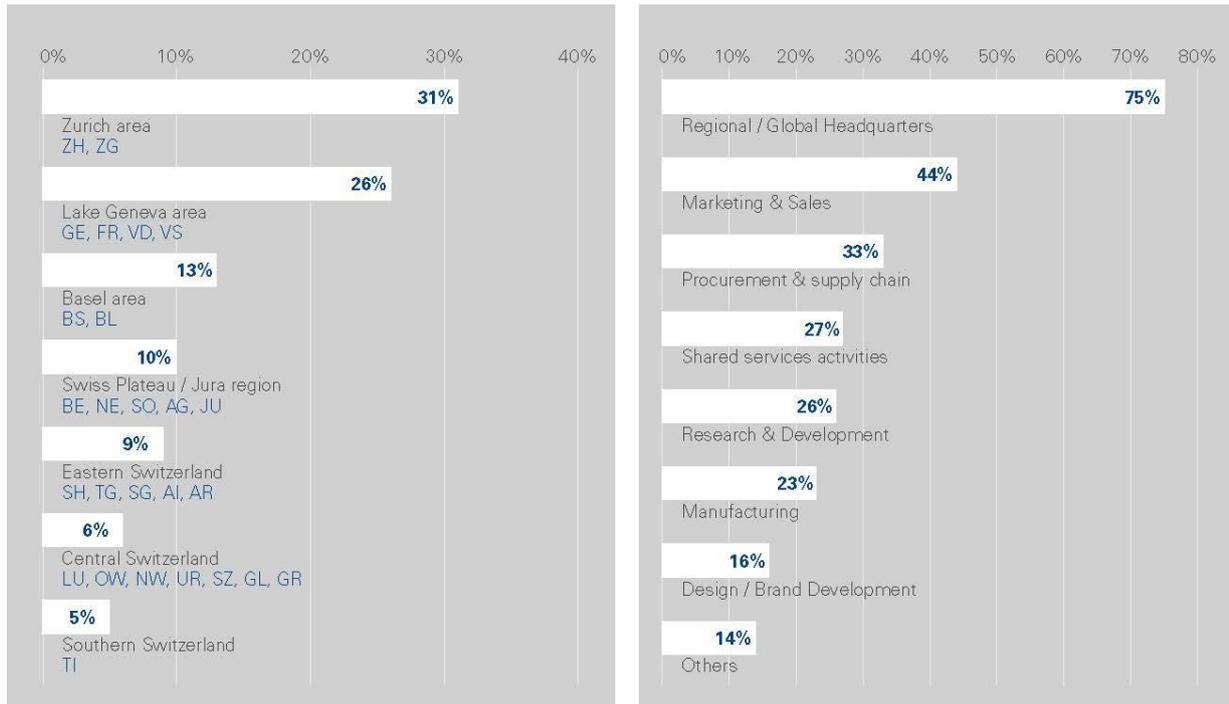


Fig.: Overview of MNC-preferred locations in Switzerland (left) and of the functions MNCs have located in Switzerland (right) [shown in percent]

North America and Europe are the two most important regions of origin for MNCs with international activities in Switzerland: Together they command almost 75 percent of the subsidiaries in Switzerland. Japan, too, has been investing heavily in Switzerland for many years, while China is catching up quickly, mainly through acquisitions. Most MNCs investing in the location Switzerland come from the industrial and life sciences sectors (pharma, biotech and medtech). Being a leading global commodities trading center, Switzerland has also been attracting significant investments from major players in this sector for some time now. MNCs are locating their most important value drivers and assets in Switzerland: 75 percent open up regional HQs here, around a quarter (26 percent) operate R&D facilities and 23 percent have manufacturing facilities.

Clarity on Business Location Switzerland

## Methodology

A total of more than 850 foreign-owned MNCs with international activities in Switzerland were identified by KPMG with the help of S-GE and the support of cantonal economic development agencies. Published financial data was researched for the approximately 400 listed companies in this group. MNCs with only sales or service centers in Switzerland for the Swiss market were excluded, as were companies from the financial sector. This data was used to analyze the origin, industry segment, size and location of the investments in Switzerland. In addition, 94 senior executives of predominantly US groups were interviewed by way of an online survey or face-to-face interviews. This data was used to investigate main drivers for investments in Switzerland and to assess the outlook of Switzerland as a business location.

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