Multinational Companies on the Move:

A Joint Study of the Swiss–American Chamber of Commerce and The Boston Consulting Group, Zurich, 2007

How Switzerland Will Win the Battle!

Swiss-American Chamber of Commerce

BCG The Boston Consulting Group

Note to the Reader

The first study in our three years series on Multinational Companies (MNCs) in Switzerland, focused on the Forgotten Sector: Foreign Companies in Switzerland. This year we look at all MNCs with operations in Switzerland, including Swiss MNCs.

The reason for this expansion is twofold:
- *With 34% of GDP, MNCs represent an important part of Switzerland's economy.*
- *MNCs – Swiss and Foreign – have similar needs and flexibility regarding location. In this respect they are very different from Swiss domestic companies: Competitive pressure forces them to continuously optimize their location mix, and new technology, market and political developments increasingly enable them to do so.*

While our first report showed that the Forgotten Sector has been growing faster than the rest of the economy, we where surprised to see that Swiss MNCs' contribution to GDP has been shrinking. Overall the contribution of MNCs to the Swiss GDP has been constant.

A look at the drivers of this trends shows, that all MNCs are following a similar logic. When Foreign MNCs optimize locations, they select Switzerland for specific functions, especially in Financial Services, in Life Tech and increasingly for international management centers. This created many attractive jobs in Switzerland. Swiss MNCs go abroad for low labor cost, large markets and access to large "brain pools". The impacts of these trends compensate each other.

Other nations are aggressively attracting MNCs with attractive tax schemes and relevant infrastructure. This development is challenging Switzerland's leading position. A look at studies, which compare the attractiveness of countries, shows that the gap between top tier players has become smaller, and Switzerland, while still leading, has some clear and evident weaknesses.

We propose a five-step plan for Switzerland to ensure attractiveness for MNCs. The plan builds on the favorable tax rates, improved mobility for qualified employees, better infrastructure for MNCs, better cooperation between stakeholders in Switzerland and a coordinated communication as the "Best Place to do Business" instead of the traditional "Heidi Land"-image and competition between cantons. The opportunity and the risk for Switzerland are large!

More than ever, MNCs are on the move for best locations. For Switzerland's international economy it is crucial to win over other locations. We hope you enjoy reading our 2007 study. Your comments and feedback are highly appreciated. Please do not hesitate to contact us.

Martin Naville
Chief Executive Officer, Swiss-American Chamber of Commerce
martin.naville@amcham.ch

Dr. Adrian Walti
Partner and Managing Director, The Boston Consulting Group
walti.adrian@bcg.com

Pia Tischhauser
Partner and Managing Director, The Boston Consulting Group
tischhauser.pia@bcg.com

01 Executive Summary 7

02 Multinational Companies Are a Key Element of Switzerland's Economy 13

03 Switzerland Is an Attractive Destination, but in a “Flattening” World 23

04 Globalization with Positive and Negative Growth Impact for Switzerland 33

05 Five “To-Dos” to Improve Switzerland's Attractiveness to Multinationals 51

1. Taxes: continue to be competitive on the tax front 52
2. Immigration and education: ensure sufficient availability of local skilled and specialized labor 52
3. National cooperation: Establish a joint Swiss approach 59
4. Infrastructure: Further develop the relevant base for MNCs 59
5. Communication: Project a contemporary picture of "real" Switzerland 61

06 Swiss Strengths Must be Communicated with Self-Assurance 65

07 A Vision to Be an Innovator in the Race for Globalization 71

08 Key Takeaways 75

09 Methodology 79

10 Publishers of This Study 83

01
Executive Summary

One Third of Swiss GDP Comes from Multinationals.
For the purpose of this study, we have defined multinational companies (MNCs) as those companies that can, do, and must optimize the location of their operations around the globe according to specific location factors. This definition includes all foreign companies in Switzerland, as well as Swiss companies with large exports (more than 25 percent of total revenues) and significant foreign direct investments (measured as more than 25 percent of employees abroad). Thus, MNCs can be large companies or small and midsize companies, and they include companies from all sectors of the Swiss economy. MNCs, accounting for 34 percent of the total GDP in 2004, are very important to the Swiss economy. Foreign and Swiss MNCs account for 10 percent and 24 percent of the GDP, respectively. With increasing globalization, MNCs are becoming more flexible and sophisticated in optimizing their global locations on a function-by-function level:

– Experience in managing internationally distributed operations
– Increased ability to move more and more functions worldwide
– Competitive pressure to continuously optimize global geographic-location mix

For Switzerland, this presents the opportunity to attract additional companies or functions of companies already present in Switzerland. On the other hand, the risk of losing companies or functions to other countries is increasing and thus the retention efforts regarding Swiss and foreign companies become even more important. In total, 34 percent of the Swiss GDP is at risk, but also there is a significant potential for more.

Competition Between Countries Is Highly Dynamic.
During the last decade, competition between countries vying for MNCs has intensified. The shrinking spread of the top ten countries in the World Economic Forum (WEF) Global Competitiveness Index (GCI) survey reflects this development. Switzerland has improved its absolute and relative ranking, reaching the number one position in 2006. While this is an excellent achievement, a closer look at the subcategories shows that Switzerland is performing poorly in some categories important to MNCs, for example, ease of hiring foreign labor, trade barriers, and ease of doing business. While WEF puts Switzerland at the top, other studies with similar rankings see Switzerland around the tenth place behind Ireland and the Netherlands.

Even in light of its excellent position, Switzerland must not become complacent. International competition is more aggressive, and alternative locations can become more attractive and more active in approaching MNCs.

Switzerland Profits from Multinationals, but These Multinationals also Contribute Negative GDP Growht.
MNCs decide on location on the basis of a few common criteria: labor cost, access to large markets, political stability, taxes, the quality of the infrastructure, and a knowledge environment that encourages education and protects innovation.

On one hand, foreign MNCs come to Switzerland for very specific reasons: a skilled work force, tax benefits, quality of life, a robust infrastructure, and a stable political environment. As a consequence, the contribution of foreign MNCs grew significantly between 2000 and 2004: employment rose 3 percent and GDP rose 5 percent per year.

On the other hand, Swiss MNCs go abroad mainly for three reasons: access to large markets, availability of low-cost labor, and access to highly skilled personnel. Consequently, they have been moving low-cost functions, such as shared services and lower-value manufacturing, to India, China, and selected Eastern European countries. In the recent past, Swiss MNCs have also started moving such functions as R&D to countries such as the United States, Germany, and China. These countries provide better circumstances, especially easier access to skilled-labor resources and infrastructure. In light of Switzerland's growing shortage of skilled labor, such as engineers and scientists, this trend is rapidly evolving toward higher-value-added positions. This shift of functions abroad has already resulted in a negative development of Swiss MNCs' contribution to the Swiss GDP: between 2000 and 2004 employment fell 2.4 percent, and GDP dropped 2.4 percent per year.

During the same period, Swiss domestic companies, which account for the remaining 66 percent of GDP, have increased their contribution. A closer look at the drivers shows that the public sector accounts for close to half that growth. The rest is driven primarily by domestic financial-services companies and insurance companies in particular, which are also highly dependent on international financial markets.

Availability of Skilled Labor Is Key.
Switzerland must ensure that the current shortage of skilled labor – including engineers, scientists, and international management expertise – does not accelerate the trend of exporting higher-value-added positions out of Switzerland. While Switzerland's evolution into a top-tier European location for foreign MNCs is obvious, its attractiveness for Swiss MNCs has become less clear. Switzerland must accept certain natural phenomena – low-value functions moving to low-cost countries, for example – but must also find ways to help Swiss MNCs retain their high-value-added functions in Switzerland.

Five Key Measures Are Crucial.
We have identified five areas that Switzerland must address to remain competitive in order to become the best place worldwide for international business, further attract foreign MNCs, and retain key functions of Swiss MNCs:

1. *Remaining competitive on the tax front:* For most MNCs, tax is a knockout criterion at the start of every location screening, while later in the evaluation process, other factors become more important.

2. *Supplementing local skilled and specialized labor:* Make it easier for skilled foreign labor to work in Switzerland. This will become increasingly important as the battle for local talent intensifies – especially if Switzerland continues to attract foreign MNCs. Clearly, any policy in this domain requires a holistic approach toward immigration, but finding a differentiated approach that addresses economic and humanitarian immigration will be key. Major efforts in education will be needed to improve the domestic knowhow pool.

3. *Developing collaboration and coordination between cantons and providing a consistent Swiss interface to the world:* Ensure that MNCs are not confronted with a myriad of inconsistent messages, while continuing to leverage the decentralized and highly personalized service the cantons offer.

4. *Addressing critical amenities and infrastructure capabilities*: These include international airline connections and international schools. Globalization will increasingly drive the need for MNCs to have seamless connections among their key global locations. Providing the infrastructure for this with better airline connections out of the three Swiss international airports, better public IT infrastructure (Switzerland is ranked ninth), low administrative hurdles, and greater access to international schools for both foreign nationals and internationally mobile locals will support this ambition.

5. *Refocusing communication activities about the business location Switzerland:* Clearly define what Switzerland stands for (the best place for international business) and make large efforts to communicate this reality in a coherent fashion. The successful national marketing campaign for Switzerland as a tourist-focused "Heidi Land" is a good example of how the government can create a coherent message in its marketing of the business location Switzerland. This cannot be delegated to individual cantons with competing messages.

Switzerland Needs to Define Its Strength and Communicate with Self-Assurance.
Traditional Swiss strengths – for example, expertise in precision machining, a long history of excellence in chemicals and pharmaceuticals, and a highly developed banking system – attract a disproportionate number of foreign MNCs in such fields as medical technology, biotechnology, and wealth management, and many MNCs also establish their headquarters in Switzerland. Therefore, Switzerland has become one the leading clusters for international management – for corporations and international organizations such as the United Nations (UNO), the United Nations Children's Fund (UNICEF), the United Nations Human Rights Council (UNHRC), the World Health Organization (WHO), the World Food Programme (WFP) etc, as well as non-governmental organizations (NGOs) such as the International Committee of the Red Cross (ICRC), the International Federation of Association Football (FIFA), and the Union of European Football Associations (UEFA).

Removing hurdles for MNCs that have a natural affinity for Switzerland will help consolidate the country's position in the global marketplace. Discussions with executives of MNCs indicate that while Switzerland has easily attracted MNCs in specific sectors, it should consider taking a more active role in building its appeal in the coming years. Competing countries – for example, Ireland, the Netherlands, Singapore, Hong Kong, and Dubai – have developed clearly articulated strategies focused on specific clusters such as biotechnology, medical technology, and wealth management. Given that building clusters is a zero-sum game, a victory by a competing nation is a loss to Switzerland.

Switzerland Has to Be Open-Minded, Thinking with New Perspectives.
Switzerland has a heritage of international involvement. It has always been a catalyst in the development of how nations interact with each other. Translating this heritage in the current context could help Switzerland define a new role in the globalization race. For example, Switzerland could think about an economic alliance that is defined not by the partners' geographic proximity but by their economic similarity. More specifically, Switzerland could team up with other small, highly developed countries such as Singapore, selected Eastern European countries, specific economic regions in the United States (for example, the Boston area), and India to establish a global network that could provide MNCs with a totally new basis for their global operations.

In short, Switzerland has a great starting position, enormous potential to win the game for the optimal business location, and the goodwill of CEOs and other decision makers. But it is unclear whether it has the will to grab this opportunity. In the negative case, the risk is large: 34 percent of GDP is "at risk", and significant portions could be moved to other locations in the next 10 to 15 years.

02 Multinational Companies Are a Key Element of Switzerland's Economy

The Swiss economy is very international and therefore strongly exposed to the development and behavior of MNCs. In a comparison of the number of *Fortune 500* companies per million inhabitants (to determine multinational density), Switzerland ranks near the top – a close second to Luxembourg, which hosts just one *Fortune 500* company – and shows a density that is twice that of the Netherlands, three times that of the United States, and four times that of Germany. (See Figure 2.1.)

Not only are Swiss companies internationally very active, but Switzerland has also become a very attractive location for foreign MNCs' international operations. Today, there are more than 10 000 foreign and Swiss MNCs conducting business from Switzerland.[1] Investments of foreign MNCs in Switzerland have helped ensure that Switzerland has foreign direct-investment inflows per capita that rank it number eight in the world, and Swiss MNCs have helped ensure that Switzerland's exports per capita rank it eighth-highest in the world. (See Figure 2.2.) While these numbers are signs of a strong economy, they are by no means exceptional for economies similar to that of Switzerland. Belgium, the Netherlands, and Ireland all score higher than Switzerland.

MNCs play a pivotal role in the domestic economy, accounting for about 34 percent of the total Swiss GDP. (See Figure 2.3.) Of that 34 percent, 10 percent is contributed by foreign MNCs (for example, Procter & Gamble, Amgen, Dow Chemical, General Motors, and Medtronic) located in Switzerland, whereas 24 percent of GDP is derived from Swiss MNCs (for example, ABB, Novartis, UBS, Swiss Re, and Nestlé), as well as small and midsize companies (for example, Geberit, Phonak, Oerlikon, Schindler, GF, and SIG) that are active internationally. Both Swiss and foreign MNCs are companies with the ability and the experience to optimize their locations. Due to global competition, they are obliged to choose the best locations for their various operations without regard to home market "ideals." In other words, these companies can, do, and must move their various operations to the economically most advantageous locations.

MNCs, backed by their extensive financial resources, play an increasingly important role in the world economy. MNCs are playing a central role in the ongoing globalization. What started in the early part of the twentieth century as a search for new markets has, over recent decades, paved the way for truly global MNCs with full-fledged operations in non-home-country markets.[2] These MNCs distribute not only their goods and services internationally, but also jobs and investments through their increasingly global organizations. The ability to manage global operations has had a huge boost within the last decade, supported by advances in telecommunications and the Internet that have facilitated greater connectivity and made working across long distances and time zones much easier.

1 For the purpose of this study, we have divided Switzerland-based MNCs into two segments: foreign and Swiss. Foreign MNCs are companies with operations in Switzerland and group headquarters abroad; Swiss MNCs are companies headquartered in Switzerland with more than 25 percent of international revenues and more than 25 percent of total staff abroad. (Both measures apply cumulatively. All other Swiss companies in this study are treated as domestic companies.)

2 Globalization has been ongoing over the last 300 years, but it is really only over the last 100 years that business has started to operate on a truly global basis. In the last 15 years, this trend has seen an unprecedented acceleration, driven in part by the fall of the Berlin Wall, the telecommunications revolution, the Internet and e-commerce, and the historic opening of the Chinese and Indian economies.

Figure 2.1

Switzerland Is a Preferred Location for Fortune 500 Companies

Fortune 500 Companies per 1 Million Inhabitants		
1.	Luxembourg	2.14
2.	Switzerland	1.60
3.	Sweden	1.33
4.	Netherlands	0.84
5.	United Kingdom	0.62
6.	France	0.58
7.	United States	0.56
8.	Japan	0.55
9.	Belgium	0.48
10.	Norway	0.44
11.	Germany	0.41
...		
20.	Italy	0.17
...		
NA	Austria	0.00

Source: Global Fortune 500

Figure 2.2

Foreign Direct Investment Inflows and Exports Show the Importance of MNCs for Switzerland's Economy

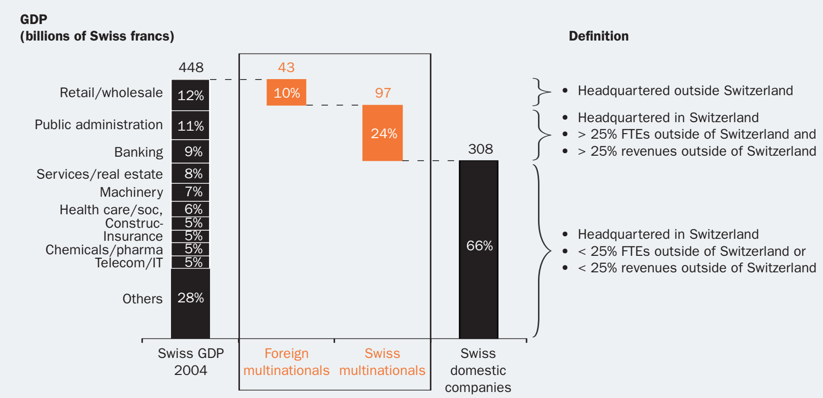
Foreign direct investment inflow per capita 2004 (millions of Swiss francs)	
1. Hong Kong	4 406
2. Ireland	3 293
3. Belgium	3 202
4. Singapore	3 106
5. Netherlands	2 133
6. Denmark	1 473
7. Sweden	1 437
8. Switzerland	1 406
9. United Kingdom	1 319
10. Finland	1 302

Exports per capita 2004 (millions of Swiss francs)	
1. Singapore	62 848
2. Hong Kong	52 096
3. Belgium	33 152
4. Ireland	31 488
5. Norway	30 848
6. United Arab Emirates	29 312
7. Netherlands	28 672
8. Switzerland	26 240
9. Denmark	22 400
10. Kuwait	21 120

Source: BCG analysis

Figure 2.3

MNCs Account for One Third of Swiss GDP



Source: BCG analysis

"Only about 5 500 of our 108 000 employees are located in Switzerland. Global competition forces us to continuously reevaluate the optimal mix of locations for our various functions."

Fred Kindle
President and Chief Executive Officer, ABB

As a consequence, MNCs increasingly choose their preferred location on a function-by-function basis and truly achieve an optimal global-business setup and cost structure. Today, for example, it is common for MNCs to choose China or Eastern Europe for low-cost manufacturing, while, at the same time, choosing India or Ireland for low-cost shared services. General Electric, for instance, has invested in China to manufacture gas turbines and, at the same time, built one of the first remote processing centers in India. In both cases, the company was exploiting the optimal skill-cost mix offered by various locations. This accelerated globalization exposes MNCs to a new dynamic cycle. (See Figure 2.4.)

Globalization forces MNCs to learn quickly how to operate globally distributed operations:

1. International competitive pressure forces MNCs to continuously optimize their global geographic-location mix
2. Increasing experience in managing internationally distributed operations allows companies to manage more and more granular parts of the organization internationally
3. As a consequence, the international fragmentation of operations increases

Countries around the world have recognized this trend and the value of attracting MNCs to locate their facilities within their boundaries. More and more countries are building specific strategies to make themselves the preferred destination. The most advanced countries have clearly articulated strategies and aggressive action plans to attract MNCs that fit their profile. Ireland, for example, has built clusters around specialized life sciences and less skilled shared-services functions.

Figure 2.4

All MNCs Are Exposed to Globalization

Source: BCG analysis

What once was a playground dominated by the United States and European countries including Switzerland, Scandinavian countries, Ireland, and the United Kingdom has been quickly penetrated by Asian and Eastern European countries. Singapore is very actively recruiting financial services companies, certain pharmaceutical and biotechnology businesses, and international headquarters for the Asia region. Hong Kong and Taiwan, along with Singapore, have shown the way for countries such as Estonia, Dubai, and the Czech Republic, demonstrating that it is possible to compete on an equal footing with old-economy countries.

The importance of MNCs to the Swiss economy and the ease with which MNCs are moving functions across boundaries present opportunities, as well as threats to the economic future of Switzerland. The aim of this study is to explore options that will help Switzerland position itself successfully in this increasingly competitive environment.

03 Switzerland Is an Attractive Destination, but in a “Flattening” World

Several benchmarking indexes have been developed over the years to evaluate the competitiveness of countries in the global economy. A widely used benchmarking index is the WEF GCI, which is published every year. The WEF GCI is based on a combination of publicly available hard data and on the WEF Global Competitiveness Network's Executive Opinion Survey of more than 10 000 business leaders across the globe. The survey evaluates 172 countries along 9 categories and 80 subcategories. This broad scope ensures the inclusion of all relevant aspects and establishes the WEF GCI as one of the key references for comparing the economic performance of countries.
Switzerland has received overall high ranks in this report. Analyzing the evolution of the results over the last four years, we identified the following two trends that we believe are important to Switzerland:

- First and foremost, between 2003 and 2006, Switzerland improved its absolute and relative ranking and managed to take the number one position in 2006.
- Second, there is increased competitiveness among the top ten countries vying for MNCs. This is reflected in the narrowing of the distribution of the WEF GCI ratings of the top ten countries between 2003 and 2006. (See Figure 3.1.) MNCs are very aware of this development and the tough competition between nations that results from it.

MNCs are very aware of this development.

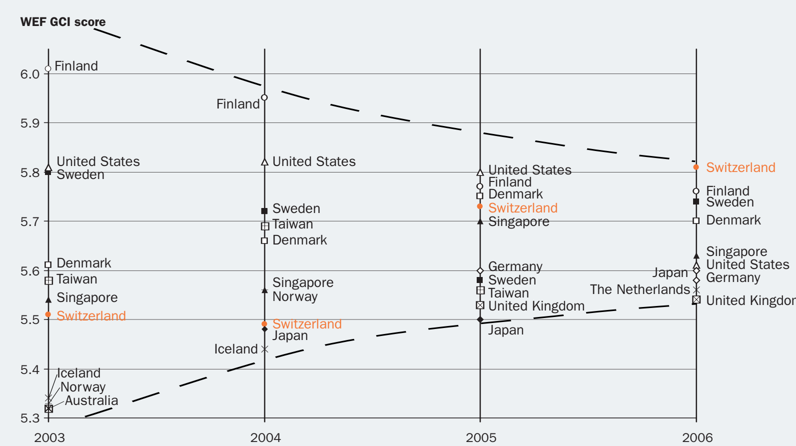
"Switzerland is a very attractive location, but others are catching up: We very much like Switzerland as a business location, but often changes in the business environment are faster than the ability of the political system to change..."

Paul Polman
Chief Financial Officer, Nestlé

Figure 3.1

It Is Getting Crowded in the Front Group

WEF GCI Scores of Top Ten Countries, 2003 to 2006



Source: WEF GCI

In last year's survey, Switzerland overtook Finland and Sweden and replaced the United States as the most competitive country. The following factors were the most frequently cited reasons for Switzerland's taking the top position:

- Sophisticated business culture and efficient markets
- World-class capacity for research, academic institutions, and innovation
- Stable political environment
- Excellent infrastructure

Although common sense might suggest that taxes are an important factor, taxes were not the key driver of this recent development. It is relatively easy for competing countries (given the political will) to match tax systems or have tax systems that are more attractive than others, but it is much more difficult to develop the capabilities and characteristics that define Switzerland's strengths noted above. However, on taxes we should never forget that while the role of the tax rates may not be of major importance in evaluating locations, it is the critical factor for getting on the evaluation list in the first place. (There is more on this topic in Chapter 04.)

"There are many important criteria beyond tax, e.g., the central location in Europe, quality of life which makes it easy to attract talents, or the safety aspect."

Franck J. Moison
President, Colgate Europe/South Pacific

Nevertheless, the WEF GCI points also to areas in which Switzerland could do better. A closer look at the subcategories indicates that Switzerland is consistently performing poorly in subcategories that are important to MNCs. (See Figure 3.2.) The subcategories in which Switzerland performed badly include

- Ease of hiring foreign labor
- Prevalence of trade barriers
- Ease of doing business – lack of a single interface

Figure 3.2

Switzerland's Achilles Heel

Switzerland ranked 25 to 50	Switzerland ranked 51 to 75	Switzerland ranked above 75
• Exports • Secondary enrollment • Business costs of terrorism • Tertiary enrollment • Intensity of local competition • Recession expectations • Government success in ICT promotion • Protection of minority shareholders' interests • Cellular telephones • Ease of hiring foreign labor	• Total population • Recent access to credit • Imports • Government debt • Real effective exchange rate • Foreign direct investments and technology transfer • Government surplus and deficit • Primary enrollment	• Agricultural policy costs • Extent of bureaucratic red tape • Private sector employment of women • Prevalence of trade barriers
Not to score	**Weak score**	**Bottom-tier perfomance**

Source: WEF GCI
Note: In 77 categories Switzerland ranks in the top ten; in 37 categories Switzerland ranks between 11 and 25
Overall 125 countries were ranked in this survey

“…there are also negative aspects of the location Switzerland – the high cost of living, the challenge to find sufficient appropriate housing, or the limited availability of international schools.”

Franck J. Moison
President, Colgate Europe/South Pacific

It is interesting to note that three countries – Singapore, Finland, and Ireland – that strongly compete with Switzerland for the overall number-one position, perform relatively well in these dimensions. Switzerland's lack of competitiveness in these dimensions is corroborated by a World Bank Group database, Doing Business, which analyzes the ease of establishing and running a business in different countries. It ranked Switzerland number 15 out of 167 countries, citing exactly the same weaknesses WEF GCI identified. (See Figure 3.3.)

While these weaknesses have not prevented Switzerland from taking the top rank in the most recent WEF CGI, they may become more important in an increasingly mobile global environment. If Switzerland does not address these issues soon, it could easily lose the number one spot it has recently captured.

Not everybody agrees with the WEF benchmarking index. In others that measure similar national qualities, Switzerland ranks lower:

- World Bank Group, Doing Business (See Figure 3.3.) Rank 15
- IMD, Global Competitiveness Benchmarking [3] Rank 8
- ETH Zürich. KOF Index of Globalization [4] Rank 9
- The Heritage Foundation, Index of Economic Freedom Rank 9

Switzerland may take pride in its generally good position, but it has a lot of work to do just to retain its relative position over the coming years. And competitors such as Ireland, Belgium, the Netherlands, and Singapore are making massive efforts to gain market share in the international competition for MNCs. (See Figure 3.4.)

3 IMD is the IMD Business School, Lausanne, Switzerland.
4 ETH is the Swiss Federal Institute of Technology; KOF is the Swiss Economic Institute at the ETH.

Figure 3.3
Doing Business in Switzerland Is Not That Easy

	Singapore	United Kingdom	Ireland	Switzerland	Belgium	Netherlands
Ease of doing business	+++	+++	++	++	+	+
Starting a business	++	+++	+++	+	o	o
Dealing with licenses	+++	o	+	o	o	o
Employing workers	+++	++	o	+	+	o
Registering property	++	++	o	++	—	+
Getting credit	+++	+++	+++	+	o	++
Protecting investors	+++	+++	+++	—	++	-
Paying taxes	+++	++	+++	+++	o	o
Trading across borders	+++	++	o	o	o	++
Enforcing contracts	+	+	+	+++	+	o
Closing a business	+++	++	+++	o	+++	+++
Rank	1	6	10	15	20	22

+ ease o neutral - difficult

Source: World Bank Group, Doing Business: Economy Ranking
Note: Economies where ranked from 1 to 175; Luxembourg is not covered

Figure 3.4

Switzerland's Performance Varies Between Reports

	Switzerland	Singapore	Netherlands	United Kingdom	Belgium	Ireland
WEF (Global Competitiveness Index)	1	5	9	10	20	21
World Bank Group (Doing Business: Economy Rankings)	15	1	22	6	20	10
IMD (World Competitiveness Yearbook)	8	3	15	21	27	11
ETH KOF (Index of Globalization)	9	12	17	16	11	5
The Heritage Foundation (Index of Economic Freedom)	9	2	14	6	17	7

Source: WEF GCI; World Bank Group; IMD; ETH KOF; BCG analysis
Note: Number represents absolute rank

The Case of Singapore

Singapore has a tradition of developing long-term strategies and executing them flawlessly. In the 1960s and early 1970s, it set up the infrastructure needed to become a manufacturing powerhouse and followed that in the 1980s and 1990s with productivity growth programs. Since then, Singapore has turned its focus to value manufacturing and innovation. Sensing an economic recession around 2001 and recognizing a rapidly changing global landscape – the emergence of China as a manufacturing base, increasing regional competition from Hong Kong and Taiwan, and a slowdown of the international economy after September 11 – Singapore's government instituted an Economic Review Committee with a mandate to

- review all government policies with economic implications
- foster growth and internationalization of Singapore-based companies
- recommend measures to enhance human capital
- recommend ways to upgrade the manufacturing sector and develop strategies to promote service industries
- upgrade operations and raise productivity of businesses that serve mainly the domestic market
- define a strategy to strengthen entrepreneurship and innovation in Singapore

The review led to an interesting mix of actions. While attracting industries that provide value manufacturing and innovation, Singapore has also established measures to counteract the increasing threat from the emerging economies of China and India. Recognizing that these countries offer an attractive range of cost-efficient products and services and that they may quickly move up the quality ladder, Singapore started investing in India. The focus of this involvement includes strategic investments in science parks in Bangalore, airports, housing development boards, trade (as a hub for Russia), and arts (Bollywood). As a consequence, Singapore was able to increase the India-related part of its GDP from 5 percent to 6 percent.

04 Globalization with Positive and Negative Growth Impact for Switzerland

Swiss MNCs are of utmost importance to the Swiss economy for high-quality jobs, tax revenues, sustainable value creation, and innovation. However, as indicated earlier, MNCs are under increasing international competitive pressure to continuously optimize their global operations and geographic mix. Through discussions and a survey conducted among leading foreign and Swiss MNCs in Switzerland, we have identified the following five major criteria used by MNCs to decide on the appropriate location for their operations. (Obviously, there are many additional factors, especially many "soft" criteria.)

1. The tax rate and system: This is the most important criterion for landing on the location decision shortlist. Without comparatively attractive tax rates, a location never appears on an evaluation shortlist, and the other criteria mentioned below are never even considered.
2. Access to large markets.
3. Cost and availability of skilled labor (local and imported).
4. Stable environment and infrastructure (including, political systems, security, international schools, and airports).
5. Fostering of education and protection of intellectual property.

An astonishing result of our survey is the great similarity of the decision criteria used by the foreign and Swiss MNCs. On average, every five years, companies – both foreign and Swiss MNCs – strategically reevaluate their location setup using the same criteria. There are also no differences between the evaluations of potential new arrivals and companies with current operations in Switzerland that are considering the possibility of moving away. The only big difference between Swiss and foreign MNCs is in the scope. Although foreign MNCs often consider moving their entire operations, Swiss MNCs evaluate on a more granular level, function by function. But in terms of numbers of jobs at risk, the result is similar for Switzerland's economy.

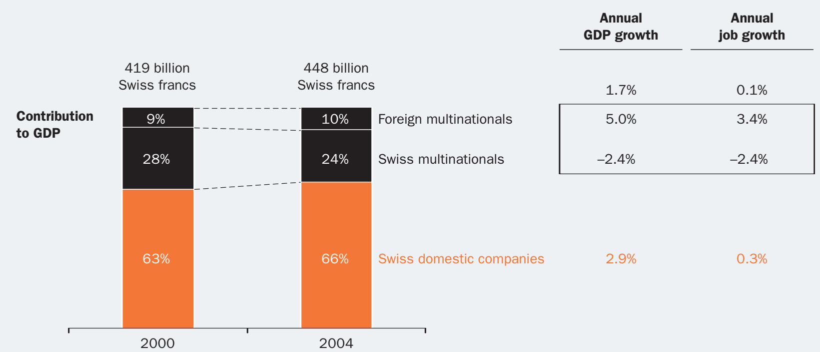
To evaluate the importance and value of MNCs to the Swiss economy, we looked at the evolution of the impact of MNCs – both Swiss and foreign – on the Swiss GDP and employment. A surprising trend emerged: despite Switzerland's improving position in the GCI, the contribution of MNCs to the country's GDP and employment between 2000 and 2004 has been decreasing.

De-averaging the data of foreign and Swiss MNCs sheds more light on this unexpected trend. While the foreign MNCs continued to increase their contribution to Swiss GDP (by 5 percent per year) and Switzerland-based employment (by 3.4 percent per year) between 2000 and 2004, the Swiss MNCs' contribution over the same period declined by 2.4 percent per year in both employment and GDP. (See Figure 4.1.)

This implies that while Switzerland has continued to be a top-tier European location for foreign MNCs, its attractiveness for Swiss MNCs has become less clear. This is in no way a reflection of Swiss MNCs' loss of trust in the Swiss economic location. Growth in the last five years was strongly driven by Swiss domestic activities – both private and government. However, this development may not be sustainable and is strongly driven by public spending.

Figure 4.1

Swiss Domestic Companies Outgrew MNCs in Terms of GDP and Employment



Sources: Swiss National Bank; Bundesamt für Statistik; BCG analysis
Note: Growth is CAGR, 2000 to 2004

A closer look at the drivers of these opposing developments shows that they are the consequence of rational economic behavior of all parties involved. Both foreign and Swiss MNCs consider Switzerland the ideal place for certain highly qualified functions, but they consider other countries more appropriate for other, usually less qualified, functions. However, it looks as if other countries are getting better at competing with Switzerland in skilled-labor areas. The very high amount of goodwill from private-sector leaders toward Switzerland cannot compensate for structural deficiencies of the Swiss business location.

"There were five key reasons for Stryker locating its spine-manufacturing operations to Switzerland – access to skilled machining talent, availability of a French-speaking work force to interface with our Bordeaux facility, excellent research institutions within the country, tax considerations, and existence of a medtech cluster."

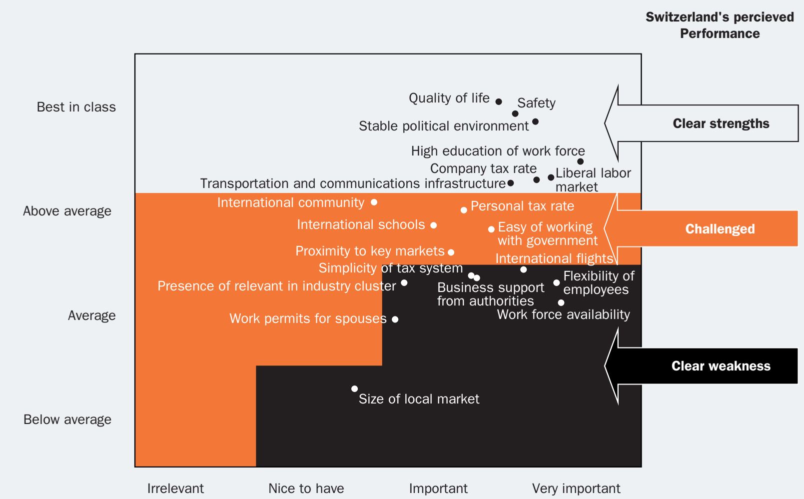
Jamie Kemler
Vice President and Group President, Biotech, Spine, Osteosynthesis and Development, Stryker

MNCs optimize their global geographic mix on a function-by-function basis, but a number of other factors attract them to Switzerland. Figure 4.2 illustrates MNCs' rating of the following reasons:

– Corporate taxation rate and system – the key factor for getting on the shortlist
– Availability of skilled labor – local and imported
– Access to leading research and academic institutions
– Stable environment and robust infrastructure
– Excellent quality of life

Figure 4.2

MNCs Have a Differentiated View of Switzerland



Source: AmCham CEO Survey 2006

For foreign MNCs, Switzerland is a centrally located high-quality place – with relatively high costs. As a consequence, foreign MNCs consider Switzerland the appropriate location for high value-added functions: the benefits arising from the location more than compensate for the higher costs. This is usually the case, for example, in

- International and European headquarters
- R&D centers
- High-precision and specialized manufacturing facilities
- Wealth-management-related jobs

These are the reasons we have seen foreign MNCs building operations in Switzerland primarily around headquarters functions, life technologies (including biotechnology, medical technology, and pharmaceuticals), wealth management, and lately also IT-related businesses.

The examples of Stryker and Amgen, two of the world's leading medical-technology players, show that many foreign MNCs are deeply rooted in Switzerland and that their presence is driven by a complex set of location characteristics. Google, for its part, is just discovering Switzerland as a great location for great brains and innovative solutions. IBM has had many important functions in Switzerland for many years, including its world-famous lab in Rüschlikon, and it recently added Northeast Europe headquarters functions. These companies and many other Swiss and foreign MNCs not only create a lot of value, but they are also important ambassadors for the Swiss economy. As all these companies further develop their global businesses, Switzerland will have to compete for attractive jobs and operations against other countries.

Stryker in Switzerland

Stryker Corporation is one of the world's leading medical-technology companies, with the most broad-based range of products in orthopedics and a significant presence in other medical specialties. Stryker works with respected medical professionals to help people lead more active and satisfying lives. The company's products include implants used in joint-replacement, trauma, craniomaxillofacial, and spinal surgeries; biologics, surgical, neurologic, ear, nose, and throat, and interventional pain equipment; endoscopic, surgical-navigation, communications, and digital-imaging systems; as well as patient-handling and emergency medical equipment. Stryker also provides outpatient physical-therapy services in the United States.

Stryker's long history in Switzerland dates back to two acquired companies: Jaquet Orthopédie in Geneva, founded in the late 1940s, and Osteo AG, founded in 1963 near Selzach. The Selzach facility today houses the products originally manufactured at Jaquet and Osteo, as well as many new implants developed over the years.

A second Swiss manufacturing facility for spinal implants was officially opened last year in La Chaux-de-Fonds. Today Stryker employs nearly 600 people in its Switzerland operations, which in addition to the two manufacturing locations include the Stryker European headquarters in Montreux and the Osteosynthesis division headquarters in Geneva, as well as the Swiss sales-distribution team throughout the country.

With its product lines growing in response to increasing worldwide demand, Stryker expects to continue to expand the Swiss work forces in its manufacturing facilities. Innovation plays an important part in the future, and there is the potential for future collaboration within Switzerland with the many thought-leading clinicians, early-stage-technology companies, and major technical universities.

Amgen in Switzerland

Amgen discovers, develops, and delivers innovative human therapeutics. A biotechnology pioneer since 1980, Amgen was one of the first companies to realize the new science's promise, bringing safe, effective medicines from lab to manufacturing plant to patient. Amgen therapeutics has changed the practice of medicine, helping millions of people around the world in their fight against such serious illnesses as cancer, kidney disease, and rheumatoid arthritis. With a broad and deep pipeline, Amgen remains committed to advancing science to dramatically improve peoples' lives.

Amgen International commercial operations, headquartered in Zug, Switzerland, has approximately 2,000 employees and currently oversees commercial activities in more than 25 countries in Europe, the Middle East, and Australia. It plans to expand to additional countries in Europe, East Asia, and Latin America by the end of the decade. Amgen chose Switzerland for its international commercial-operations headquarters because Switzerland offers proximity to key markets, outstanding infrastructure, and an excellent business environment for biotechnology companies.

Google in Switzerland

Google, a global company serving users and customers around the world, is committed to delivering its services in every language and to every country. This requires that Google locate offices and engineering centers around the world, finding and hiring the best talents possible.

The engineering and business unit center that Google opened in Zürich in March 2004 has already turned into a hub for Google's European engineering sites. Google expanded to Zürich to take advantage of the considerable technical talent that exists there in particular and throughout Europe in general. The company is still investing in Switzerland and is always looking to recruit the best talents in this region. Google is committed to delivering the best online-search experience, and a sizable technological team enables the company to continue developing innovative products. Engineers based at Google Zürich are working on all aspects of engineering work – conception, research, implementation, and deployment. The business unit team is dedicated to serving customers in the best product and marketing environment.

“Zooglers” – Google's Zürich employees in contrast to “Googlers,” who are Google employees elsewhere in the world – do work on the full scope of Google products. The objective of the Google Zürich office is to attract the best and brightest employees and provide them with a world-class environment.

IBM in Switzerland

IBM, one of the world's largest information-technology companies, is focused on the high-value intersection of business insight and technological innovation for enterprise clients. With some 329 000 employees working in 170 countries, IBM Corporation generated turnover of $91.4 billion and income of $9.4 billion in 2006. More than half IBM's revenue is generated by its technology services and business consulting units, and the other half by its software and its server technology units.

IBM's scope of activity includes the complete range of computer systems, software, networks, storage technology, and microelectronics, and it delivers a range of services that extends from consulting to infrastructure services. IBM Switzerland was established in 1927 and has 3100 employees in more than ten different locations.

The IBM Zürich Research Laboratory was established in 1956 and employs about 300 people working in the areas of basic science and fundamental research in physics and materials science, development of key technology for IBM systems and storage subsystems, and software sciences. Since 2005 Zürich has been IBM's headquarters for all its operations in Northeast Europe.

"Switzerland is a very attractive place to do business. But we will all have to work hard to keep it that way."

Jacques Aigrain
Chief Executive Officer, Swiss Re

For these reasons, Switzerland has been able to attract impressive numbers of leading companies offering high-quality jobs and creating value and growth for the Swiss economy. (See Figure 4.3.)

Figure 4.3
Selected New Arrivals and Significant Expansions

Company	Location in Switzerland	Scope of activities
Abercrombie & Fitch	Ticino	Logistics center for Europe
Advanced Digital Information	Zürich	European shared-services center
Cisco Systems	Vaud	European operations services
Biosite	Vaud	European operations center
Eaton	Vaud	International headquarters (manufacturing division)
Electronic Arts	Geneva	International headquarters (publishing business)
Hercules	Schaffhausen	Coordination center for European operations
IBM	Zürich	New headquarters for Northern, Middle, and Eastern Europe
Isolagen	Neuchâtel	Production of cellular therapies
Kennametal	Schaffhausen	European headquarters
Microsoft	Zürich	Development center for collaboration technology
OI	Vaud	Formerly Owens-Illinois, European headquarters
Philip Morris International	Neuchâtel	New R&D center
Red Herring	Zürich	European headquarters
RiskMetrics Group	Zürich	Research and analytics center
Stryker	Fribourg	Production for Spine division
Take-Two	Geneva	Interactive software; international publishing head quarters
Timberland	Schaffhausen	European shared-services center
VeriSign	Fribourg	European operations center
VF	Ticino	European headquarters

Source: AmCham 2007

Among many others, the following companies contributed to this study (72 out of the total 108 participants):

AAE
ABB
Abbott
AIG Private Bank
Alcoa
American Airlines
Amgen
Bank of America
BEA Systems
Biogen Idel International
Bristol-Meyers Squibb
Brocade Communications
Cablecom
Carlo Gavazzi Holding
Chiquita Banana Company
CHUBB Insurance
CIBA Specialty Chemicals
CILAG
Citigroup
Colgate-Palmolive Europe
Continental Airlines
Credit Suisse
Dell
Dionex Corporation
Eastman Kodak
EMC Computer Systems
ESSEX Chemie
EurotaxGlass
Franke Holding
Franklin Templeton
Fritz Studer AG
Geberit
HACO
Hamilton
Horizon21 Management Services
John Deere International
JT International
Kelly Services
Kimberley-Clark
Kudelski Group
Mc Cann Erickson
McDonalds
MEDOS International (Johnson & Johnson)
Medtronic
Mentor Graphics Schweiz
MSA Aritron
Nestlé
Novartis
Optaros
Panalpina Management
Pioneer Hi-Bred (Switzerland)
Procter & Gamble
Rieter
SC Johnson
Servo Corporation of America
SGS
sia Abrasives Holding
SIKA
Sloan
Starrag Heckert
State Street
Sulzer
Swiss RE
Tecan
Texas Instruments
Thunderbird
UBS
UL International
Wicor Holding
Xerox
Young & Rubicam
ZLB Behring

The following institutions provided us with information and support for this study:

Swiss Federal Institute of Technology (ETHZ)
Department of Management, Technology, and Economics (Prof. von Krogh)
The Swiss State Secretariat for Economic Affairs
The Swiss Federal Statistical Office
The Swiss National Bank
The Swiss Federal Department of Finance
Swiss Federal Customs Administration
University of St. Gallen
location: switzerland
economiesuisse
Greater Zürich Area GZA
U.S. Census Office
U.S. Department of Commerce
U.S. Bureau of Economic Analysis
Deutsche Bundesbank
Federal Statistical Office Germany
SwissHoldings

We extend thanks to all the contributors for their ideas, their time, and their willingness to share their innovative ideas with us.

Swiss MNCs differ from foreign multinationals in one fundamental way: their starting point is a full range of operations in Switzerland. They, much like their foreign counterparts, are looking to optimize their global operations to compete effectively in the global marketplace. Because of Switzerland's small market, relatively high labor costs, and limited number of graduates in science and technology, Swiss companies are moving functions abroad for the following benefits:

- Access to large markets – leading to the relocation of sales, marketing, client services, maintenance, and other client-facing functions
- Lower labor costs – leading to relocation of manufacturing, shared-services centers, and other production units
- Additional skill pools – leading to the relocation of R&D, design centers, and other high-value functions

“We need to add, for example, another 1000 engineers in the near future; hard to find such large numbers in Switzerland. We are investing in India, China, and Eastern Europe to ensure access to such pools.”

Fred Kindle
President and Chief Executive Officer, ABB

Proximity to the largest markets sometimes drives Swiss MNCs to move their regional marketing and sales and even global R&D – as well as certain headquarters functions – to their largest markets. In May 2002, for example, Novartis designated Cambridge, Massachusetts, in the United States, as its world headquarters for R&D. The move was driven in part by the fact that North America is Novartis's largest market (approximately 45 percent of sales). Other factors in that decision were the existence there of an impressive pool of talent and proximity to renowned academic institutions. Such migrations are inevitable because Swiss MNCs need to cater to the growing demands of their largest markets.

Leveraging the lower cost base of China, India, or Eastern European countries has been a trend that most – if not all – MNCs have been adopting over the last ten years. There are two reasons to do so: One is to leverage the low cost of labor in those countries and remain competitive in the global market. The other is to manufacture for the local market. For emerging markets such as China and India, this is critical because the MNCs need the local cost structure to provide products at local prices. Swiss MNCs, being subject to the same global forces, have similarly been moving parts of their operations – not just from Switzerland, but also from all of their higher-cost locations in Europe and North America – to China, India, or Eastern Europe. ABB, for example, has been expanding its robotics manufacturing in India to meet the demands of that country's booming automotive market. Given the requirements of automotive industry companies that are setting up factories in India, it would be hard for ABB to compete if its robots were produced in Switzerland or other higher-cost locations.

“To exploit scale benefits, multinational companies are increasingly concentrating functions across countries in a single location. While Switzerland is not a competitive place for lower-cost functions, we must offer best conditions for R&D as well as business management functions.”

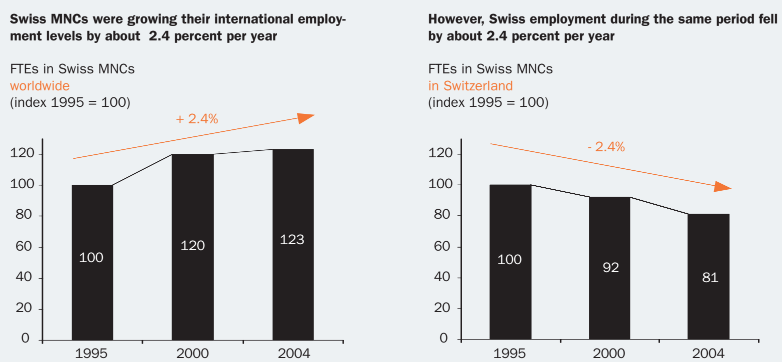
Paul Polman
Chief Financial Officer, Nestlé

This exodus of low-skill, low-cost jobs cannot be stopped. But Switzerland needs to make sure that it does not lose increasing numbers of jobs that require skilled labor to other countries. In this context, the shifts of R&D functions (as described above) are signs that must be taken seriously.

A combination of these trends has driven down the contribution of Swiss MNCs to the Swiss GDP over time. (See Figure 4.4.)

Figure 4.4

Swiss MNCs
Grow Only Outside Switzerland



Sources: Company databases; BCG analysis
Note: This subset includes 37 Swiss MNCs with total international employment of 244 000 and Swiss employment of 64 000 in 1995

In order to understand whether the decreases in employment by Swiss MNCs between 2000 and 2004 were triggered by the bursting of the Internet bubble in 2000, we tracked the details of the changes in employment of 37 representative Swiss MNCs over a ten-year period, 1995 through 2004. As Figure 4.4 indicates, the Swiss MNCs we tracked during this period grew their worldwide employment, but they decreased the number of employees in Switzerland. This implies that the drop in employment by Swiss multinationals between 2000 and 2004 is not an anomaly, but part of a larger trend.

Although the contribution of Swiss MNCs to Switzerland's GDP has been falling in the recent past, MNCs still play a vital role and are an integral component of the Swiss economy. Their share of 24 percent of GDP translates into a 40 percent share of the Swiss GNP, through the income generated by Swiss foreign direct investments abroad. Swiss MNCs are the core of the ecosystems that characterize Switzerland's economy. Hence, although the direct contribution of Swiss MNCs to the Swiss economy is decreasing, they indirectly contribute to the growth of the Swiss economy: many foreign MNCs are attracted to Switzerland because of its thriving ecosystem, which is characterized by many world-class operations in such diverse industries as pharmaceuticals, precision engineering, nanotechnology, biotechnology, wealth management, and security software.

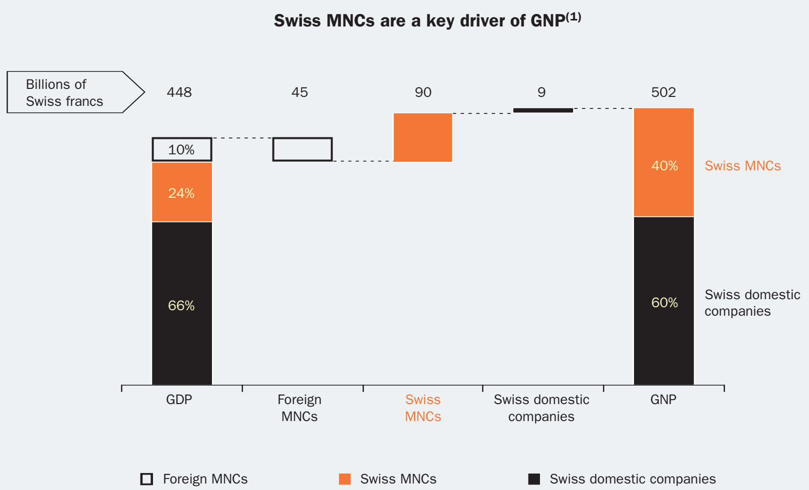
Between 2000 and 2004 Swiss domestic companies increased their contribution to the Swiss GDP. The nature and development of the growth of the domestic companies was not the focus of this study. However, empirical evidence suggests that the public part of the domestic sector (including government and health care organizations), which accounts for about 30 percent of the Swiss economy, drives about 50 percent of GDP growth. This in itself is not a point of concern: public expenditure as a function of GDP in Switzerland is still lower than that in neighboring European Union countries. But clearly this growth is not a sustainable driver of the Swiss economy, and we must keep a close eye on it. Between 1990 and 2005 Switzerland's public spending grew faster than that of any other OECD country. (See Figure 4.6.)

And finally, a significant part of the domestic growth has been driven indirectly by the growth of the foreign MNCs and their increasing demands for goods and services. In other words, the domestic growth is questionable, and its sustainability should be analyzed in depth to understand the challenges and opportunities confronting the Swiss economy. For this study, we recognize the immense importance of the MNCs to the healthy and sustainable growth of the Swiss economy, even if the available numbers do not always make this evident.

Segmenting the sources of Swiss GDP into foreign MNCs, Swiss MNCs, and Swiss domestic (private and public) companies, and understanding their contribution and evolution are paramount concerns, as Switzerland formulates its strategies for the future. Finding the right balance and ensuring that the economy as a whole benefits from our actions are critically important goals.

Figure 4.5

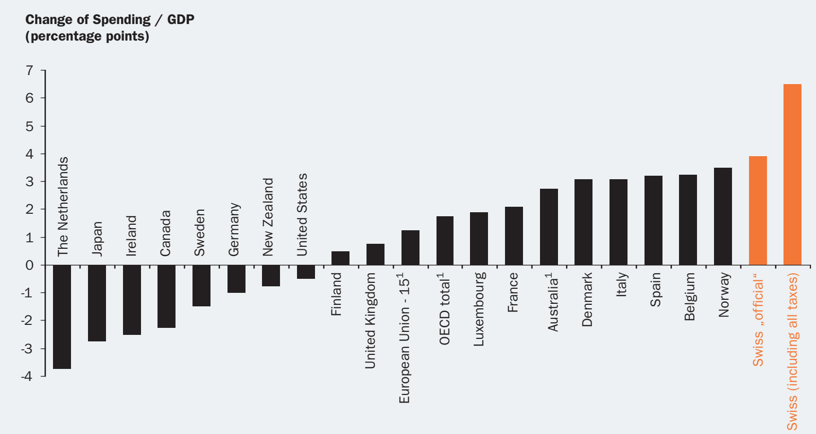
Swiss MNCs Are a Key Component of Switzerland's Economy



Sources: BCG analysis; BCG estimates
(1) Gross National Product

Figure 4.6

Government Spending Grew Faster in Switzerland than Anywhere Else in the OECD



Source: Eidgenössisches Finanzdepartement 2006
(1) 1990 to 2004

05
Five “To-Dos” to Improve Switzerland's Attractive-ness to Multi-nationals

Although Switzerland's evolution into a top-tier European location for foreign MNCs is evident, its attractiveness for Swiss MNCs has become less clear. We reckon Switzerland must accept certain "natural" phenomena as fact – for example, low-value functions are being moved to low-cost countries[5]. But it must find ways to help Swiss MNCs retain their higher-value functions in Switzerland.

Therefore, now more than ever before, Switzerland must find ways to bring in and retain high-value-added functions of foreign and Swiss MNCs and fight other countries' attempts to trade up to attract higher-value-added functions from Switzerland. We have identified five areas that Switzerland should address to remain competitive and to further attract foreign MNCs and retain key functions of Swiss MNCs in Switzerland.

1. Taxes: continue to be competitive on the tax front.

For most multinationals, tax is a knockout criterion that starts every screening. While an attractive tax scheme alone is not enough to attract or keep companies, a competitive tax rate is a necessity for getting on the shortlist of candidates, and it remains an important argument in an increasingly competitive environment. On average, Switzerland is competitive against other developed OECD countries with respect to corporate tax rate. And Swiss cantons such as Obwalden, Zug, Lucerne, Schwyz, and Thurgau have tax rates that are comparable to those of market leaders such as Ireland and Iceland.

On the other hand, in the last 15 years, competition has been getting fierce, and all OECD countries have lowered their corporate-tax rate. Some Eastern European economies (especially the Baltic states) have dropped their corporate-tax rate well below 20 percent. In addition, relative to most of the European economies, Switzerland has a favorable top marginal tax rate. (See Figure 5.1.) However, the gap has been decreasing in recent years. Switzerland should continue to monitor this, as this has a great impact on how key opinion leaders at MNCs make decisions regarding preferred destinations. And it will be crucial to keep the importance of international companies (Swiss and foreign) in mind when discussing and negotiating fiscal issues such as the Lex Bonny, the holding-tax privilege, and other upcoming fiscal issues.

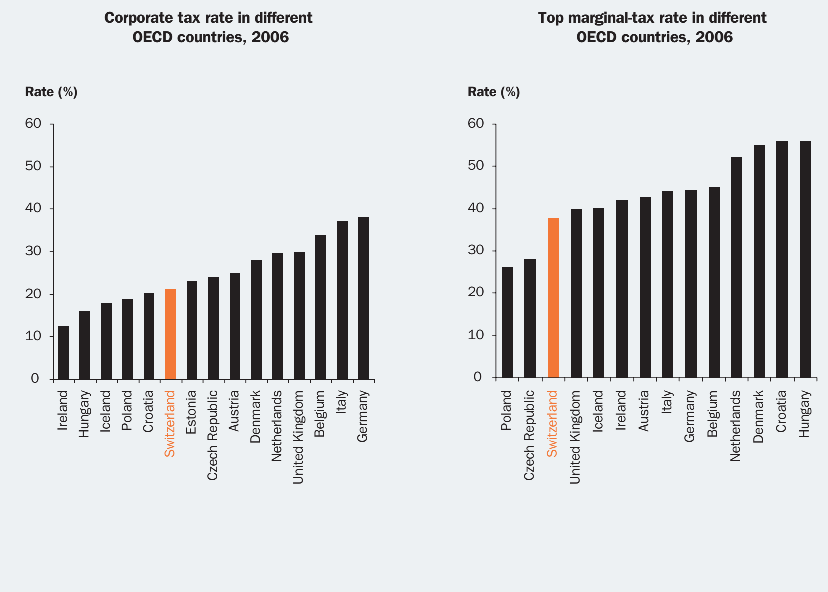
2. Immigration and education: ensure sufficient availability of local skilled and specialized labor.

This will become more important because the war for local talent will intensify as Switzerland continues to attract foreign MNCs. In this regard, Switzerland has made strides. Switzerland has increased the intake of talented workers, but it is still behind in terms of satisfying its local needs. This opinion was shared by several executives of MNCs we interviewed. (See Figure 5.2.)

5 Low-value-added functions are defined as jobs related to share services such as call centres and simple-parts manufacturing. High-value-added functions relate to, e.g., headquarters functions, R&D and high-precision manufacturing.

Figure 5.1

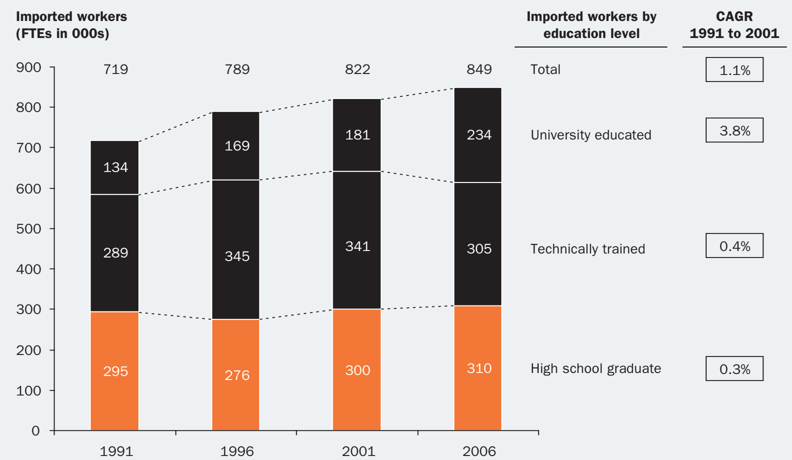
Switzerland's Tax System Is Still Favorable, but Not the Most Attractive



Source: OECD

Figure 5.2

A Growing Need to Import Talent



Source: Schweizerische Arbeitskräfteerhebung

Switzerland needs to continuously strengthen its education system. The many great initiatives at all levels of education are welcome, but Switzerland's competitors are fast developing their own education systems. In this area, good is not enough. In particular, Switzerland needs to ask itself whether it is developing enough international-business managers to cope with the great demand created by the extraordinarily large number of MNCs in Switzerland. (See Figure 1.1.) The current deficit of top talent (for example, engineers, international-business managers, and scientists) in many industries threatens to put a cap on Switzerland's growth prospects.

In Switzerland, over the last fifteen years, there has been a continuous shift in the make-up of the imported work force. This has been driven mainly by the local demand for a more educated work force. It has been helped in part by treaties such as the one with the European Union nations that allows European Union nationals educated in Switzerland (as graduate students and post-doctoral fellows) to stay and work in Switzerland. However, conversations with executives at different MNCs indicate that although they acknowledge the progress, they believe that it is not enough considering the demand.

"We need to be able to import talent from non-EU countries as well. Additionally, work permits are strongly focused on life sciences. We need to change that if we want to help other industries."

Ulf Berg
Chief Executive Officer, Sulzer

“There are not many engineers in Switzerland. This is a handicap for Switzerland especially as it tries to attract engineering-oriented foreign companies.”

Hans Hofmann
Human Resources Manager, IBM Zürich Research Laboratory

“…Switzerland is less competitive for R&D functions than for general management functions.”

Franck J. Moison
President, Colgate Europe/South Pacific

As part of this study, we have developed a five-point plan for a more value-oriented immigration policy:

Immigration of Highly Qualified Persons: A Key for the Future of the Swiss Economy

Proposed Five-Point Program

Educating and attracting highly qualified people are key to the continued success of the Swiss economy. With the free movement of people within the European Union, an important move in this direction has already been made. But it brings Switzerland only halfway. Enormous pools of talent outside the European Union remain largely untapped, and this talent will become increasingly important to foreign and international Swiss companies in a globalized world. Today the immigration process is constructed for a defensive, reactive immigration policy that was designed primarily for humanitarian and economic refuges. Furthermore, Switzerland needs to construct immigration processes designed to attract and accept highly qualified people through an appropriate process, still retaining the humanitarian immigration in line with its international role as guarantor of human rights. We are proposing a five-point plan to achieve that goal.

1

Give foreign graduates of Swiss universities automatic access to work permits.

Give every graduate of an accredited Swiss university a two-year work permit along with the diploma. The Swiss tax payers already pay for much of the graduates' education, and during their stay in Switzerland, the foreign graduates become well-known. Easy access to work permits will also enable these foreigners to work for smaller companies or unfold their entrepreneurial potential.

To avoid abuse, the accredited universities will be closely monitored, and, if necessary, certain fields of study could be excluded. The main goal is to retain engineers and scientists who will strengthen the Swiss economy.

2

Market Switzerland to the top universities of the world.

For many foreign students studying outside Switzerland, our country is synonymous with mountains, cheese, cows, and chocolate. In order to attract the best and brightest, Switzerland needs to market itself for what it is: a leading-edge country that is part of the globalized economy, with top companies in sectors such as biotechnology, medical technology, precision mechanics, pharmaceuticals, and wealth management. Switzerland needs to become one of the best places to jump-start a global career.

With limited subsidies from government, a unit (for example, Recruit for Switzerland) needs to visit the top 200 universities of the world and present Switzerland in seminars, workshops, targeted advertisements, presentations, and university fairs to the senior students at these universities. This unit could be organized into the new Business House, being built around Osec Business Network Switzerland, the Swiss export-promotion agency, and have a budget similar to Location: Switzerland, whose role it is to attract companies to Switzerland. Several types of private-public partnerships could be explored.

3
Enable midsize companies to recruit in foreign markets.
The largest Swiss companies have the ability to themselves recruit at the top universities in, for example, China, India, Singapore, the United States, and Brazil. For midsize companies, this is impossible, but it is just as important for them to attract top talent. Recruit for Switzerland will be charged with building an Internet platform that will allow interested students from foreign universities and midsize companies to get in touch with and get to know each other.

4
Create a separate immigration process for the highly qualified.
The immigration authorities need to build a distinct immigration process for a clearly defined list of highly qualified candidates. This list could be defined by the quality of the university and the fields of study. This process will be administered by a group of people with deep knowledge of the best universities, fast-evolving fields of study, complicated job descriptions in leading-edge industries, and most important companies.

It is evident that these highly qualified candidates need to go through a process that is very different from that applied to the usual humanitarian cases. Furthermore, it is important to make these highly qualified immigrants feel welcome. Contrary to the humanitarian cases, they have many alternative destinations.

5
Create company-guaranteed work permits.
In many cases, companies have to go through a long, expensive, and uncertain process when they want to move highly qualified people to Switzerland – as new hires, intracompany transferees, or trainees. It makes no sense for the immigration authorities to go through the full process designed for refugees: the company conducts a deep evaluation before deciding to make the costly move to transfer somebody. While the new Foreigners' Law will alleviate some problems, it is only a partial solution.

We are thus proposing that companies be ready to put up a substantial sum as a guarantee for its candidates. Each working permit will be limited to a specific company and employment. Should a guaranteed worker become a criminal, require welfare, or refuse to leave Switzerland after termination of the work contract, the guaranteed sum would be rendered to the government automatically. To avoid abuse, the guarantee would have to be issued by a bank regulated by the Federal Banking Commission. In other words, the company checks on the candidate, and the bank checks on the company. With the issue of a compliant guarantee, the work permit would be issued within 48 hours.

Such a process will bring massive benefits – no legal fees, uncertainty, or waiting periods – to the companies using it, and the cost to high-quality companies will be minimal. Obviously, it is up to each company to use the regular immigration process.

The aspects of all the measures we propose have been successfully implemented by such countries as Canada, Ireland, Australia, and New Zealand. This process will massively strengthen the attractiveness of Switzerland as a business location in the fight for the mobile companies. Failing to properly address the issues related to the immigration of highly qualified personnel will, however, create a massive risk for the future. But Switzerland as an immigration country for the highly qualified bears enormous promise.

3. National cooperation: Establish a joint Swiss approach.

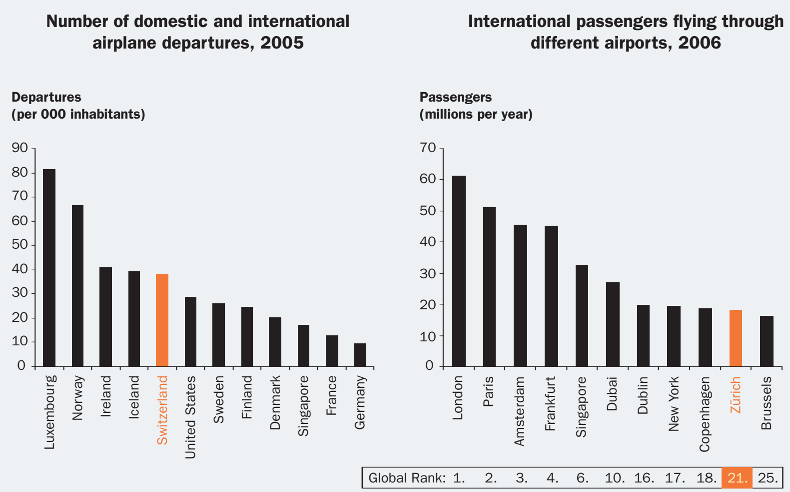
Switzerland needs to develop collaboration among cantons and provide a consistent Swiss interface, especially to foreign MNCs. But it is also crucial that attraction of new (foreign) companies be highly coordinated with retention efforts of Swiss and international companies. Today MNCs are often confronted with a myriad of inconsistent messages. The various Swiss locations should ensure consistency while continuing to leverage the highly personal decentralized service offered by the cantons today. And under the guidance of SECO, State Secretariat for Economic Affairs, and in close cooperation with the various cantonal business-development agencies, there needs to be a discussion on better, even revolutionary, cooperation methods to make sure all locations fight first and foremost the non-Swiss competitors rather than other Swiss locations. Such measures could include superproject leaders for Amgen-type projects and value sharing in large projects, joint public-private partnerships, and other ideas.

4. Infrastructure: Further develop the relevant base for MNCs.

Switzerland needs to address certain amenities and infrastructure capabilities – for example, improving international airline connections, IT infrastructure, and international schools. Globalization will increasingly drive MNCs' need for seamless connectedness with key global locations. Providing the infrastructure for this via better airline connections out of the three Swiss international airports, better public IT infrastructure (Switzerland is ranked only number nine in the WEF Global Information Technology index), and greater access to international schools for both foreign nationals and Swiss families with international careers, are important supporting elements. (See Figure 5.3.) The goal of all infrastructure initiatives should be an internationally open and densely networked Switzerland.

Figure 5.3

Switzerland's Connectivity Must be Developed with Needs of Growing Multinational Segment



Source: BCG analysis
(1) Global Rank of airport based on PAX/year

It will be important to make sure that Zürich does not become the first large airline hub worldwide to have a legal prohibition on growth (through a limit on airplane movement) and that Geneva and Zürich do not institute overly long night curfews. Such restrictions would choke networks that are critical to the growth of international companies in Switzerland. All positive forces will be needed to demonstrate to the voters and the concerned population the high importance international air traffic has for the economic well-being of Switzerland. This can be achieved by, for example, measuring value per decibel and making a favorable comparison of the value of international air travel versus traffic noise from highways and trains.

International schools must be understood as a key basis for more than one third of the economy represented by the multinational companies. Without a qualitatively and quantitatively strong international-school system, growth of international companies is not possible. The schools must be open not only to all families who come to Switzerland for several years, but also to Swiss families who may go to other countries at another time. Any limitation of access is detrimental to the openness of Switzerland to international companies. While today most of these schools are privately run, the government needs to support new buildings and extensions of international schools. Such investments will lead to a considerable strengthening of the Swiss business location.

5.
Communication:
Project a contemporary picture of “real” Switzerland.

A third of the Swiss economy is generated by some of the world's leading companies, but Switzerland is still widely viewed as the country of banks, cheese, chocolate, and mountains. Most of the nations competing for MNCs run large public-relations campaigns to propagate the virtues of their business locations to various stakeholders. Switzerland has a lot to offer, but it must do so in a strategically concise and effective way. Being a hidden gem is not productive. Switzerland must not only offer a great location, it must also win a public relations war.

For this reason, Switzerland's federal government needs to be put in charge of primary communications about Switzerland as a great place to do business, Location: Switzerland, and of great career opportunities, Recruit for Switzerland. (The second point in the sidebar “Immigration of Highly Qualified Persons: A Key for the Future of the Swiss Economy” focuses on this.)

Today, Switzerland, through the offices of Swiss tourism, very effectively promotes Switzerland as a great place for Heidi Land tourism. This is a very positive effort and brings great benefits to the tourism industry. However, there is only a very small entity, Location: Switzerland, promoting Switzerland as the best place for international high-value companies to do business and as the best place for a highly qualified person to have an international career. With budgets roughly ten times larger than that of Location: Switzerland, the various cantons compete with each other, using different messages to address the same set of potential companies. But nobody addresses individual high-value scientists and engineers. First and foremost, Switzerland needs to be sold as the best place to do business. The Swiss government needs to apply the best practice of a national message to promote the “World's Best Business Location.”

This important communication role can be performed only by the federal government. The cost involved will be minimal compared to the larger macroeconomic benefits.

06 Swiss Strengths Must be Communicated with Self-Assurance

Swiss competencies such as expertise in precision machining, a long history in (specialty) chemicals and pharmaceuticals, and a highly developed banking system have attracted a disproportionate number of foreign MNCs, for example, medical technology and biotechnology companies, wealth management enterprises, and international and European headquarters of many multinationals.

Removing hurdles for MNCs that have a natural affinity for Switzerland will help consolidate the country's position in the global market place. Discussions with MNC executives in Switzerland indicate that while Switzerland has attracted some MNCs in specific sectors, it should consider taking a more active role in marketing and promoting sectors in which the Swiss formula has worked best. Competitors such as Ireland, Singapore, and Dubai have clearly articulated strategies to attract specific clusters in such industries as biotechnology, medical technology, and wealth management. Overall cluster building is a zero-sum game: a successful implantation in another country is a loss to Switzerland, and the number of possible clusters in a given sector is very limited.

“Biotech and medtech companies like Baxter are naturally attracted to come to Switzerland, but we would like to see the government more proactively position itself with other companies in this direction.
It would be interesting for Switzerland to more actively market itself as a biotech/medtech destination.”

Bob Hombach,
Vice President, Finance, Baxter Europe

To build and retain a leading position in a given cluster requires a country to think holistically about what makes a cluster successful as opposed to what makes a specific company successful. For example, building a life sciences cluster in Switzerland that addresses the concerns of biotechnology and medical technology companies requires not only attracting and retaining world-leading companies such as Medtronic, Baxter, and Johnson & Johnson. It also requires ensuring the promotion of the whole ecosystem around such companies. This includes the following:

- Understanding existing core competencies – including, for example, precision machining, a highly developed banking system, or a scientific knowledge base – and building on them
- Identifying, attracting, and retaining the best companies active in these sectors – both Swiss and foreign-based MNCs
- Helping to build the necessary enabling technologies – including, for example, surface technology, nanotechnology, and software-security technology – and suppliers that are needed to sustain the core companies in the sector
- Building and further developing platforms of collaboration between industry and academia
- Identifying and fostering key technologies that could form the basis for future core competencies or clusters – including, for example, medical technology

By taking both a holistic and long-term view of clusters, Switzerland can build on its present core competencies and maintain a leading position in the years to come. Although Switzerland can be home to many different clusters, we have highlighted three that we find particularly interesting. (See Figure 6.1.)

Figure 6.1

Selected Clusters to Which Switzerland Could Be Home

	Life sciences	International management	Wealth management
Supporting and enabling industries	Precision mechanics; Surface technology; Startups and universities	Academic institutions; Multilingual, open culture; International organizations	IT security; Clearing services; Shared services
Companies in cluster (examples)	Novartis Roche Medtronic Stryker	Procter & Gamble Kraft Foods DuPont, Baxter FIFA, ICRC	UBS Credit Suisse AIG HSBC
Impact on GDP(1) (Swiss francs in billions)	33	46	62
% of total	7	10	14
Employment(1) (Number of FTEs)	244,000	350,000	180,000
% of total	8	11	6
Key needs	• High-quality labor • Top universities • Favorable legislation	• Low taxes • Quality of life • International schools • Good infrastructure	• High-caliber labor • Evolved banking system

Sources: BCG analysis
(1) Estimate

Clusters in Switzerland

We take a broad view of the definition of a “cluster” and for the purposes of this document define clusters as geographical concentrations of industries that, through collocation, gain performance advantages that include

– Vertical benefits through buyer-seller relationships
– Horizontal benefits by sharing a common market for end products, using a common technology or labor force skills, or requiring similar natural resources
– Access to and tight collaboration with academic institutions
– Building on existing core competencies and location characteristics of the geographic region
– Further developing existing and new core competencies for the region

Location: Switzerland is especially well positioned to attract the following clusters as shown in Figure 6.1:
– Life sciences
– International management
– Wealth management

Life-sciences and wealth-management clusters are traditional clusters built around an industry or sector, but the international-management cluster is of a different nature. It is not based on a single industry or sector. Rather, it cuts across industries and sectors to cluster certain specific skilled functions and competencies.

Human capital and managerial skills – rather than a technology, product, or market – are at the core of the international-management cluster. As MNCs continue to grow and extend their global operations, the ability to manage across national, geographic, and cultural boundaries will become more important. Such a cluster needs a specific kind of ecosystem, comprising, for example, the following:

– A critical mass of collocated international company headquarters
– A multilingual and an internationally-minded local culture
– International organizations, including nonprofit organizations
– Academic institutions that offer degrees in international relations and international management
– Internationally attractive tax rates
– Excellent infrastructure, including national and international transportation, international schooling, and a multilingual population

Switzerland is uniquely positioned to actively promote and grow its already strong international-management cluster, and a significant share of world, international, and European headquarters are already collocated in Switzerland. In addition, its multilingual heritage, seat of the United Nations and other international organizations in Geneva, and international organizations, for example, the United Nations Organization (UNO), the United Nations Conference on Trade and Development (UNCTAD), the World Trade Organization (WTO), the World Health Organization (WHO), the International Committee of the Red Cross (ICRC), the International Federation of Association Football (FIFA), the Union of European Football Associations (UEFA), and the World Wide Fund for Nature (WWF) complement this rich picture.

07
A Vision to Be an Innovator in the Race for Globalization

Switzerland, with its history of international involvement and innovation, is at an excellent starting point. It already has a lot to offer to MNCs and highly qualified people. Switzerland should at this point think further and develop a strategy building on innovative alliances defined not by geographic closeness but rather by such MNC needs as global presence, seamless transactions across geographic boundaries, and easy access to all required resources. Two possible types of alliances could be

– emerging economies such as India or certain Eastern European countries
– similarly minded, highly developed countries such as Singapore and Hong Kong

Countries such as Singapore and China have started to practice the first of two alliance strategies suggested above. China has been investing and continues to invest in Africa, helping build its infrastructure while securing in return a stable supply of energy resources that China lacks. On the other hand, Singapore – recognizing that its economy can neither continue to boom nor compete in all domains – has invested in India, especially in the software sector, by collaborating with the state of Karnataka in India. This not only allows Singapore to participate in the rapid growth of India, but it also provides access for MNCs in Singapore and the best software talent available. China, India, and Singapore, just to name a few outstanding examples, have made strategic choices on the basis of their strengths and weaknesses. India could also be interesting.

Based both on our discussions with MNC executives and on our own research, we conclude that Switzerland competes mainly with its similarly structured European counterparts such as the Netherlands, Ireland, Scandinavian countries, and Belgium as a destination site for foreign MNCs, but very rarely with geographically displaced but similarly developed economies such as Singapore and Hong Kong. This provides, we believe, a unique opportunity for Switzerland (or for that matter any other like-minded European economy) if it is able to forge an alliance with countries such as Singapore and Hong Kong, becoming a part of a global economic network.[6] Such a global network could offer an MNC a common economic space for global business execution – enabling, for example, transfer of resources, new offices and centers, and access to local resources – even when it is not physically present.[7] We need to start a national discussion now and develop a common view on where to take Switzerland in the future.

6 The idea is similar to an alliance that would be set up between companies that have complementary capabilities but similar overall goals.
7 Ideally, the global network would consist of countries that are similar in size, similarly minded in terms of their role in the global economy, and do not have a geographic overlap-allowing for similar goals and opportunities that don't overlap.

08 Key Takeaways

1. MNCs comprise an important element of Switzerland's economic power. They contribute 34 percent to the Swiss GDP. This 34 percent of GDP is at risk in the international competition.

2. MNCs are increasingly exposed to international location optimization. Competitive pressure and emerging opportunities to optimize the organization globally are the key drivers.

3. In the race to attract MNCs, Switzerland faces a very heterogeneous set of *Standortfaktoren*, or business location factors:
   – Expensive labor and a small market prevent Switzerland from competing in the high-volume, low-value, mass-market segment
   – Focus must be on high-quality niches, and this requires sufficient availability of appropriately qualified personnel

4. Switzerland currently commands a strong position, but it has lost it uniqueness:
   – Other countries are catching up
   – Overall, the differences between competing nations have been shrinking for the last decade

5. Many competing nations have recognized the benefits and promises of being attractive to MNCs and have shown incredible speed and will to improve their attractiveness:
   – Often they lead with attractive tax regimes, but these are quickly followed by real infrastructure and industry-specific action plans

6. In the recent past, Switzerland has established itself as an attractive location, especially for headquarters and other highly qualified functions. However, deterioration in key location benefits could quickly change this picture. In this light, Switzerland has to carefully consider the impact of initiatives such as the tax fight with the European Union, potential capacity restrictions for airports, and the *Abzockerinitiative*.

7. Switzerland needs to continuously improve its location qualities for MNCs in order to remain competitive in the global race for business locations. Key areas to be addressed include the following:
   – Competitive tax rates and schemes
   – Sufficient availability of local and imported skilled labor
   – A nationally coherent communication of the Swiss offer, rather than today's fragmented cantonal offerings
   – Keeping amenities and infrastructure on a par with the international state of the art of, for example, airline connections and international schooling.
   – Promoting Switzerland's benefits specifically to the most attractive target groups

8. As demonstrated in recent years, many nations can excel at developing their location quality. Switzerland, therefore, should think about radically new ways to build sustainable competitive advantages by
   – approaching specific industries and developing location qualities around their needs
   – initiating a global economic network – an economic union that is not defined by geographic proximity but instead offers a combination of best locations for MNCs worldwide

09
Methodology

This year, following an approach similar to last year's, we followed a three-step methodology to obtain the facts and acquire the knowledge presented in this study.

First, we did the analytical research that forms the backbone of Chapters 01, 02, and 03. We collected a wide range of data, both through our own research and with the help of the institutions listed on pages 42/43. These data served as the basis of our analyses of the MNCs. We deliberately chose to focus primarily on GDP instead of GNP, because GDP is the better indicator for displaying value added in Switzerland.

Second, we conducted a broad survey of MNCs in Switzerland. A total of 108 MNCs active in Switzerland completed our survey questionnaire and contributed to our statistical analysis. The participating companies that agreed to let us publish their contributions are listed on pages 42/43.

Third, we conducted in-depth interviews with two dozen CEOs and senior managers of the leading MNCs in Switzerland and with representatives of various Swiss business-development entities and other important stakeholders. These discussions enabled us to gain deeper insight into the needs of foreign companies in Switzerland.

10
Publishers of This Study

The Swiss-American Chamber of Commerce
The Swiss-American Chamber of Commerce is a 2 500-member, privately-funded not-for-profit organization committed to the promotion and facilitation of business relations between the United States of America and Switzerland.

We encourage initiatives from our members and combine our resources with theirs in order to achieve what individual businesses cannot do alone. The Swiss-American Chamber of Commerce takes the lead in furthering its members' business interests in Switzerland, the United States and internationally, through lobbying, public relations efforts, and direct government contacts.

The Chamber takes a proactive approach to determine the right strategies and get them implemented in a timely fashion. Coherent, well-focused communications and the exchange of best-practices information will help members build their businesses. For further information, please visit our Web site at www.amcham.ch.

The Boston Consulting Group, Inc.
Since its founding in 1963, The Boston Consulting Group has focused on helping clients achieve competitive advantage. Our firm believes that best practices or benchmarks are rarely enough to create lasting value and that positive change requires new insight into economics and markets and the organizational capabilities to chart and deliver on winning strategies. We consider every assignment to be a unique set of opportunities and constraints for which no standard solution will be adequate. BCG has 63 offices in 37 countries and serves companies in all industries and markets. For further information, please visit our Web site at www.bcg.com.

BCG Zürich opened in 1989 to allow The Boston Consulting Group to better serve its many Swiss clients. BCG Zürich's client roster includes leading companies in the banking, insurance, pharmaceuticals, health care, consumer goods, retailing, high-tech, and telecommunications industries. BCG Zürich's staff provides an extensive array of services, with a focus on strategy, corporate development, organizational effectiveness, change management and IT. For further information, please visit our Web site at www.bcg.ch.

Authors
Swiss–American Chamber of Commerce:
Martin Naville
The Boston Consulting Group:
Dr. Adrian Walti
Pia Tischhauser
Dr. Vaidyanathan Srikant
Christian Novosel

Communications
Dr. Urs Läubli, Hirzel.Neef.Schmid.Konsulenten, Zurich
(urs.laeubli@konsulenten.ch)

Editor
Elyse Friedman

Design
feurer network ag, Zurich

Contact
Martin Naville
(*martin.naville@amcham.ch*)
Pia Tischhauser
(*tischhauser.pia@bcg.com*)