Foreign Companies in Switzerland

Joint Study of the Swiss–American Chamber of Commerce
and The Boston Consulting Group
Zurich, January 2006

The Forgotten Sector

Swiss-American Chamber of Commerce

BCG The Boston Consulting Group

Dear Reader

Did we not hear many times about the myth of foreign companies being in Switzerland just for tax saving reasons? Foreign companies essentially being a "free-rider" in our economy but contributing marginally?

What is the real contribution of foreign companies to the Swiss economy? Are they here for the long-term? In what way do we mutually benefit from each other? Why do foreign companies come? And why would they leave again?

With these questions in mind, we started a three year program to better understand foreign companies in Switzerland.

As you will read in this report, foreign companies are indeed vital for our economy: a strong contributor to Swiss GDP and an even stronger contributor to its growth!

However, foreign companies do not have an own business association and their interests are largely under-represented. Essentially – a forgotten sector.

Therefore, in the next issues of this report due in 2007 and 2008, we will focus on further understanding Switzerland's competitive position in a European context as well as on developing specific proposals on how to further improve Switzerland's position in the race to win foreign companies and increase the value they bring in terms of highly-qualified jobs and economic growth.

We hope you will enjoy the reading and would be very happy to receive your comments on either martin.naville@amcham.ch or walti.adrian@bcg.com.

Martin Naville
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01
Executive Summary

Introduction

Foreign companies have become a substantial part of the Swiss economy. Today, they account for almost ten percent of the Swiss GDP. Since 1995, they account for more than 20 percent of Switzerland's GDP growth. While today foreign companies find conditions favorable in Switzerland – more than 1 000 companies moved to Switzerland within the past two years – Switzerland cannot take this for granted.

In order to remain an attractive destination for global companies, Switzerland needs to understand their needs and ensure attractive conditions on a long-term basis. The Swiss-American Chamber of Commerce and The Boston Consulting Group surveyed more than 100 leading foreign companies in Switzerland to pinpoint why Switzerland is the favorite location for foreign businesses and to identify areas in which changes could be made to secure and further increase Switzerland's attractiveness.

This executive summary of our findings highlights the importance of foreign companies to the Swiss economy, describes their needs, and suggests ideas for key initiatives to maintain and improve Switzerland's competitive edge over alternative locations in Europe.

Switzerland and Foreign Companies – the Mutual Benefits

Why Do Foreign Companies Come to Switzerland?

More than 6 500 foreign companies are currently operating in Switzerland, typically for one of the following three reasons:

Switzerland is an attractive market

Switzerland offers the advantages of a highly developed market with attractive price levels and above-average margins. Because of its multi-cultural characteristics, many companies find Switzerland to be an excellent test market for new products and services.

Switzerland offers unique skills and production capabilities

Switzerland offers a skilled work force and local suppliers for highly specialized industries, such as biotechnology, pharmaceuticals, precision mechanics, and medical technology. Highly skilled workforces across all levels and a favorable work environment are important, differentiating elements.

Switzerland serves as a gateway to Europe

Switzerland is one of the most attractive locations for European and global headquarters and logistic centers of operations. More than 1 000 regional and global headquarters of foreign companies are located in Switzerland. A central European location with easy access, excellent infrastructure, responsive and transparent authorities and a favorable tax environment are among the most important drivers.

How Does Switzerland Benefit from Foreign Companies?

Foreign companies provide a large and growing contribution to the Swiss economy and society. The most visible and significant benefits come from the direct impacts of foreign companies:

- Employment within Switzerland
- Investments in Switzerland
- Taxes paid by foreign companies and their employees
- Positive impact on Switzerland's trade balance

Foreign companies also provide strong indirect benefits. For example, foreign headquarters contribute to the growth of many local service suppliers, including professional services, IT services, construction and real estate management, security services, transportation, and travel and entertainment.

In addition, foreign companies bring multiple qualitative benefits to Swiss society, such as leading edge technology, innovation, and an international environment and culture.

Table 1.1

Number of Employees of Foreign Companies in Switzerland, 2003, by Companies' Country of Origin

Country of origin	Swiss based Employees (Full-time equivalents)
Germany	72 000
USA	56 000
UK	15 000
Netherlands	13 000
France	11 000
Luxembourg	10 000
Denmark	7 000
Italy	6 000
Austria	4 000
Belgium	4 000
Others EU	4 000
Others	8 000
Total	**210 000**

Source: Statistics agencies, BCG analysis

Foreign Companies' Increasing Importance to the Swiss GDP

A significant share of the Swiss GDP is generated by foreign companies in Switzerland. Foreign companies' total contribution to the Swiss GDP was close to 10 percent in 2003. Their contribution to the growth of Swiss GDP has been an even more impressive 23 percent of Swiss GDP growth between 1995 and 2003.

What Is the Contribution of Foreign Companies to the Swiss GDP?

The most important driver of foreign companies' contributions to Swiss GDP is employment and associated salaries.

In 2003, foreign companies employed 210 000 people (full-time equivalents) in Switzerland, which is about 7 percent of total employment in Switzerland. (See Table 1.1.) This represents more than the combined total of all employees of the eight largest Swiss companies. German companies employ the largest share with 72 000 employees in Switzerland. This is not surprising, since Germany is Switzerland's largest neighbor and an important trade partner. What is more surprising, is that U.S. companies are the second largest foreign employers, representing about 56 000 employees in Switzerland.

We estimate that of the 210 000 employees of foreign companies in Switzerland, about 50 percent are employed to serve the Swiss market. Another 70 000 work for companies that use Switzerland as a production location, and about 35 000 work at international headquarters of foreign companies in Switzerland.

If the contribution of foreign companies to the Swiss GDP simply equaled their share of total employment, it would be the same 7 percent. But this is not the full story, because foreign companies are actually more productive than the average Swiss company.

Foreign companies tend to employ more highly educated people and therefore pay salaries that are above the Swiss average. For example, our survey indicates that U.S. companies' share of employees with a university degree (as defined by Swiss standards) is above 30 percent – which is almost three times the Swiss average of 11 percent.

Overall, we find that the productivity of foreign companies is about 20 percent above the Swiss average. Foreign companies' direct contribution to the Swiss GDP is therefore about 8.2 percent, or 35 billion Swiss francs. This is, by way of comparison, significantly larger than the contributions from the entire Swiss machinery industry and comparable to the contribution of the Canton Aargau. (See Table 1.2.)

To provide a full picture, indirect benefits need to be considered too. The highly productive employees of foreign companies generate a higher-than-average number of secondary jobs. For example, international headquarters of foreign companies use significantly more lawyers, IT specialists, and other professional services than a Swiss company with comparable staff level. Conservatively estimated, these indirect benefits contribute an additional 1.5 percent to the Swiss GDP, bringing foreign companies' contribution close to 10 percent – a significant share of the Swiss economy. (See Figure 1.1.)

Table 1.2

Comparison of Foreign Companies' Contributions to the Swiss GDP in 2003 with that of Swiss Industry Sectors and Cantons

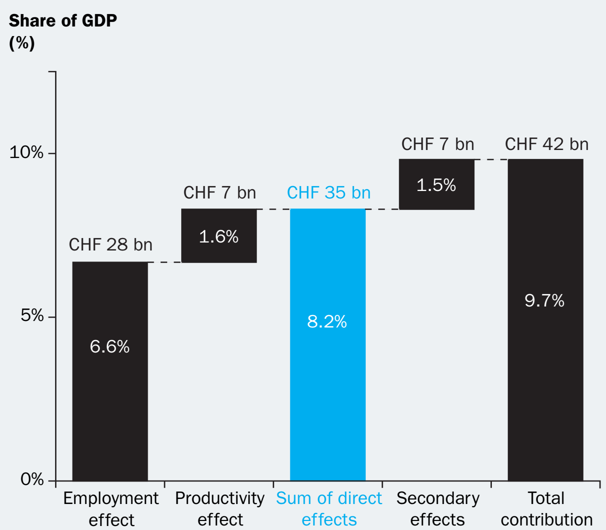
Sector	GDP bn CHF	GDP Share
Retail/wholesale	50	12%
Public administration	47	11%
Banking	40	9%
Foreign companies 8.2%		
Services/real estate	34	8%
Machinery	29	7%
Healthcare/soc.syst.	25	6%
Construction	23	5%
Insurance	23	5%
Chemicals/pharma	23	5%
Telecom/IT services	20	5%
Others	120	28%
Total	**434**	**100%**

Canton	GDP bn CHF	GDP Share
Zürich	91	21%
Bern	52	12%
Waadt	39	9%
Foreign companies 8.2%		
Aargau	34	8%
St. Gallen	25	6%
Genf	24	6%
Luzern	17	4%
Basel Stadt	17	4%
Others	130	30%
Total	**434**	**100%**

Source: BfS, SNB, BCG analysis

Figure 1.1

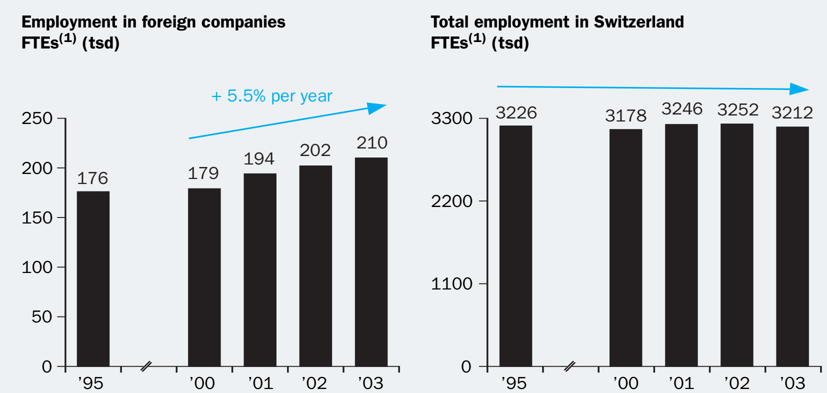
Foreign Companies' Contributions to the Swiss GDP, 2003



Source: BCG analysis

Figure 1.2

Employment in Switzerland, 1995–2003: Foreign Companies vs. Total Employment



(1) FTEs: full-time equivalents

Source: BCG analysis, Swiss National Bank (2005), Swiss Federal Statistical Office (2005

What Is the Contribution of Foreign Companies to Swiss GDP Growth?
Foreign companies are even more important for the growth of Switzerland's economy. As the recent past shows, foreign companies can help Switzerland revitalize its economy and accelerate GDP growth.

The impact of foreign companies on Swiss GDP growth can be illustrated by their impact on employment: While the total number of employees in Switzerland was stagnant, or even decreased slightly between 1995 and 2003, the number of employees at foreign companies in Switzerland has grown by 5.5 percent annually since 2000. Without these foreign companies, employment in Switzerland would have decreased. (See Figure 1.2.) Overall, foreign companies contributed nearly a quarter of Swiss GDP growth in the period of 1995 to 2003. (See Figure 3.7)

Part of the foreign contribution to Swiss GDP growth is due to acquisitions of Swiss companies (for example, Zimmer's acquisition of Centerpulse, an orthopedics company in Winterthur), which often enables not only continuation but accelerated growth of the Swiss-based operations. Even more important is the establishment of new businesses by foreign companies and significant increases in foreign companies' presence; for example, the headquarters for Europe, the Near and Far East, and Africa of Procter & Gamble in Geneva with 1 800 employees.

"To ensure a neutral point of view, business headquarters should be located far from large markets and large production sites: Switzerland is a perfect choice."

David Meline, Chief Financial Officer,
General Motors Europe

Foreign companies are major contributors to the Swiss GDP and to Swiss GDP growth – demonstrating that foreign companies can play a vital role in reinvigorating Swiss GDP growth. That is why the presence of foreign companies is so important to Switzerland's current and future economic development.

Switzerland's Attractiveness to Foreign Companies – Raising the Bar

Our survey of more than 100 leading foreign companies in Switzerland shows how attractive Switzerland is to foreign companies. It also reveals the importance of sustaining Switzerland's appeal.

How Do Foreign Companies Rate Switzerland as a Location?
Foreign companies are very satisfied with Switzerland: 88 percent of survey participants would choose Switzerland again, if they had to decide about location today. (See Figure 1.3.) And this question is indeed important: Two-thirds of these companies make decisions about their locations at least every 10 years. Keeping its competitive edge over other European countries is therefore critical for Switzerland in the mid- and long-term.

To understand Switzerland's positive rating, we need to go one step further – to assess how Switzerland performs in terms of the specific criteria considered important in choosing a new location for business operations. Figure 1.4 provides an overview of the results of our survey. Interestingly, tax is not the most important driver. Nevertheless, the tax rates play a crucial role in foreign companies' assessments of location: Only countries with an attractive tax environment make it to the short list.
The four most important factors are

- Skill level of work force,
- Availability of (skilled) employees
- A flexible labor law, and
- Reliable political system and administration.

Switzerland ranked "best in class" in three of the four most important areas – political stability, labor flexibility, and the education of the work force – as well as in the quality of life, which is rated "important." An additional benefit we recognized during in-depth interviews is Switzerland's "neutrality in a business sense": A Swiss based headquarters receives much more acceptance from national subsidiaries than a headquarters based in one of the large European countries, where decisions are influenced by the power and interests of the local market and often seem biased toward the headquarters' host country.

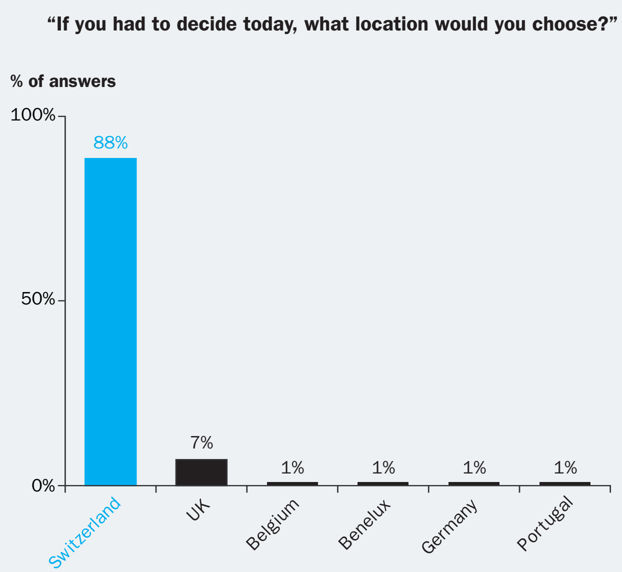
Stagnation on a High Level? When asking our survey participants whether Switzerland's attractiveness has changed over the past three years, the result was somewhat sobering. About two-thirds thought it had not changed at all, while over 20 percent told us that Switzerland's attractiveness was declining. (See Figure 1.5.)

As a recent study of the OECD suggests,[1] that Switzerland is currently loosing its tax advantage over its European peers. Also, Switzerland's attractiveness in other areas seems to be blurring in comparison to its European competitors.[2]

1 OECD, Tax Revenue Statistiucs (2005),
2 World Bank Group, Doing Buisness 2006 (2005)

Figure 1.3

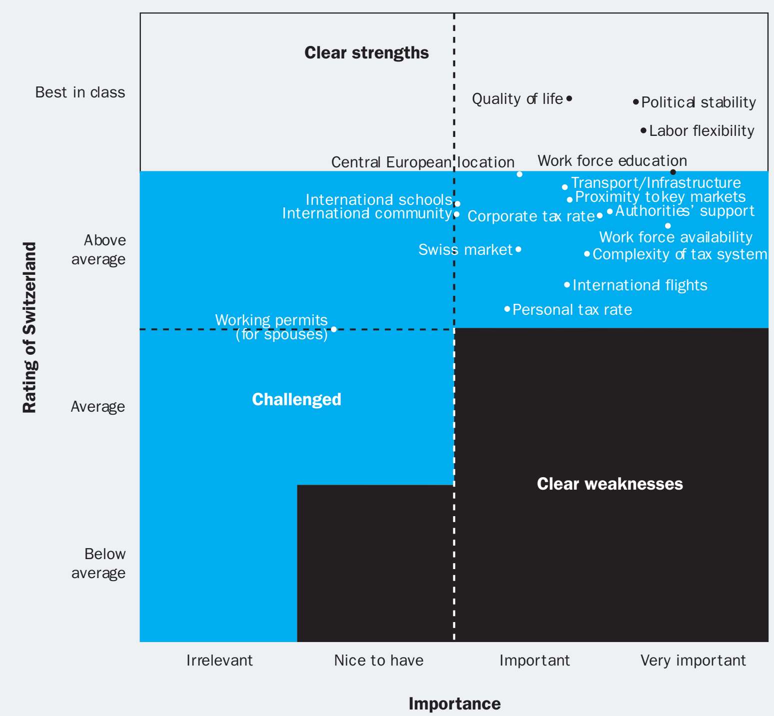
Survey Results: Satisfaction with Switzerland



Source: BCG survey (2005)

Figure 1.4

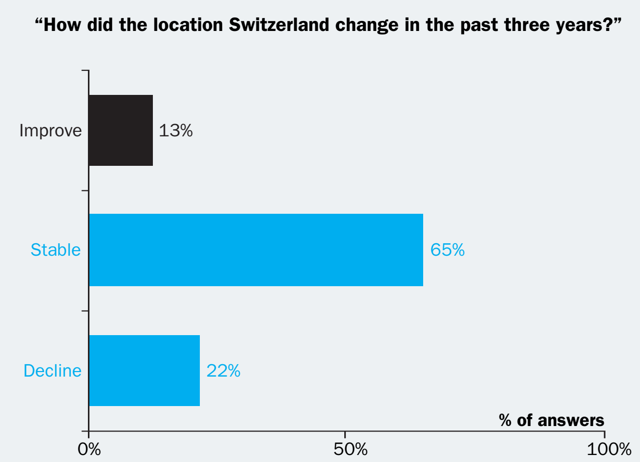
Survey Results: Switzerland's Rankings and the Varying Importance of Different Criteria



Source: BCG survey (2005)

Figure 1.5

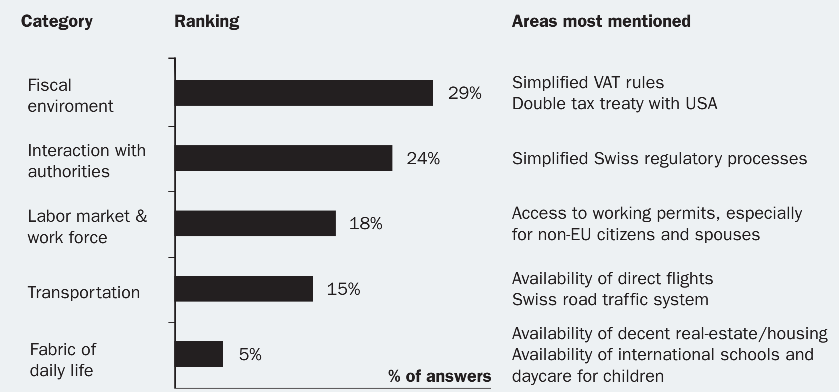
Survey Results: Change in Switzerland's Attractiveness, 2002–2005



Source: BCG survey (2005)

Figure 1.6

Survey Results: Areas Identified for Improvement



Source: BCG survey (2005), BCG interviews (2005)

Stagnation will not enable Switzerland to sustain its position as one of the most attractive locations for foreign companies in Europe, nor to exploit its full potential in this area. Switzerland therefore is challenged to take steps now to prevent losing its favorable position. But what can be done?

Some Suggestions

This study mainly focused on a detailed analysis of foreign companies' importance for the Swiss economy as well as understanding Switzerland's attractiveness for them. Next year's studies will further analyze this attractiveness in an international context in order to come up with concrete proposals on how to further improve. Nevertheless, we would like to already give some suggestions on where these potential improvement areas might be.

First and foremost: Recognize that foreign companies are major contributors to the Swiss economy and its growth. The contribution of foreign companies as a whole is as important as that of key Swiss industries and regions. Therefore foreign companies should be treated by the Swiss authorities as a separate, freestanding business sector with its own specific needs.

Second: Sustaining Switzerland's attractiveness to foreign companies requires action at the national level. (See Figure 1.6.) Prime examples of areas for improvement are non-integrated and bureaucratic regulatory processes, such as the tax system and procedures for obtaining working permits for non-EU citizens. Under present circumstances, a move from one canton to another can be a major undertaking for a foreign company. Another example of an issue that can be resolved only at the national level is less-than-optimal transportation, for example the insufficient availability of international flights.

Third: Cantonal- and local-level issues require attention. For example, international employees of foreign companies have difficulty finding appropriate international schools and day care for their children. Language, tuition, and availability are serious concerns for these parents, and Swiss authorities need to ensure that there is an adequate number of schools available at reasonable cost.

02 Switzerland and Foreign Companies – The Mutual Benefits

Switzerland, a small but open-minded country, is the location of a large number of foreign companies. We estimate that more than 6 500 foreign companies currently operate in Switzerland. But why do all these foreign companies come to Switzerland? And what is the benefit to Switzerland of such a large foreign presence?

"Geneva has been home to HP's headquarters for 25 years. Switzerland has been a key part of our identity and we are really planning to stay!"

Bernard Meric, Senior Vice President Europe, Middle East and Africa, Hewlett-Packard International

02.1

Why Do Foreign Companies Come to Switzerland?

The answer to this question lies in Switzerland's attractiveness as a market, the unique benefits it offers as a production location, and its distinct position as a gateway to Europe.

Switzerland Is an Attractive Market

Many companies operating in Switzerland are here to serve the Swiss market. With Switzerland's population of just over 7 million, the Swiss market is in fact relatively small. But the Swiss National Income per capita (U.S.$ 48 000) is far larger than the G7 average (U.S.$ 33 000).[3] Therefore Switzerland offers the advantages of a highly developed market with attractive price levels and above-average margins.

Moreover, the small but culturally diverse Swiss market is an excellent test market for new products and concepts. Many companies assess potential customers' reactions in Switzerland before deciding whether to roll out new products and concepts in larger European markets. For example, Starbucks, the leading American coffee house chain, opened its first branch in continental Europe in March 2001 in Zurich. Today, Starbucks is present in most European countries.

3 OECD Database (2005)

In summary, the Swiss market is small but also very attractive – especially for high-value products – because of the high levels of income and diverse culture in Switzerland. The attractiveness of the Swiss market, in addition, leads to increased production in Switzerland, because of the multiple benefits of having the sales market next to the production location.

Switzerland Offers Unique Production Capabilities

A second reason why foreign companies operate in Switzerland is to run a production location that serves other European or even global markets. Switzerland offers advantages to certain technological businesses – financial services, biotechnology/pharmaceuticals, precision mechanics, and medical technology – even though the production and labor costs are higher in Switzerland than in most other European countries. The reason for Switzerland's competitive advantage is that it is the home of worldwide recognized clusters of leading companies in specific industries, bundling know-how with a highly skilled work force and an outstanding infrastructure of suppliers. Figure 2.1 illustrates the main Swiss industry clusters and their locations.

With 30 percent of global private offshore assets held in Switzerland, it is one of the most significant financial centers in the world. Switzerland offers an attractive client base that led to leading-edge banking products and highly skilled financial professionals. Thus, all major foreign banks are attracted to Switzerland's major financial centers in Zurich and Geneva.

The biotechnology/pharmaceutical industry represents a second industry cluster. The presence of companies like Novartis, Roche, Serono, Amgen, Novo Nordisk, and Berna creates a globally significant biotechnology/pharmaceutical center and network. In addition to the proximity of competitors and partner companies, excellent research institutes create an attractive environment for these companies.

A third cluster of global importance is in the field of precision mechanics, located mostly in western Switzerland. Swiss watches are renowned worldwide because of their high quality and the leading Swiss know-how in precision mechanics. The Swiss watch industry's international success has lead to an impressive export volume of almost 13 billion Swiss francs per year.

No less successful is the medical technology industry, a fourth cluster that to some extent combines the know-how of biotechnology and precision mechanics. Companies like Straumann (dental implants), Zimmer (orthopedics), Medtronic (pacemakers), or Stratec (orthopedics) are leaders in their specific fields of medical technology.

Medtronic

Pacemakers Made in Switzerland

Medtronic, with more than 33 000 employees worldwide, is a leading manufacturer of medical implants, such as cardiac pacemakers or neuron-stimulation systems. Since 1996, Medtronic has operated its international headquarters in Tolochenaz, Switzerland, at Lake Geneva, from where it has steered the company's operations in Europe, the Middle East, Africa, and India. In 1997, Medtronic started producing pacemakers and neuron stimulators in western Switzerland, principally because of the Swiss employees' expertise in precision technology, their high standards, and the proximity of high-class research centers – all key factors for growth and success in its business. Further, Medtronic's presence in Switzerland has grown continuously – increasing from 120 employees in Switzerland in 1996 to more than 500 employees in Switzerland today, with more expected as its business continues to increase.

"Zurich's position as an excellent gateway to Europe was a key driver in our decision to locate international operations in Switzerland."

Jesper Høiland, Senior Vice President Industrial Operations, Novonordisk Europe

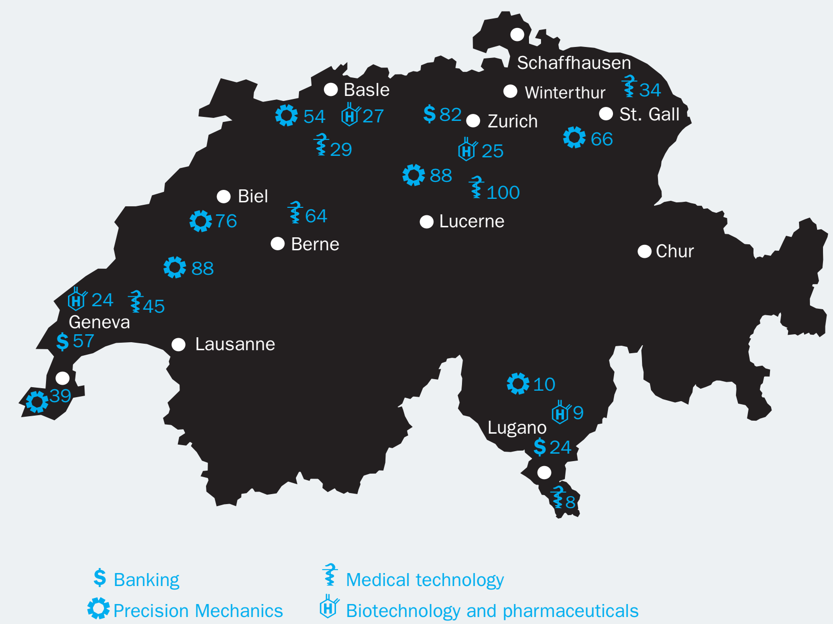
Switzerland Serves as a Gateway to Europe

Switzerland is a prime location for European and global headquarters. More than 1 000 foreign companies steer their global or European activities from Switzerland. Switzerland serves as a central hub for management, distribution, marketing, and administration. Not only do European companies, such as Heineken, base their global headquarters in Switzerland, but non-European companies, such as Alcoa or Philip Morris International, often choose Switzerland as their gateway to European markets. As a recent Arthur D. Little study shows, in the currently expanding global relocation of headquarters and holdings, Switzerland is a key destination among companies worldwide and the number one choice in Europe.[4] But why? Among other reasons, companies strongly value Switzerland's neutrality in a business sense, political stability, transparent administration, and central location within Europe. Switzerland's liberal labor laws are a further important reason, as headquarters need to "breathe".

4 Arthur D. Little, Headquarters Are on the Move (2004)

Figure 2.1

Industry Clusters in Switzerland



Number of firms clustered in industry and location
Source: Swiss Commercial Register (2005), BCG analysis

02.2

How Does Switzerland Benefit from Foreign Companies?

Foreign companies' activities in Switzerland are diverse. But how does Switzerland benefit? How much do these companies actually contribute to Switzerland's economic well-being?

We have found that foreign companies deliver direct, indirect, and qualitative benefits to the Swiss economy. By taking a closer look at each of these benefits, we can quantify the importance of foreign companies to Switzerland.

Direct Impact on the Swiss Economy:
Employment, Investment, Taxes, and the Balance of Trade

The most significant benefits to the Swiss economy come from the direct impact of foreign companies – specifically, employment within Switzerland, investments in Switzerland, taxes paid by foreign companies and their employees, and an improvement in Switzerland's balance of trade.

The most important benefit foreign companies bring to the Swiss economy is increased employment. We estimate that, currently, more than 210 000 employees (full-time equivalents) work for foreign companies in Switzerland. This is the basis of foreign companies' significant contribution to the Swiss GDP.

Foreign companies also invest in Switzerland – for example, constructing and equipping a new production site or office building. Swiss companies benefit directly from these investments, because they are often hired to realize these projects. In this way, foreign investments contribute directly to Swiss economic growth.
Foreign companies also pay taxes – to the state, the canton, and the municipality – and therefore contribute to the Swiss community, financing their share of needed economic infrastructure.

Finally, foreign companies contribute to Switzerland's strong current balance of trade. In particular, the industry clusters that focus on exports, biotechnology/pharmaceuticals, precision mechanics and medical technology greatly benefit the Swiss balance of trade.

Indirect Impact on the Swiss Economy:
Increased Business for Local Service Providers

The Swiss economy also benefits from indirect or secondary benefits that are generated by the activities of foreign companies. A typical example would be the indirect benefits that flow when a foreign company establishes its headquarters in Switzerland. In addition to the direct benefits (employment, corporate taxes, and investments), the headquarters will subcontract local service suppliers for IT management, accounting, legal work, and document– or facility-management. The highly paid employees who work at the headquarters will also make greater use of local services, such as transportation (flights, taxis) and restaurants, to name just a few examples.

Qualitative Impact: Networking, Knowledge Transfer, and Cultural Diversity

In addition to quantifiable benefits, foreign companies bring qualitative benefits to Switzerland that should not be underestimated.

As a small economic market, Switzerland depends to a large extent on foreign trade. The networks and partnerships between foreign and Swiss companies stimulate Switzerland's trade with foreign countries. Switzerland's success in building these relationships and increasing its foreign trade is illustrated by its 2003 balance of trade: Switzerland achieved a surplus in its balance of goods of 5.6 billion Swiss francs and an impressive surplus in its balance of services of almost 24 billion Swiss francs. The transfer of knowledge that comes with the operation of foreign companies in Switzerland is hard to quantify but a benefit of major importance. Innovative ideas and methodologies in science and technology, such as new production methods in the biotechnology industry, are essential for the highly developed industries in Switzerland. Research in technology led by the outstanding Swiss universities is often based on collaborations with international companies in Switzerland. The IBM Research Laboratories give an excellent example for this. The international transfer of knowledge is a major source of future economic growth for Switzerland.

IBM Research Laboratories

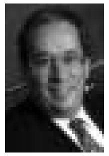
Where Knowledge Is Generated

IBM's international research center in Rüschlikon, Switzerland, is engaged in collaborations with 80 different universities worldwide and with more than two dozen industrial partners. Its work in modern fields of computer science – such as cryptography and security, communication, and storage – is beneficial to all participants. Its scientific research in nanotechnology and material sciences has gained international recognition. The success of IBM's research center and its collaborations has been rewarded by four Noble Prize laureates in physics.

Foreign companies also contribute to the cultural enrichment of Switzerland. The transfer of foreign employees to Switzerland increases the internationality of Swiss metropolises. There are very few European cities, for example, that can compete with the international flavor of Zurich.

03 Foreign Companies' Increasing Importance to the Swiss GDP

To our knowledge, there is no study that quantifies the contribution of foreign companies to the Swiss economy – typically, discussions remain on a qualitative level. This study presents such a quantification. But how can this be done? A central dimension of a macro-economic system is its Gross Domestic Product (GDP) which measures the entire value creation of the system. Therefore we quantified the contribution of foreign companies in terms of GDP. To do so, it is first necessary to understand the Swiss GDP, then to assess foreign companies' contribution to it, and finally to explore the contribution of foreign companies to the growth of Swiss GDP.



"The outstanding quality of life and the international atmosphere attract talented young professionals to Geneva."

Ricardo E. Belda, Executive Vice President,
Alcoa Europe

03.1

Understanding the Swiss GDP

The Importance of Employment to GDP

Foreign companies' importance to the Swiss economy can be quantified as their contribution to the Swiss GDP. To calculate this, we start with a deep understanding of the Swiss GDP total, from which we extract the foreign companies' share.

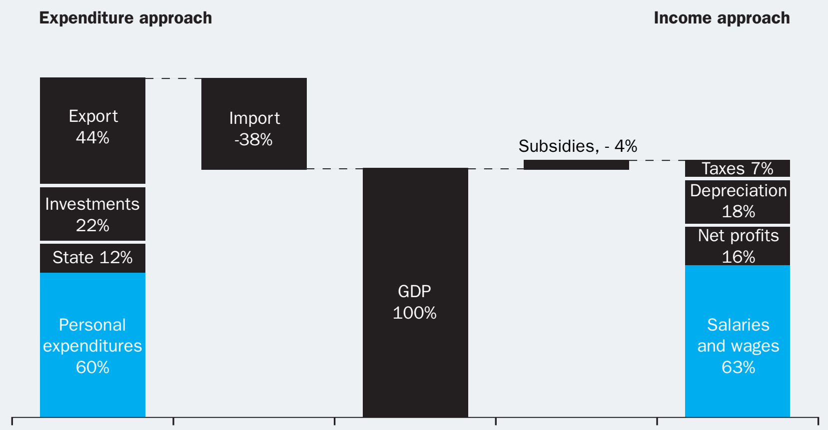
Figure 3.1 shows the components of the Swiss GDP, which we calculated using the two primary methodologies:[5] The entire Swiss GDP can be determined as the sum of all expenditures in Switzerland, illustrated on the left side of Figure 8, or as the sum of all income, depicted on the right side. Employment is the central driver of GDP. Salaries and wages, on the income side, and personal expenditures (enabled by salaries and wages), on the expense side, directly constitute more than 60 percent of the Swiss GDP. Consequently, we estimate foreign companies' share of the Swiss GDP based on the employment foreign companies create in Switzerland.

Before we talk more about foreign companies' share of the Swiss GDP, let us take a closer look at the size of the Swiss GDP and its growth in recent years.

5 Swiss Federal Statistical Office, Database (2000–2003), Swiss Bank, Database (2000–2003)

Figure 3.1

Contributions to the Swiss GDP – Measured by Expenditure and by Income



Source: Swiss Federal Statistical Office (2000 – 2003), BCG analysis

We thank the following companies for their contributions to the survey:

Accenture
Actuate International
Alcoa
AIG Europe
American Express Switzerland
Arvin Meritor
Baldor ASR
Bauknecht
Baxter
Berata
Brink's Switzerland
Brocade Communications Switzerland
Burson–Marsteller
Caterpillar
Chiquita Switzerland
CHUBB
Citigroup
Cilag
Cimcool Europe
Dell
Dionex
Dow Chemicals Europe
Dunavant
Ebay
Esso Schweiz
Euler Hermes Kreditversicherung
Fischer Imaging Europe
Forkhardt Schweiz
Franklin College Switzerland
General Electrics
General Mills
General Motors
Gilette
Grand Total
Great Lakes Chemical Europe
Gymboree Switzerland
H. B. Fuller
Hamilton
Harwood International Switzerland
Hasbro
Haws
HCCM
Hewitt Associates
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Huntsman Advanced Materials
Honeywell
Hyan
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Integrated Biosystems
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JP Morgan
Kelly Services Suisse
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Tupperware
UL international Switzerland
UPS United Parcel Service
Varian Medical Systems International
VisionOne
WABCO Switzerland
Willis

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Greater Zurich Area AG
Development Economic Western Switzerland
Berne Economic Development Agency
Economic Development Departement Canton Zurich
L'Office de la Promotion Economique Geneve
Economic Promotion Canton Schaffhausen
Business Development Canton St. Gallen
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U.S. Bureau of Economic Analysis
The Swiss–French Chamber of Commerce
The Swiss–British Chamber of Commerce
Handelskammer Deutschland–Schweiz
Deutsche Bundesbank
Federal Statistical Office Germany
Bank of England
Royal Netherlands Embassy in Switzerland
The French Embassy in Switzerland
The Embassy of Luxembourg in Switzerland

Swiss GDP – Stagnation on a High Level

The Swiss GDP per capita (U.S.$ 44 000) is one of the largest worldwide.[6] Among large and developed economies, it is surpassed only by Luxembourg and Norway (see the left-hand side of Figure 3.2). It is more than 15 percent higher than the U.S. GDP per capita, and it is twice the size of the EU15 average. While Switzerland's current GDP per capita is impressive, how has it grown over time? Between 1995 and 2003, the Swiss GDP experienced an annual growth of 1.4 percent (adjusted for inflation). This is among the smallest rates of GDP growth in Europe – only Germany lags behind (see the right-hand side of Figure 3.2). Since 2001, the inflation-adjusted Swiss GDP has even stagnated. In other words, Switzerland seems to be losing its comfortable position.

Switzerland is one of the few countries worldwide with a significant difference between its GDP and Gross National Income (GNI). In 2003, the Swiss GNI was about 8 percent above its GDP. Therefore, the question arises whether GNI would be a better measure for analyzing the Swiss economy. But the annual growth of the Swiss GNI between 1995 and 2003, at 1.9 percent,[7] is not dramatically higher than that of the Swiss GDP, and this would not substantially change the assessment of Switzerland's economic situation.

03.2

Foreign Companies Contribute Significantly to the Swiss GDP

Because employment has the largest impact on GDP, we estimate the contribution of foreign companies to the Swiss GDP based on the number of people they employ in Switzerland and their productivity. Our analysis requires three steps. The first step takes into account the percentage of employees working for foreign companies by industry sector and the differing productivity of these sectors. This gives us a first conservative estimate of foreign companies' share of the Swiss GDP. The second step of our analysis incorporates the higher productivity of foreign companies compared to the Swiss average. The third step adds the secondary effects of foreign companies, to the extent that they exceed the Swiss average.

Foreign Employment

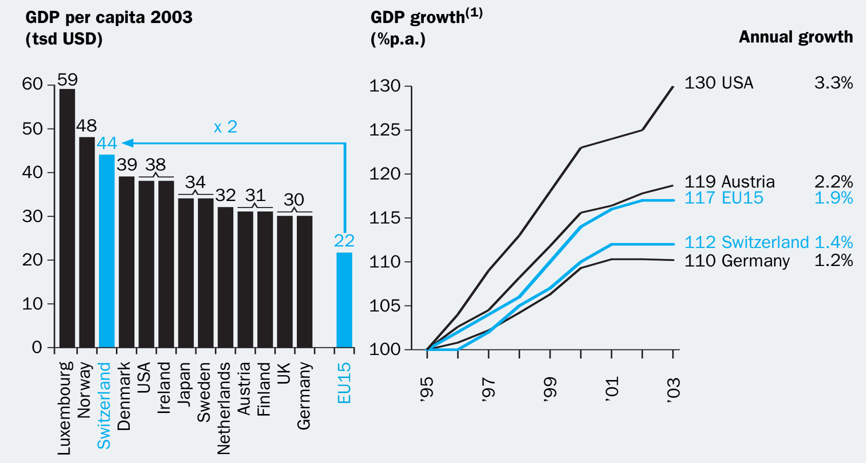
In 2003, foreign companies in Switzerland employed 210 000 people (full-time equivalents), which corresponds to 6.6 percent of total employment in Switzerland. This is more than the combined total of all employees of the eight largest Swiss companies.

Table 3.1 shows the number of employees working for foreign companies, segmented by the companies' country of origin. German companies, with 72 000 employees in Switzerland, are the most important foreign employers. This is not surprising, since Germany is Switzerland's largest neighbor and an important trade partner. But what is surprising is that U.S. companies are the second largest foreign employers, with about 56 000 employees in Switzerland. Overall, companies from EU countries are responsible for 70 percent of total foreign employment, while U.S. companies are responsible for 27 percent of total foreign employment in Switzerland.

6 OECD, Database (2005)
7 World Bank Group, Database (2005)

Figure 3.2

The Swiss GDP – International Comparison



(1) Index: 100 = 1995, inflation cleared
Source: OECD Data 2003 (2005)

Table 3.1

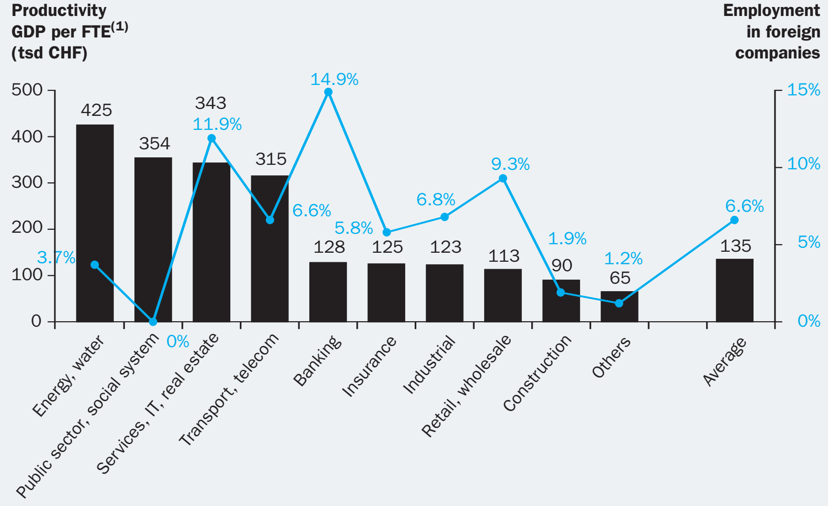
Number of Employees of Foreign Companies in Switzerland, 2003, by Companies' Country of Origin

Country of origin	Swiss based Employees (Full-time equivalents)
Germany	72 000
USA	56 000
UK	15 000
Netherlands	13 000
France	11 000
Luxembourg	10 000
Denmark	7 000
Italy	6 000
Austria	4 000
Belgium	4 000
Others EU	4 000
Others	8 000
Total	**210 000**

Source: Statistics agencies, BCG analysis

Figure 3.3

Swiss Industries Productivity and Share of Foreign Employment

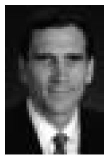


(1) FTEs: full-time equivalents
Source: Swiss Federal Statistical Office (2003), Swiss National Bank (2005), BCG analysis

We estimate that of the 210 000 employees of foreign companies in Switzerland, about 105 000 are employed to serve the Swiss market, another 70 000 work for companies that use Switzerland as a production location, and about 35 000 work at foreign companies' headquarters.

To continue our analysis, we combine these employment numbers with information about productivity. Figure 3.3 shows select Swiss industries' productivity and share of foreign employment.

Surprisingly, foreign companies are not, as one might have expected, concentrated in industries with the highest productivity. When we incorporate this information into our calculation, we find that foreign companies' contribution to Swiss GDP is 6.8 percent. This is only slightly higher than their corresponding share of employment (6.6 percent). The similarity is due to the fact that foreign companies have a widespread presence in all major Swiss industries.



"The Swiss workforce is highly motivated – a benefit for all businesses."

Richard Neff, Chief Executive Officer,
GE Consumer Finance (Switzerland)

Foreign Companies' Higher Productivity

So far, we have assumed identical productivity for foreign and Swiss companies within the same industries. But within industries, there can be significant differences in the productivity of different companies. In general, the difference in productivity can be approximated by measuring the difference in the salaries and wages these companies pay. We found two factors that lead to a difference in salaries and wages and therefore to a difference in the productivity of a company: the size of a company (number of employees) and the average job requirements (low, mid-, or high level). In Switzerland, there is statistical data that quantifies both and correlates them to productivity within different industries.[8]

First, size: Foreign companies in Switzerland are, on average, twice as large as Swiss companies. Statistics from the Swiss Federal Statistical Office prove that larger companies have higher productivity and therefore pay higher salaries. On average, these larger foreign companies pay 6 percent higher salaries than Swiss companies.

8 Swiss Federal Statistic Office (2000–2003)

Second, job requirements: Using a sound sample of foreign companies in Switzerland, we estimate that, within the service sector, 15 percent of foreign companies' jobs are low level, 35 percent are mid-level, and 50 percent are high level. This is because foreign companies in the service sector are more involved in research and development. For the production sector, we estimate that 10 percent of foreign companies' jobs are low level, 30 percent are mid-level, and 60 percent are high level. This reflects our findings that foreign companies are overrepresented in holdings, headquarters (such as Procter & Gamble), and comparable operations, but underrepresented in low-level service businesses, like cleaning or taxi driving. When we incorporate this data into our analysis, we find that, due to their higher-level job requirements, foreign companies pay 14 percent higher salaries than the Swiss average.

Procter & Gamble

Strategic Business Headquarters offers highly productive jobs in Geneva

Procter & Gamble (P&G) has a long tradition in Switzerland, starting with its first activities in Lucerne in 1953. In 1999, Geneva became P&G's strategic business headquarters for Europe, the Near and Far East, and Africa. At its strategic business headquarters in Geneva today, 1 500 P&G employees from 57 different nations develop and coordinate all activities for P&G's trademarks in these regions. The demands are high – Europe alone represents one-third of P&G's global revenues of more than U.S.$ 43 billion (2004). To meet these demands, P&G gathers in Geneva its worldwide experts on markets, functions, and products. These exceptionally skilled employees, who make wide-ranging strategic decisions for P&G in Geneva, are a prime example of a concentration of highly productive jobs.

Adding both effects together, foreign companies pay 20 percent higher salaries than the Swiss average, and therefore their productivity is 20 percent higher than the Swiss average. This adds an additional 7 billion Swiss francs to foreign companies' share of the Swiss GDP. Without taking secondary effects into account, we estimate that foreign companies' direct contribution to the Swiss GDP is 8.2 percent. Table 3.2 demonstrates the size of this contribution and enables interesting comparisons: The direct impact of foreign companies on the Swiss GDP is significantly larger than the whole Swiss machinery sector and comparable to the Canton Aargau.

Secondary Effects on the Swiss Economy

To estimate foreign companies' complete contribution to the Swiss GDP, indirect (secondary) effects have to be considered too. High-level jobs, such as key positions at headquarters or banks, generate secondary employment. As the basis of our estimate, we assumed that high-level jobs generate more-than-average secondary employment, while low-level jobs generate less-than-average secondary employment. In sum, the large number of high-level jobs in foreign companies leads to greater than-average secondary employment.

Table 3.2

Comparison of Foreign Companies' Contributions to the Swiss GDP in 2003 with that of Industry Sectors and Cantons

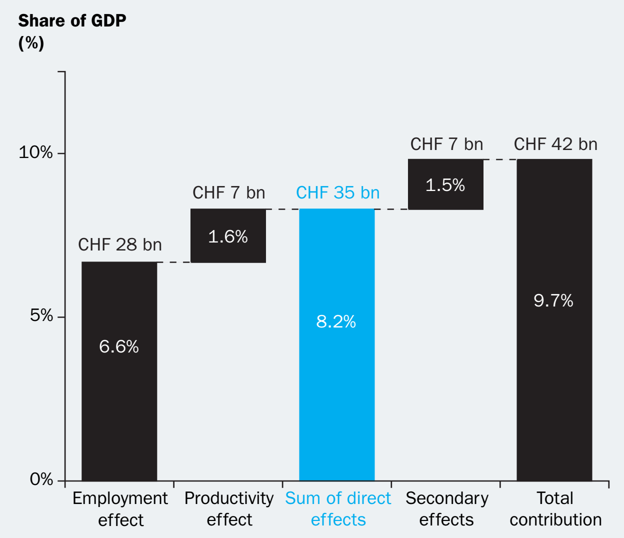
Sector	GDP bn CHF	GDP Share
Retail/wholesale	50	12%
Public administration	47	11%
Banking	40	9%
Foreign companies		8.2%
Services/real estate	34	8%
Machinery	29	7%
Healthcare/soc.syst.	25	6%
Construction	23	5%
Insurance	23	5%
Chemicals/pharma	23	5%
Telecom/IT services	20	5%
Others	120	28%
Total	**434**	**100%**

Canton	GDP bn CHF	GDP Share
Zürich	91	21%
Bern	52	12%
Waadt	39	9%
Foreign companies		8.2%
Aargau	34	8%
St. Gallen	25	6%
Genf	24	6%
Luzern	17	4%
Basel Stadt	17	4%
Others	130	30%
Total	**434**	**100%**

Source: BfS, SNB, BCG analysis

Figure 3.4

Foreign Companies' Contributions to the Swiss GDP, 2003



Source: BCG analysis

To provide a balanced view, a further consideration should be taken into account: replacement. Foreign companies' businesses, to some extent, replace jobs in Swiss companies. Analyzing a sample of foreign companies in Switzerland, we estimate that replacement is accountable for 30 percent of the secondary effect and therefore is discounted.

Figure 3.4 provides an overview of the various contributions of foreign companies to the Swiss GDP. All told, secondary effects add 7 billion Swiss francs to foreign companies' contributions to GDP in Switzerland. Combining direct and indirect effects, foreign companies generate almost 10 percent of the entire Swiss GDP.

03.3

Foreign Companies Drive Swiss GDP Growth

Beyond the static view presented thus far, we also explored how the contribution of foreign companies to the Swiss GDP has changed over time. We discovered that foreign companies could play an important role in meeting Switzerland's growth challenges.

Foreign Direct Investments

Creating new jobs generally requires investments. The growth in foreign direct investments in Switzerland, therefore, indicates an increase in foreign companies' impact on the Swiss GDP. The dynamic growth of foreign direct investments in Switzerland is impressive. (See Figure 3.5.) Between 1995 and 2003, foreign direct investment assets grew 15 percent, on average, per year. In 2003, these assets reached a value of 200 billion Swiss francs, almost half the size of the Swiss GDP that year. Among all foreign investments, the U.S. contribution is the largest – 40 percent. It also grew the fastest, with a compound annual growth rate (1995–2003) of more than 22 percent.

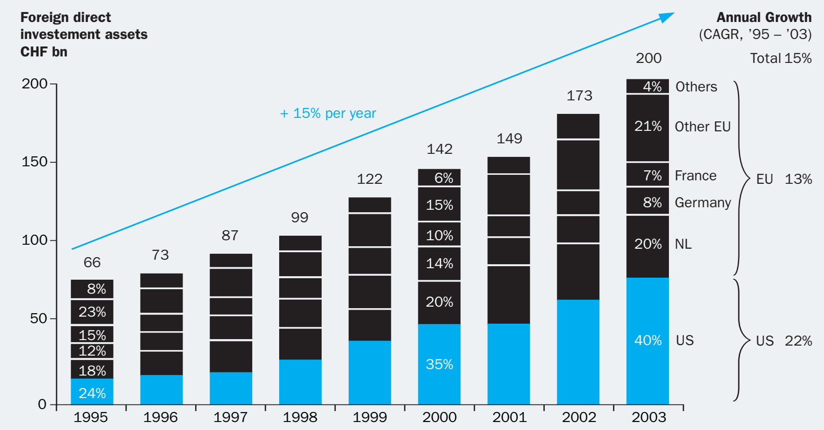
These foreign direct Investments are generally recognized as important to economic growth. But a certain share of this investment is pure ownership transfer that does not necessarily lead to immediate growth. It therefore makes senses to distinguish between real investments, such as the construction of a factory, and pure ownership shifts. According to the statistics of the Swiss National Bank, about half of the foreign direct investments are in finance and holdings, including large stock shares of Swiss-quoted companies. The other half goes directly into industry, either in the service sector or the production sector. Thus a significant share of foreign direct investment is real investment.

Foreign Employment

The strong growth of foreign direct investments in Switzerland seems to lead to strong growth of employment within foreign companies. Figure 3.6 shows the number of employees (full-time equivalents) in foreign companies versus total employment in Switzerland. It demonstrates the strong positive dynamic of foreign companies in Switzerland. While the total number of employees in Switzerland was stagnant or even decreased slightly between 1995 and 2003, the number of employees at foreign companies has grown by 5.5 percent annually since 2000.

Figure 3.5

Growth in Foreign Direct Investments in Switzerland, 1995–2003



Source: Swiss National Bank (2005)

Some of the employment growth at foreign companies is due to their acquisitions of Swiss companies – for example, Zimmer's acquisition of Centerpulse, an orthopedics company in Winterthur – which often enables not only continuation but also growth of operations. The acquisition of a Swiss company by a foreign company often secures jobs that were at risk.

Zimmer

A success story enabled by a foreign investor

In autumn 2003, the U.S. company Zimmer acquired, for 4.5 billion Swiss francs, the medical technology company Centerpulse (formerly Sulzer Medica), a leading company in orthopedics that had come under pressure. This large investment started paying off, and Zimmer experienced strong growth. Before the acquisition, 650 employees worked for Centerpulse, in Switzerland. Zimmer now employs more than 750 people in Switzerland.

In 2004, Zimmer moved its Eurasian headquarters to Switzerland – recognizing Switzerland's attractiveness to the medical technology industry, for which employees' know-how is crucial. Ray Elliott, the Canadian CEO of Zimmer, is planning to expand even further: a new production location in Winterthur will replace his factory in Texas and could create 400 new jobs in Switzerland within the next two to three years.

The establishment of new businesses by foreign companies or significant increases in foreign companies' presence (for example, the European headquarters of Procter & Gamble) is no less important. Over the past two years, organic growth of foreign companies and new foreign businesses were responsible for creating one-third of the new jobs in foreign companies. In specific regions, the numbers are even higher. Take Schaffhausen, for example, where attracting foreign companies led to significant job growth in recent years.

Impact on GDP Growth

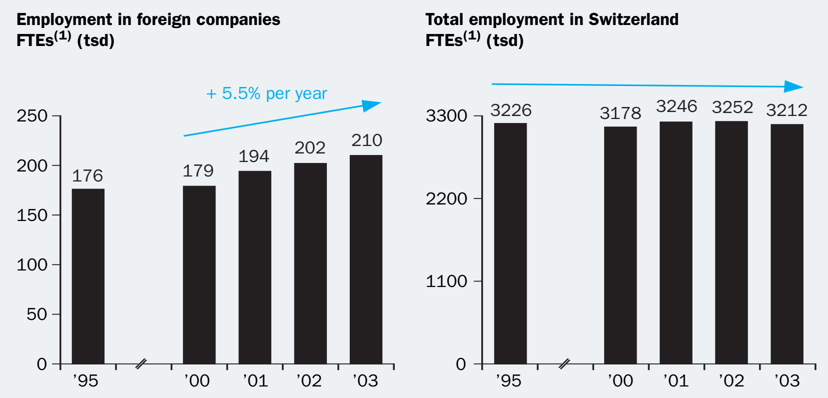
The dynamics of employment in foreign companies has a significant impact on total Swiss GDP growth. Between 1995 and 2003, the Swiss GDP was growing at an annual rate of 1.4 percent (inflation adjusted). In 1995 prices, this means an absolute add-on of 45 billion Swiss francs. How much of this add-on is from Swiss companies and how much from foreign companies?

There are two major reasons for GDP growth: increased productivity and growth in employment. This holds true for both foreign and Swiss companies. Figure 3.7 shows, for both foreign and Swiss companies, the GDP gain due to productivity change and the GDP gain due to employment change (the effects that are attributable to both are included in the employment share).

The largest add-on to the GDP between 1995 and 2003 originates in Swiss companies' large productivity increase. Because of the reduction in the number of employees (full-time equivalents) in Swiss companies during that time (see Figure 3.6), parts of this add-on were absorbed. Foreign companies, on the other hand, generated a positive contri-

Figure 3.6

Employment in Switzerland, 1995–2003: Foreign Companies vs. Domestic and Foreign Companies Combined



(1) FTEs: full-time equivalents
Source: BCG analysis, Swiss National Bank (2005), Swiss Federal Statistical Office (2005

bution in both dimensions, with a massive growth in employment and a strong growth of their productivity. In sum, between 1995 and 2003, foreign companies generated more than 10 billion Swiss francs out of the net GDP add-on of 45 billion Swiss francs. This means that 23 percent of the GDP growth of Switzerland between 1995 and 2003 came from foreign companies.

This shows that foreign companies have been vital to the recent growth of the Swiss economy. It also shows the potential for the development of Switzerland. In times of stagnation, foreign companies can boost the Swiss economy, not only bringing Switzerland back up to speed but helping it race toward a strong economic future.

"It is difficult to secure working permits for non-EU citizens–getting working permits for their spouses can be a real problem."

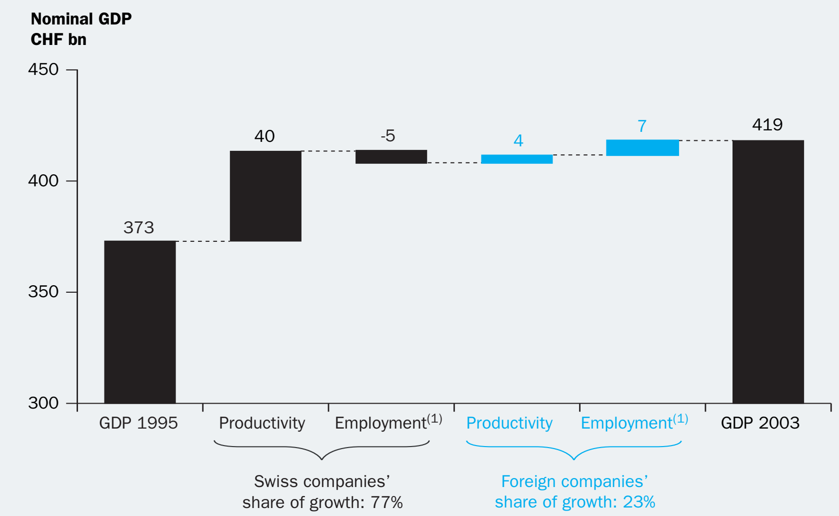
Hans Hoffmann, Head Human Ressources,
IBM Research Lab Rüschlikon

Revitalization of the Canton Schaffhausen

Investments and new jobs created by foreign companies can drive a regional turnaround. Schaffhausen's reversal of its economic downturn is a good example. Following World War II, Schaffhausen was a prosperous part of the Swiss economy. With companies like SIG and Georg Fischer, the canton was a well-established location for industrial production. But during the Swiss recession in the first half of the 1990s, Schaffhausen experienced a severe economic downturn, stronger than in many other cantons in Switzerland. The change from industrial production to a service-oriented economy, a challenge to Switzerland since the 1980s, led to significant job loss and increased unemployment in Schaffhausen. Between 1991 and 1995, the canton lost 12 percent of its jobs. Both federal and cantonal governments realized the need to deal with this problem: tax incentives were created to draw companies to the region. One such incentive was the liberalization of the holding law (2001). Another ("Lex Bonny") (2002) allows cantons to reduce taxes on companies that relocate to economically weak regions. Overall, Schaffhausen succeeded in establishing – and promoting – a very attractive business environment for companies willing to relocate there. These efforts to improve Schaffhausen's economic situation produced significant benefits: Although job loss

Figure 3.7

Growth of Swiss GDP, 1995–2003, Swiss and Foreign Companies' Contributions



(1) Including productivity gain of new employment. All number in prices of 1995
Source: Swiss Federal Statistical Office (2004), BCG analysis

continued in Schaffhausen until 1997, this trend was reversed. Between 1997 and 2003, employment in Schaffhausen grew. Table 3.3 gives an overview of the number of employees in Schaffhausen in Swiss and foreign companies in 1997 and in 2003. It shows that foreign companies' annual growth rate of 7 percent compensated for the employment drain in Swiss companies. About three-quarters of all new jobs in Schaffhausen during this time span were created by foreign companies, while job loss in foreign companies was almost negligible.

During the same period of time, the personal income in Schaffhausen increased 11 percent, while in Switzerland as a whole it grew 9 percent – which means that the growth of personal income in Schaffhausen was 30 percent above the Swiss average. This shows that foreign companies are not only important for the creation of new employment, but that the new jobs they provide offer higher income.
(Source: Business Development Canton Schaffhausen, 2005)

Table 3.3

Number of Emloyees in Schaffhausen in Swiss and in Foreign Companies 1997 and 2003. The Growth by Foreign Companies Compensates the Drain by Swiss Ones

	Total	Swiss companies	Foreign companies
1997	36 958	34 641	2 317
2003	37 262	33 762	3 500
CAGR	0.1%	– 0.4%	7.1%

Source: Business Development Canton Schaffhausen, 2005

04 Switzerland's Attractiveness to Foreign Companies – Raising the Bar

Switzerland must compete with other European countries to attract and retain the large number of foreign companies it hosts. With all the choices that foreign companies have, why do they come to Switzerland? What are the decisive criteria that determine a company's choice of location and how does Switzerland fulfill these criteria? Because foreign companies are so important to Switzerland's economy, another important question is how can Switzerland improve its appeal to foreign companies?

To find the answers to these questions, we asked the decision makers themselves. We conducted a survey of senior managers at more than 100 major foreign companies in Switzerland. Together, they represent a broad range of industries and business operations. In addition, we conducted in-depth interviews with executives of foreign companies, with Swiss cantonal and federal business developers, and with experts on the Swiss economy. Their answers are discussed below.

04.1

Switzerland Should Not Take Foreign Companies' Presence for Granted

Many of the foreign companies now in Switzerland have been there for a long time. Almost half of the companies that participated in our survey have been operating in Switzerland for more than 20 years. These companies have become important to the Swiss economy, and their presence should not be taken for granted.

Figure 4.1 shows how often foreign companies reevaluate their locations. More than two-thirds of the companies in our survey make decisions about their locations every 10 years. This increases the pressure on Switzerland to sustain its competitive edge over other European countries.

But who are Switzerland's competitors in Europe? The senior managers and executives whom we interviewed and those who participated in the survey mentioned many European countries. (See Figure 4.2.) The United Kingdom, Belgium, the Netherlands, Germany, Ireland, and Luxembourg were mentioned most often. These countries do offer some competitive advantages, such as membership in the European Union or the fact that English is the primary language spoken in the United Kingdom and Ireland.

04.2

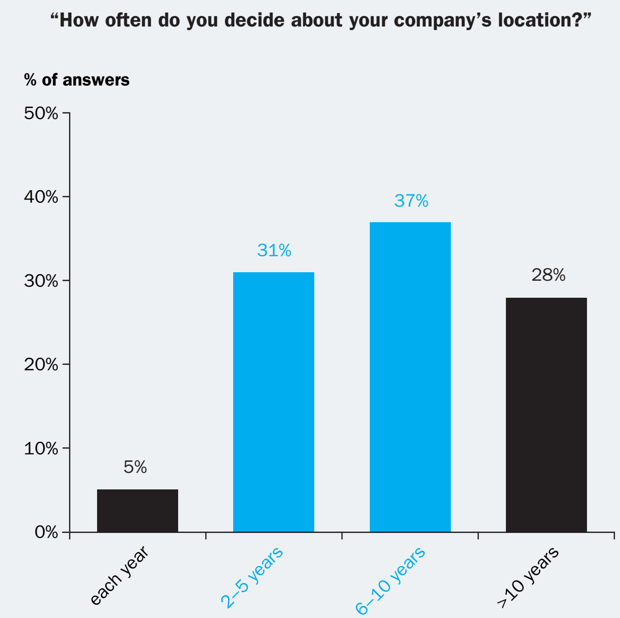
How Do Foreign Companies Rate Switzerland as a Location?

Our survey shows foreign companies' high overall satisfaction with Switzerland: 88 percent of the participants would choose Switzerland again, if they had to decide about location today. (See Figure 4.3.)

In order to develop a deeper understanding of this general assessment, we drilled down one step further to the level of criteria. What are the specific criteria that drive decisions on location and how does Switzerland rank when measured in terms of these criteria?

Figure 4.1

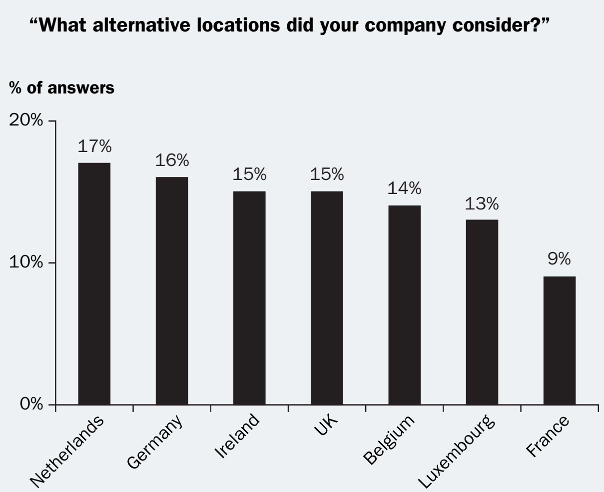
Survey Results: Number of Years Between Reconsideration of Company Location



Source: BCG survey (2005)

Figure 4.2

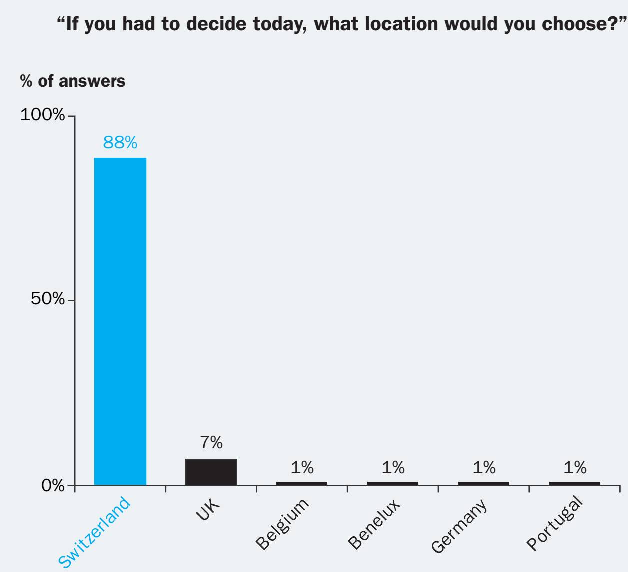
Survey Results: Countries Identified as Alternative Locations to Switzerland



Source: BCG survey (2005)

Figure 4.3

Survey Results: Satisfaction with Switzerland



Source: BCG survey (2005)

Figure 4.4 presents a detailed assessment of the survey participants' responses to these questions. The criteria themselves – ranging from political stability to quality of life – appear within a grid. Survey respondents' rating of the importance of the criteria is displayed from left to right. Their ranking of Switzerland on each criterion is displayed from top to bottom.

"Switzerland offers foreign companies significant advantages, e.g. a highly international and well educated work force, a flexible labor market and tax system, excellent infrastructure, and exceptional quality of life."

Jesper Høiland, Senior Vice President Industrial Operations, Novonordisk Europe

Decision Criteria

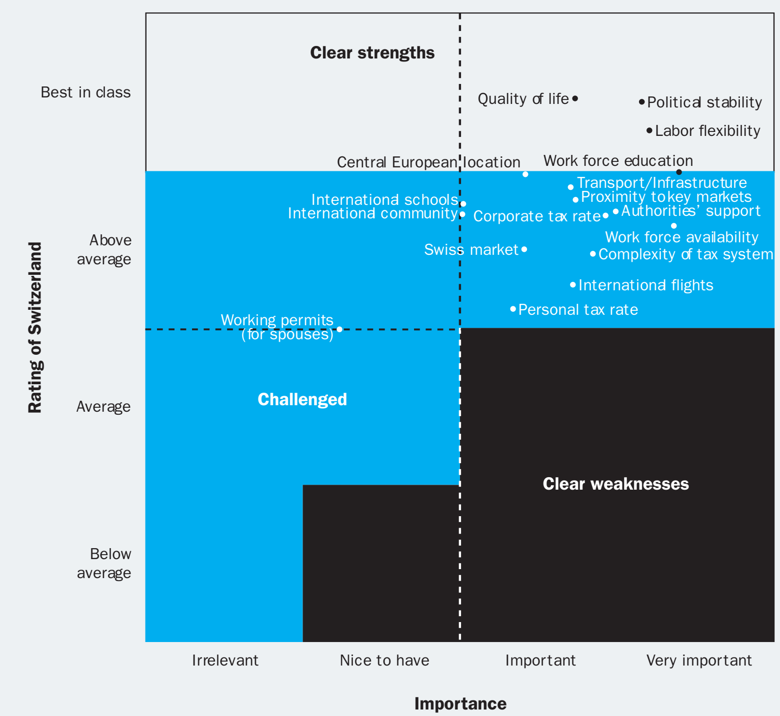
We first assessed the importance that foreign companies attach to specific criteria when choosing a location. While the general expectation might be that taxation is of utmost importance to foreign companies, this is not the case. The four most important considerations are the availability of the work force, the education of the work force, labor flexibility, and a reliable, stable, and transparent political system and administration.

Next in importance are the complexity of the tax system, the corporate tax rate, and the supportiveness of the administration. Our in-depth interviews confirmed that tax rates indeed play a crucial role in foreign companies' assessments of location: Only countries with low taxation rates make it to the short list. Also of importance are the proximity to key markets in Europe, transportation and the quality of life.

Our in-depth interviews also revealed that foreign companies are concerned about a location's neutrality in a business sense. National subsidiaries are more likely to accept a headquarters based in Switzerland than a headquarters based in one of the large European countries where decisions are influenced by the power of the local market and often seem biased toward the headquarters' host country.

Figure 4.4

Survey Results: Switzerland's Rankings and the Varying Importance of Different Criteria



Source: BCG survey (2005)

Switzerland's Rating as a Location

Switzerland's overall survey rating by foreign companies is impressive. Switzerland ranked "best in class" in three of the four most important areas – political stability, labor flexibility, and the education of the work force – as well as in the quality of life, which is rated as "important."

It is not at all surprising that Switzerland received a high score on political stability. For decades, Switzerland has enjoyed a steady political environment that has, in turn, created comfortable economic conditions for foreign companies.

Switzerland also is recognized as offering a highly flexible labor market combined with a highly educated work force. The flexibility of the Swiss labor market is especially attractive to U.S. companies, which seek conditions close to their own deregulated labor market. And in its highly educated work force, Switzerland clearly holds a major competitive advantage – because one of the most important assets of any prospering business is its employees.

"The train system in Switzerland is excellent. This contributes to the high-quality business life here."

Bernard Grimm, General Manager,
Abbott Switzerland

Foreign companies also showed appreciation for the quality of life in Switzerland. Many other surveys confirm their opinion – consistently ranking Geneva and Zurich among the best cities worldwide in terms of quality of life. Both our survey and our interviews confirmed the importance of quality of life to foreign companies' decision making on location. Senior managers often told us that this criterion was vital to their decision to operate in Switzerland.

Switzerland profits strongly from its central European location, which is a key consideration to foreign companies when choosing a location. The fact that Switzerland serves as a gateway to Europe is a significant advantage to foreign companies' headquarters located here. And Switzerland's proximity to key markets is essential to foreign companies establishing their distribution, marketing, and sales offices here. As businesses begin to shift their focus toward Eastern Europe and Asia, this competitive advantage might decrease in importance.

The importance of cooperation between Swiss authorities and foreign companies is also recognized in our survey. The positive participants' rating here shows that Swiss authorities understand that foreign companies are more than tax payers – they are clients.
When we asked our survey participants whether Switzerland's attractiveness had improved or declined over the past three years, the results were somewhat less positive.

About two-thirds of the participants saw no change at all, while over 20 percent told us that Switzerland's attractiveness had declined. (See Figure 4.5.)

Clearly, stagnation, even at a high level, is insufficient to sustain Switzerland's position as one of the most attractive locations for foreign companies in Europe. Switzerland is therefore challenged to take steps now to prevent losing its favorable position with foreign companies. But what can be done?

**"If quality international schooling is not available, talented professionals may choose not to come to Switzerland.
They might compromise on housing (for a certain period),
but not on the education of their children."**

John Tracey, Director External Relations,
Procter & Gamble Europe

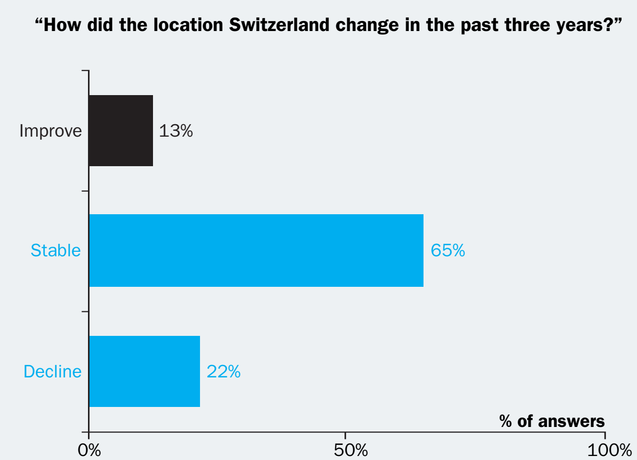
04.3

Improving Switzerland's Appeal to Foreign Companies

In our survey and in our detailed interviews, we identified several areas in which Switzerland can improve its appeal to foreign companies. (See Figure 4.6.)

Figure 4.5

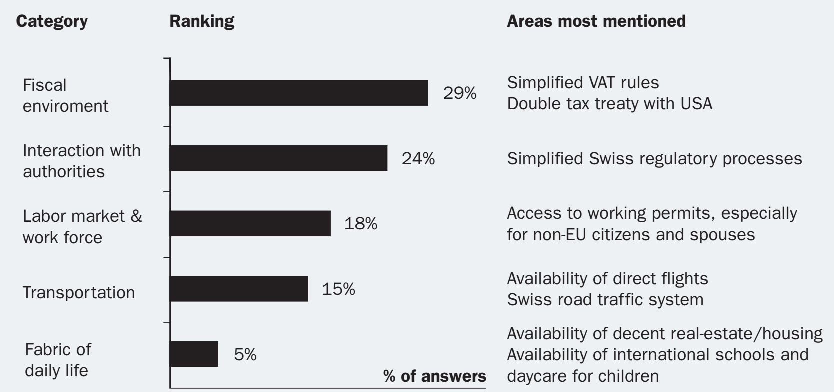
Survey Results: Change in Switzerland's Attractiveness, 2002–2005



Source: BCG survey (2005)

Figure 4.6

Survey Results: Areas Identified for Improvement



Source: BCG survey (2005), BCG interviews (2005)

Simplification of, and National Uniformity in, Administrative Processes

First and foremost: Simplifying and harmonizing Switzerland's administrative processes would be extremely beneficial in terms of retaining and attracting foreign companies. Switzerland's tax system is a prime example. Switzerland's tax system is highly complex and there is tremendous diversity of regulation in different cantons – all of which complicates business operations. A move from one canton to another can be a major undertaking for a foreign company.
As a recent OECD study[9] shows, Switzerland is losing ground to its European competitors in terms of the tax advantage it offers: Over the past ten years, while the tax per GDP decreased in many European countries (Germany, the Netherlands, Ireland, and Denmark), it increased in Switzerland. Switzerland should consider revitalizing its traditional tax advantage.

"Right now, Switzerland does not really support a modern lifestyle, where excellent and affordable childcare enables both husband and wife to work."

Bernard Grimm, General Manager,
Abbott Switzerland

Simplifying the procedures for obtaining work permits and visas also would increase Switzerland's attractiveness to foreign companies. The fixed maximum number of work permits and visas often is insufficient to enable companies to hire the most qualified candidates, especially when those candidates come from non-EU countries. Further, the time-consuming efforts required to secure work permits and visas ties up valuable human resources within foreign companies.

A recent World Bank study[10] assesses regulations in countries around the world to determine whether they ease or constrain doing business – rating the countries accordingly. Switzerland ranked seventeenth among all 155 evaluated countries – a decent position. But compared to its European competitors, Switzerland is not even in the top five: Denmark (eighth), the United Kingdom (ninth), Ireland (eleventh), Finland (thirteenth), and Sweden (fourteenth). This study confirms the need for a simplification of administrative processes in Switzerland.

9 OECD, Tax Revenue Statistics (2005)
10 World Bank Group, Doing Buisiness 2006 (2005)

Improvements in the Fabric of Daily Life

Second: Improvements that touch on the fabric of daily life in Switzerland could significantly increase Switzerland's appeal to foreign companies.

For example, the Swiss school system is not compatible with most other European school systems – a problem for expatriate families with children. Many foreign employees of foreign companies have great difficulty finding appropriate international schools and day care for their children. Language, tuition, and availability are serious concerns for these parents. Swiss authorities need to take steps to ensure that there is an adequate number of schools available at reasonable cost.

In addition, the housing situation in Switzerland is problematic, both in terms of price and availability. Foreign companies employ a larger number of expatriates than Swiss companies, especially in their headquarters. Even in large Swiss cities like Zurich and Geneva, there simply are not enough apartments and houses available to accommodate the number of people that foreign companies need to bring over.

"Swiss authorities are partners for foreign companies – they try to simplify administrative processes as much as they can."

Tony Fitzpatrick, Vice President Supply Chain,
Baxter Healthcare

Still another area for improvement is transportation (for example the insufficient availability of international flights). Direct flights from Swiss cities to worldwide business centers are very important to companies that operate internationally. Right now, major cities in Switzerland lag behind other European cities, such as London and Paris.
If Switzerland takes bold steps to address these issues, it will not only increase its attractiveness to foreign companies – and thereby continue to grow its GDP – but also increase its competitive edge over other European countries.

Methodology

We followed a three-step methodology to obtain the facts and to acquire the knowledge presented in this study.

First, we did analytical research, which forms the backbone of chapter 2 and chapter 3. We collected a wide range of data, both through our own research and with the help of the institutions listed on page 36. This data served as the basis of our analyses. As not all macro-economic data was available for 2004, we based our analyses on 2003 to ensure consistency.

Second, we conducted a broad survey of foreign companies in Switzerland. A total of 106 foreign companies from 10 different countries (with the majority of companies originating in the United States) completed our survey questionnaire and contributed to our statistical analysis. All participating companies are listed on pages 2 and 3.

Third, we held in-depth interviews with the senior managers of leading foreign companies in Switzerland and with representatives of various Swiss business-development entities. This enabled us to gain deeper insight into the needs of foreign companies in Switzerland.

Publishers of this study

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