SWITZERLAND WAKE UP

Reinforcing Switzerland's attractiveness to multinationals

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Switzerland has historically been a very attractive location for multinational companies—Swiss multinationals as well as multinationals from abroad. Twenty years ago, Switzerland was the top choice for half of multinational companies that chose Europe for their headquarters location; since then, however, the country has lost—and continues to lose—ground to other locations in Europe and abroad. At the same time, Swiss multinationals have carved out selected activities and relocated them outside Switzerland. Now, Switzerland is facing major decisions such as Switzerland's bilateral agreements with the EU, the proposed Swiss tax reform, transatlantic free trade agreements (US-EU and US-CH), the reform of the Swiss Code of Obligations, and the Corporate Responsibility Initiative. These decisions will shape the country's attractiveness to multinationals.

To build a stronger fact base related to Switzerland's attractiveness to multinationals, McKinsey & Company and the Swiss-American Chamber of Commerce, in coordination with economiesuisse and SwissHoldings, conducted extensive research, mapped actual movements of multinationals' headquarters over time, and quantified the economic impact of multinationals. This report summarizes the perspectives of more than 100 CEOs and executives from multinationals, including the majority of SMI companies. These perspectives were gained through personal interviews. In this report, we refer to internationally active companies—both Swiss and foreign—as "multinationals."

KEY INSIGHTS

Multinationals are vital for Switzerland

- **Swiss and foreign multinationals contribute significantly to the Swiss economy,** accounting for more than one third of the Swiss GDP, 1.3 million jobs, and nearly half of Switzerland's federal corporate tax revenues. In addition, multinationals tend to create jobs in high-productivity sectors.
- **Multinationals relocating to Switzerland** in the past ten years contributed CHF 3.5 billion per year to the GDP, and generated CHF 500 million per year in tax revenue upon relocation.

Switzerland has lost attractiveness

- **Switzerland has dropped from #1 to #3 for headquarter locations.** Of multinationals relocating to European headquarter hubs, Switzerland's share decreased from 27 percent in 2009-2013 to 19 percent in 2014-2018, even though relocation activity has increased overall. Globally, Switzerland—while remaining an important hub—has lost relevance to Singapore and Dubai.
- **Switzerland has missed opportunities arising from the relocations of major multinationals in high-growth sectors,** such as Apple, Amazon, Alibaba, Facebook, Netflix, LinkedIn, Airbnb, Starbucks, Tesla, Uber and many others. Overall, Switzerland has not won globalizing technology and Chinese companies. However, the country has remained strong and even gained share in the life sciences sector.
- **Multinationals in Switzerland have started to move activities abroad.** In the past, multinationals in Switzerland largely relocated transactional activities in shared services centers abroad, but recently they have been increasingly building or moving competence centers—centers for digital and advanced analytics, for example—outside Switzerland.

Switzerland – wake up

- **Switzerland has increasing gaps in location factors** like talent availability and mobility, and some of the country's traditional strengths—such as tax and regulatory reliability—are eroding. Switzerland is losing ground as other countries take a well-resourced, coordinated, and more proactive approach to attracting and retaining multinationals.
- **Switzerland could re-establish itself as the leading location for multinationals** by reviving its business-friendly and pragmatic mindset, including (1) reviewing the immigration regime for highly-qualified, in-demand talent and expanding capacity at Swiss universities for sought-after subject matters; (2) clarifying Switzerland's position in the international regulatory, economic, and tax context; (3) stepping up "location marketing" to win future relocations.

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MULTINATIONALS ARE VITAL FOR SWITZERLAND

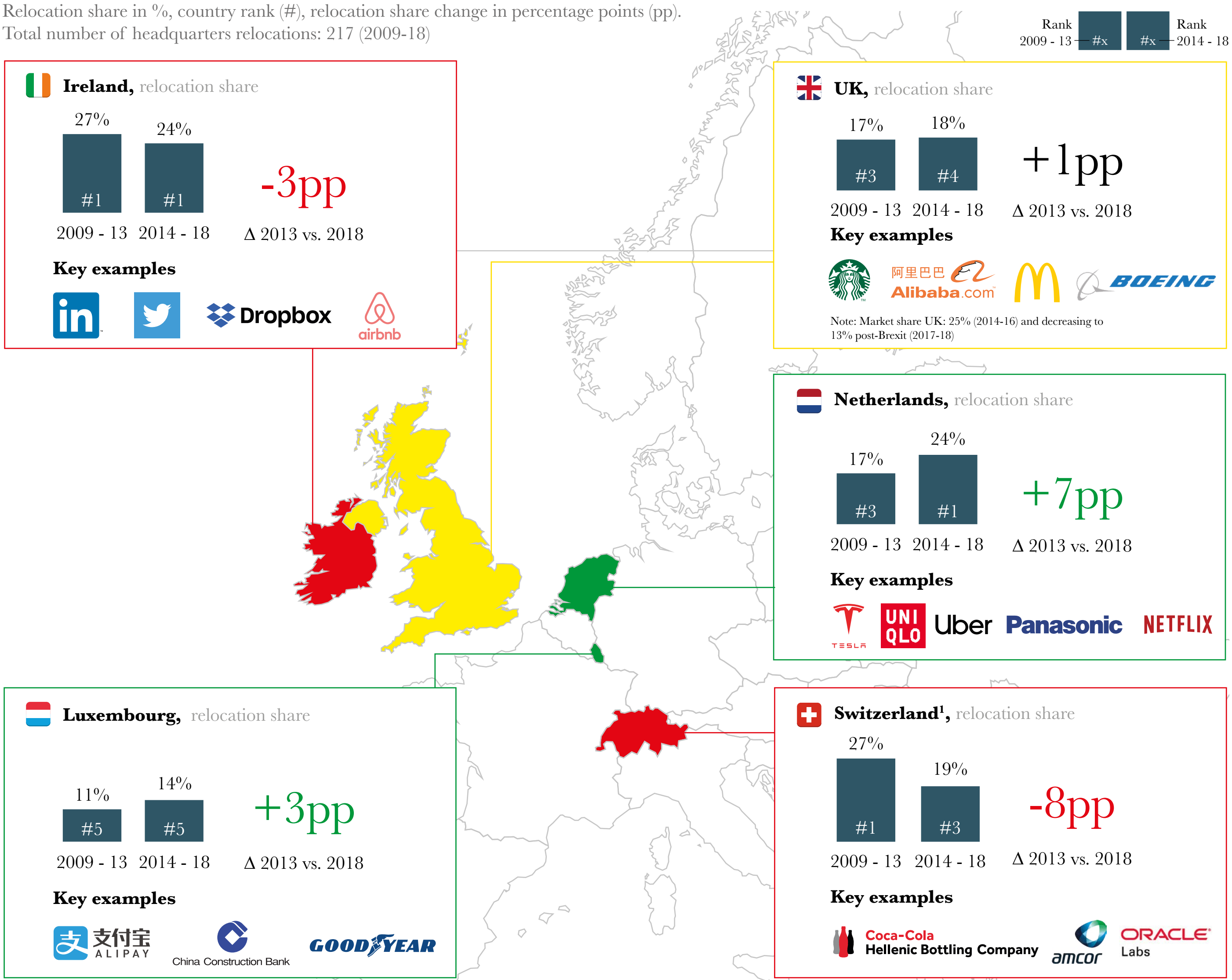
Multinational companies contribute disproportionately to the Swiss economy. Swiss and foreign multinationals contributed 36 percent of the Swiss GDP of CHF 669 billion in 2017 (22 percent Swiss, 14 percent foreign), created more than 1.3 million jobs (26 percent), and generated nearly 50 percent of Switzerland's federal corporate tax revenues, while making up just 4 percent of all companies in Switzerland. Furthermore, multinationals tend to create high-productivity jobs, especially in the life sciences sector, thus making an essential contribution to Switzerland's productivity.

Multinationals relocating to Switzerland have significant impact on the Swiss economy. In the past ten years, at their time of relocation, multinationals moving to Switzerland created over 17'000 jobs (affecting the economy both directly and indirectly), grew the Swiss GDP by CHF 3.5 billion per year, and provided CHF 500 million in annual tax revenue, despite accounting for less than 2 percent of annual immigration to Switzerland.

This research focuses on five types of multinational headquarters and five European headquarter hubs. This study includes global headquarters, regional headquarters (for Europe or EMEA), R&D centers, operational centers (manufacturing/supply chain operations), and financial holdings. In scope are companies with more than CHF 1 billion in total revenues, hence covering a large majority of the multinational's market. In addition, we focus on the most prominent headquarter hubs in Europe, namely Switzerland, the Netherlands, Ireland, Luxembourg, and the United Kingdom.

Graph 1 – Changes in headquarters inflow share in selected European countries

Relocation share in %, country rank (#), relocation share change in percentage points (pp).
Total number of headquarters relocations: 217 (2009-18)



Inflow share per HQ type[2]

	Global HQ	Regional HQ	R&D center	Operational center	Financial HQ
Switzerland	33% ▼	23% ▼	26% ▲	6% ▲	21% ▼
Ireland	25% ▲	15% ▼	29% ▲	50% ▼	36% ▼
Luxembourg	6% ▼	19% ▲	10% ▶	6% ▲	14% ▼
Netherlands	11% ▲	27% ▲	23% ▼	24% ▲	0% ▶
UK	25% ▲	17% ▼	13% ▼	15% ▼	29% ▲

Inflow share per sector[2]

	Consumer	Financial	Life science	Industrial	IT and Commun.
Switzerland	32% ▼	6% ▼	33% ▲	30% ▼	12% ▲
Ireland	9% ▲	22% ▼	43% ▼	17% ▲	39% ▼
Luxembourg	6% ▼	50% ▲	0% ▶	8% ▼	9% ▲
Netherlands	35% ▲	6% ▲	13% ▼	23% ▲	23% ▲
UK	18% ▲	16% ▼	10% ▶	23% ▶	18% ▼

1 An earlier study by Arthur D. Little in 2002 found that Switzerland was the top choice for about half of multinationals (Note: The methodology is different from that of our research in this report)
2 Percent indicates share of total inflow; arrow indicates relocation share change 2009-13 vs. 2014-18

SWITZERLAND HAS LOST ATTRACTIVENESS

Switzerland has dropped from #1 to #3 in share of headquarter relocations of multinationals within European headquarter hubs. While relocation activity has increased overall, from 81 (2009-2013) to 136 (2014-2018), Switzerland has lost share. Its rank in headquarter relocations dropped from #1 to #3, while the Netherlands stepped up and Ireland maintained its high share (both rank #1 with an equal number of relocations). Luxembourg also increased its share while the UK's share soared until the Brexit decision (25%) and then almost halved. Of multinationals relocating from the UK post-Brexit to another European headquarters hub, none has chosen Switzerland as a new home. Moreover, on a global scale, Switzerland faces competition from other strong headquarter hubs, namely Singapore and Dubai.

Switzerland's share is declining across headquarter types and across sectors, with a few exceptions. Switzerland lost share in global headquarters, regional headquarters, and financial holding companies, while gaining in R&D and operational centers. Switzerland's share of the consumer, industrial, and financial sectors has declined, while its share of the life sciences and IT sectors has increased.

Switzerland has missed opportunities arising from relocations of major multinationals in high-growth sectors. Netflix, Uber, Tesla, Kraft Heinz, Uniqlo, and Panasonic relocated to the Netherlands; Goodyear, Alipay, China Construction Bank, and Agricultural Bank of China went to Luxembourg; and Airbnb, Dropbox, LinkedIn, and Twitter relocated to Ireland. Yet, Switzerland won Amcor, Cardinal Health, Coca-Cola Hellenic, and Oracle Labs.

Switzerland is not winning globalizing tech leaders and Chinese companies. Switzerland has been lagging behind in winning globalizing tech leaders over the past ten years, with the exception of Google (which added another R&D center in 2016), Oracle Labs, and Facebook (which both built small-scale R&D centers). Only 5 percent of the top 250 Chinese companies chose Switzerland over other European locations for their headquarters.

Multinationals in Switzerland have started to move activities abroad. In the past, multinationals in Switzerland—like multinationals in many other high-cost locations—largely relocated transactional activities in shared services centers. However, more recently, they have been increasingly building or moving high value-adding competence centers—for digital and advanced analytics, for example—outside Switzerland.

GAPS AND CHALLENGES

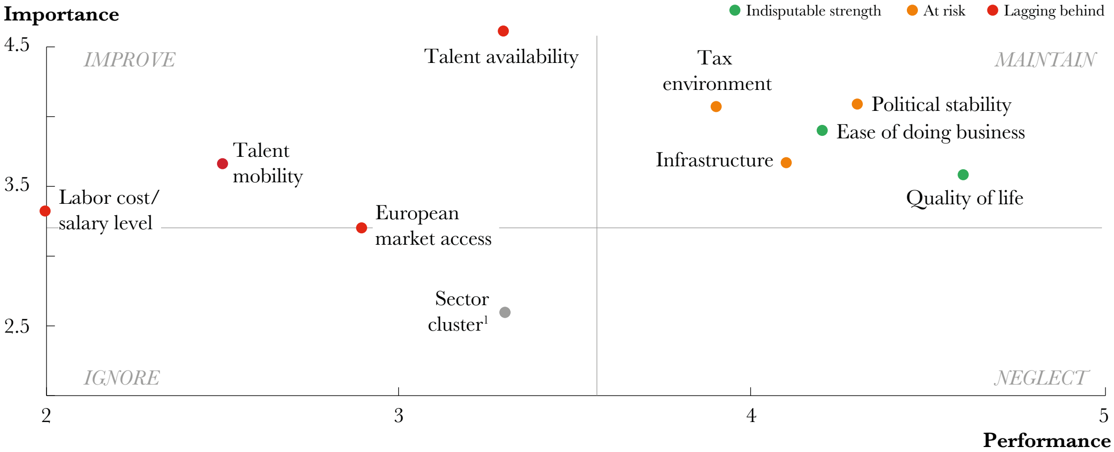
Switzerland has increasing gaps in some of the critical factors that attract and retain multinationals, most notably in talent. Executives from multiple sectors comment that Switzerland has a gap in available talent, particularly technology talent. This finding is supported by research from Eurostat showing that, compared to other European markets, the absolute number of STEM graduates (science, technology, engineering, and math) in Switzerland is comparatively low (21'400 graduates per annum). Additional shortcomings are talent mobility—specifically the relative difficulty of bringing highly-qualified talent to Switzerland from outside Europe—and a perception that Switzerland has limited access to the European market in some areas.

Switzerland's traditional strengths, like tax and regulatory reliability, are perceived to be eroding. Regulatory insecurity arising from a range of unanswered questions—such as the proposed tax reform and Switzerland's relationship with major jurisdictions—is negatively affecting the investment environment and undermining a core strength: regulatory reliability. Furthermore, specific tax elements are less attractive in Switzerland than in other locations, such as Ireland.

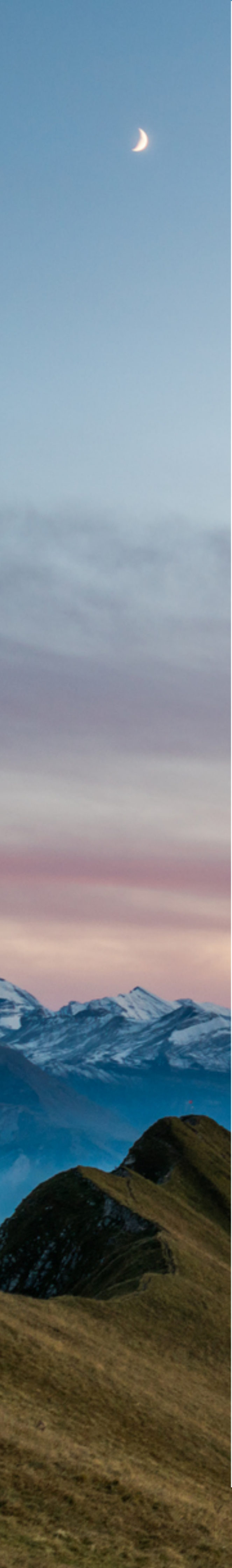
Switzerland's investment promotions functions are under-resourced and less proactive than in other countries. Other countries' location strategies are better-resourced. Switzerland has around 50 people in charge of relocations (on a national, regional, and cantonal level), while the Netherlands has about 100 dedicated specialists, Ireland more than 300, and Singapore more than 600. These headquarter hubs promote their home countries as attractive headquarter locations and proactively approach substantially more multinationals than Switzerland does.

Graph 2 - Attractiveness of Switzerland

Assessment of importance and relative performance of Switzerland vs. NL, IRE, LUX, UK; average rating, on scale 1-5, based on more than 100 interviews



1 Depending on industry; highly relevant for pharma and watch makers



RECOMMENDED ACTIONS

Switzerland could re-establish itself as the leading location for multinationals by reviving its business-friendly and pragmatic mindset. Change starts with mindset. Switzerland could engage in an open debate on the value of multinationals to the Swiss economy and society to create a level playing field. This would include three recommended actions.

- **Reviewing the immigration regime for highly-qualified, in-demand talent and expanding capacity at Swiss universities for sought-after subject matters**. To ensure sufficiently available, highly-skilled talent for activities that create high value (e.g., for R&D centers), Switzerland could grant "automatic," temporary work permits for non-Swiss graduates and raise capacity at its universities for top Swiss and international students in sought-after subject matters, specifically STEM. In addition, there may be opportunities to simplify work permit procedures. For instance, the US has streamlined processes for certain international employees and skills.
- **Clarifying Switzerland's position in the international regulatory, economic, and tax context.** Switzerland's prosperity is based on open markets and a favorable, reliable regulatory environment. To secure relationships with major jurisdictions and thus attract multinational companies, Switzerland could aim at comprehensive free-trade arrangements with major economic blocs; a competitive, internationally-recognized tax regime; and long-term regulatory reliability and predictability.
- **Stepping up "location marketing" to win future relocations.** To compete with better-resourced agencies from the Netherlands, Ireland, or Singapore—which have several hundred resources in investment promotion functions—Switzerland could step up its promotion resources, coordinate its promotion organizations more effectively, and promote "Switzerland, Inc.," all with the aim of targeting high-potential, value-creating sectors such as biotech, artificial intelligence, or robotics.

Switzerland has all of the ingredients to be the world's #1 headquarters location. By pursuing the three priorities outlined, Switzerland could become the location of choice for the second wave of globalizing technology and Chinese companies, retain the presence of global businesses and their activities, and expand its share of innovative, high-value sectors and companies.

CONTRIBUTORS

Companies interviewed

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