



SWITZERLAND WAKE UP

REINFORCING SWITZERLAND'S ATTRACTIVENESS TO MULTINATIONALS

APRIL 2019

McKinsey
& Company



 SwissHoldings

 Swiss-American
Chamber of Commerce

McKinsey & Company is a global management consultancy firm that serves leading businesses, institutions, governments, and not-for-profit organizations. We help our clients make lasting improvements to their performance and realize their most important goals. Our more than 16'000 consultants and nearly 2'000 research and information professionals form a single global partnership united by a strong set of values focused on client impact. McKinsey Switzerland is based in Zurich and Geneva and serves clients in the private, public, and social sectors on strategy, operations, organization, and technology across industries. Present in Switzerland for more than 50 years, we combine McKinsey's global expertise with deep local insights and take part in public debates on the country's most pressing issues.

The Swiss-American Chamber of Commerce is the largest association of internationally active companies in Switzerland—Swiss and foreign, large and small. Swiss-AmCham represents its nearly 2'000 members on all issues that either handicap optimal operations in Switzerland or obstruct the free exchange of goods and services between Switzerland and the eminently important US market. Swiss-AmCham focuses on economic policy issues such as fiscal conditions, mobility of qualified people, the economic relationships with the EU and the US (representing 70 percent of Swiss exports) and the attractiveness of Switzerland for foreign direct investments. Major topics are also the trading system and ensuring that Swiss-based international companies have at least equal access to the key markets—first and foremost with the largest market in the world, the US market, with nearly 25 percent of global GDP. Swiss-AmCham reaches its goals by working closely with companies, embassies, governments, parliaments, other associations, and the media. Swiss-AmCham is entirely financed by its member companies and receives no support—direct or indirect—from governments.

SWITZERLAND WAKE UP

REINFORCING SWITZERLAND'S ATTRACTIVENESS TO MULTINATIONALS

Authors:

Martin Naville, Swiss-American Chamber of Commerce

Raphael Buck, McKinsey & Company

Felix Wenger, McKinsey & Company

Jan Mischke, McKinsey & Company

Alexander Klei, McKinsey & Company

CONTENTS

9	Preface
11	In Brief: Seven key insights
13	Multinationals are vital for Switzerland
13	Significant contribution of multinationals to the Swiss economy
14	Substantial economic impact of relocating multinationals
19	Switzerland has lost attractiveness
19	Switzerland lost relocation share
23	Switzerland lost existing multinationals
27	Gaps and challenges
27	Key decision factors for multinationals
28	Switzerland's gaps
29	Switzerland's challenges
31	Switzerland's strengths
33	Recommended actions
34	Acknowledgements
34	Contributors
35	About the authors
36	Methodology

PREFACE

Even as a small, landlocked country in the heart of Europe, Switzerland is home to an extraordinary number of multinational companies. In some cases, Swiss companies became multinational as they grew beyond their small home market. In others, global companies chose Switzerland—a stable country and open economy—as their base in Europe or the world. After the Second World War, Switzerland committed to an open economy and free trade. The country’s neutrality helped to build relationships with almost all nations. The reward was substantial: Switzerland became one of the world’s most competitive economies, and one of its wealthiest nations.

Twenty years ago, globalization was accelerating, and Switzerland was the most attractive location in Europe. It was the choice for half of all multinational companies that wanted to come to Europe.

Today, the world feels less open and global, as trade and political tensions flare. Mature nations face structural issues, while emerging nations are demanding their place at the table. In this context, Switzerland has lost—and continues to lose—ground to other locations. At the same time, some Swiss multinationals have shifted activities outside Switzerland.

In the upcoming years, Switzerland is facing political decisions that will be critical to its long-term attractiveness for companies. Among these decisions are agreements with the EU, a tax reform, free trade agreements, the reform of the Swiss Code of Obligations, and the Corporate Responsibility Initiative, to name just a few.

We believe that this is a good moment to refresh the fact base related to Switzerland’s attractiveness to multinational companies, including Swiss and foreign as well as large and small companies.

This research led by McKinsey & Company and the Swiss-American Chamber of Commerce, in coordination with *economiesuisse* and *SwissHoldings*, combines a comprehensive analysis of actual relocations with the view of a large and representative group of leaders of our economy, including the majority of SMI companies – but also of companies that considered moving to Switzerland, but eventually went elsewhere. As an integral part of this effort, we conducted more than 100 interviews with CEOs, executives and associations in Switzerland and abroad. We hope that our report will help strengthen Switzerland’s privileged position as a global economic hub, a stronghold of free trade, and an open economy and society.

IN BRIEF:

SEVEN 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 market 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—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 others. Overall, Switzerland has not attracted globalizing technology and Chinese companies; however, the country has remained strong and even gained market 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—for example, centers for digital and advanced analytics—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 multinational companies.
- **Switzerland could re-establish itself as the leading location for multinational companies** by reviving its business-friendly and pragmatic mindset, including (1) reviewing the immigration regime for qualified, critical 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.



MULTINATIONALS ARE VITAL FOR SWITZERLAND

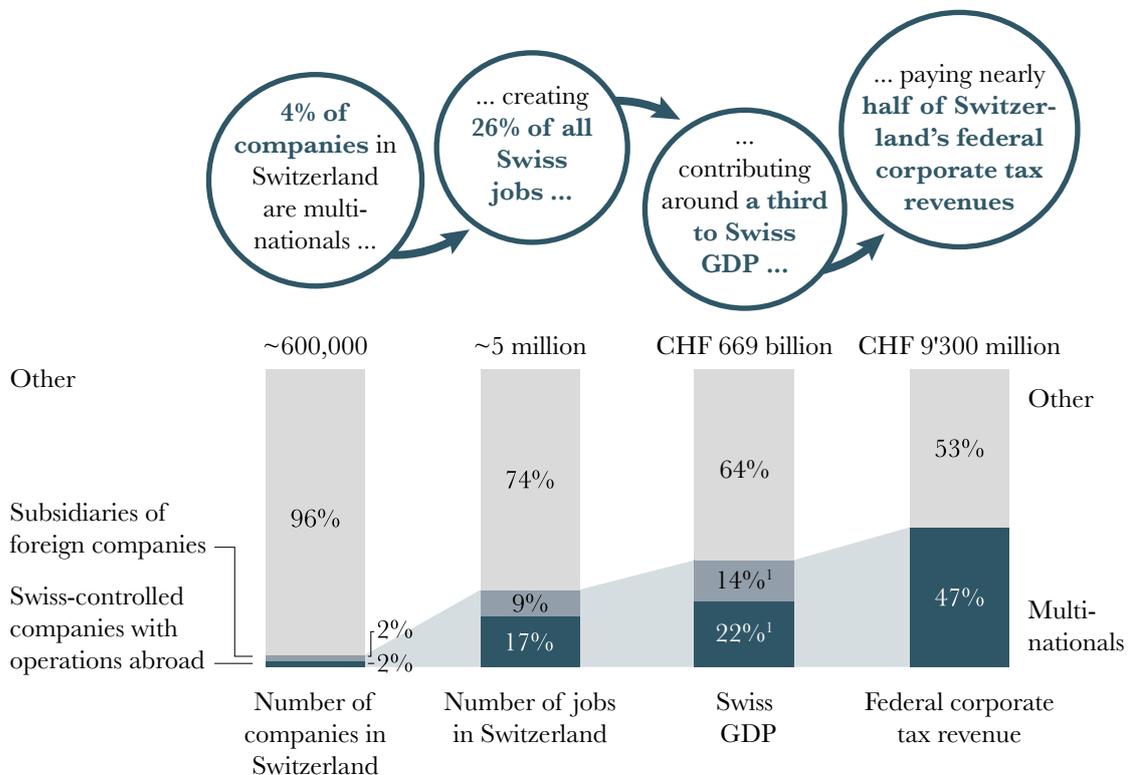
For the scope of this report, multinationals are defined as companies with activities across several countries, including Swiss multinationals as well as multinationals from abroad. Multinational companies in Switzerland contribute significantly to the Swiss economy and to the country's prosperity. These firms have a disproportionately high impact on the number of jobs in Switzerland, on corporate tax revenues, and on Swiss GDP. Further, multinationals are a driving force for the country's overall productivity.

Significant contribution of multinationals to the Swiss economy

Multinational companies are vital for the Swiss economy. Swiss and foreign multinationals located in Switzerland contribute more than one third of Swiss GDP while representing only 4 percent of companies. Further, they account for 1.3 out of 5 million jobs and for nearly half of Switzerland's federal corporate tax revenues (and for 20 percent of

taxes on the cantonal/municipal level).¹ They thus contribute considerably—and over-proportionally—to Switzerland's economic prosperity (Exhibit 1). Additionally, Switzerland has the second-highest density of Fortune 500 companies worldwide, at 1.96 per 1 million inhabitants (outpaced only by Luxembourg with 3.9 per 1 million).²

Exhibit 1 – Multinationals in Switzerland contribute over-proportionally to the Swiss economy



1 Different sources derive at nearly same results: SwissHoldings (2009): 33%; AvenirSuisse (2014): 16-36%; AmCham/BCG (2018), Bfs, SNB (2012)
Source: Swiss National Bank and BFS (<https://www.bfs.admin.ch/bfs/en/home.assetdetail.4082334.html>, <https://www.bfs.admin.ch/bfs/de/home/statistiken/industriedienstleistungen/unternehmen-beschaeftigte/beschaeftigungsstatistik/beschaeftigte.assetdetail.6646786.html>, <https://data.snb.ch/en/topics/aube#!/cube/opanmunkpbs>), SwissInfo (https://www.swissinfo.ch/eng/business/big-business_switzerland-s-love-affair-with-multinationals/44342642), Avenir-Suisse (https://www.avenir-suisse.ch/files/2017/03/CH-95-35_Globalisierung-Global-Player_DE.pdf), SwissHoldings (https://www.ub.unibas.ch/digi/a125/sachdok/2011/BAU_1_5595093.pdf)

1 Eidgenössisches Finanzdepartement, Faktenblatt STAF, 2019

2 Swiss-American Chamber of Commerce & Boston Consulting Group, Multinational companies in Switzerland – continuing the past success into the future, 2015

Globally, multinationals are growing substantially in number. By 2025, McKinsey Global Institute (MGI) estimates the number of multinational companies with more than USD 1 billion in revenues will almost double to 15'000, with most new additions in emerging economies. Yet multinationals are also concentrated, as only 20 cities are home to more than one third of these companies. Hence, the cities and countries best positioned to attract—or produce—multinationals have much to gain.³

Multinationals are a driving force for Switzerland's productivity. Multinational companies account for nearly 50 percent of private companies' total expenditures on R&D in Switzerland.⁴ Further, if we use GDP-per-person-employed as a proxy for productivity, multinationals in Switzerland are 1.6 times more productive than other firms. These trends can be observed in EU countries as well. In Ireland, for example, the imbalance is even more extreme, as multinationals account for 63 percent of GDP and for 22 percent of all jobs—making them about six times more productive than other companies.⁵ Moreover, the OECD has found that the productivity gap between multinationals and other companies in Switzerland has been steadily growing over the past five to ten years.⁶

Multinational companies' tendency to contribute disproportionately to economic prosperity has been well-established. MGI research has shown that in the U.S., to mention another example, multinationals

represent less than 1 percent of firms but account for 19 percent of private-sector employment, 41 percent of labor productivity growth, 48 percent of exports, and 74 percent of private R&D spending.⁷

Substantial economic impact of relocating multinationals

Multinationals relocating their headquarters to Switzerland have a substantial impact on the Swiss economy. For the purpose of this study, we use multinationals' relocations as a proxy for a country's attractiveness to multinational firms. We differentiate five types of headquarters (see box, "Methodology: 'Headquarters' Defined"). In the past ten years (2009-2018), multinationals moving to Switzerland have created about 17'000 jobs (6'100 direct and 11'200 indirect jobs) at the moment of relocation. They contributed CHF 1.9 billion in direct GDP; when indirect effects are included, this number becomes CHF 3.5 billion (0.5 percent of total GDP). Multinationals' direct tax impact is estimated at CHF 340 million annually; including indirect effects, the impact is approximately CHF 500 million annually (Exhibit 2). Yet relocated multinationals account for less than 2 percent of Swiss immigration.

Methodology: "Headquarters" defined

In this study, we focus on the most important types of multinational headquarters: global headquarters, regional headquarters, R&D (research and development) centers, operational centers, and financial holding companies. Excluded from our analyses are pure sales offices, branches, and service centers. We define the five types of headquarters as follows.

Global headquarters: defining, coordinating, and executing corporate business activities like strategic development, financial planning, and decision-making

Regional headquarters: defining, coordinating, and executing management activities that are limited to a specific region—e.g., Europe or EMEA (Europe, Middle East, Africa)

R&D center: executing research and development activities, linking to local universities and other research institutes, and researching the latest innovations and trends

Operational center: carrying out product manufacturing and supply chain activities

Financial holding company: owning and managing assets in other companies and often granted specific tax advantages as a result; usually not offering any products or services

3 McKinsey Global Institute, *Urban World: The shifting global business landscape*, 2013

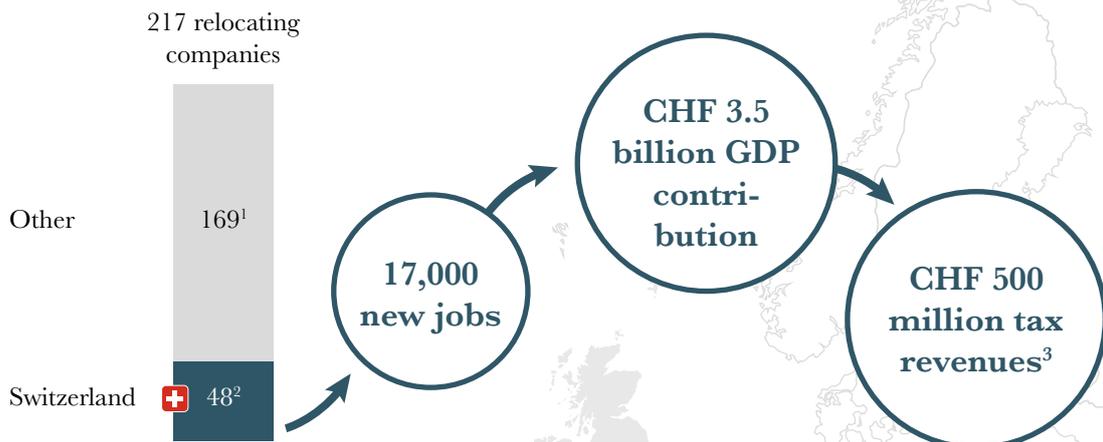
4 Eidgenössisches Finanzdepartement, *Faktenblatt STAF*, 2019

5 National Competitiveness Council, *Productivity statement*, 2018

6 OECD, *Economic Survey Switzerland*, 2017

7 McKinsey Global Institute, *Growth and competitiveness in the United States: The role of its multinational companies*, 2010

Exhibit 2 – Multinationals relocating over last 10 years with substantial economic impact



¹ Relocations to UK, Ireland, Luxembourg and Netherlands over the same time period ² With Global Revenues > CHF 1bn and between 2009-2018 ³ Yearly impact
 NOTES: Data shows total macroeconomic impact of attracting HQs 2009-18 in Switzerland. It includes both direct and indirect economic impact. Numbers are subject to uncertainty since bespoke tax arrangements may impact estimates
 Source: McKinsey; MGI, BFS

Though considerable, these estimates are conservative because: (1) examples confirm that some new headquarters add substantially to Switzerland's employment over time (and hence to GDP and tax impact), (2) multinationals typically have higher-than-average labor productivity in their sector, and (3) many foreign multinationals will likely show above-average profitability in Switzerland (see Methodology section for further details). Successful case examples show that some multinationals experience significant growth over time. For instance, Google has now around 2'500 employees in Switzerland, making Switzerland

the biggest Google location outside the U.S. Another example, Celgene, has around 700 of its 7'000 employees worldwide in Switzerland.

Among the various types of headquarters, R&D centers seem particularly important. On average, R&D centers have a lower absolute GDP impact than global headquarters (CHF 20-60 million versus CHF 15-90 million) but generate the highest overall per-capita GDP, thanks to the high-value activities they engage in (Exhibit 3).

Exhibit 3 – R&D centers have the highest GDP per capita impact among different headquarter types

Average direct GDP impact in Switzerland for new HQ types per annum

Sector	Headquarter type				
	Global HQ	Regional HQ	R&D center	Operational center	Financial holding
FTE impact	75 - 270	50 - 135	40 - 125	170 - 275	25 - 40
GDP impact (in CHF million)	15 - 90	15 - 30	20 - 60	25 - 50	5 - 10
Tax impact (in CHF million)	5 - 15	~5	5 - 10	~5	~1
GDP per capita impact (in GDP thousands) ¹	200 - 350	~250	~550	~190	~200

¹ Impact for regional HQ, R&D center, operational center and financial HQ averaged due to narrow range
 Source: McKinsey; MGI, BFS

Case study: Google Switzerland's success story

When Google opened its R&D center at Limmatquai in 2004 with two employees, the ensuing success story—for both Switzerland and the company—could have not been predicted. At the time, the company had just 1'900 employees worldwide. Google Maps did not exist, and YouTube had not yet been launched.

In that same year, Google went public, and the company's growth took off. Today Google has a worldwide staff of 62'000—2'500 of whom work in Switzerland, making Switzerland the biggest Google location outside the US. With its additional R&D center at Europaallee in Zurich, the company has the capacity to hire up to 5'000 FTE. "Zooglers"—as Google employees are known in Zurich—work to further develop YouTube, Gmail, and Google Maps applications; Google Maps' added feature of measur-

ing distance by bicycle was developed in Zurich, for example. In collaboration with leading tech universities in Switzerland (such as ETH and EPFL), the tech company has implemented a successful talent strategy and has begun offering apprenticeship programs.

"Switzerland is critical for Google," Urs Hölzle, ETH graduate and Google's eighth employee, said recently in an interview. Hölzle is Google's senior vice president for technical infrastructure and was the driving force behind opening and expanding the company's Swiss location. Given his comment and commitment, Switzerland will likely remain an important location for Google in the coming years.

Sources: Greater Zurich Area, Bilanz, Nau

Case study: Celgene opened its European headquarters in Neuchâtel and has been growing ever since

When Celgene arrived in Switzerland in 2005, the biopharma company chose the canton of Neuchâtel for its international headquarters. The firm has been building ever since. In 2009, Celgene completed the second phase of its headquarters expansion, and in 2012 the company began Phase 3. Another production plant is now under construction and is expected to create

100 jobs when it becomes operational in 2019. Yet another, smaller production site in Boudry is now underway and will employ an additional 20 people. Today, around 700 of Celgene's 7'000 employees worldwide sit in Neuchâtel.

Sources: GGBA, S-GE, Handelszeitung

Case study: Amcor relocated from Australia to Switzerland

Amcor, leader in packaging for consumer goods, announced its intentions to move its global headquarters from Australia to Switzerland in 2015. Upon relocation, the company moved 30 headquarters staff from Melbourne to Zurich. According to the company's spokes-

person, Australia accounts for only around 5 percent of Amcor's business, so it made sense for the company to relocate some functions closer to customers.

Sources: Herald Sun, Smart company



SWITZERLAND HAS LOST ATTRACTIVENESS

In recent years, Switzerland has been losing ground to competing locations in attracting multinationals. Moreover, several multinationals have carved out activities to relocate them elsewhere or have left Switzerland entirely.

Switzerland lost relocation share

Corporate relocation activity to and within European headquarter hubs is increasing. To assess multinationals' relocation activity, we applied a systematic approach, building a database of company relocations (see Methodology section for further details). For the purpose of this analysis, we focused on multinational companies with revenues exceeding CHF 1 billion. A country's share of headquarter relocations serves as an early indicator of the country's attractiveness to multinational firms.

A look at the five prominent headquarter hubs included in this study's scope—Switzerland (CH), the Netherlands (NL), Ireland (IRE), Luxembourg (LUX),

and the United Kingdom (UK)—shows that the number of headquarters moving into or within European headquarter hubs has risen from 81 in 2009-2013 to 136 in 2014-2018—a 68 percent increase. Several factors are driving this rise in corporate relocations, among them some headquarter hubs' active efforts to attract corporates to their jurisdiction (sometimes with tax or non-tax-related incentives), as well as significant events such as Brexit. Concerns about potential Brexit-related disruptions to the UK economy prompted Panasonic, for example, to move from the UK to the Netherlands.

Methodology: Selection of prominent headquarter hubs

For the purpose of this study, we identified five countries as the most prominent headquarter hubs in Europe in 2009-2018: Switzerland (CH), Ireland (IRE), the Netherlands (NL), Luxembourg (LUX) and the United Kingdom (UK). We identified these hubs based on our conversations with numerous executives and associations as well as our analysis of major country ratings.¹ Our main reasons for choosing these five are as follows:

1. Based on our research, CH, IRE, NL, LUX, UK were among the top choices on the shortlist for multinationals that relocated in 2009-2018.
2. In Western Europe, CH, IRE, NL, LUX, UK attract substantial foreign direct investment relative to the size of their economies.²
3. CH, IRE, NL, LUX, UK are consistently among the top players in world competitiveness ratings overall.

¹ IMD World Competitiveness Ratings; WEF Global Competitiveness Report; World Bank – Foreign Direct Investments

² United Nations Conference on Trade and Development, FDI statistics, country fact sheets, 2018

Case study: Sony to move its European headquarters from the UK to the Netherlands in 2019

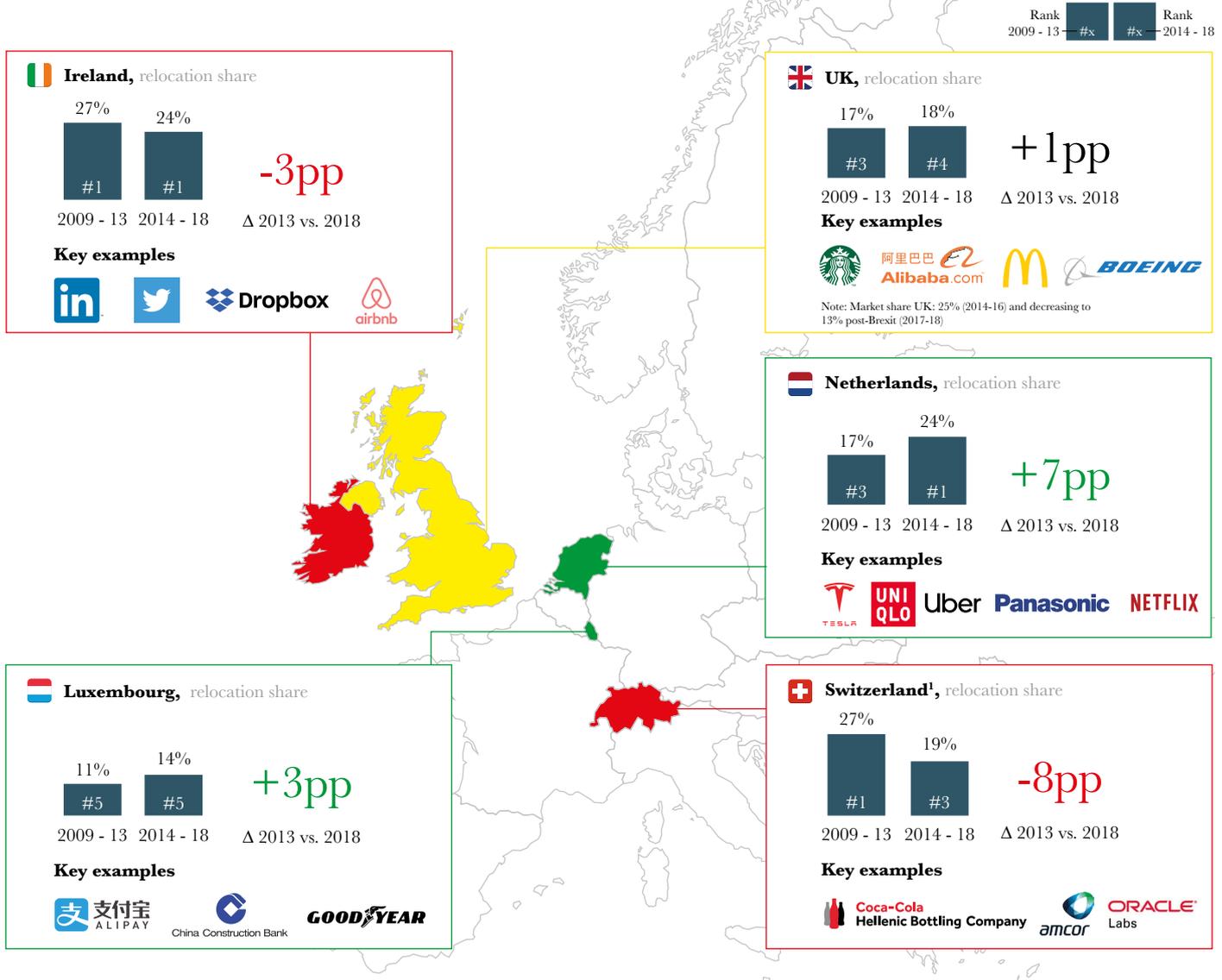
Amid fears of the potential consequences of a no-deal Brexit, Japanese tech firm Sony decided to relocate its European headquarter from the UK to the Netherlands. With this decision, Sony follows in the footsteps of its competitor Panasonic, which did the same last year. The move will see the firm register its GBP 3.3 billion European busi-

ness in Amsterdam. In a statement, Sony notes that this decision will allow the company to “continue our business as usual without disruption once the UK leaves the EU.”

Sources: BBC, Sony

Exhibit 4 – Changes in headquarters inflow share in selected countries

2009-18 development of relocation inflow shares¹



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)
Source: McKinsey

Despite this increase in activity, Switzerland has dropped from #1 to #3 for headquarter locations among multinationals relocating within or to European headquarter hubs (Exhibit 4). Compared to other prominent headquarter hubs in Europe, Switzerland has experienced the steepest decline in market share, from 27 percent⁸ (2009-2013) to 19 percent (2014-2018). Meanwhile, the Netherlands has increased from 17 percent to 24 percent, and Luxembourg from 11 percent to 14 percent. Ireland also lost some share, from 27 percent to 24 percent. (Most relocations of large companies to Ireland—such as Facebook and Amazon—occurred prior to our sample period.) Over the entire period, UK gained slightly in market share, from 17 percent to 18 percent. However, UK's share fell by almost half after Brexit, from 25 percent in 2014-2016 to 13 percent in 2017-2018. Several notable companies (e.g., Sony, Panasonic, and Citibank) have shifted or are shifting their operations out of the UK. None of the multinationals in our sample relocating from the UK to another European location after the Brexit decision has chosen Switzer-

land as a new home. The Netherlands has been particularly active in pursuing UK businesses, as it has successfully attracted 40 of its targeted 250 companies (which include companies with less than CHF 1 billion in total revenues). Some companies also shifted their locations to a non-EU hub, such as when Dyson relocated to Singapore.

Overall, Switzerland's share of relocating headquarters is declining across types of headquarters—but the country is still winning R&D centers. Switzerland lost market share in global and regional headquarters as well as in financial holding companies but won in R&D centers (Exhibit 5). With a 26 percent share of R&D centers, Switzerland is ranked second among the five locations examined. This trend is a positive development, as R&D centers generate the highest per-capita GDP of the various types of headquarters, as shown in the previous section. Notable wins include Google's additional R&D center in Zurich, as well as R&D centers for Coty, the global beauty company, and tech giant Oracle (Oracle Labs).

Case study: In 2006, Amazon installed its European headquarters in Luxembourg

E-commerce giant Amazon—whose revenues of USD 233 billion make it the largest e-commerce market place in the world—opened its European headquarters in Luxembourg in 2006. The location mainly hosts staff for Amazon's web services, devices (e.g., Echo and Kindle), and support services such as human resources, legal, and

finance. In a statement, Amazon announced that “by the start of 2018, there were over 2'000 full-time Amazonians working in Luxembourg. Moreover, hundreds of additional roles are planned to be added during 2018.”

Sources: Amazon, Paperjam

Exhibit 5 – Inflow share per HQ type¹

Market shares of inflow relocations by country and HQ type 2009 - 18

	Global HQ	Regional HQ	R&D center	Operational center	Financial holding
	33% ▼	23% ▼	26% ▲	6% ▲	21% ▼
	25% ▲	15% ▼	29% ▲	50% ▼	36% ▼
	6% ▼	19% ▲	10% ►	6% ▲	14% ▼
	11% ▲	27% ▲	23% ▼	24% ▲	0% ►
	25% ▲	17% ▼	13% ▼	15% ▼	29% ▲

¹ Percent indicates share of total inflow; arrow indicates market share change 2009-13 vs. 2014-18
Source: McKinsey

⁸ Note: An earlier study by Arthur D. Little in 2002 found that Switzerland was even the top choice of about half of multinationals back then (methodology is different from that of the research in this report).

Switzerland has increased its share of headquarters in the life sciences industry and the IT sector but lost in the consumer goods, financial services, and industrial sectors (Exhibit 6). Switzerland enjoys the second-highest market share (33 percent) of the life sciences sector, and its share is expanding. This trend positively impacts the country's productivity, as the life sciences sector is Switzerland's largest contributor to growth in labor productivity. While overall productivity across sectors increased by only 1 percent in 2016, the life sciences sector recorded a productivity increase of 14 percent.⁹ One explanation for this is that the life sciences sector performs more R&D than most other sectors do.

In Switzerland, pharmaceuticals conduct almost 30 percent of total private-sector R&D, while the overall number of Swiss firms performing R&D is decreasing.¹⁰ With a 43 percent market share of relocations, only Ireland outpaces Switzerland in attracting pharma and health care companies, but its share is declining. Within the IT sector, Switzerland has only a 12 percent market share (ranking fourth among sampled countries), but this share is increasing. The other European hubs have strengths in certain sectors as well. For example, Luxembourg wins 50 percent of relocations in the financial industry, while the Netherlands is leading in the consumer goods sector (with 35 percent share).

Case study: Fortune 500 company Cardinal Health opened global headquarters for its Cordis division in Zug

Cardinal Health, a USD 120 billion health services company, moved the global headquarters of its Cordis division to Zug in 2015. Cordis, which specializes in medical devices, was acquired by Cardinal Health in 2015 from Johnson & Johnson. Cardinal Health then decided to make the canton of Zug Cordis's new home. "The canton of Zug offers us a good platform

to be amongst similar-minded companies in the life science field and allows us to attract great international talent," Bertrand Deluard, president EMEA, Cardinal Health Cordis, explained.

Sources: Greater Zurich Area, Reuters, Cardinal Health

Case study: Amgen moved its regional headquarters to canton Zug in 2005

Amgen is a major biopharmaceutical company with about USD 23 billion in revenues. Prior to its relocation to Zug, the company had maintained a location in Lucerne since 2002. Upon relocation, the head of international operations at Amgen said that the company "will be running our international affairs from Zug and not

from California." Today, around 300 employees are working for Amgen in Switzerland. Last year, the company moved again, but stayed loyal to the canton of Zug, as the move was to Rotkreuz.

Sources: Swissinfo, Zentralplus

Exhibit 6 – Inflow share per sector¹

Market shares of inflow relocations by country and sector 2009 - 18

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

¹ Percent indicates share of total inflow; arrow indicates market share change 2009-13 vs. 2014-18
Source: McKinsey

9 Bundesamt für Statistik, Arbeitsproduktivität nach Branchen zu Preisen des Vorjahres, 2018

10 OECD, Economic Surveys Switzerland, 2017

Many globally leading companies did not choose Switzerland for their relocations. Among notable relocations over the past ten years, 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. At the same time, Switzerland did win Amcor, Cardinal Health, Coca-Cola Hellenic, and Oracle Labs.

Switzerland is not winning globalizing tech leaders and Chinese companies. Tech companies have clearly preferred Ireland, the Netherlands (both with 11 percent market share) and the United Kingdom (18 percent market share, mostly pre-Brexit) to Switzerland over the past ten years. Switzerland only attracted 3 percent of globalizing tech companies, namely Google (which established an additional R&D center in Switzerland in 2016) and the small-scale R&D centers of Oracle Labs and Facebook. In addition, only 5 percent of globalizing Chinese companies (e.g., COFCO, Shang-

hai Electric) chose Switzerland as their location, electing instead to go to Germany and the UK. Luxembourg attracted all major Chinese banks (e.g., Agricultural Bank of China, China Merchant Bank) and payment providers (e.g., Alipay)—despite Switzerland’s neutrality and reputation in China, and the fact that Switzerland had the first free-trade agreement with China (Exhibit 7).

Switzerland lost existing multinationals

Not only is Switzerland losing share among relocating multinationals, but multinationals currently present in Switzerland are moving some of their activities abroad. In the past, multinationals’ movement out of Switzerland has mainly been confined to relocating transactional and labor-intensive activities into shared services centers abroad. In recent years, multinationals have begun building or moving competence centers (centers for digital and advanced analytics, for example) outside Switzerland.

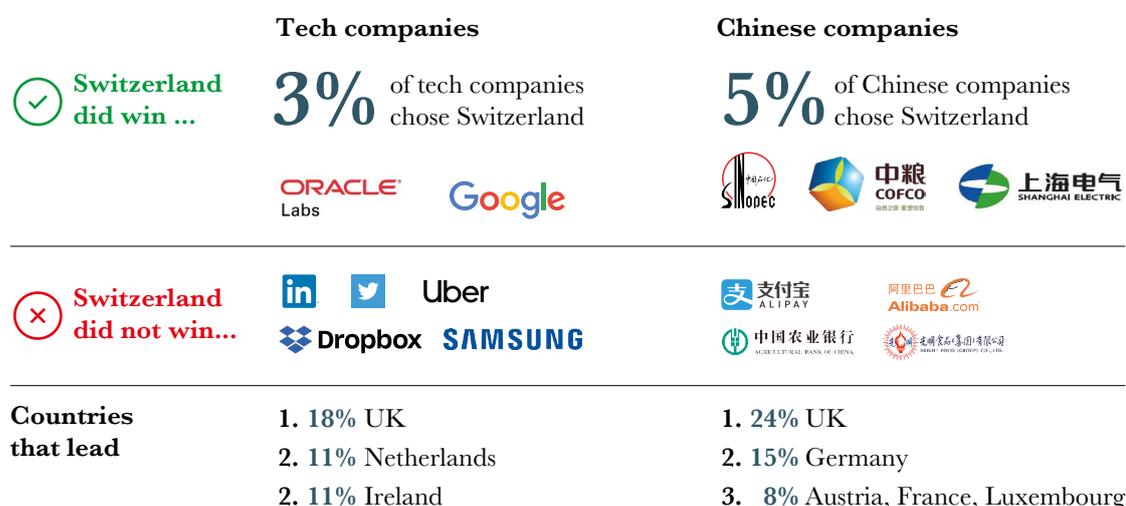
Case study: China Construction Bank opened its European headquarter in Luxembourg

In 2013, China Construction Bank (CCB)—the second-largest bank in the world by market capitalization and the sixth-largest company in the world—officially inaugurated its new European headquarters in Luxembourg. CCB board chairman Wang Hongzhang commented that the CCB was attracted to Luxembourg’s “good location, its good financial environment, the effective government, the prudent supervision, and an open attitude towards the Chinese

banking sector.” Further, Hongzhang noted that Luxembourg will be a platform for CCB to expand its businesses across Europe, particularly regarding loans and credits, international settlements, and offshore services of the Chinese currency renminbi.

Sources: Luxembourg Times, China Daily, Construction Bank China

Exhibit 7 – Switzerland captured only a minor share of tech and Chinese companies



Source: McKinsey

Case study: Media streaming giant Netflix moved its European headquarters from Luxembourg to Amsterdam

In 2015, Netflix decided to relocate its European HQ to the Netherlands. Upon relocation, Netflix moved around 30 employees focusing on marketing and sales to the Netherlands capital. In 2017, the world's leading internet TV ser-

vice announced the creation of an additional 400 jobs at its new European customer service hub in Amsterdam.

Sources: Netflix, Invest in Holland

Case study: Airbnb opened its European headquarters in Ireland

In 2013, online accommodation rental service Airbnb announced plans to open its European headquarters in Dublin. Chief Executive Brian Chesky noted that "the company will set up its EMEA HQ in Dublin because it is an emerging technology hub and has a tradition of hospitality." Last year, Aisling Hassell, the head of Airbnb in Ireland, said in an interview, "Based

on the growth we are seeing and anticipating, I can see Dublin, as our headquarters for Europe, the Middle East and Africa, getting to around 1'000 staff." Currently, Dublin hosts around 400 staff, covering a range of teams from customer service to legal departments.

Sources: The Irish Times, Airbnb



GAPS AND CHALLENGES

Our research and interviews with more than 100 CEOs and executives of multinationals and associations inside and outside Switzerland reveal that Switzerland still has a strong reputation and some indisputable, almost proverbial strengths—but also faces increasing challenges and gaps in attracting and retaining multinationals that may, over time, compromise the country’s economic prosperity.

Exhibit 8 – Relative importance of attractiveness factors

Average ranking on a scale from 1-5 based on interviews



¹ Importance depending on sector – e.g. highly relevant for pharma and watch makers
Source: Company interviews

Key decision factors for multinationals

The key factors shaping multinationals’ decisions to relocate or stay in a location are similar across the five headquarter hubs (CH, IRE, LUX, NL, UK)—with a few differences. We conducted about 100 interviews with CEOs, executives, and associations in Switzerland and abroad. We asked them to rank the importance of ten decision factors for relocation and Switzerland’s performance in each of those factors using a scale of 1-5, with 5 representing the highest score. As a second step, Switzerland’s relative performance in each individual factor was objectivized based on third-party research (e.g., from the World Bank or OECD) and compared to interview results (see Methodology section for further details).

Overall, talent availability, political stability, and the tax environment are the most important factors in multinationals’ location decisions (ranked 4.5, 4.1, and 4.0 respectively on a scale of 1 to 5) (Exhibit 8). Across the five headquarter hubs, the consensus is strong on these three decision factors, yet some variations exist. For example, multinationals in Ireland rank talent mobility much higher in importance than others (4.0), mostly because businesses in Ireland rely on inbound mobility for their

talent pools. Companies that moved to the Netherlands rank infrastructure as most important (4.7), due to the Netherlands’ central location in Europe, the airport’s strong connectivity, and the ease of mobility in cities like Amsterdam, where employees can easily bike to work. Not surprisingly, to those multinationals that recently relocated but did not choose Switzerland for their headquarters, European market access was of utmost importance (4.4). According to the executives of those multinationals interviewed, none of these companies even considered Switzerland as a location, due largely to a perceived lack of European market access.

Across the different headquarter hubs, sector cluster and labor costs/salary levels are the least important factors overall, but their importance varies across sectors. Across all sectors, sector clusters and labor costs/salary levels seem to be the least important decision factors (at 2.7 and 3.3 respectively). Yet for certain sectors, these factors are highly influential. For pharma/health companies, sector clustering is of higher importance (ranked at 3.6). Pharma clusters around Basel and Zug are highly attractive, in particular for smaller companies that need access to skilled and knowledgeable talent.

Similarly, Cork, a region in Ireland, has become a life science cluster since the 1970s and as such is home to 24 of the world's top 25 pharma and biotech companies.¹¹ In addition to Ireland's incentives to companies to innovate, the government is upgrading the infrastructure in the area to maintain the appeal of the region to pharma/health care companies. Our interviews also showed that labor costs and salary levels are of great importance to industrial heavyweight and operating businesses, as well as for smaller companies.

Switzerland's gaps

Switzerland has increasing gaps in some of the critical factors that attract multinationals, most notably talent. This lack of available talent is especially acute in technology; the executives interviewed commented on Switzerland's lack of skilled tech resources despite having leading-edge technical universities. To illustrate the importance of such resources, Uber just entered a five-year research partnership with one of the most prestigious engineering schools worldwide, École Polytechnique, and announced plans to open a new research center in

Paris. Dara Khosrowshahi, Uber's CEO, explained Uber's reasoning: "Building the future of our cities will require the best and brightest minds working together. With world-class engineers [and a leading role in global aviation], France is the perfect place to advance our [Uber Elevate] program and new technology initiatives."¹²

Indeed, research by Eurostat has found that, compared to other European markets, the absolute number of STEM (science, technology, engineering, mathematics) graduates in Switzerland is low.¹³ Moreover, third-country international students who graduate from STEM programs in Switzerland only have six months to find employment before they have to leave Switzerland.¹⁴ Hence, while Switzerland has some of the most prestigious schools globally, it does not seem to provide sufficient talent to attract resource-intensive multinational headquarters. Additionally, some executives believe that women have difficulty working in Switzerland (due in part to high childcare costs), further shrinking the available pool of talent.

Case study: Uber doubled the size of its international headquarters in Amsterdam

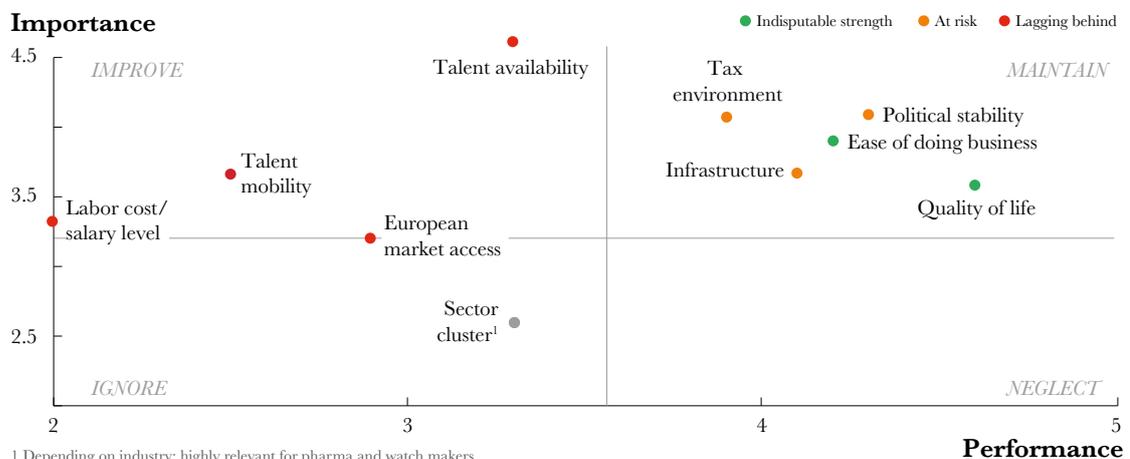
The U.S. ride-hailing firm Uber announced in 2017 that it will move its international headquarters in Amsterdam to a larger building to increase staff to 1'000 from 400. Uber came to Amsterdam in October 2012 and houses various

parts of its operations, research, marketing, and sales departments in the Dutch capital city.

Sources: Reuters, Business Insider

Exhibit 9 – 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



11 Connecting Cork

12 The Verge, Uber to open Advanced Technologies Center in Paris focused on flying taxis, 2018

13 Eurostat (#1 UK: nearly 200'000; #2 NL: nearly 22'000; #3 CH: ~21'000; #4 IRE: ~17'000; #5 LUX: 300 graduates per annum)

14 Migrationsamt Kanton Zürich, 2018

Case study: Apple opened new Continental Europe headquarters in Paris

In 2018, the USD 265 billion tech giant Apple opened its new Continental Europe headquarters on Champs-Élysées in Paris. The bottom two levels are devoted to retail, and the upper floors are used as office space. Apple has said that around 300 people will work in the new location. Apple is benefiting from Paris' high con-

centration of top-educated tech talent; according to research by Stack Overflow, the world's largest developer community, Paris is home to more software developers than any other European city except London.

Source: Apple, Patently Apple, Finextra

Closely intertwined with the available pool of talent is Switzerland's comparatively low talent mobility, particularly inbound mobility. When it comes to inbound mobility of talent, Switzerland's situation is complex. Numerous interviewees emphasized that it is difficult to compensate for the insufficient Swiss talent supply with people from outside Europe, mainly because of the restrictive immigration policy with non-EU countries (e.g., tech specialists from the US). The quotas set annually by the Federal Council are tight, and employees from Switzerland must be prioritized. Consequently, the company concerned must prove that it cannot find a suitable employee in the local labor market, a requirement that involves bureaucracy and time costs. As evidence, research from the World Economic Forum shows that Switzerland ranks low in the ease of hiring foreign labor compared to the other four benchmarked countries.¹⁵ In addition, younger, more dynamically growing companies struggle to recruit skilled talent (namely in technology) as Switzerland is not viewed—particularly by young tech talent—as a vibrant place compared to London, Berlin, or Amsterdam. At the same time, the quality of life in Switzerland is viewed very positively by older international talent with families.

Outbound mobility is also difficult, as very few employees at multinationals in Switzerland aspire or volunteer to temporarily go abroad. This reluctance seems to be due to Switzerland's high quality of life. Research by the World Economic Forum supports this finding: across the major European headquarter countries, Switzerland ranks last in internal labor mobility.¹⁶ Interestingly, mobility within Switzerland is also perceived to be limited. One executive commented that his firm lost one third of its employees when the headquarters relocated to another city, which was 45 minutes away from the original location.

Even though Switzerland's economic prosperity depends on stable, international relations, the country has not yet clarified its position in the international market. Many interviewed companies believe that Switzerland's access to the European/interna-

tional workforce and markets are not yet firmly established and thus are subject to risk. Consequently, many companies that relocated to another European headquarter hub did not even consider Switzerland as a location. To these organizations, while Switzerland appeared to be part of the European economic complex, its relationships with the European Union and other major jurisdictions seemed uncertain for the long term.

Switzerland's challenges

Switzerland's traditional strengths—foremost its regulatory reliability—are perceived to be eroding. Although Switzerland is generally seen as politically stable, businesses are becoming increasingly uncertain about the country's regulatory reliability, given Switzerland's loose ends in international agreements and domestic reforms. Most see Switzerland's politics as supportive of the economy, with transparent rules and regulations. But as a range of questions continues to remain unanswered—Switzerland's relationship with the EU and transatlantic free trade agreements, the reform of the Swiss Code of Obligations, and the Corporate Responsibility Initiative for example—a sense of regulatory insecurity is rising among businesses. This uncertainty is perceived to negatively affect the investment environment and to undermine one of Switzerland's core strengths: regulatory reliability.

Another traditional strength, Switzerland's attractive and reliable tax environment, is perceived to be at risk. While location decisions are typically shaped by several factors including talent, the tax environment is critical, particularly for multinationals from abroad with high mobility. Multinationals see Switzerland's current tax situation as attractive, yet other locations have improved their respective tax environment and thus could eclipse Switzerland's tax-related appeal. For instance, recent reports find that Switzerland is less attractive to multinationals than Ireland.¹⁷ The upcoming referendum on the proposed tax reform will set the course for Switzerland's tax regime—and attractiveness to multinationals—in the following years.

¹⁵ WEF, Global Competitiveness Report, 2018

¹⁶ WEF, Global Competitiveness Report, 2018

¹⁷ KPMG, Swiss Tax Report 2018, 2018

Background: Impact of proposed Swiss tax reform on multinational companies

Multinationals (often referred to as “status companies” in the context of the proposed tax reform) currently fall under special cantonal tax arrangements that allow for privileged taxation rates. However, since these tax arrangements are no longer accepted internationally, Switzerland has committed to abolish them. The Federal Tax Administration estimates that an abolishment of tax arrangements without any counter-measures in place would cause a loss in corporate taxes of around CHF 950 million due to restructurings and relocations of status companies.¹ To avoid such a scenario, the proposed Swiss tax reform includes measures to partially compensate for the abolishment of privileged tax arrangements. For example, a proposed new

regulation (known as “IP box”) to promote R&D would allow a portion of the profits from inventions to be taxed at a reduced rate. Moreover, cantons will be allowed to grant additional tax deductions for R&D. Economiesuisse concludes that the proposed tax reform will help to limit the risk of multinationals’ leaving Switzerland after they lose their privileged tax arrangements. Further, the reduction of the average effective tax rate is expected to strengthen Switzerland’s long-term tax competitiveness.² Even with these reforms, however, Economiesuisse estimates that status companies that currently have privileged tax arrangements will pay around CHF 2 billion more in taxes.³

1 Economiesuisse, Neue Zahlen belegen: Steuerliche Wettbewerbsfähigkeit lohnt sich, 2018

2 Economiesuisse, Steuervorlage 17: Totalumbau zu geringen Kosten, 2018

3 Economiesuisse, Kuhhandel oder Kompromiss bei der Steuervorlage?, 2019

Background: Singapore’s Economic Development Board (EDB)

With more than 600 dedicated and highly-skilled employees, the EDB runs one of the most efficient investment promotion agencies worldwide. Organized by sectors and sub-sectors, EDB teams manage portfolios of companies and build relationships with multinationals not only in Singapore, but also abroad. Singapore-based companies see the EDB as highly proactive and supportive.

Because promoting investment and developing industry are top priorities for Singapore, the EDB’s talent strategy focuses on attracting the most qualified people from various industries and the government. For example, the current

chairman, Beh Swan Gin, joined the EDB after spending several years in leadership positions in the pharmaceutical industry.

The top-notch composition of the EDB’s board and International Advisory Council further reinforces the organization’s international standing. Board members include C-level executives from GE, Procter & Gamble, and IBM, to name a few. The international advisory board consists of top global executives, such as Peter Voser, chairman of ABB; Jack Ma, founder and chairman of Alibaba; Frank Appel, CEO of Deutsche Post DHL; and Christophe Weber, CEO of Takeda.

Switzerland’s infrastructure, another important decision factor for multinationals, is perceived as strong but deteriorating in certain areas, as it may not be able to accommodate corporations’ increased mobility needs on road, rail, and air. Of particular concern is Switzerland’s air transportation system. In its latest collaborative report with Boston Consulting Group, the Swiss-American Chamber of Commerce describes Swiss airports as a key driver of Switzerland’s economic and social connectivity (contributing around 2.5 percent to 2016’s GDP).¹⁸ Yet the aviation sector is increasingly experiencing severe capacity shortages, while transportation demand is constantly growing.

Switzerland’s investment promotion functions are under-resourced and less proactive than in other countries. Switzerland has around 50 people in charge of attracting companies (on both a national and cantonal level), while the Netherlands has about 100 such specialists, Ireland more than 300, and Singapore more than 600.¹⁹ These other headquarter hubs actively promote their home countries as attractive hlocations for headquarters and directly approach many more multinationals than Switzerland does. Moreover, because their agencies are centrally organized, these hubs are more coordinated in their approach. Singapore’s investment promotion agency, in fact, is run as a world-class

18 Swiss-American Chamber of Commerce & Boston Consulting Group, The Swiss Aviation System, 2018

19 Switzerland Global Enterprise

sales organization with account managers (called “leads”); some of the country’s most talented government employees work there (see sidebar, “Singapore’s Economic Development Board.”)²⁰

While countries like Luxembourg organize meetings between ministers and companies, Switzerland’s promotion agencies rely largely on their own resourcing and on leads from tax consulting firms. Some interviewees commented, too, that Switzerland’s local promotion agencies react too slowly to opportunities and potential deals. Several Swiss cantons have tried joining forces to attract foreign investment, but they often end up competing against each other when a potential opportunity arises. While this competition among cantons fosters excellence, a better coordinated approach could enable Switzerland to pursue multinationals with joined forces more so than today.

Switzerland’s strengths

Compared to other sectors, multinationals in the life sciences sector give great weight to having a sector cluster in their headquarter locations, and Switzerland scores high in this factor. Historically, Switzerland has held a strong position in the pharmaceutical and biotechnology sector, attracting

major investments that contribute significantly to the GDP. Approximately 40 percent of Swiss life science companies’ R&D expenditures are invested in Switzerland, and nearly half of these companies have local manufacturing operations.²¹ The basis of this favorable position is Switzerland’s dense life sciences cluster, particularly in the Basel region, where nearly two thirds of all Swiss life sciences employees are located. And the figures speak for themselves: the Basel region ranks first globally when it comes to R&D expenditures in terms of regional GDP (14 percent), number of pharma patents per million inhabitants (170), and nominal hourly productivity (322 USD).²²

Switzerland has other substantial strengths that attract multinationals—such as a high quality of life and ease of doing business—but the question is whether these strengths can tip the scale. The quality of life in Switzerland is appreciated by talent with international experience and by employees of multinationals in Switzerland. Moreover, multinationals value the ease of doing business in Switzerland, particularly at the commune level, where they appreciate the non-bureaucratic and close collaboration. Liberal labor laws, too, help corporate businesses to thrive.

Case study: Alcon to move global headquarters to Geneva in 2019

Alcon, the USD 6 billion eyecare unit of Novartis spun off as a separate company in early April 2019, plans to move its corporate headquarters from Texas to Geneva. Geneva was selected as the new global headquarters with Novartis, which cited Switzerland’s “progressive business

climate and innovation-friendly policies” as factors in its decision. As part of the move, the company plans to employ up to 700 people in Switzerland.

Sources: swissinfo, Novartis

Case study: Adidas to build out its Switzerland operations by mid-2020

The sports and clothing apparel manufacturer Adidas announced plans to create 100 jobs in the canton Lucerne by mid-2020. In scope are roles of the company’s global commercial operations, involving activities around footwear, apparel, accessories, and equipment. “Proximity to Adidas headquarters in Herzogenaurach and to key strategic partners—in addition to the appeal of the location for existing and future employees—were key factors for the move to Lucerne in

Switzerland,” Adidas claimed. Along with the new site in Lucerne, the company already employs around 40 employees in Cham.

According to Forbes, Adidas is the third-highest-valued sports brand in the world, with a brand value of USD 5 billion. In 2018, the company generated around CHF 25 billion in revenues.

Sources: Forbes, S-GE, Adidas

20 LinkedIn

21 Switzerland Global Enterprise, Factsheet Biotech Cluster in Switzerland, 2017; KPMG; European Life Sciences, Cluster 2013 Report, 2013

22 Life sciences Basel



RECOMMENDED ACTIONS

Switzerland could re-establish itself as the leading location for multinationals again by reviving its business-friendly and pragmatic mindset. Change starts with mindset. Switzerland could engage in an open debate on the value of multinational companies to the Swiss economy and society. This could include three broad themes:

- **Reviewing the immigration regime for qualified, critical talent and expanding capacity at Swiss universities for sought-after subject matters.** To ensure sufficient talent in areas critical for headquarters and hubs (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 establishing comprehensive free-trade arrangements with major economic blocs; a competi-
 - **Reviewing the immigration regime for qualified, critical talent and expanding capacity at Swiss universities for sought-after subject matters.** To ensure sufficient talent in areas critical for headquarters and hubs (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.
 - **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 location for headquarters.** 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.

ACKNOWLEDGEMENTS

Contributors

We would like to extend a special thank you to the companies interviewed for providing their time and insights, which helped us to enrich and sharpen the report.

We are also grateful for the time and information provided by institutions and associations inside and outside Switzerland.

Companies interviewed

Adecco	Lucidchart
Alnylam	Medtronic
Arvelle Therapeutics	Microsoft
Atara Biotherapeutics Switzerland	Mikron Group
Autoneum Holding	Mövenpick
Ava	Nespresso
Barry Callebaut	Nestlé
Basilea	Nio
Bata	Novartis
Baxter International	OC Oerlikon
Bucher Industries	On
Bühler	Oracle
Burckhardt Compression	Partners Group
Cargill	Payconiq
Celgene	Pfizer
Clavis Insight	Pictet
Coca-Cola HBC	Rackspace
Colgate-Palmolive	Raiffeisen Schweiz
Conzzeta	Rehau
CSL Behring	Schindler
Debrunner Koenig	Schweiter Technologies
dormakaba	SFS
Dufry	Siemens Schweiz
Ecolab	SIG Combibloc
Edward Lifesciences	Straumann
Emmi	Stryker
F. Hoffmann-La Roche	Sulzer
Facebook	Swarovski
Ferring Pharmaceuticals	Swiss Krono
Fossil Group	Swiss Re
Geberit	Syngenta
Georg Fischer	TAG Heuer
Givaudan	Takeda
Google	Trafigura
Helsinn	Uber
Hilti	UBS
IBM Switzerland	Vifor Pharma
JT International	Vontobel
Kaspersky Lab	Ypsomed
LafargeHolcim	Zurich Insurance
Lindt & Sprüngli	More than 20 additional companies
LT Foods	

Institutions/Associations

BaselArea Swiss
Department of Economic Affairs, Canton Zug
digitalswitzerland
economiesuisse
EPFL Innovation Park
Greater Geneva Bern Area
Greater Zurich Area
Innosuisse
LMUTax, LMU München
Switzerland Global Enterprise
Switzerland Innovation
Switzerland Innovation Park Biel / Bienne
Switzerland Innovation Park Zürich
Universität Bern
Universität Luzern

About the authors

The preparation of this report was led by Raphael Buck, a senior partner in Zurich, together with Martin Naville, CEO of the Swiss-American Chamber of Commerce, based in Zurich.

Felix Wenger, managing partner of the Swiss office; Jan Mischke, an MGI (McKinsey Global Institute) partner based in Zurich; and Alexander Klei, a partner in Zurich, contributed to this report.

Other project team members include Moritz Steinle, Thorsten Helms, Sonja Garbrecht, Philipp Bojanic, Mario Hagmann, Giorgio Ciocca, Nils Fitzian, Claus Gerckens and Anna Heid.

We gratefully acknowledge our colleagues who led the research on relocation share and economic impact, Neslihan Ana Sönmez, Monika Stencel, and Jonas Röder, and extend our thanks to Natalie Huldi, who was responsible for coordinating the interviews.

We would like to thank Anne Battle Schultz, who helped write and edit this report, and our senior media designer Tobias Mix, Dietmar Kutt and Michaela Frank.

We are grateful for the input we have received, but the final paper is ours, and all errors are our own.

For comments, questions and media enquiries on this report, reach out to Johannes Berchtold, Head of Communication, McKinsey & Company Switzerland. Johannes_Berchtold@mckinsey.com

METHODOLOGY

1. Economic impact of multinational companies

Analysis of economic impact of multinationals already present in Switzerland

This analysis includes both Swiss and foreign multinationals. Per the BFS²³ (Federal Statistical Office of Switzerland) and Swiss National Bank (SNB)²⁴, those groups are defined as:

- Swiss multinationals: “Swiss-controlled companies with operations abroad”
- Foreign multinationals: “subsidiaries of foreign companies”

SNB publishes annually the total number of Swiss and foreign multinationals in Switzerland and their total workforce. We compared those figures with the total number of companies and jobs in Switzerland obtained from BFS.²⁵ Various estimates are available on multinationals’ impact on the Swiss GDP. A study published by Swiss-AmCham and Boston Consulting Group²⁶ in 2012 shows that multinationals account for 36 percent of the total GDP in Switzerland. Other studies published by SwissHoldings (2009²⁷) and AvenirSuisse (2014²⁸) show similar results. The information on multinationals’ impact on federal corporate taxes was obtained from ESTV.²⁹

Analysis of economic impact of multinationals relocating to Switzerland

We used an FTE-driven approach to estimate the economic impact of headquarters newly relocating to Switzerland. We manually retrieved the number of FTEs of these headquarters upon relocation based on an extensive evaluation of news reports. When information was not available, we used the average number of FTEs relocated per type of headquarters across all other relocations with available data. We used average labor productivity per sector to estimate the impact of each new employee

on the economy and calculated the overall direct GDP impact. We applied average tax income as a share of GDP to estimate tax revenues from new headquarters and corroborated those estimates with estimated company profitability and wages multiplied with corporate and personal tax rates, respectively. Finally, we applied multipliers derived from the World-Input-Output-Database to estimate indirect effects (i.e., additional economic activity along the supply chain). As mentioned in our report, these estimates are likely to be conservative on several fronts: (1) examples confirm that some young headquarters grow employment substantially faster than sector average, (2) multinationals typically have higher labor productivity than sector average, and (3) many foreign multinationals will likely show above-average profitability in Switzerland.

2. Analysis of relocation share

We calculated the number of companies relocating to each of the countries in the scope of this study (i.e., Switzerland, the Netherlands, Ireland, Luxembourg, and the UK) between 2009-2018. We narrowed our scope to the defined type of headquarters (i.e., global and regional headquarters, R&D centers, operational centers, as well as financial holding companies). We only focused on inflowing relocations and not outflows. We split the ten-year period into two five-year periods. For each period, we calculated the share of inflows for each country; for example, if ten of one hundred relocations go to Ireland, then the Irish market share would be 10 percent. We cut the analysis by sector and type of headquarters.

Our systematic approach to building the database of company relocations consisted of three steps. First, we conducted a top-down and bottom-up screening of relocations, which involved a broad scan of each country’s company lists and public information to spot relocations. The analysis is based on several components:

23 Bundesamt für Statistik, Statistics on affiliates and jobs of foreign multinationals, 2017

24 Schweizer Nationalbank, Operational data on parent companies in Switzerland, 2017

25 Bundesamt für Statistik, Beschäftigte nach Wirtschaftsabteilung, Beschäftigungsgrad und Geschlecht, 2018

26 Swiss-American Chamber of Commerce & Boston Consulting Group, Multinational Companies in Geneva and Vaud, 2012

27 SwissHoldings, Headquarter-Standort Schweiz im globalen Wettbewerb, 2009

28 Avenir Suisse, Multis: Zerrbild und Wirklichkeit, 2014

29 Eidgenössische Steuerverwaltung, Steuerstatistik ESTV, 2017

- Comparison of the Fortune 500 companies list as well as each country's individual list of top companies by revenue in 2007 against the same list in 2018 to spot differences. Companies
- shown on one list but not on the other were analyzed manually to spot relocations.
- Perusals of promotion investment agency websites (e.g., SGE, IDA, Invest in Luxembourg)
- Perusals of chamber of commerce websites (e.g., cantonal/regional chambers of commerce)
- Examination of other information sources, such as Factiva and Commercial Register excerpts

The second step involved the construction of a relocation database. Based on the information collected above, we built a relocation database and eliminated all relocations outside the scope of this study (e.g., branches, sales offices, shared service centers, and business acquisitions; relocations outside the defined period).

As a last step, we refined the relocation database further by eliminating companies with group revenues below CHF 1 billion. To do so, we used CapitalIQ and public information. To ensure accuracy and completeness, we manually verified all identified relocations and sources and cross-checked each identified relocation against other sources of relocation information, such as newspaper articles.

To analyze the share of relocations for globalizing Chinese and tech companies, we obtained the list of the top 250 biggest Chinese companies in terms of revenues as of 2017 YE from CapitalIQ, and the list the leading tech companies based on the rankings of Forbes and Fortune, respectively. We manually checked relocations of each company against perusals of investment promotion agency websites, chamber of commerce websites, and press articles, and built a database for relocations of Chinese companies, and a database for relocations of tech companies, respectively.

3. Attractiveness assessment

The attractiveness assessment for headquarter locations is based on ten factors:

- Ease of doing business: friendliness of the regulatory environment toward starting and operating a business locally
- European market access: ability to access the Common European Market, which seeks to guarantee free movement of goods, capital, services, and labor within the European Union
- Infrastructure: quality of road, rail, and air transportation, as well as access to (sea) ports
- Labor costs/salary level: average total compensation level within a country; flexibility in wage determination and power of labor unions
- Political stability: level of predictability and stability of the political environment within a country
- Sector cluster (concentration): proportion of companies from a specific sector and/or industry as well as sector-specific (tax) regulations
- Talent availability: ability of a country to develop and maintain talent, with a special focus on scientists and engineers
- Talent mobility: ability of a country to attract and retain talent from abroad (inbound mobility); ability of a country to send talent abroad (outbound mobility)
- Tax environment: average corporate and personal tax rate and specific tax regulation
- Quality of life: degree of general well-being of citizens and society, including factors such as life satisfaction, physical health, etc.

The importance and relative performance of these factors for headquarter locations were assessed based on quantitative and qualitative research.

Quantitative research on key attractiveness factors (“status quo”)

The first step involved conducting about 100 interviews with CEOs and executives of multinationals and associations in Switzerland and abroad on each attractiveness factor’s importance and relative performance versus other European headquarter hubs in the scope of our research. The importance and relative performance of each factor were ranked on a scale of 1-5 in each interview, with 5 representing the highest score. Headquarters selected for interviews were companies that relocated their headquarters over the past ten years (i.e., companies that are part of the relocation share analysis), have large established operations in Switzerland or any of the focus countries, or have demonstrated substantial growth within the ten-year sample period.

As a second step, the relative performance of each individual factor was assessed based on third-party research (e.g., from the World Bank or OECD) across the five countries in the scope of this study. For each factor respectively, the country’s relative performance was ranked based on the results of the third-party research. The results were used to confirm or oppose the findings of the interviews.

Qualitative research on opportunities, risks, and changes required (“future state”)

Based on the aggregated results of the more than 100 interviews with CEOs and executives of multinationals and associations, we identified key opportunities, risks, and changes required for headquarters that are relocating to or are already present in Switzerland.



Scan for further
information

McKinsey & Company Switzerland

April 2019

Copyright © McKinsey & Company

www.mckinsey.com/ch

 @McKinsey_ch

 #mckinseydeutschlandosterreichschweiz

 @mckinseyswitzerland