

# BCG

THE BOSTON CONSULTING GROUP



# Multinational Companies in Geneva and Vaud



# Growth Engine at Risk!





# NOTE TO THE READER

This study picks up from where we left off three years ago, when we examined (in the course of three studies) the relationship between multinational companies (MNCs) and Switzerland. Our first study, *Foreign Companies in Switzerland: The Forgotten Sector* (2006), introduced foreign companies as a small but fast-growing sector within the Swiss economy. Our second study, *Multinational Companies on the Move: How Switzerland Will Win the Battle!* (2007), explained Switzerland's success in attracting MNCs while illustrating the vulnerability of the Swiss economy to MNCs should they relocate elsewhere. Our third study, *Creative Switzerland? Fostering an Innovation Powerhouse!* (2009), investigated how Switzerland could increase its attractiveness to MNCs by sustaining its position as the best place for innovation.

In this study, we focus on Geneva and Vaud, cantons that have two of the strongest economies in Switzerland, in order to illustrate the mutually beneficial relationship between MNCs and Switzerland and the high stakes involved in this relationship.

Geneva and Vaud (and the surrounding area, known as the "Lake Geneva region") have provided an advantageous environment for MNCs, thanks to, among other things, their good quality of life, highly skilled workforce and focus on innovation. MNCs represent a vital part of these cantons' economies, contributing over 40 percent of GDP in 2010 (more than the 36 percent MNCs contributed to total Swiss GDP). MNCs are not only the growth engine of wealth and employment, they also contribute significantly to the local knowledge economy and their communities.



While the relationship between these two cantons and MNCs has deepened, there are signs of an adverse change in direction. Many features that have made these cantons appealing to MNCs are in decline. Also, the global competition over MNCs is intensifying as many countries step up their value propositions and attractive packages to MNCs.

In light of these developments, Geneva and Vaud cannot afford to assume that their past success with MNCs will continue. There is no room for complacency. It is vital that Geneva and Vaud take the necessary political action to increase their competitiveness as ideal business locations for MNCs. This study recommends four critical initiatives for doing so.

We believe our new study will make a timely and insightful contribution to the topic. Your comments and feedback would be highly appreciated.

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# EXECUTIVE SUMMARY

**Switzerland provides multinational companies (MNCs) with an ideal business location.** Switzerland offers an array of advantages to MNCs: a central location in Europe, a stable political and fiscal environment, a well-developed infrastructure, a good quality of life, a highly skilled and multilingual workforce, an attractive tax system, and a business-friendly government, in addition to a long-standing focus on innovation and investment in R&D. In addition, when it comes to attracting MNCs, Switzerland not only has the know-how, it also sets the standard. For the past three years, the World Economic Forum's Global Competitiveness Report has ranked Switzerland the most competitive economy in the world.

**The benefits flow both ways—Switzerland provides an advantageous business environment for MNCs, and they in return make major contributions to the Swiss economy.** The numbers tell the story. In 2010, MNCs accounted for 36 percent of the total Swiss GDP. More than 30 percent of the \$129 billion in additional GDP created in Switzerland between 2000 and 2010 came from new entries or expansions of MNCs. During that time, the share of GDP contributed by foreign MNCs increased from 9 percent to 14 percent—with an annual growth of 8 percent (compared with the national average of 3 percent). In terms of employment, foreign MNCs have outpaced the national average by a factor of six and are responsible for the creation of every second new job in Switzerland. Also, close to 75 percent of R&D investment in Switzerland comes from MNCs. There is no doubt that MNCs are major contributors to Switzerland's robust GDP growth, low unemployment, and reputation as a world leader in innovation.

**In Geneva and Vaud, the mutual benefit is even more pronounced: MNCs account for more than 40 percent of GDP and contribute significantly to the creation of wealth, employment, and cultural life in these cantons.** Again, the numbers reveal the extent of the economic benefits that MNCs bring to the Lake Geneva region. In 2010, MNCs were responsible for 43 percent of Geneva's GDP and 41 percent of Vaud's GDP—up from 35 percent and 33 percent, respectively, in 2000. Further, MNCs accounted for 67 percent of the increase in GDP in Geneva and 63 percent of the increase in GDP in Vaud between 2000 and 2010. In addition, foreign MNCs were the main drivers of employment growth. Between 2000 and 2010, foreign MNCs increased employment in Geneva by 8 percent annually (compared with the cantonal average of 2 percent), and they increased employment in Vaud by 7 percent annually (compared with the cantonal average of 1 percent). In both cantons, MNCs created two-thirds of all new jobs between 2000 and 2010. In addi-

on, MNCs help local businesses by purchasing their goods and services. And MNCs' contributions go beyond job and wealth creation: They are engaged with, and provide additional benefits to, their communities through sponsorships of cultural and sports events, support for charities, and volunteer work in schools, among other activities.

**There is no room for complacency, however, in light of changes that are making the Lake Geneva region less attractive to MNCs than it used to be.**

Importantly, the great appeal of the overall "economic package" offered to MNCs—a combination of cost, productivity and taxes—is eroding. The strong value of the Swiss franc has reduced the competitiveness of operations in Switzerland for many MNCs by increasing their already high local costs. Export-oriented industries are particularly affected. And Geneva and Vaud, which are both export-oriented cantons, are under pressure. The productivity of the Swiss labor force is also lagging, with one of the lowest growth rates among OECD countries. Moreover, attractive tax incentives are under attack. Both the European Union and the United States are exerting pressure on Switzerland to eliminate tax advantages given to MNCs and harmonize corporate tax systems. These changes are occurring at a time when global and regional competition for MNCs is intensifying. It is common practice for MNCs to shift business units to new locations in order to stay competitive. Roughly every five years, MNCs reevaluate the optimal locations for their various units and functions, thereby increasing the pressure on governments to aggressively attract foreign MNCs and retain MNCs currently in their countries. The result is an escalating global race to be the most attractive business location.

**If Geneva and Vaud lose the competition for MNCs, the results will be serious.** Because of the high concentration of MNCs in Geneva and Vaud, they will be more adversely affected than other Swiss cantons should there be a negative development with MNCs downsizing their presence or leaving altogether. A significant loss in the number of MNCs in Geneva and Vaud would undermine these cantons' prosperity, weaken their focus on innovation, and lead to an outflow of investments and highly skilled personnel. The effects will be long-term, significant, and difficult to undo. The rapid increase in the number of new jobs in Geneva and in Vaud (each around 24,000 over the past decade) could go the other way just as quickly. The recent announcement that Merck Serono will be closing its Geneva headquarters demonstrates how suddenly and forcefully this change could take place.

**We recommend four key initiatives to further increase the attractiveness of Geneva and Vaud to MNCs.** We call upon the political authorities and business associations of Geneva and Vaud to implement the following four initiatives to maintain and improve the standing of these cantons as attractive and preferred business locations for MNCs.

1. *Establish interdepartmental task forces in Geneva and Vaud to meet MNCs' immediate issues.* Executives at MNCs in Geneva and Vaud have identified seven key areas in which they would like to see improvement—most of which cut across departments within the cantonal governments in Geneva and Vaud. These areas are (i) investment in infrastructure, (ii) ease of immigration of highly-skilled employees, (iii) administrative processes, (iv) tax incentives, (v) availability of affordable housing, (vi) personal security, and (vii) a stable business-friendly environment. In light of the immense importance of these matters to the economies of Geneva and Vaud, we recommend the creation of a dedicated interdepartmental task force in each canton to resolve these issues in a coordinated and effective manner.
2. *Increase cooperation between Geneva and Vaud in order to create a joint MNC strategy.* Just as the operations of MNCs often cross cantonal borders, so too do many of the issues MNCs have identified. Most of the solutions, also, will involve both Geneva and Vaud, and there will be much to gain from close cooperation between these two cantons. For this reason, we recommend that both cantonal task forces coordinate their work very closely, jointly addressing the most important issues.
3. *Promote industry clusters of excellence.* By fostering the establishment of clusters of expertise, Geneva and Vaud can distinguish themselves from other attractive business locations and become global leaders in selected fields. The presence of strong industry clusters would increase the bonds MNCs currently have in the region, attract other MNCs in the same sectors, and help incubate and develop new ones (start-ups). For this reason, public administrators, elected officials, and agencies in Geneva and Vaud should make additional efforts to cultivate promising clusters such as precision-engineering, commodity trading and life sciences (in Geneva) and medical technology, nutrition sciences, and IT (in Vaud) on top of the well-established clusters in luxury goods, fine chemicals, and wealth management in these cantons.

4. *Develop a comprehensive strategy to attract Asian MNCs.* Asian MNCs are growing their global footprint rapidly, and an increasing number of them are considering establishing management, R&D, and marketing units in Europe, especially in the areas of high-tech, trading, and chemicals—sectors of importance to Geneva and Vaud. Because Asian MNCs' expectations may be different from those of American and European companies, current processes for attracting MNCs to Geneva and Vaud may not be optimal. A comprehensive strategy is needed to capture the opportunities represented by Asian MNCs. It is important that the strategy be holistic so as to create a well-balanced MNC portfolio that will spread the risks and promote long-term, sustainable growth.