

## Will Switzerland remain attractive to MNCs?

Cost is cited as one of the biggest challenges of doing business in Switzerland. Yet, companies undertaking business transformation require both flexibility to adjust their business model and stability in the legal and tax frameworks. From a business transformation perspective, therefore, it is more important to have flexibility in labor regulations, workforce availability, predictability of taxation and access to international markets.

### How respondents view key flexibility and stability factors

#### Predictable and competitive tax system

68 percent of respondents say taxes are a relevant added value of their presence in Switzerland. But only 42 percent believe that a competitive tax system will be one of Switzerland's main advantages in the next three years. Between 36 and 50 percent anticipate the uncertainty with regard to the Corporate Tax Reform and BEPS to be a challenge for the country, but 58 percent of respondents are convinced that Switzerland will over time be compliant with international corporate taxation standards.

*BEPS (at an international level) and the Swiss Corporate Tax reform III (at Swiss level) are seen as major challenges for companies and for Switzerland as a business location. Despite intensive efforts by the Swiss Government to draft corporate taxation legislation that is at the same time competitive and sustainable, belief in its successful implementation is not very strong among MNCs.*

#### Attractiveness for qualified workforce

Two-thirds of respondents believe that a well-educated workforce will remain one of Switzerland's key advantages in the coming years. But only about half of executives anticipate Switzerland remaining as attractive to qualified workers from abroad. At the same time more than 71 percent see the Swiss educational system as ready to provide the necessary level of quality training. Between 45 and 50 percent see the limitation of immigration from the EU and from outside the EU as a challenge.

*While MNCs' confidence in the Swiss educational system is reassuring, the comparatively limited belief in Switzerland as a future magnet for qualified workers from abroad should raise concerns. Most respondents have an international background and can therefore compare various locations, some of which appear equally – or more – attractive than Switzerland to the highest quality employees. Given the high dependency on foreign workers, all respondents ask for mostly unrestricted access to international labor markets and a careful implementation of the mass immigration initiative.*

#### Flexible labor regulations

Almost every respondent believes Switzerland today has far more flexible and business-friendly labor regulations than any other country in Europe. Only 47 percent, however, believe Switzerland will maintain its competitive advantage over the next three years, while 29 percent believe working time regulations will become less flexible going forward.

*While MNCs are prepared to pay a substantial salary premium in Switzerland for high quality workers in exchange for flexibility in hiring and dismissal processes and in other labor-related regulations, it is believed that this advantage may not last. Recent changes such as the new regulations regarding working time registration might have triggered this skepticism.*

#### Government - stable political and regulatory environment

One-half of respondents believe that Switzerland will maintain a stable regulatory and legal environment in the coming years. However, 26 percent see uncertainties created by popular initiatives as an issue. 55 percent believe that Switzerland will be able to cope better than other industrialized countries with the growing pressure for more regulation but only 23 percent believe the pro-business light regulation will remain a key advantage of Switzerland in the coming years. 46 percent believe the government doesn't have the rising social costs and governmental debts under control.

*The Swiss Government is seen as a fairly stable and reliable partner with a low tendency to over-regulate. However, only a minority believes Switzerland can fully resist the global trend towards regulating industries to an extent unseen to date. This is important, as a stable and lightly regulated business environment is commonly seen to be important to Switzerland's pro-business environment.*

#### Costs

Unsurprisingly, about 60 percent of executives say that the general level of costs – and in particular salary costs – will remain a challenge looking forward. 47 percent are concerned about the impact of the Swiss franc exchange rate, which continues to strongly influence the Swiss economy. Interestingly however, no respondent would like to see a return of the Swiss franc's peg to the euro.

*The question of salary costs is complex and controversial. Common economic theory connects salaries to labor productivity, which is in general seen by MNCs as superior in Switzerland, at least for senior positions, thus justifying high salaries. For Switzerland, the additional tax-saving effect of creating substance also needs to be factored into the salary discussions.*

*The issues seem to be more relevant to mid or low level positions, where labor productivity and labor law flexibility in the views of many MNCs apparently do not →*

## Costs (ff)

*offset the higher labor costs. Such positions have been shifted abroad in recent years. However, such a transfer of substance might affect a company's ability to compute taxes in Switzerland for tax planning purposes.*

*Paradoxically, latest statistics suggest that salaries in key sectors such as finance or industrials have been stagnant or even falling in recent years in Switzerland. Along with the observation that labor productivity growth in Switzerland has been moderate, the conclusion might be that certain workforce categories do not yield the productivity that justifies their presence in Switzerland.*

*A forward looking labor policy should therefore look into creating and importing a workforce of the highest possible level of productivity while minimizing the influx of less productive workers, as there will be a diminishing need in highly industrialized countries for the latter.*

## Innovation

Only 44 percent of respondents believe that being in Switzerland makes their companies more innovative, and 35 percent believe that an innovative environment will distinguish Switzerland from other countries in the coming years. 30 percent believe that Switzerland as a business location will benefit from the presence of leading universities.

*In spite of the strong efforts by the Swiss Government to promote the achievements of Swiss researchers and innovative businesses, foreign MNCs in Switzerland still do not perceive Switzerland to be an innovation leader. To bridge this perception gap between commercial/fiscal and innovation advantages, the introduction of efficient tax planning instruments for R&D and for IP exploitation as foreseen with the CTR III is important.*

## International

Only 9 percent of respondents consider it an advantage for Switzerland not to be a member of the EU, while 14 percent believe it is a disadvantage. 26 percent see Switzerland becoming less competitive as a result of possible risks to bilateral treaties and because of new international trade arrangements such as the Transatlantic Trade and Investment Partnership (TTIP).

*A majority of MNCs appears satisfied with the international positioning of Switzerland in the world. Many explicitly mention Swiss neutrality as a positive factor for both internal and external considerations. However a number of executives raise concerns about the future of the bilateral treaties that are seen as essential for doing business in Switzerland, as well as the TTIP, which might competitively disadvantage Switzerland if implemented.*

## Global mega-trends

A majority of respondents see the trend among industrialized countries towards growing income imbalances and the related increase in social costs as slightly less of a challenge for Switzerland than for other countries. Data protection is an area where Switzerland also seems to stand out slightly, having a long history in this field. Switzerland is not especially seen as a leader in the digitization of services, with the country having a similar level of readiness as most other industrialized countries. The same is true for the challenges presented by automation and robotics, where Switzerland is considered to be ready or somewhat ready – but not particularly better prepared than other countries – which could mean a move towards job losses given Switzerland's strong manufacturing base.

*On a positive note, Switzerland is perceived to be a more egalitarian country with fewer rifts between the wealthy and the rest of the population. This important advantage should be maintained. On the other hand, the country cannot shield itself from global trends towards digitization and automation that will clearly lead to the loss of jobs. Despite having strict data protection regulations, the country is seen as only marginally safer than other industrialized countries.*

## Quality of life/ infrastructure and safety, location

Quality of life and top infrastructure are widely seen as a Swiss advantage. A majority perceives Switzerland to represent a low threat of terrorist incidents and a high level of safety. 42 percent also see business advantage in its geographically central location.

*Given increasingly volatile economic and political situations around the world, Switzerland might once again prove to be the safe haven option for MNCs looking for a top quality location for both their businesses and executives.*