

the future for business in Switzerland?

How to stay ahead



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A joint study by Deloitte Switzerland and the Institute of Management at the University of St. Gallen.

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Foreword

During the last three years there has been a fundamental shift in the world economy and financial markets. The financial crisis has created the need for new standards including greater business transparency and an increasing role for public authorities in shaping business activities. Undoubtedly, drivers of global market dynamics will have a strong impact on the Swiss economy, Swiss companies and for people living in Switzerland, because of the country's interconnectedness with the global economy. As protectionism has never worked in Switzerland, adaptability will continue to be the solution.

In November 2009 Deloitte published a White Paper entitled 'The future for business in Switzerland?' in which it proposed an agenda for change aimed at promoting Swiss business and enhancing its global competitiveness. The paper put forward 18 growth creation initiatives (GCIs) which focused on policy and industry issues.

The White Paper identified two crucial questions for Switzerland's future:

- *How can Switzerland build on its past strengths and enhance its competitive position?*
- *What priorities should policy makers and corporate executives address in order to strengthen Switzerland's competitiveness?*

To find an answer to these pressing questions Deloitte commissioned University of St Gallen (HSG) to conduct research following a three-step approach: the national agenda, the corporate agenda and the priorities for future competitiveness.

Our research would not have been possible without the support of the 97 executives of firms in Switzerland who kindly agreed to participate in our survey.¹ We would also like to thank the three executives who helped with the draft questionnaire.

The long-term aim of this report is to prompt further dialogue between executives and policymakers for determining a shared agenda of priorities for Swiss business to stay ahead.

We trust you find this research both stimulating and commercially useful.

Yours

Martin Eadon
Chairman & CEO
Deloitte AG

Yours

Prof. Dr. Günter Müller-Stewens
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Executive summary

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.”

Charles Darwin

The extraordinary economic events of the last three years have reshaped the world economy. From financial markets to high-end manufacturing – no part of the economy has been left untouched. Switzerland has been particularly exposed to these headwinds of change because of its high dependence on international markets. However, every crisis presents opportunities, and our research shows Swiss business is confident and well prepared to seize many of these opportunities.

Our survey shows that Swiss business recognises the need to refocus key parts of the economy. The challenge ahead is to identify and articulate the right priorities, and implement them rigorously in order to enhance Switzerland’s business competitiveness.

The executive summary is structured as follows: The first section aims to test the GCIs proposed in the Deloitte White Paper as a way of shaping the national agenda. The next section highlights the priorities Swiss business is planning to implement in order to succeed in a post-crisis world, which emerged from our research. And the final section focuses on how the highest ranked GCIs could be transformed into policies, which, working in conjunction with business, could improve Swiss competitiveness. The resulting action points, which link to Deloitte’s earlier White Paper, will help to drive future competitiveness.

1. Shaping the national agenda: The most relevant Growth Creation Initiatives

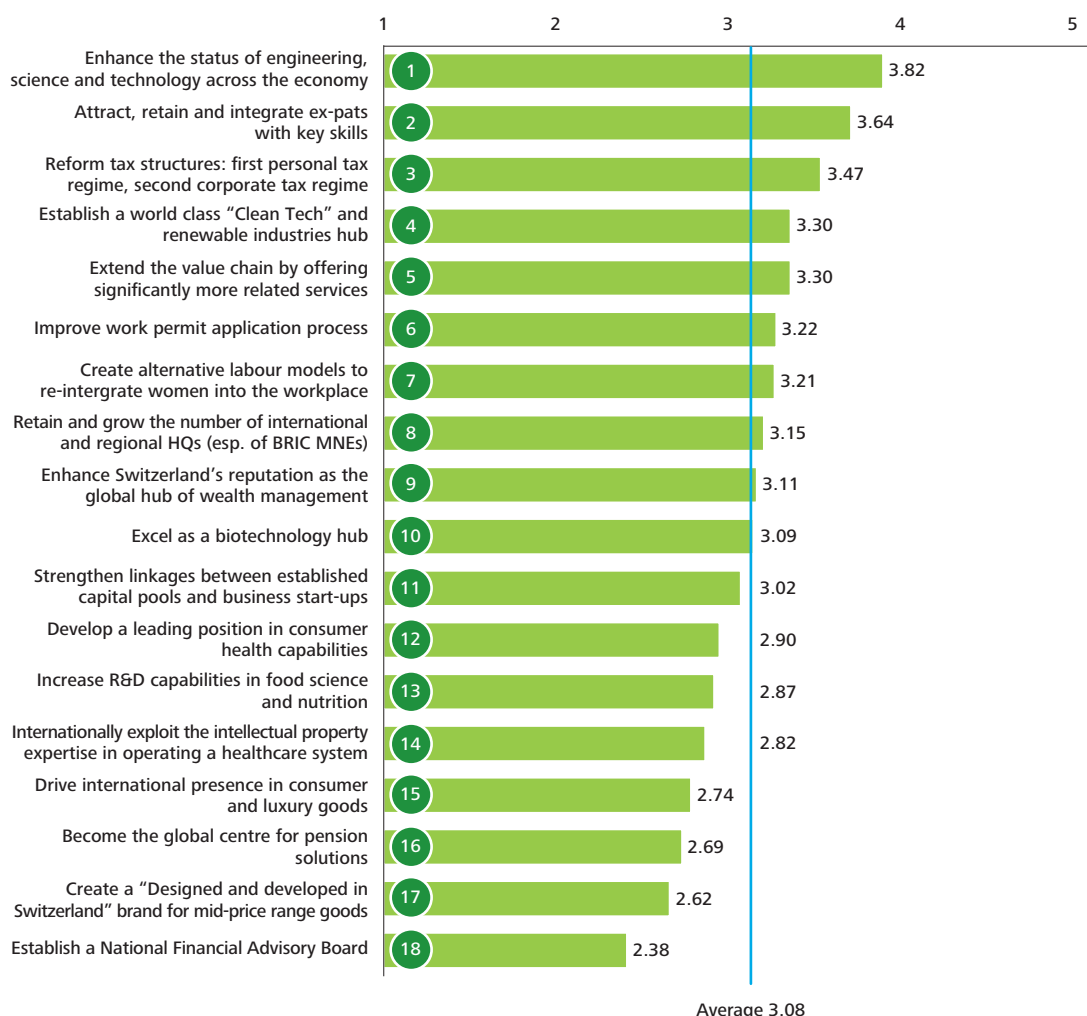
The first part of our study deals with the government and industry environment in Switzerland. It includes senior executives’ assessments of the importance of the 18 Growth Creation Initiatives set out in the Deloitte White Paper. (For an overview of the 18 GCIs see Appendix A.)

Our research shows that Swiss business leaders support most of these proposed 18 GCIs (see Figure 1). However, some proposed initiatives, such as the establishment of a national finance board were rejected. Swiss business leaders believe that to stay ahead, there needs to be an agenda for sustainable change based on a set of supply side and industry focused actions. Interestingly, the three initiatives rated most important relate to ‘supply side capabilities’ of the Swiss economy, and are considered important across all industries:

- (1) Enhance the status of engineering, science and technology across the economy.
- (2) Attract, retain and integrate expatriates with key skills.
- (3) Reform tax structures (both personal tax and corporate tax regimes).²

Switzerland faces tough challenges in responding to this set of priorities. A prospering domestic economy in a global world is heavily dependent on its technical capabilities. The education sector needs a supply of enough skilled and talented experts. But in recent years, younger Swiss people seem to have lost interest in sciences. It is likely to be challenging in the current global labour market to recruit experts from abroad. There are also concerns around creating a deeper imbalance of foreign influences (‘Überfremdung’) in Swiss society.

Figure 1: Ranking of the 18 Swiss growth creation initiatives



Source: University of St. Gallen, Institute of Management, 2010

2. Shaping the corporate agenda: Engines of sustainable growth

The Deloitte White Paper identified the importance of four sectors – life sciences, financial services, consumer business and high-end manufacturing – as the engines of future growth for the Swiss economy. We asked the executives in the survey to forecast the business prospects for their industries over the next five years, and to what extent these prospects may be realised. Further, our research explored the kind of changes in the business model that will be required to maximise future opportunities.

The research shows there is a coherent response to the opportunities and threats presented in the post-crisis economy across all industries. This is a testament to the quality and strength of Swiss business. Our research suggests the following five actions could be deployed to further enhance the competitiveness of Swiss business in the future:

1. Increase strategic foresight activities

Several megatrends will reshape the global and the Swiss economy (including the ageing of the society, and climate change). They will lead to creative destruction of economic activity on a global scale.

Entrepreneurs who are prepared to act fast could be faced with tremendous opportunities. Improved competitiveness is often based on a faster and deeper understanding of the weak signals of changes in the socio-economic environment. Companies with more effective strategic foresight systems may gain a first mover advantage. Strategic foresight systems should be used to identify new trends and developments (see Figure 27), to challenge existing business models, and to invent new ones. Strategic foresight should be integrated in the daily activities of all managers, rather than just delegated to a separated management system.

It will be critical to anticipate and manage the impact of global mega trends in order to gain maximum advantage from these and to develop appropriate business responses. Indeed, the survey indicates that addressing the impact of mega trends will become more important for Swiss firms over the next five years (see Figures 27, 29).

2. Launch strategic growth initiatives

As domestic and western industrial markets mature, corporations will face a struggle for growth. Strategic growth initiatives might be launched to meet this challenge (see Figure 27). To increase the variety of entrepreneurial ideas, open innovation approaches can be introduced, where they use not only the full potential of the firm, but also external sources (universities, research institutes, suppliers, customers, etc.) to come up with a pipeline of promising entrepreneurial ideas. This must then be managed properly.

3. Ensure value creation role of corporate centre

In the past, many firms considered the role of the corporate centre as purely administrative, as governing unit of the business portfolio, and sometimes as a provider of shared services. In order to create growth, firms should highlight the role of the corporate centre in entrepreneurial value creation.

4. Actively manage the business portfolio

Firms should seek opportunities to acquire businesses in promising industries as well as divest themselves of poor-performing units. This will help them to adapt more quickly to global economic transformation. The survey results show that mergers and acquisitions, as well as strategic alliances as portfolio management mechanisms, will become much more important over the next five years than before (see Figure 18). Because of the increasing globalisation of many promising industries, further international diversification, for example, in Asia, the Middle East, and Africa will become increasingly important for Swiss firms (see Figure 17).

5. Cultivate entrepreneurial behaviour

Companies have to put entrepreneurial behaviour at the top of their corporate management agenda. It starts with cultivating entrepreneurial behaviour, which is often still in conflict with a bureaucratic and hierarchical culture. To accomplish this, compensation and management objectives have to be aligned. This includes selection criteria in the recruitment process, the appeal of different career paths, promotion schemes, management development programmes, or evaluation and incentive systems (see Figure 28).

Industry dynamics

When asked about the importance of the industry related GCI it is clear that each of these industries is faced with different pressures and timescales.

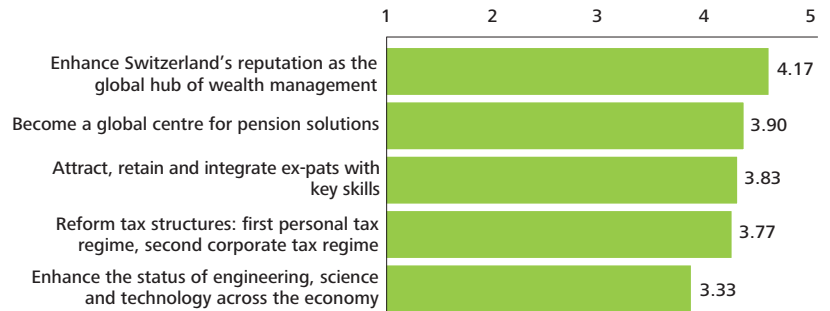
The respondents expected future business prospects to be slightly worse compared with the last three years (averaging 2.89 on a scale that ranged from 1 = not important to 5 = very important). In the consumer business (on average 3.13) and life sciences (3.00) industries, business prospects appear to be better than the overall average, while in financial services (2.86) and manufacturing (2.72) they are slightly worse.

Only a minority of 27 per cent of all respondents think they have to change their business model by the end of 2010 in order to remain competitive. More importantly, the vast majority of respondents (83 per cent) expect to change within the next three years. Overall, the most important strategic issues for most respondents were adapting their businesses to (a) the changing regulatory environment, (b) the increasing impact of globalisation and growth in foreign markets and (c) the greater need for innovative solutions and products.

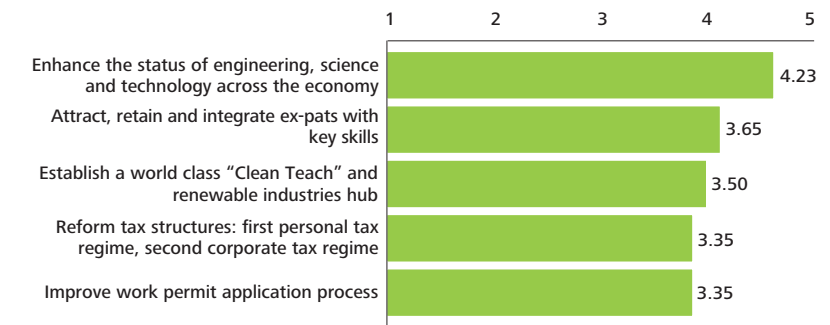
Our research also pinpoints different priorities across different industries. For instance in the life sciences sector executives ranked excelling as a biotech hub and exploiting healthcare Intellectual Property (IP) worldwide as the two critical industry initiatives (see Figure 2). Life sciences leaders are also looking for the industry to forge a partnership with policy makers to promote science to optimise the growth of this industry. Firms from the life sciences and consumer business industries are more optimistic about the prospects for their industry than the financial services and manufacturing industries.

Figure 2: Ranking of the Top 5 Swiss growth creation initiatives per sector

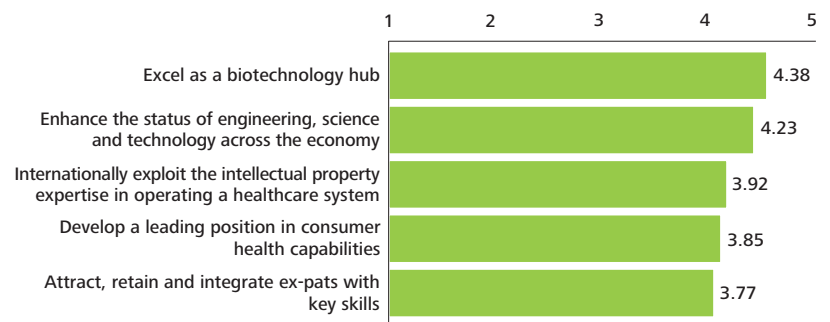
Top 5 GCIs: Financial Services (n=30)



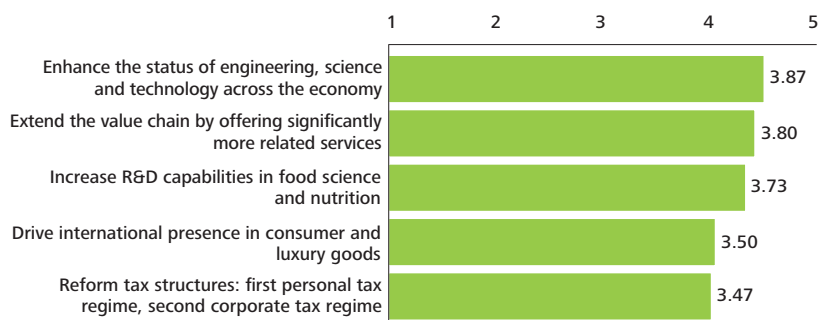
Top 5 GCIs: Manufacturing (n=26)



Top 5 GCIs: Life Sciences (n=13)



Top 5 GCIs: Consumer Business (n=15)



Source: University of St. Gallen, Institute of Management, 2010

The top initiatives for each main industry sector are as follows:

Financial services

Enhancing Switzerland's reputation as the global hub of wealth management, and becoming the global centre for pension solutions are the two most important GCIs for the financial services industry. When respondents were asked what other initiatives were important, many indicated the need to establish a Centre of Excellence for the financial services industry.

As far as improving wealth management's reputation, there are four strands to build on:

- Wealth managers will in future focus on the acquisition of taxed assets. This will be achieved by adopting OECD 26 standard.
- The regularisation of previously untaxed client assets should be part of any future solution with other countries.
- The protection of (financial) privacy is very important.
- Enhancing product quality and service offering is another key success factor.

The financial services industry, which was the lowest performing industry in our study, indicated that it would change its value propositions to a lesser extent than other industries (see Figure 14). Neither does it have international diversification on the top of its agenda. According to our research, the Swiss financial sector feel the least pressure to change or adjust their business models.

Life sciences

The Life Sciences industry executives in the survey confirmed that two of the industry-specific GCIs rank among the top three for the life sciences industry: to excel as a biotechnology hub and to exploit worldwide IP expertise in operating a healthcare system. When asked for additional, related initiatives, respondents cited foreign trade, particularly with European Union countries, as vital for sustainable growth.

Most firms in the life sciences industry intend to address challenges in the business environment by changing their corporate value propositions in the future. In addition, horizontal diversification is seen as an important strategy for the next five years, to include convergence of the pharma, biotech and medtech sectors.

Switzerland has a long tradition of offering outstanding healthcare services not only to its citizens, but also to wealthy foreigners. This asset can be used further, for example in combination with the reputation of the luxury hotel sector.

Manufacturing

Respondents in the manufacturing industry regard the most important GCI as enhancing the status of engineering, science and technology. Among the industry-specific initiatives, only the establishment of a world class 'Clean Tech' and renewable industries hub ranks among the top five GCIs. In addition, initiatives relating to innovation and entrepreneurship support are considered important.

Manufacturing companies will change their value proposition to a much higher extent than financial services and consumer business companies. They will also follow a stronger international/geographic diversification strategy over the next years than financial services or consumer business.

Consumer business

In the consumer business industry, two GCIs rank among the top five: to increase R&D capabilities in food science and nutrition, and to drive Switzerland's international presence in consumer and luxury goods. Respondents also highlighted the need to consider innovation and education. A change of the value proposition is planned to a much lower degree in the consumer business industry than in life sciences or manufacturing.

Both the food and the luxury goods businesses have a long tradition in the country. For example in the luxury industry exists a deep understanding of what luxury stands for and how to produce it. Many luxury brands are originated in Switzerland, and a lot of knowledge exists to manage such brands. Arguably only France and Italy have a similar level of knowledge and industry expertise. Similarly, the food industry has world-class expertise in branding and marketing, and experience in nutrition sciences can be further exploited to compete in the global competition.

3. How to stay ahead

Switzerland remains a very attractive country in which to live and do business. But to stay ahead and enhance its competitiveness, some of the challenges between policy-makers and business need to be addressed.

These are times of deep structural dynamics in the world economy. There are mega-shifts, such as the transformation of global value creation from the West to the East ('great rebalancing'): In the next few years more than one billion new consumers will enter the markets; an estimated 85 per cent will come from Asia. Some experts predict in 2027 China will be the largest economy in the world, others already rank it number 1 for R&D spending. Another shift that is occurring is from industrial value creation to more service- and knowledge-based value creation. Further, there is a shift in financing to additional sources like financial investors and state funds (Sovereign Wealth Funds).

Undoubtedly, these drivers of global market dynamics will have a strong impact on the Swiss economy, Swiss companies and for people living in Switzerland, because of the country's interconnectedness with the global economy. As protectionism has never worked in Switzerland, adaptability will continue to be the solution.

The results of the survey suggested three areas for action. They include detailed recommendations for Swiss policy makers for enhancing competitiveness, which could be formed by the three highest ranked GCIs. Government and business could work together to reposition Swiss firms in the world economy accordingly.

Such a vision is ambitious in the light of an increasing international competition but not unrealistic. The key to staying ahead will be determined by the implementation of initiatives.

GCI 1: Enhance the status of engineering, science and technology across the economy

A prospering Swiss economy depends on the availability of knowledge and expertise in engineering, science and technology. Beside the existing projects, additional initiatives need to be created in these areas across the Swiss economy. They should start in a very early stage of young people's education.

If Switzerland wants to stay ahead, a lot will depend on the country's capability to offer an institutional and public environment that encourages scientific based innovation and entrepreneurship. With its huge number of small- and medium-sized companies, Switzerland is a country with a high degree of entrepreneurial spirit. Successful entrepreneurs can serve as role models for others who want to follow in their footsteps.

The entrepreneurial ambition of the country should be to encourage innovative industries, such as life sciences or high-end manufacturing. Such ambition will have significant implications for the national and corporate agenda.

Regarding the national agenda, infrastructure is the focal point. Undoubtedly, one of the most decisive factors for the attractiveness of a country is its infrastructure. While in general, Switzerland appears to offer what is needed related to 'hard infrastructure' (airports, roads, energy, etc.), there is some room for improvement regarding the 'soft infrastructure' (tax, labour, regulation). Governmental and institutional frameworks to drive adoption of science and technology could also be improved in the following ways. (see Figure 9).

1. Establish excellence hubs

In close co-operation with the relevant companies, policy-makers should consider the development of a limited number of hubs of excellence, where the most qualified resources in a specific field of innovation are concentrated. Favourable conditions exist for establishing a global hub, for example, in the 'clean tech' and renewable industries (GCI 4), wealth management (GCI 9), biotechnology (GCI 10), and food science and nutrition (GCI 13).

Industry and government are already working closely together in some areas. For instance, some joint initiatives in banking are in place that aim to strengthen Switzerland's status as an international banking centre. The area of Basel has outstanding biotechnology research capabilities. And global firms such as Nestlé, with its expertise in nutrition science, can build on an already strong platform that could be linked with other major players in this field. Perhaps the area of 'clean tech' has the furthest to go, but some encouraging initiatives are emerging in what looks to be a favourable market.

The government could focus resources on some of these hubs of excellence as a next step.

2. Improve conditions for tech start-ups

Several factors are decisive for encouraging entrepreneurial behaviour in technology. For example, well-established fairs, competitions and awards can accelerate a start-up culture. Further, business parks, where new entrepreneurs can collaborate and exchange their experience and resources, can be helpful. Educational institutions have to offer top knowledge on science and technology to stimulate start-ups and spin-offs.

3. Offer more effective funding

Funding for innovation through venture capital should be improved in Switzerland in order to keep up with peer countries. Venture capital is a strong driver of business innovation. In order to increase financing opportunities for start-ups and other small businesses, a strong venture capital industry could be fostered. This will require close cooperation between venture capital associations and venture capital firms. The links between established capital pools and business start-ups should be strengthened (GCI 11). The government should consider providing a friendly regulatory and tax environment for providers, institutional investors, and for private clients to create an ideal environment in which venture capital firms may flourish.

GCI 2: Attract, retain and integrate expatriates with key skills

To be a top business location, it is critical to ensure that firms have access to the people needed to run businesses successfully. As well as the specific nature of the location and the characteristics of its leading industries, for Switzerland this means gaining access to talented and qualified people. Such talent should come from various locations to meet the increasing need for diversity that is required by global firms and their customers.

But some trends endanger this basic requirement for staying ahead: (1) the demographic change ('ageing of the society') and (2) a more sceptical 'public mood' related to the globalisation of the country ('loss of national identity').

To counteract these developments politicians should include the following actions:

1. Identify what expertise is missing

Until now, there has been little shared understanding of exactly what kind of expertise is needed for the Swiss economy. The government needs to work in close cooperation with the firms in Switzerland to establish what skills are needed. Measures to counteract the problem can then be defined. Switzerland has already an excellent educational system. However, it should be further strengthened by identifying and closing the gaps on the supply side of expertise for the job market. Identifying what is missing is an important first step. What should be done next? A change in the education system? Adjustment of the immigration laws? Promoting expertise to encourage people to move into other industries or jobs? These are all initiatives that should be considered in more detail.

2. Increase process efficiency to attract experts from abroad

In the future, the Swiss labour market will be challenged to provide the expertise needed to sustain economic health. In an increasingly global and competitive labour market, highly effective processes have to be established and benchmarked to attract, retain and integrate expatriates from other countries, who have key skills (e.g. improve work permit application process) (GCI 2, GCI 6).

Business too needs an enhanced talent agenda. Advanced HR initiatives are likely to become a hot issue, providing a competitive advantage that will be critical to future success.

1. Develop and execute a talent agenda

Companies will have to define their future demand for expertise and introduce measures to satisfy this demand, in response to the needs of the national agenda. They will have to be prepared for the next battle for talent, which is probably closer than they think. Talent management can be improved by, for example, forging close relationships with carefully selected educational institutions such as universities, and developing these establishments as a hub for recruiting.

This can be beneficial in two ways. On the one hand, the recruiting process can be optimised. On the other hand, firms can try to work with universities in the development of educational programmes (e.g. take a seat in the advisory board) to make sure that they produce the right people for the future.

2. Standardise critical HR processes

To make HR processes more efficient, they should become more standardised and easily comparable firm-wide, without losing their local touch and relevance. Companies should consider introducing a company-wide talent management and succession planning system. For many firms this means further centralising their HR functions (see Figures 24, 25, 28).

3. Re-integrate women in the workplace

Corporates need to adjust workforces by acknowledging demographic change and fostering diversity (e.g. by creating alternative labour models to re-integrate more women in the workplace (GCI 7)).

4. Create an attractive employer brand

In times of increasing competition in the labour market companies have to develop an attractive employer brand. A brand should communicate what a company stands for – including its values, vision, mission, and leadership principles.

GCI 3: Reforming tax structures (both personal tax and corporate tax regimes)

Switzerland offers a favourable tax environment. However other parts of the world are now becoming more competitive and as a result the federal government should consider modifications to both its personal and corporate tax regimes. With regard to personal taxation the authorities might consider reducing the complexity of the personal tax system. As part of such a review, maintaining and enhancing tax competition between cantons should remain, as it is a key driver of Switzerland's attractive position. At the same time personal income tax could be reduced across a range of income levels and there may be opportunities for reform of the taxation of income from real estate. The final area to be investigated should be investments including dividend income and wealth taxation.

There are also opportunities for Switzerland to explore enhancements to tax rules for companies. There are several areas where improvements could be considered within the context of the impact of the state's balance sheet. These include:

- Reducing corporate direct federal tax.
- An evaluation of the tax codes relevant to a Swiss company with income from foreign sources (e.g. export of goods and services which are produced in Switzerland), and the treatment of income from foreign products produced abroad.
- The future of stamp tax not only the capital duty but also securities transfer tax.
- The rate for dividend and interest withholding tax.
- A revision of annual capital taxation of companies.
- Deferral of reinvested profits.
- A consolidation of taxation of all Swiss entities.
- And the creation of a tax credit system for privately owned companies whereby the shareholders of such companies paying income taxes in Switzerland could be reimbursed with credits.

One example could be an extension of the policy of granting tax holidays for new ventures in order to attract new investments to Switzerland and to promote research and innovation.

Looking to the future, our research shows Swiss business is well prepared for the opportunities created by the economic crisis. If they are going to succeed, however, it will need to engage with policy-makers on three key areas: science and technology, labour markets and tax reform. Swiss business has indicated that these three priorities will be critical for staying ahead.

Detailed study results

Study methodology

As a starting point for ‘best practice’ and ‘corporate excellence’ programmes, HSG developed the St. Gallen Corporate Management Scorecard (see Appendix B). Combined with our study’s results, the scorecard enables executives to focus on the corporate management elements and benchmark their firms with our sample.

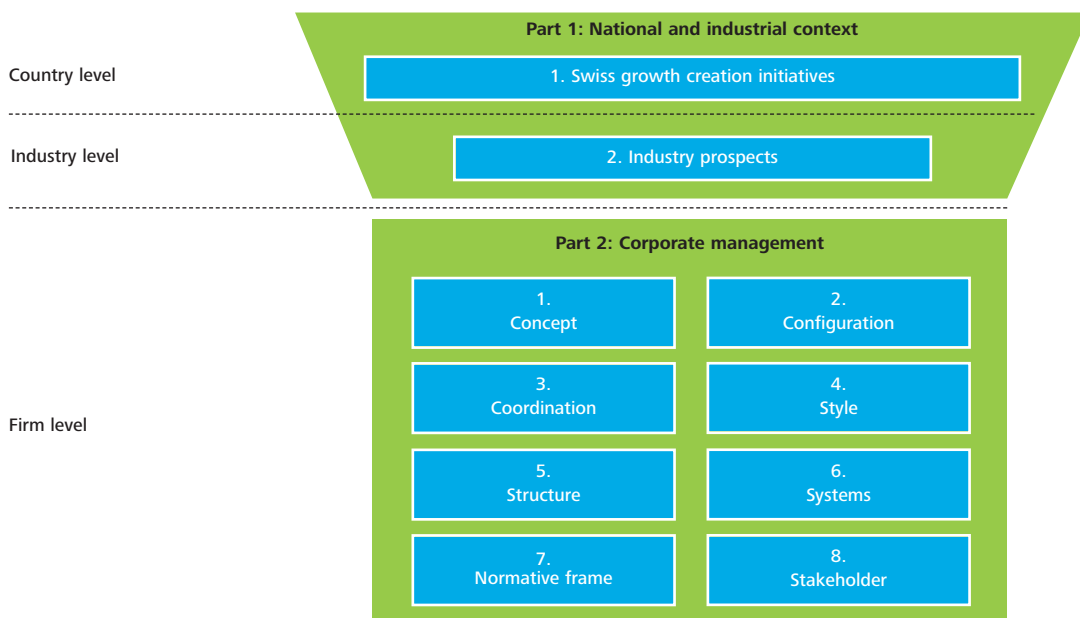
Building on the hypotheses set out in the recent Deloitte White Paper, HSG then created a questionnaire, and from October to December 2009 approached the top management of the 392 largest listed and non-listed firms in Switzerland. Executives from 97 firms participated in our study. More than 58 per cent of the respondents were from senior management (e.g. CEOs, CFOs and COOs). The participating firms employed on average 15,100 people in 2008, although more than two thirds had fewer than 10,000 employees. On average each group controls 5.8 business units, and in more than two-thirds the core business accounts for more than 50 per cent of the overall sales volume. Most firms (84) are from one of the four following industry sectors: financial services (30 firms), life sciences (13), manufacturing (26) and consumer business (15).

Study structure

This chapter is structured in two parts, as shown in Figure 3. Part 1 deals with the government and industry environment in Switzerland. It includes the 18 growth creation initiatives set out in the Deloitte White Paper, as well as their expectations regarding the future development of their industries. Part 2 shows how firms in Switzerland want to align their individual strategies to the overall business environment.

For each part, results are presented for the overall sample and for the four key industry sectors. Results are also provided for performance leaders versus followers (based on the median performance value).³ Most of the questions required a response on a scale from 1 to 5, (where 1 = not important at all and 5 = very important). Mean values for the respective sub-samples are reported unless otherwise stated.

Figure 3: Study structure



Source: University of St. Gallen, Institute of Management, 2010

1. Government and industry environment

1.1 Swiss growth creation initiatives

The 18 growth creation initiatives (GCIs) that Deloitte proposed should help Switzerland to capitalise on its outstanding competitive capabilities.

GCIs are defined as high-level action plans aimed at generating substantial benefits for the economy. The success of each GCI is likely to benefit from government, industry and trade association co-operation. Overall, they could have a substantial influence on the corporate strategies of firms in Switzerland.

As illustrated in Figure 4, the 18 GCIs are either 'fundamental initiatives' such as human capital initiatives, or 'industry initiatives', which relate to one of the four key industries, such as the initiative to excel as biotechnology hub.⁴

Participants were asked to indicate the importance of each of the 18 GCIs in improving the long-term prosperity of Switzerland (see Figure 5).

We also wanted to know whether there were other important Swiss GCIs beyond the 18 set out in the Deloitte White Paper. Overall, the importance of the initiatives ranges from 'less important' (2.38) to 'more important' (3.82). The three most important GCIs are fundamental capabilities and are important across all industries:

- enhance the status of engineering, science and technology across the economy;
- attract, retain and integrate expatriates with key skills; and
- reform tax structures (first personal tax regime, second corporate tax regime).

Interestingly, among the top five GCIs are two industry-specific initiatives: establish a world class 'Clean Tech' and renewable industries hub, and extend the value chain by offering significantly more related services. These two initiatives are considered important by firms in Switzerland regardless of industry sector.

However the importance of some of the 18 GCIs does vary according to the industry.

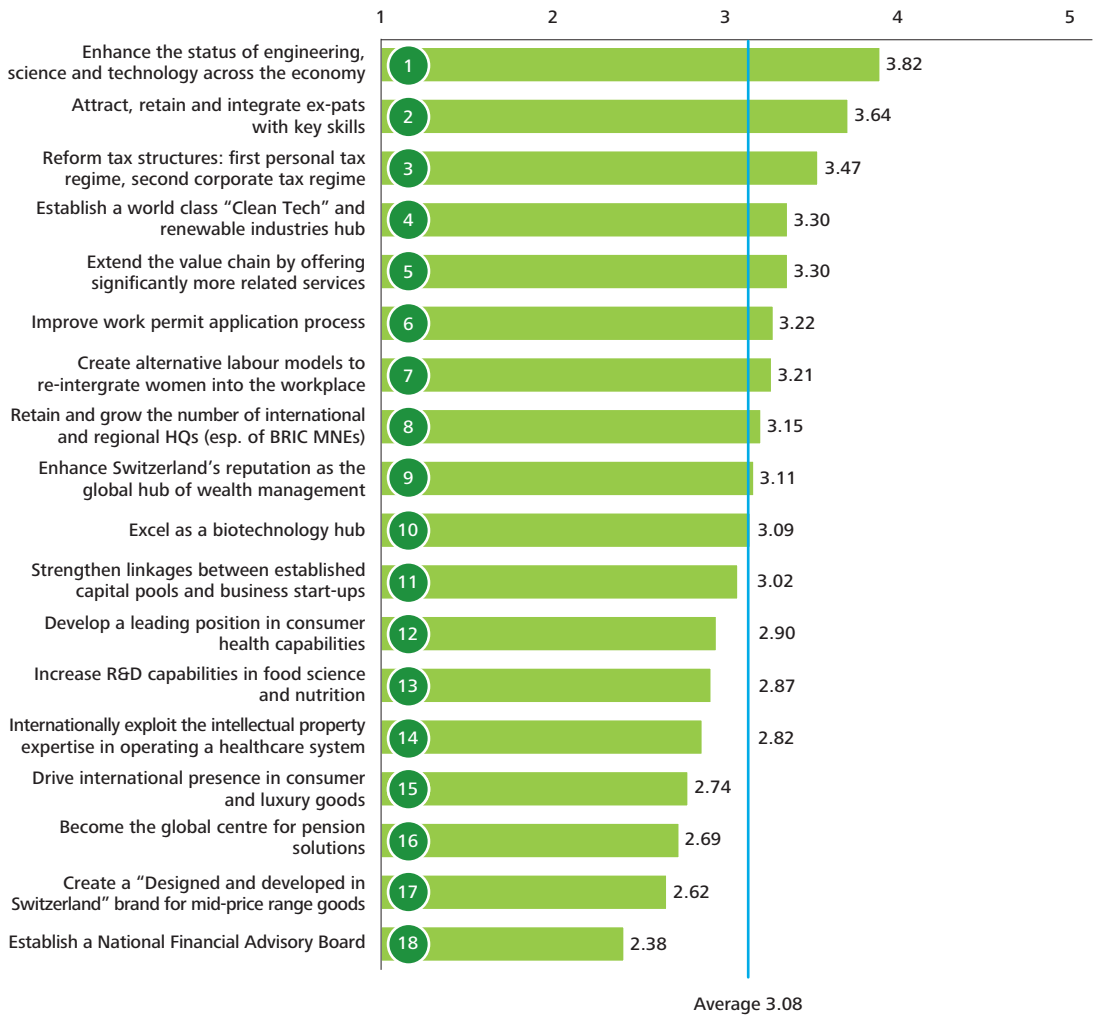
Figure 4: Overview of 18 Swiss growth creation initiatives

Fundamental Initiatives	Human capital fundamental initiatives	<ol style="list-style-type: none"> 1. Enhance the status of engineering, science and technology across the economy. 2. Attract, retain and integrate ex-pats with key skills. 3. Create alternative labour models to re-integrate women into the workplace. 			
	Source of financing	<ol style="list-style-type: none"> 4. Strengthen linkages between established capital pools and business start-ups. 			
	Institutional	<ol style="list-style-type: none"> 5. Retain and grow the number of international and regional headquarters (HQs) (esp. of BRIC MNEs). 6. Reform tax structures: first personal tax regime, second focus corporate tax regime. 7. Improve work permit application process. 			
Specific Initiatives	Industry initiatives	<ol style="list-style-type: none"> 8. Establish a National Financial Advisory Board. 9. Enhance Switzerland's reputation as the global hub of wealth management. 10. Become a global centre for pension solutions. 	<ol style="list-style-type: none"> 11. Excel as a biotechnology hub. 12. Internationally exploit the intellectual property expertise in operating a healthcare system. 	<ol style="list-style-type: none"> 13. Create a "Designed and developed in Switzerland" brand for mid-price goods. 14. Establish a world-class 'Clean Tech' and renewable industries hub. 15. Extend the value chain by offering significantly more related services. 	<ol style="list-style-type: none"> 16. Develop a leading position in consumer health capabilities. 17. Increase R&D capabilities in food science and nutrition. 18. Drive international presence in consumer and luxury goods.
		Financial Services	Life Sciences	Manufacturing	Consumer Business

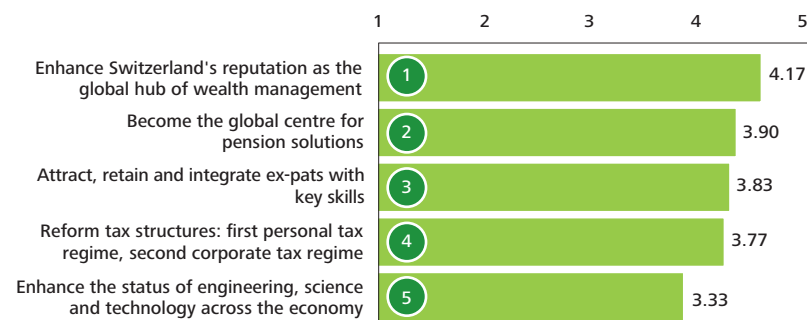
Source: Deloitte White Paper 'The future for business in Switzerland?', 2009⁵

Figure 5: Ranking of the 18 Swiss growth creation initiatives

Swiss growth creation initiatives: All firms (n=97)

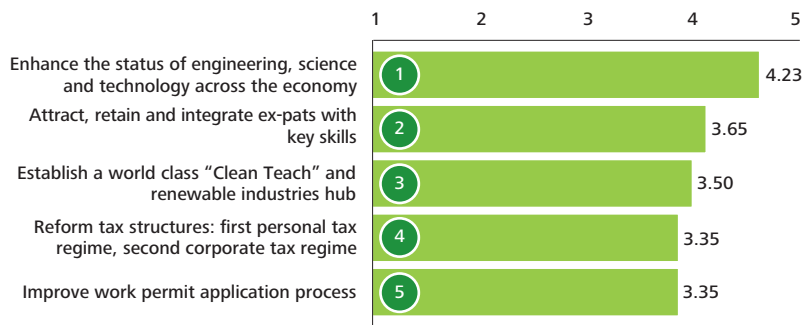


Top 5 GCIs: Financial Services (n=30)

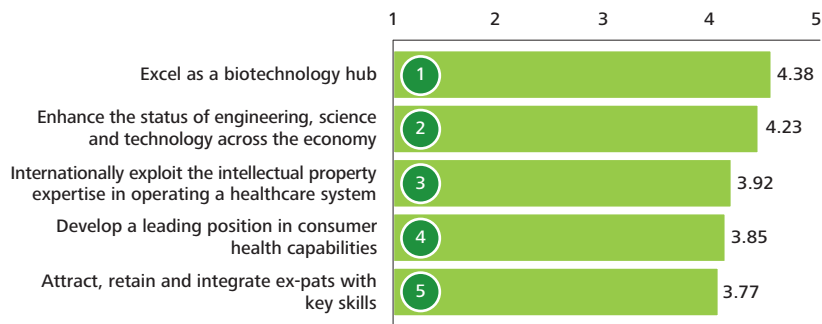


Source: University of St. Gallen, Institute of Management, 2010

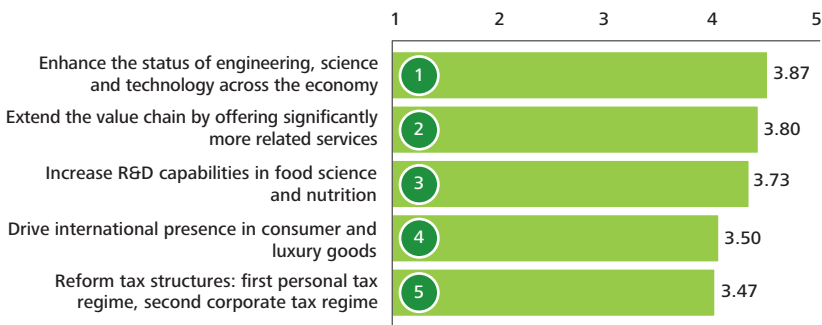
Top 5 GCIs: Manufacturing (n=26)



Top 5 GCIs: Life sciences (n=13)



Top 5 GCIs: Consumer business (n=15)



Source: University of St. Gallen, Institute of Management, 2010

Financial services

In the financial services industry, enhancing Switzerland’s reputation as the global hub of wealth management and becoming the global centre for pension solutions are the two most important GCIs. Financial services firms do not attribute much importance to the establishment of a National Financial Advisory Board, with respondents from that sector ranking it towards the bottom (13th). This result is not surprising, as it reflects the aversion of many financial services companies to increased regulation. However, when asked what additional initiatives they considered important, respondents cited the need to establish a Centre of Excellence for the financial services industry.

Life sciences

In the life sciences industry, two industry-specific GCIs rank among the top three. Respondents consider the need to excel as biotechnology hub and internationally exploit the intellectual property expertise in operating a healthcare system as particularly important. Additionally, study participants from the life sciences industry consider foreign trade, particularly with EU countries, as key for sustainable growth.

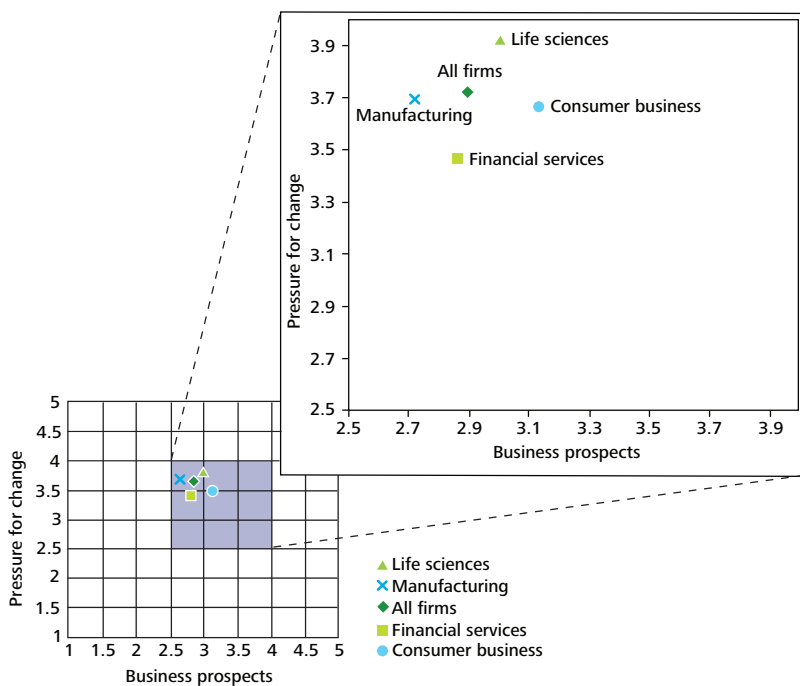
Manufacturing

In the manufacturing industry, one of the GCIs relating to fundamental capabilities is top of the list. Not surprisingly, respondents in this sector regard enhancing the status of engineering, science and technology as by far the most important GCI. Among the industry-specific initiatives, only the establishment of a world class ‘Clean Tech’ and renewable industries hub ranks among the top five. Interestingly, the creation of a ‘designed and developed in Switzerland’ brand for mid-price goods is less important and is only ranked 11th. Additional initiatives that respondents cited as being important relate to innovation and entrepreneurship support.

Consumer business

In the consumer business industry, two of the three industry-specific GCIs rank among the top five: to increase research and development (R&D) capabilities in food science and nutrition, and to drive international presence in consumer and luxury goods (through M&A). The third, to develop a leading position in consumer health capabilities, was less important – ranked 9th. Similarly, as highlighted by the manufacturing industry, respondents in the consumer business sector consider innovation and education as the most important initiatives to address.

Figure 6: Business prospects and pressure for change



Source: University of St. Gallen, Institute of Management, 2010

1.2 Industry prospects

With regard to the business prospects for their industries, when asked: ‘Does Switzerland offer your industry what is needed to realise business opportunities in the next five years?’ respondents judged their industry prospects to be slightly worse, on average 2.89 on our scale of 1 to 5. With regard to specific sectors, the prospects for life sciences (3.00) and consumer businesses (3.13) are better than the overall average, while in financial services (2.86) and manufacturing (2.72) they are worse. For all firms represented in our study, performance leaders (2.94) have slightly better prospects than performance followers (2.83).

Business prospects and pressure for change

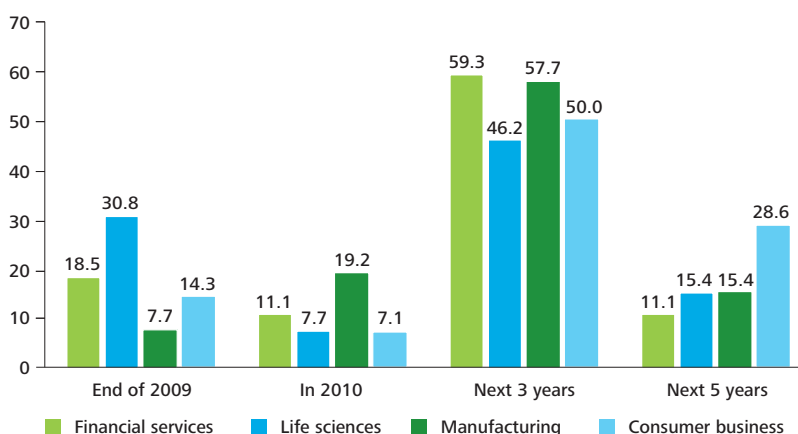
Figure 6 below illustrates the relationship between respondents’ business prospects and the pressure for change. Overall, respondents judge the pressure for change as ‘significant’ (3.72).

Not surprisingly, executives in the rapidly changing life sciences sector consider the pressure to change the greatest (3.92). Yet interestingly, firms in the financial services sector feel the least pressure to change or adjust their business models (3.47). This is particularly remarkable as financial services firms have below-average business prospects, and are the worst performing of the four main industry sectors. As one would expect, performance leaders (3.53) feel less pressure for change than performance followers (3.95). Hence, below-average performance appears to result in greater pressure to do business differently.

Timing of potential change

Only 27 per cent of respondents said they expect to change or adjust their business model by the end of 2010, although the vast majority of respondents (83 per cent) expect to change within the next three years (see Figure 7). The pressure for change is most immediate in the life sciences industry, while the consumer business industry feels the least pressure. Performance followers appear to have more immediate pressure to change than performance leaders (21.4 per cent vs. 11.8 per cent), and more than 90 per cent of performance followers will change or adjust their business models within the next three years. Thus the results suggest that the greater the pressure for change, the faster this change has to occur. Further, it appears that there are different 'action curves' for firms in various industries and this increases the importance of making immediate adjustments to business models.

Figure 7: Timing of potential change in various industries (%)



Source: University of St. Gallen, Institute of Management, 2010

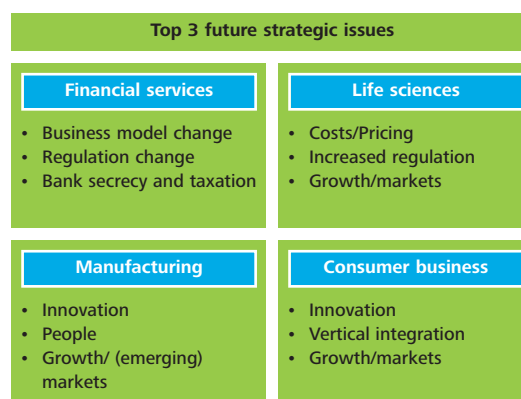
A closer look at the financial services industry reveals that business model change will happen sooner for banks and other financial services firms, such as real estate funds, than for insurance firms, although two cantonal banks indicated that immediate change was needed.

Future strategic issues

While financial services firms feel the least pressure to change or adjust their business models, 'business model change' still ranks among the top three future strategic issues, as shown in Figure 8. Such business model changes include the 'One Bank' approach, international diversification and competitive differentiation. It appears that despite little external pressure to change the way they do business, many financial services firms are reflecting on their poor performance and the problems encountered during the recent financial crisis.

Interestingly, while in the manufacturing and consumer business industries innovation is among the top three future strategic issues, respondents from the life sciences sector, where product innovation is key to staying competitive, do not mention it. For them cost management is one of the most important strategic issues. One possible explanation is that innovation is so central to their business model that there is no need to emphasise it further. What is more important for them is to become more cost effective.

Figure 8: Top 3 future strategic issues



Source: University of St. Gallen, Institute of Management, 2010

What Switzerland offers

While in general Switzerland appears to offer what is needed to realise business opportunities in the next five years, there is room for improvement regarding the governmental and institutional frameworks, as well as the industry infrastructure.

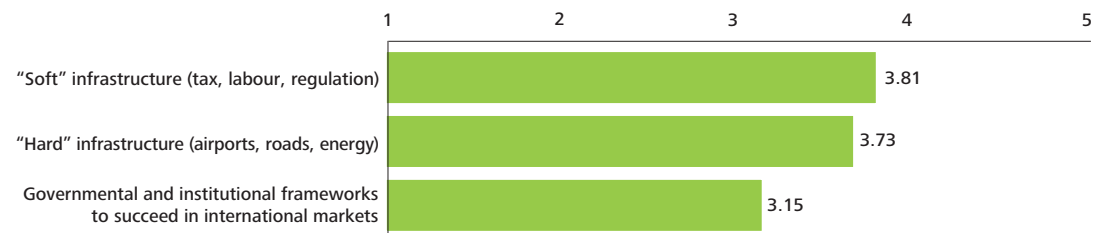
Compared to other industries the financial services sector feels that 'soft' infrastructure (3.40) and governmental and institutional frameworks to succeed in international markets (2.76) could be improved (see Figure 9). This confirms the need to implement a comprehensive international regulatory framework to address the causes of the recent financial crisis.

Figure 9: Infrastructure:

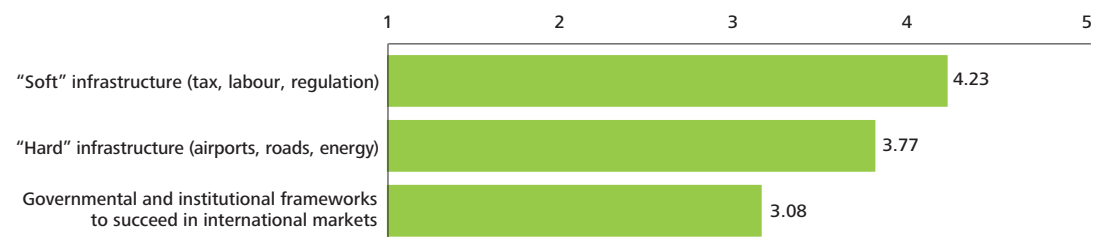
Financial services (n=30)



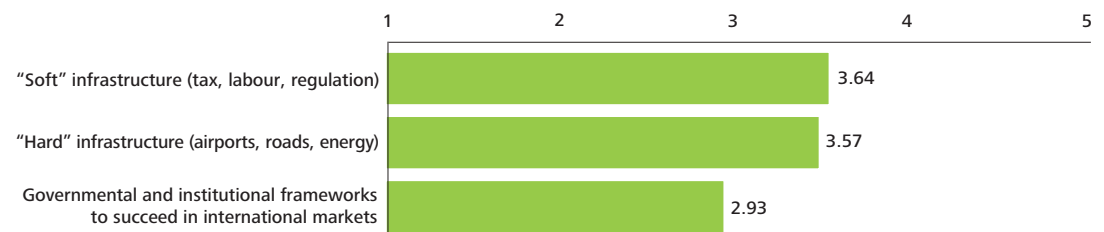
Manufacturing (n=26)



Life sciences (n=13)



Consumer business (n=15)



Source: University of St. Gallen, Institute of Management, 2010

2. Corporate management

The St. Gallen Corporate Management Model, as illustrated in Figure 10, consists of ten elements called 'value creation levers', which describe distinct but related areas of corporate management activities. They are grouped into three key management tasks: framing, strategising and governing. The first key activity – framing – relates to decisions and actions regarding a firm's mission, values, vision and goals, and plays a vital part in indirectly influencing the firm's businesses. The second key activity – strategising – relates to decisions and actions regarding a firm's strategic concept, configuration of its business portfolio and co-ordination among the businesses for synergy realisation. The third activity – governing – relates to decisions and actions regarding how management interacts with the firm's businesses, structure and systems.

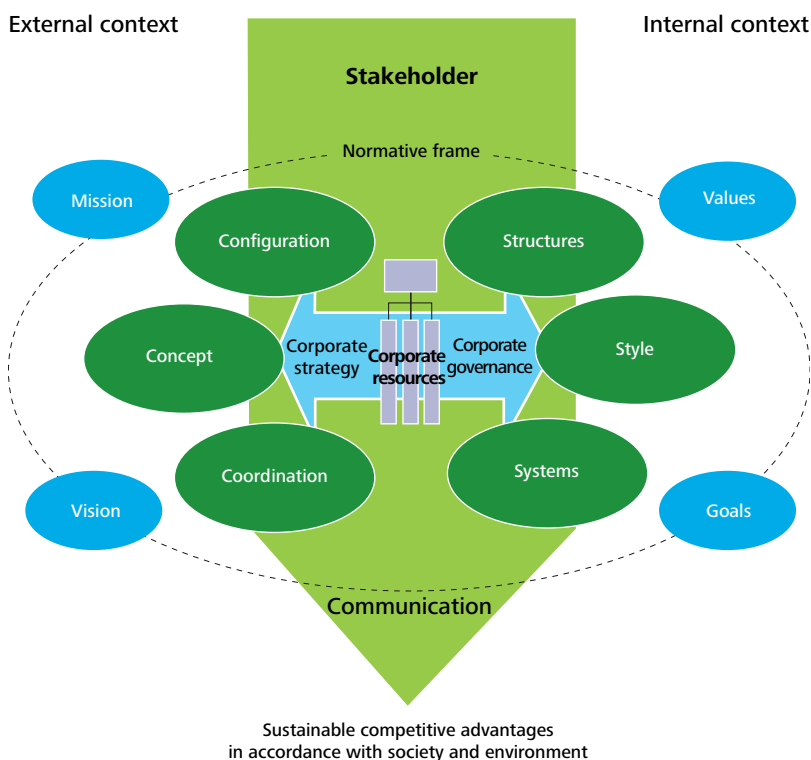
2.1 Concept

Building on a firm's vision, the corporate concept provides strategic 'brackets' for the overall firm and defines the corporate business model. The fundamental question regarding the corporate concept is: 'How is value created for the overall firm?' It explains why businesses are in the portfolio and thus typically determines decisions relating to the configuration and co-ordination of the portfolio.

Corporate business model

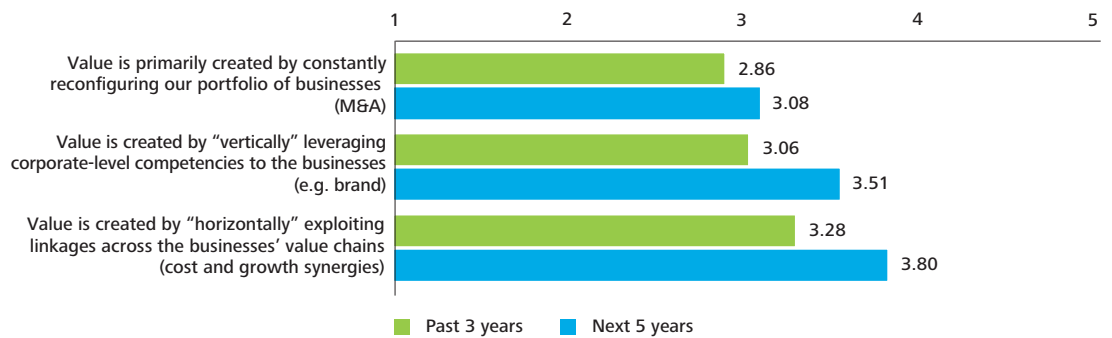
Overall, when asked to describe how they create value for their firms, respondents indicated that on average 'horizontal' value creation, i.e. exploiting linkages across the businesses' value chains, has been (3.28) and will continue to be (3.80) the most important (see Figure 11). The results of our study showed that changing the business model through portfolio optimisation will become more important over the next five years. Hence, it appears that there is a trend towards integrated business models, for example the 'one-firm' approach. The results also illustrate that different corporate business models aimed at creating value are not mutually exclusive. Firms pursue different ways of corporate value creation at the same time, however, with a slightly different focus.

Figure 10: The St. Gallen Corporate Management Model



Source: Corporate Strategy & Governance, Müller-Stewens/Brauer, 2009

Figure 11: Corporate business model: All firms (n=97)

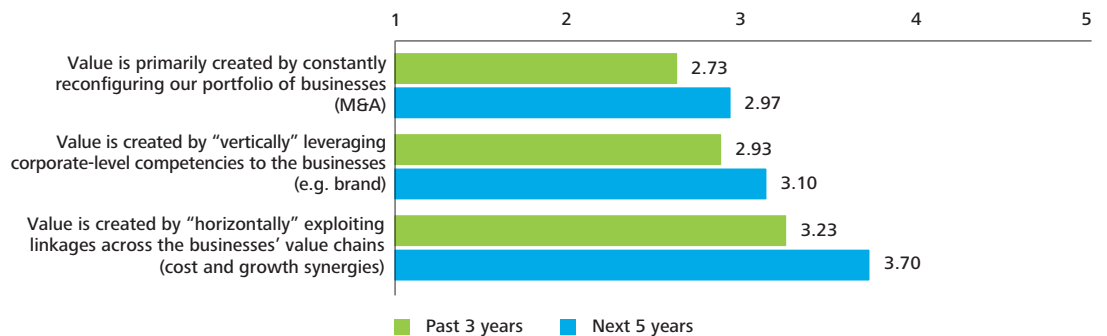


Source: University of St. Gallen, Institute of Management, 2010

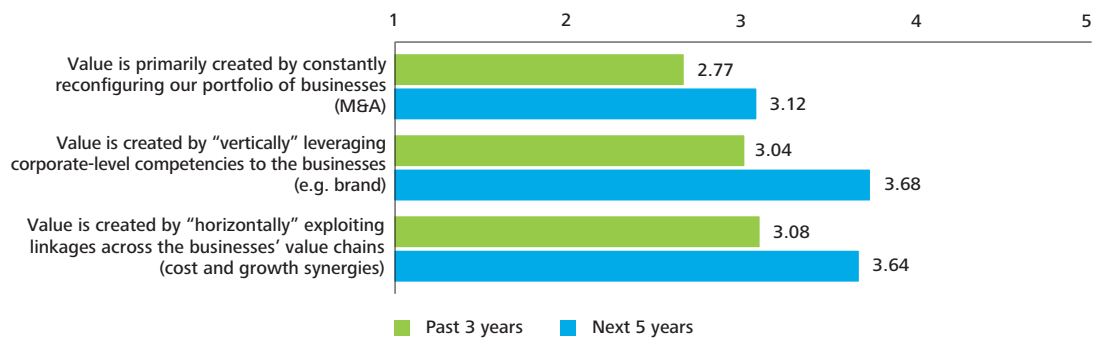
Different industries appear to follow (slightly) different corporate business models as shown in Figure 12. Firms in the financial services and life sciences industries expect to create value by primarily exploiting horizontal linkages across their portfolios. In contrast, firms in the manufacturing and consumer business sector expect to create value by principally exploiting corporate-level competencies in the businesses. In the consumer business industry, portfolio optimisation will become less important in future.

Figure 12: Corporate business model: Various industries

Financial services (n=30)

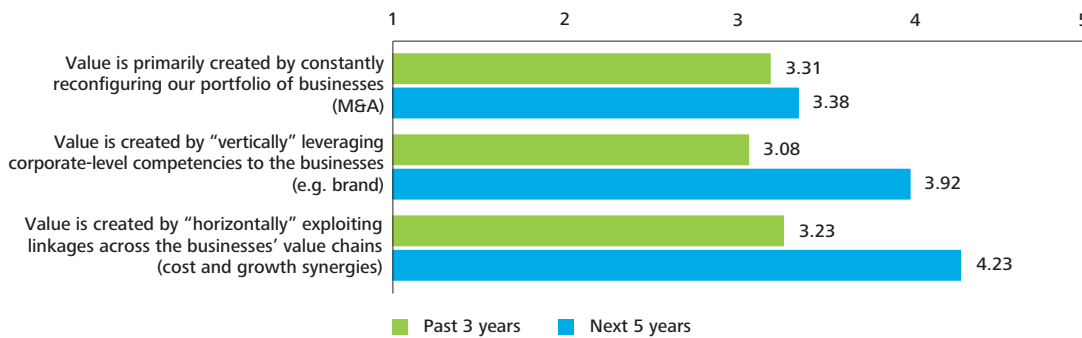


Manufacturing (n=26)

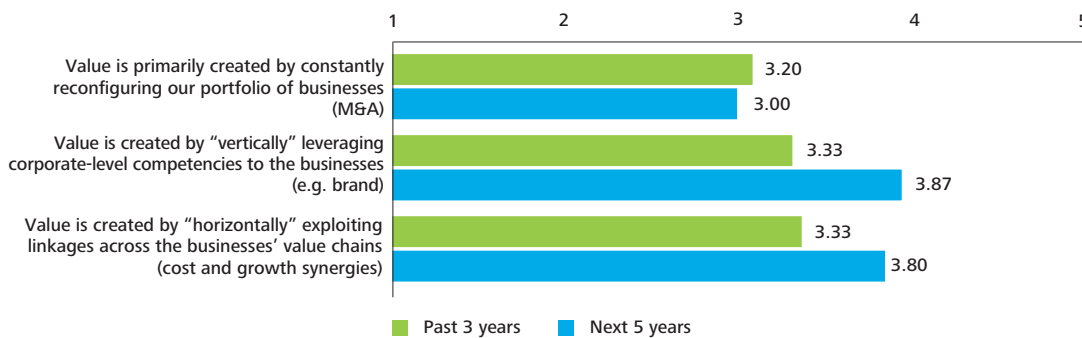


Source: University of St. Gallen, Institute of Management, 2010

Life sciences (n=13)



Consumer business (n=15)

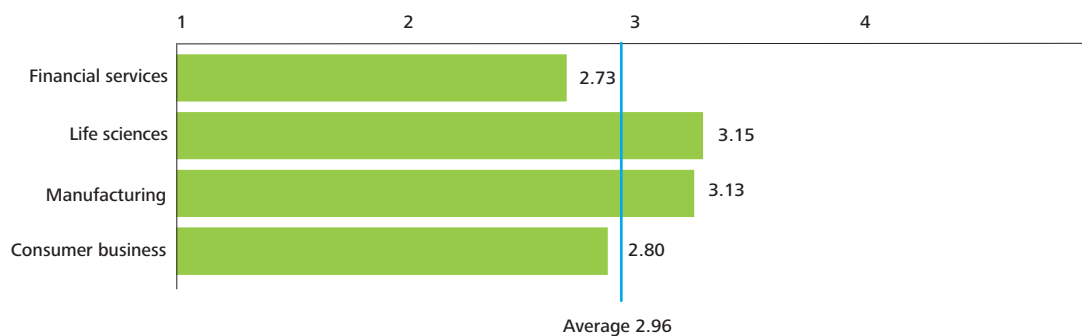


The results also show that performance followers plan to catch up with their respective performance leaders, i.e. they intend to focus more on corporate-level value creation in the future.

Change of value proposition

A major part of the corporate concept is the strategic rationale/corporate value proposition, represented by the question 'What do we stand for?' Most firms in Switzerland will address the challenges in the business environment by changing their corporate value propositions to at least some extent in the future (on average 2.96 as shown in Figure 13). In particular, firms in the life sciences and manufacturing industries anticipate the need to change their strategic rationale. In contrast, firms in the financial services and consumer business industries will change their value propositions to a much less extent. Interestingly, according to the study data, performance followers in every industry see a greater need to change their strategic rationale than performance leaders.

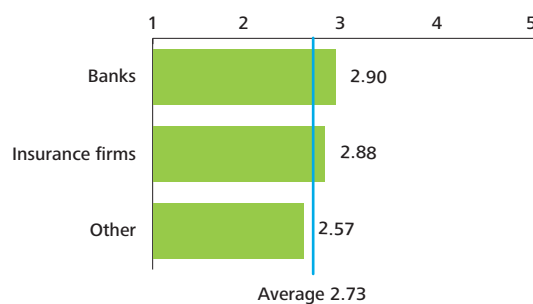
Figure 13: Change of value proposition: All industries



Source: University of St. Gallen, Institute of Management, 2010

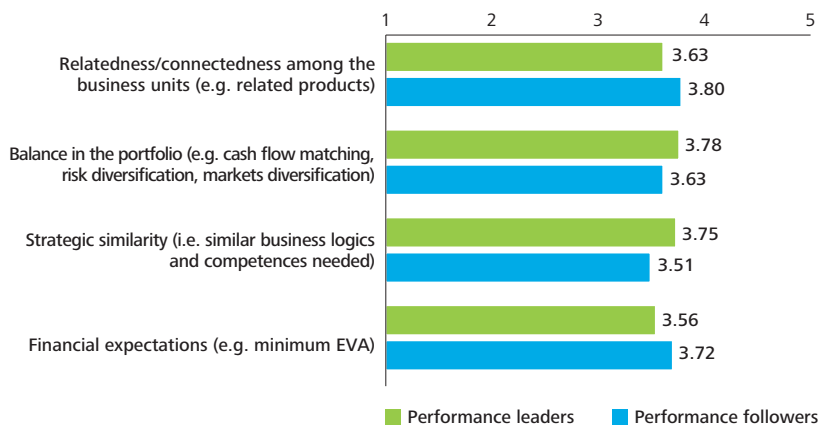
The striking exception is the financial services industry, as shown in Figure 14. While it is the lowest performing industry in the study, respondents indicate they will change their value propositions to a lesser extent than those in other industries. There are three explanations for this. First, it may indicate that financial services firms do not have the resources to implement strategic change. Second, it may indicate that financial institutions are less willing to change, either because they do not anticipate the need to change their value propositions, or they do not see alternative propositions in future. Third, the strong performance of the private banking arms of cantonal banks and smaller private banks recently illustrates that the industry is very diverse and the need to change the business model varies accordingly.⁶ Indeed, a more detailed view of the industry shows that banks want to change their corporate value propositions slightly more than insurance firms, and much more than other financial services firms such as real estate funds.

Figure 14: Change of value proposition: Financial services firms



Source: University of St. Gallen, Institute of Management, 2010

Figure 15: Portfolio configuration criteria: Performance leaders vs. followers



Source: University of St. Gallen, Institute of Management, 2010

2.2 Configuration

A firm's portfolio configuration concerns the criteria/rationale for configuring the business portfolio, the direction of portfolio development and the mechanisms firms use to manage their portfolios.

Criteria for configuring the business portfolio

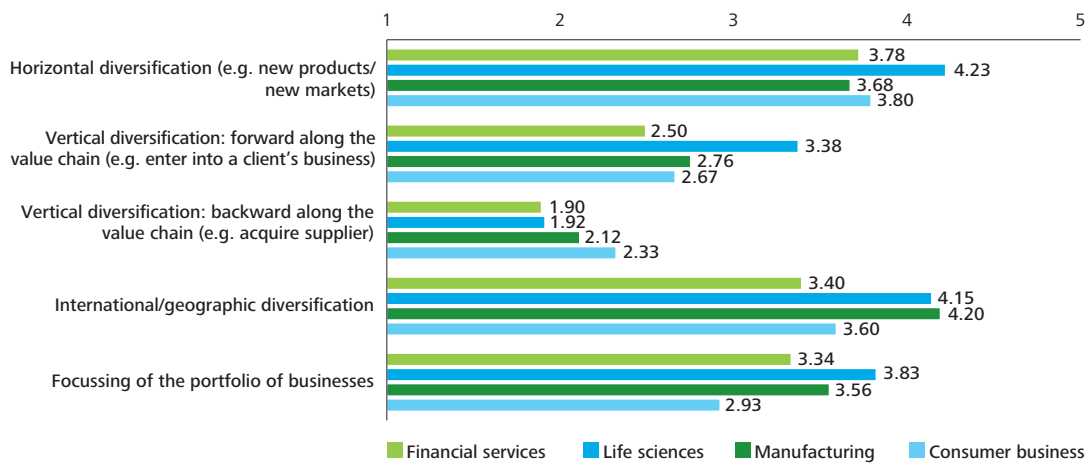
Overall, all portfolio configuration criteria appear to affect decision-making at firms in Switzerland similarly, with 'relatedness/connectedness among the businesses' being the most important and 'financial expectations' least important. Interestingly, in each of the four key industry sectors different criteria are viewed as the most important for portfolio decision-making (see Figure 15). For example, in the financial services industry 'balance in the portfolio' scores the highest (4.14); in life sciences the highest is 'relatedness/connectedness among the businesses' (4.08); in manufacturing it is 'financial expectations' (3.65) and in the consumer business industry the most important is 'strategic similarity' (3.93). Thus, it appears that the main rationale for portfolio decisions differs across industries.

Performance leaders focus more on 'balance in the portfolio' and on 'strategic similarity', while performance followers emphasise 'relatedness' and 'financial expectations'. Hence, leaders adopt a strategic perspective for decision-making at the corporate level while performance followers mostly make decisions based on financial criteria. It appears that to run a successful, diversified firm takes more than just financial optimisation.

Direction of portfolio development

In which direction will firms in Switzerland change their business portfolios over the next five years? According to respondents they will primarily follow both horizontal (3.78 on average) and international/geographic (3.78) diversification strategies, but will also frequently focus on the portfolio of their businesses (3.48), as shown in Figure 16.

Figure 16: Direction of portfolio development: Various industries



Source: University of St. Gallen, Institute of Management, 2010

While the results do not vary much across industries in general, some specific differences can be observed. For example firms in the life sciences industry intend to focus more on ‘forward vertical diversification’ than firms in other industry sectors. Further, respondents from the life sciences and manufacturing industry indicate they are much more likely to follow an international diversification strategy than respondents from the financial services and consumer business industry.

Growth creation initiative

→ ● ←

Corporate management

Value chain extension in life sciences/consumer business and vertical integration

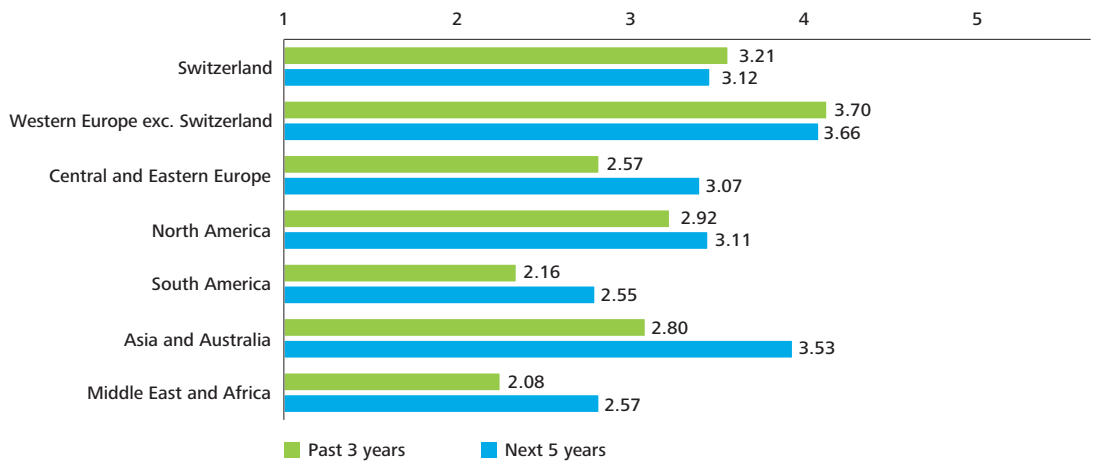
The increasing importance of forward vertical integration, particularly for the life sciences and consumer business sectors, is mirrored in the ranking of the GCI ‘extend the value chain by offering significantly more related services’ as the overall fifth most important initiative. This trend is illustrated by the growing number of operating centres, for example dialysis, run by firms in the life sciences industry, and the offering of medical solutions for the treatment of different diseases. In addition, ‘Solutions for Diagnostics’ is already one of the three main product areas of the Swiss pharmaceutical giant Roche.

Performance leaders intend to choose more horizontal diversification and less vertical diversification (forward) than performance followers over the next five years. Interestingly, performance leaders will also focus on their business portfolios more than performance followers. Overall, performance leaders appear to manage their portfolios more actively than performance followers.

International/geographic diversification

The results show that there will be significant shifts in the importance of various regions for firms in Switzerland over the next five years. Overall, the importance of Switzerland and western Europe will decline while central and eastern Europe, South America, Asia and Australia, and the Middle East and Africa will become more important, with Asia and Australia recording the largest increase (see Figure 17). This result is also confirmed by recent industry reports stating that international diversification has been and will continue to be very important for firms in Switzerland.⁷

Figure 17: International diversification: All firms (n=96)



Source: University of St. Gallen, Institute of Management, 2010

The future importance of the different markets varies across industries. Over the next five years, Switzerland (4.10 on a scale of 1 to 5) will remain by far the most important market for the financial services industry. In the life sciences industry, North America (from 4.23 during the last three years to 4.69 over the next five) and Asia and Australia (from 3.00 to 4.38) will become significantly more important, while western Europe (excluding Switzerland) will become less important. At the same time, in the manufacturing industry, Asia and Australia (from 3.50 to 4.46) will overtake western Europe as the most important market. In the consumer business industry, Switzerland will lose its position as the most important market to western Europe (from 3.40 to 3.73) and Asia and Australia (from 2.73 to 3.47).

During the past three years, performance leaders had a more internationally diversified portfolio (which was also more evenly spread among regions) than performance followers, although followers intend to step up diversification efforts over the next five years.

Portfolio management mechanisms

How will firms in Switzerland modify their portfolios? Respondents indicated that organic/internal growth will still be the dominant mechanism during the next five years as shown in Figure 18. However mergers and acquisitions (M&A), and particularly strategic alliances, will also become more important. Though there are no general differences across industries, two developments are noteworthy. In the life sciences industry, strategic alliances will increase significantly (from 2.69 to 3.85), and in the manufacturing industry M&A activity will increase sharply (from 2.77 to 3.50).

Growth creation initiative

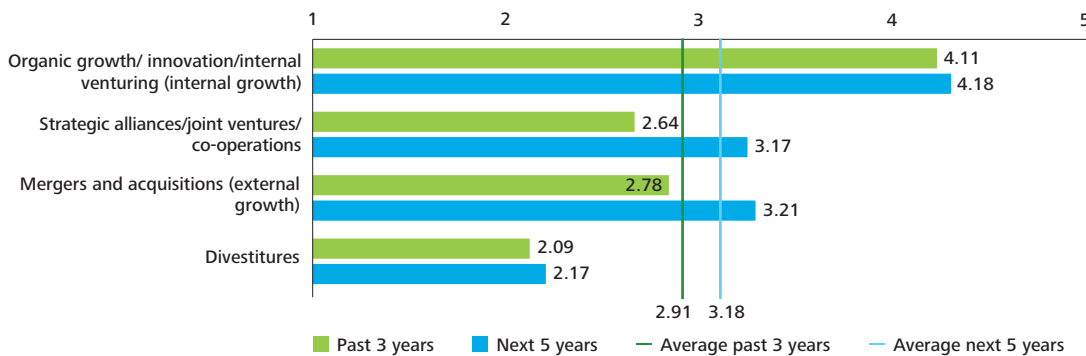
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Corporate management

International presence in consumer business sector

The importance of international diversification in the consumer business sector is highlighted by industry respondents ranking the GCI 'drive international presence in consumer and luxury goods' among the top five (ranked fourth). Certain areas of the consumer business sector are already highly diversified, for example the watch industry exports 95 per cent of its products.⁸ However, despite facing increased competition and price pressure in their home market, leading Swiss retailers plan less international diversification than other consumer business firms.

Figure 18: Portfolio management mechanisms: All firms (n=97)



Source: University of St. Gallen, Institute of Management, 2010

Growth creation initiative

→ ● ←

Corporate management

Hub strategies in 'Clean Tech' and biotech, and strategic alliances

The particularly strong increase in the importance of strategic alliances and industry co-operation is reflected in the relatively high overall ranking of the GCIs 'establish a world-class Clean Tech and renewable industries hub' (ranked fourth) and 'excel as a biotechnology hub' (tenth). Advancing these initiatives will require extensive co-operation and alliances both among firms, and between firms and research institutions. Firms in Switzerland already have extensive experience working within strategic alliances and also with research centres. They could therefore contribute to the development of renewable industries and biotechnology hubs.

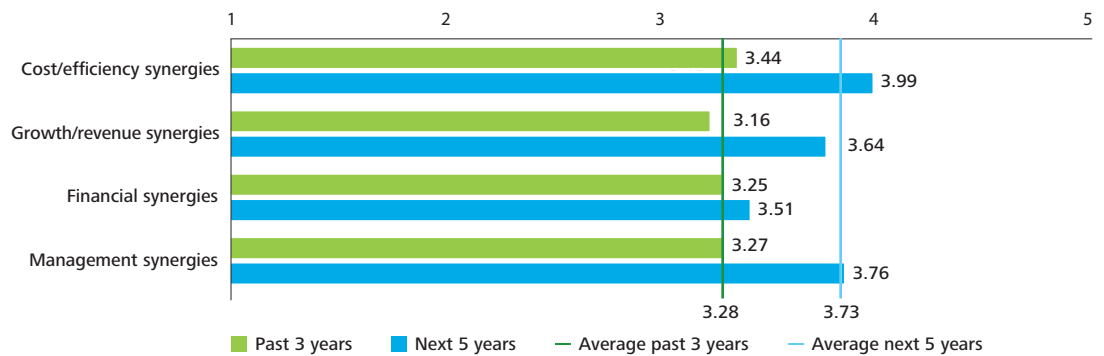
2.3 Co-ordination

Portfolio configuration determines to what extent different types of potential synergies can be realised, both by cross-business co-ordination as well as co-ordination between corporate headquarters and individual businesses. Examples of synergy realisation are sharing information and resources among the businesses or the co-ordination of customer details. The four most important types of synergies are: cost/efficiency synergies (e.g. joint procurement, IT), growth/revenue synergies (bundling, cross-selling), financial synergies (risk reduction, internal financing, tax) and management synergies (corporate capabilities to strengthen the businesses).

Importance of synergies

When asked how important the four different synergy types had been during the last three years, respondents indicated that all of them had been quite important (on average 3.28), and that they would be even more important during the next five years (on average 3.73), as shown in Figure 19.

Figure 19: Synergies in general: All firms (n=96)



Source: University of St. Gallen, Institute of Management, 2010

This view is shared across all four main industry sectors, with life sciences firms reporting the largest increase. Specifically, they expect a 35 per cent increase in the importance of growth and cost synergies over the next five years, even though such synergies are already considered quite important. In particular they indicated a 26 per cent rise in the importance of management synergies (increases in the other industry sectors ranged from 10 per cent to 15 per cent).

Growth synergies

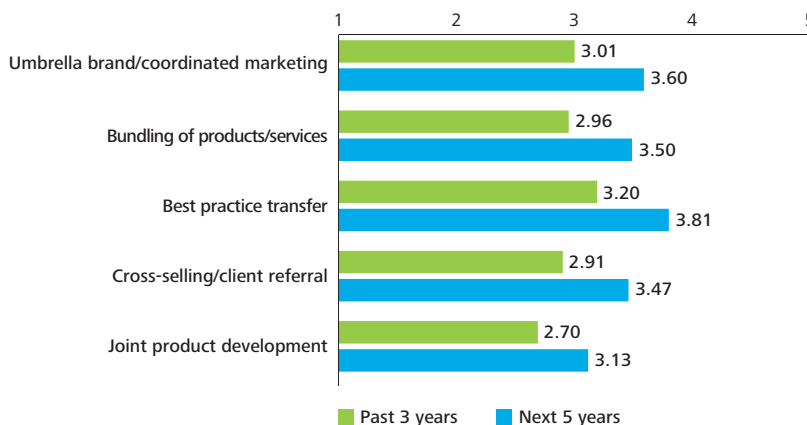
Our analysis of five different growth synergy initiatives shows that ‘best practice transfer’ will be the most important synergy of the next five years (see Figure 20). While performance followers attributed much less importance to growth synergies than performance leaders during the past three years, the gap is expected to narrow during the next five years. On average, growth synergies will become 26 per cent more important for performance followers compared to a 13 per cent rise for performance leaders.

Clearly performance followers have realised that they need to focus more attention on growth synergies, particularly ‘best practice transfer’, ‘umbrella brand/coordinated marketing’ and ‘bundling of products/services’.

Cost synergies

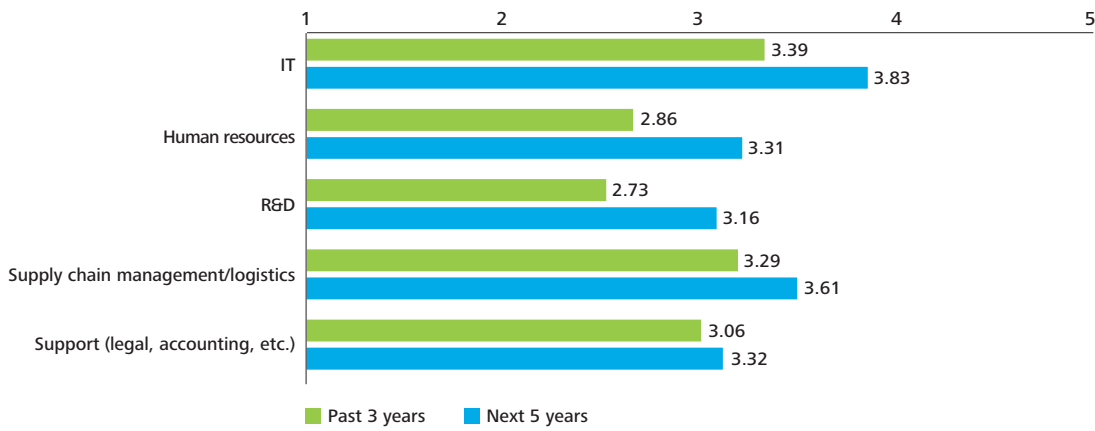
The results show that the importance of cost synergies is also growing. On average, over the next five years respondents from all industries plan to attach substantially greater importance to potential efficiency synergies in five functional areas: IT, Human Resources (HR), R&D, Supply Chain Management/Logistics and Support. In particular, the importance attributed to cost synergies in HR is expected to increase 16 per cent while in R&D it will increase by 15 per cent (see Figure 21).

Figure 20: Growth synergy initiatives (n=92)



Source: University of St. Gallen, Institute of Management, 2010

Figure 21: Cost synergy areas (n=93)



Source: University of St. Gallen, Institute of Management, 2010

In summary, specific industry sectors tend to focus on different kinds of synergies. For example in the life sciences sector, best practice transfer across businesses will be the key focus in future, while the financial services industry plans to focus primarily on realising growth synergies from cross-selling/client referrals. Respondents from life sciences firms and consumer businesses attach the greatest importance to potential cost synergies in supply chain management and logistics, whereas firms from the financial services and manufacturing sectors see relatively more potential in IT and HR. While awareness of the importance of synergies is a first step, bottom-line improvements will depend on the successful exploitation of potential synergies.

2.4 Style

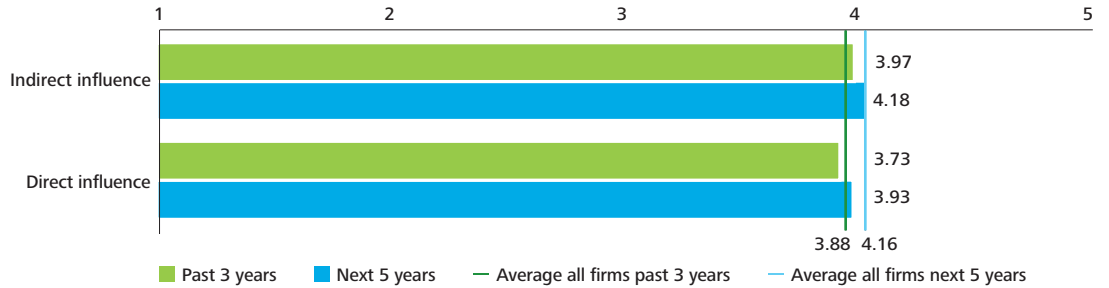
Style describes how corporate headquarters interact with their business units. Interaction styles differ according to the depth and breadth of both the direct and indirect influence that corporate management has on the strategic activities of the businesses. Direct influence is primarily exercised by a 'top-down' management strategy, while indirect influence is exerted by the presetting of goals, vision, shared values and mission which provide more general guidance for the businesses.

Overall, respondents indicated that there was a more direct influence on their strategic activities. However, the extent of both types of influence is expected to increase over the next five years, with indirect influence increasing slightly more.

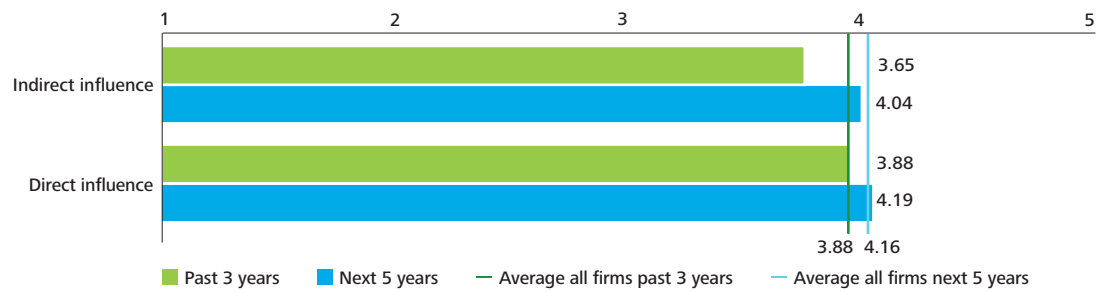
Firms in different industries manage their corporate/business relationships with different interaction styles. For example, managers in the financial services and consumer business sectors exercise more indirect influence on the strategic activities of their businesses, while those in manufacturing and life sciences exert more direct influence on strategy (see Figure 22).

Figure 22: Interaction style

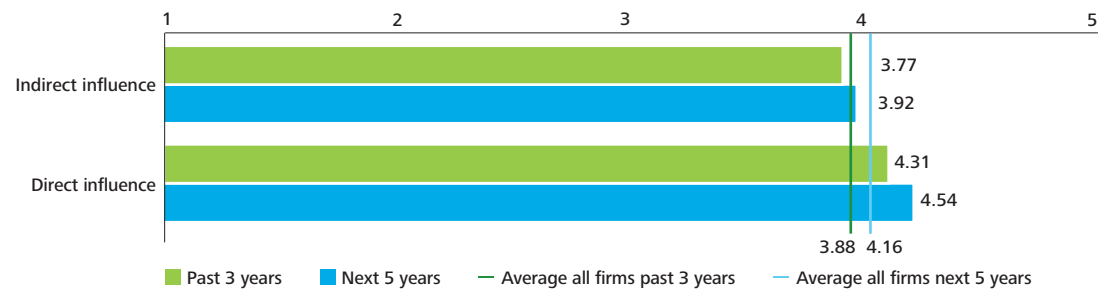
Financial services (n=28)



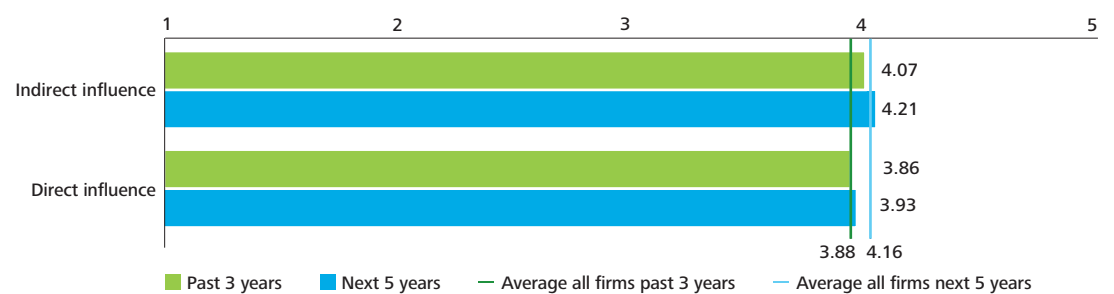
Manufacturing (n=26)



Life sciences (n=13)



Consumer business (n=14)



Source: University of St. Gallen, Institute of Management, 2010

Performance followers had less influence on the strategic activities of their businesses during the past three years than performance leaders. However, our survey results also show that performance followers intend to increase the extent of their influence and are closing the gap. They also intend to focus primarily on exerting indirect influence, and thus improve the setting of binding goals, vision, shared values and mission statements.

2.5 Structure

Aligning the organisational structure and management systems to the corporate strategy is critical for its implementation. Organisational structures segment and delegate management responsibilities. Among other things, this could encompass the formation of organisational structures and processes, the allocation of responsibilities to managers, the staffing of top management positions and/or co-operation with the board of directors. In our study, we focused on two trends: the changing composition of the top management and board of directors, and the centralisation of corporate functions.

Board of directors/top management trends

Respondents indicated that all the top management and board of director trends that we surveyed will become more important over the next five years (see Figure 23). The industry expertise of the board of directors is considered particularly important, with respondents from the life sciences sector rating it the highest (4.42), followed by manufacturing (4.04) and consumer business (4.0). Surprisingly, financial services respondents consider this issue comparatively less important (3.72). While this finding confirms the need for more industry expertise in general, it partially contradicts recent calls for more banking and finance experts on the boards of directors of banks.

For example, during the recent financial crisis, a major Swiss bank replaced several board members who had little banking expertise with industry 'insiders' who were considered better able to understand and handle the severe problems it faced.

A board level strategy committee and a chief strategy officer in the top management team are seen as relatively less important, although these trends will become more important over the next five years.

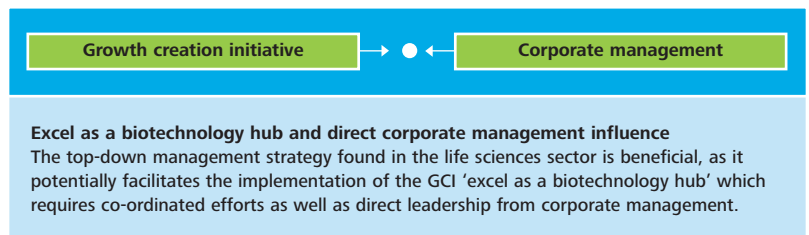
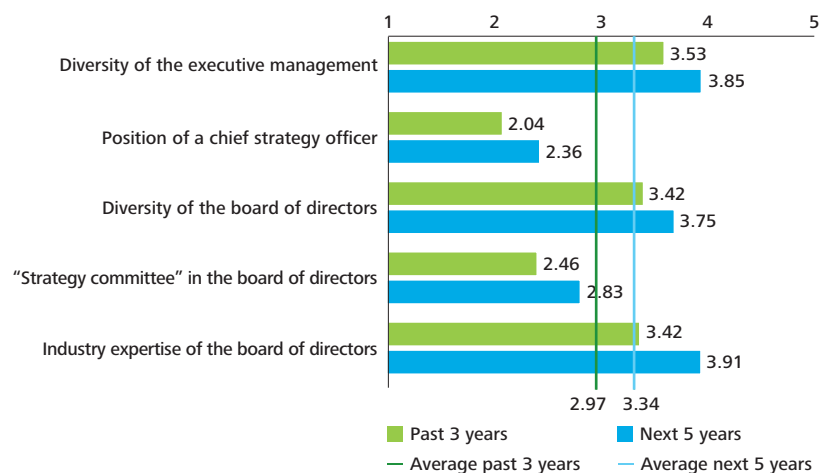


Figure 23: Board of Directors/Top management trends: All firms (n=93)



Source: University of St. Gallen, Institute of Management, 2010

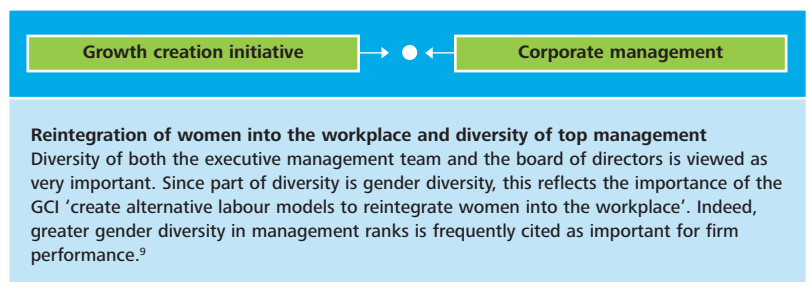
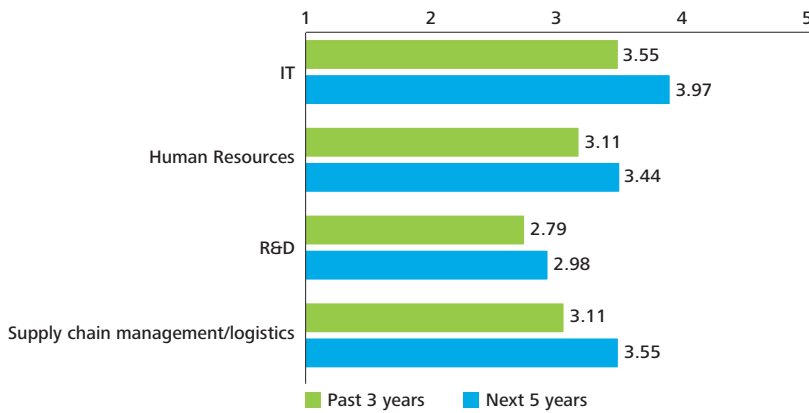


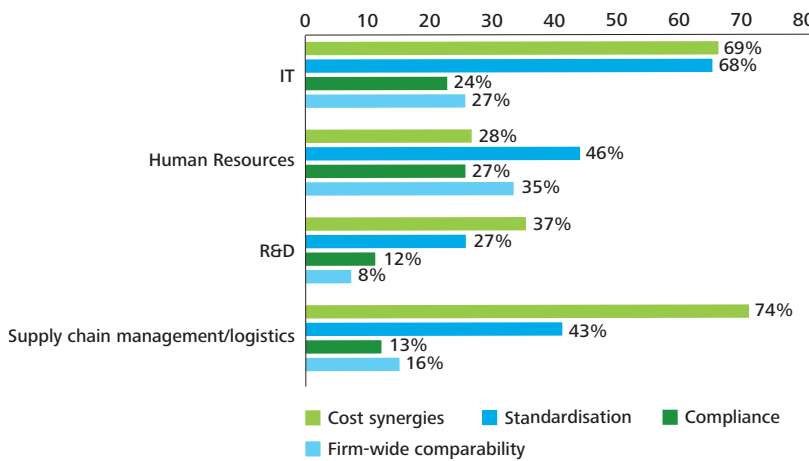
Figure 24: Centralisation of corporate functions (n=94)



Source: University of St. Gallen, Institute of Management, 2010

Figure 25: Drivers for centralisation of corporate functions (n=95)

% firms indicating the driver



Source: University of St. Gallen, Institute of Management, 2010

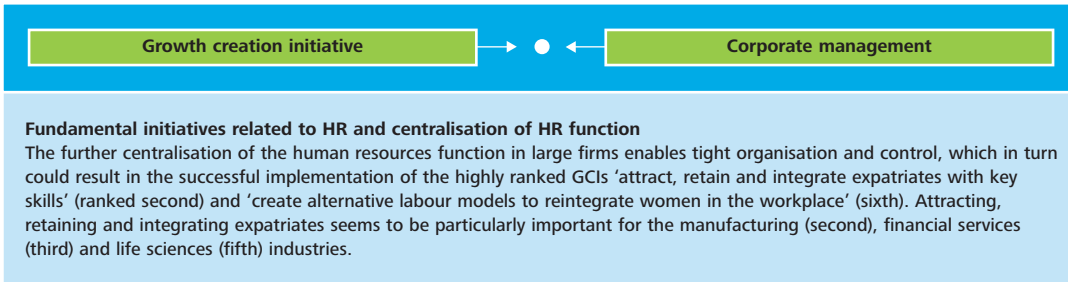
Centralisation of corporate functions

The centralisation of corporate functions of firms in Switzerland is increasing, as shown in Figure 24. Of four major functions currently being centralised – IT, HR, R&D and supply chain management and logistics – there has been considerable progress in IT and that is expected to continue over the coming years. For example, a major Swiss bank recently centralised the IT function of its business segments which is why the bank’s corporate centre is now considered one of the largest in the world. While R&D has been centralised to a lesser extent, and respondents plan only a slight increase, the HR function and the supply chain management and logistics function are expected to become more centralised over the next five years. Indeed, many firms are currently centralising or at least evaluating further centralisation of their HR function.

In the financial services industry, the HR function is already highly centralised, thus little further increase is planned. In contrast, firms in the life sciences, manufacturing and consumer business industries all plan to centralise their HR functions substantially over the next five years.

Drivers for centralisation

The drivers for centralisation differ broadly across the four functions, as shown in Figure 25. While the centralisation of IT is strongly driven by cost synergies and standardisation, the centralisation of HR is mainly motivated by standardisation and comparability across the firm’s businesses. Interestingly, compliance is also an important driver for centralising the IT and HR functions. It appears that regulatory aspects are important as is greater co-operation between the corporate world and its regulators. For the R&D, and supply chain management and logistics functions, most firms indicate that cost synergies and process standardisation are important drivers.



2.6 Systems

Management systems provide the leadership team with the essential tools to run the company. Particularly important are corporate control, strategic planning and human resource systems, for example management development and incentive systems. Overall, the importance of these systems is expected to increase over the next five years.

Corporate control systems

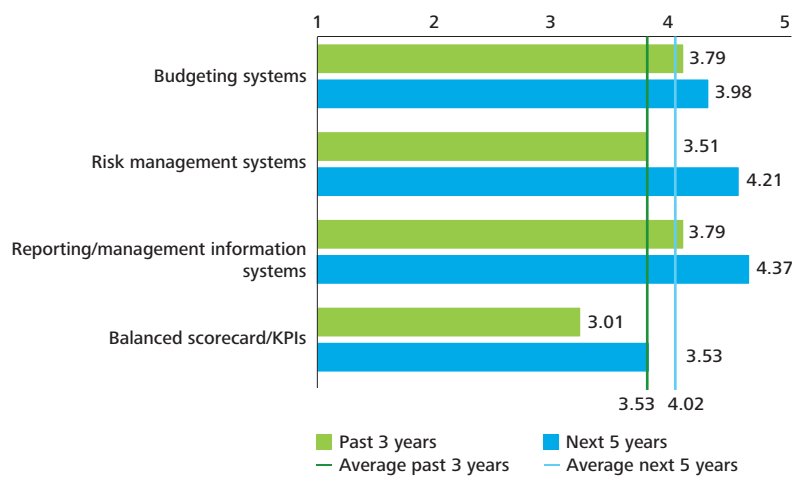
Across all industries the importance of risk management and reporting, and management information systems as distinct corporate control systems, is expected to increase substantially (see Figure 26).

In particular, firms in the financial services industry, who often struggled with risk management systems before and during the financial crisis, regard this type of corporate control system as being very important over the next five years (4.79). For the other three industries, reporting and management information systems will be the most important in future.

Corporate planning systems

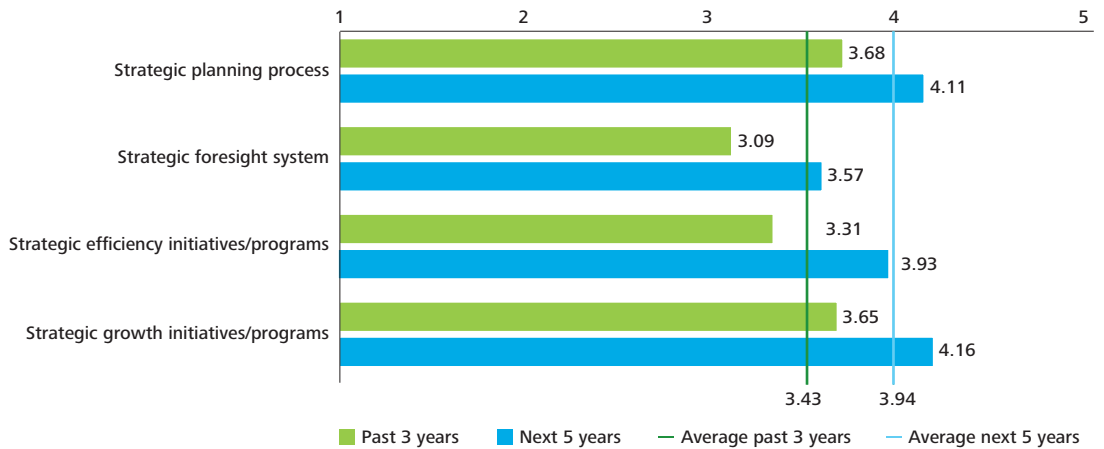
Corporate planning systems will also become more important over the next five years. There are two explanations for this development. First, given the current difficulties and uncertainties firms face, they need to improve both short- to medium-term planning by focusing greater attention on their strategic planning processes. Long-term scenarios also have to be developed which require greater effort put into strategic foresight systems. Second, firms in Switzerland indicate the increasing importance of both efficiency and growth synergies, which demand appropriate planning systems (see Figure 27).

Figure 26: Corporate control systems: All firms (n=94)



Source: University of St. Gallen, Institute of Management, 2010

Figure 27: Corporate planning systems: All firms (n=93)



Source: University of St. Gallen, Institute of Management, 2010

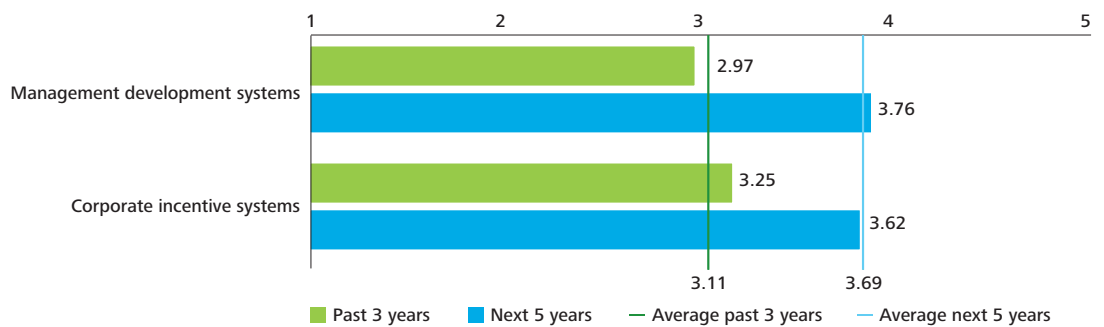
Corporate HR systems

Respondents also indicate that they intend to increase efforts in developing and improving corporate HR systems (both management development systems and corporate incentive systems) over the next five years. While more effort was put into corporate incentive systems during the past three years, respondents plan to focus greater attention on management development systems over the next five years, as shown in Figure 28.

This development is reasonable for most industries given the growing centralisation of the HR function and increasing expectations for management development systems at all levels. However, it is very surprising that respondents in the financial services industry hardly intend to change their incentive systems at all. Despite being heavily criticised for their incentive systems, banks don't seem willing to change much.

Compared to performance followers, performance leaders have put more effort into the development and improvement of HR systems during the past three years, and will continue to in future. It appears that investing in human resources systems pays.

Figure 28: Corporate human resource systems: All firms (n=95)



Source: University of St. Gallen, Institute of Management, 2010

2.7 Normative frame

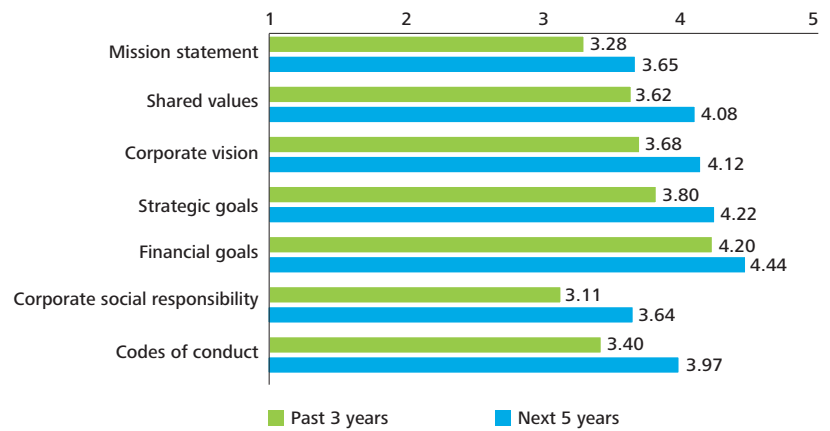
The normative frame (i.e. a firm's mission, values, vision and goals) has two central functions: channelling the firm's strategic activities and guiding its future course. The firm's mission and shared values direct its strategic activities while its corporate vision and goals guide its future course.

The results demonstrate that during the past three years the normative frame of firms in Switzerland has been dominated by financial goals. For the next five years, however, firms plan to focus more on other aspects of the normative frame (see Figure 29). For example, the importance of corporate social responsibility will increase by 17 per cent (from 3.11 during the last three years to 3.64 over the next five) as will codes of conduct (from 3.40 to 3.97). Codes of conduct relate particularly to compliance issues and appeared on corporate agendas during the recent economic crisis. Corporate vision will also become more important, increasing on average 12 per cent (from 3.68 to 4.12). The increasing importance of risk management systems matches this development.

Firms from each of the four key sectors intend to focus on different elements of the normative frame. For example, the financial services industry plans to focus primarily on changing its financial goals, while the life sciences industry plans mostly to change its corporate vision and strategic goals. Manufacturers also intend to focus on strategic goals, and consumer businesses will mainly concentrate on their mission statements and shared values.

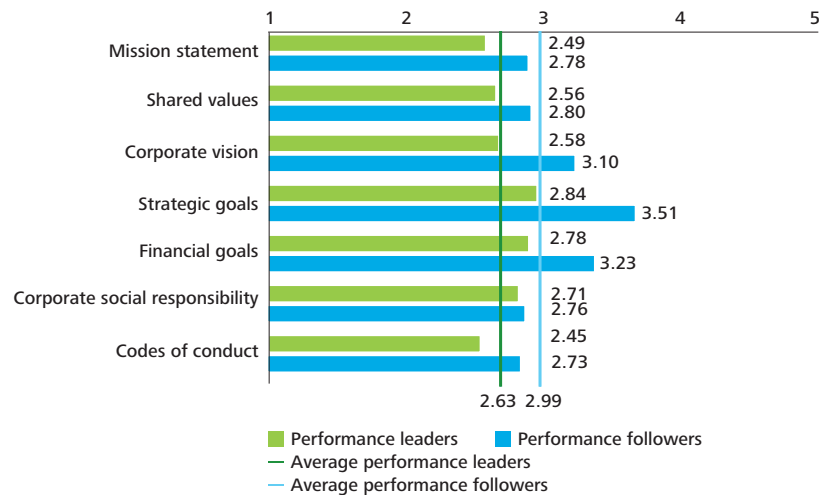
Performance leaders focus more attention on the normative frame than performance followers. Specifically, performance leaders attribute more importance to strategic goals and shared values than performance followers do. Hence, they appear to be managed in a more strategic and long-term way. However, performance followers also plan to take action concerning their normative frame and intend to change elements, notably their strategic goals, to a greater extent than performance leaders (see Figure 30).

Figure 29: Importance of mission/values/vision/goals: All firms (n=94)



Source: University of St. Gallen, Institute of Management, 2010

Figure 30: Content change of mission/values/vision/goals: Performance leaders vs. followers



Source: University of St. Gallen, Institute of Management, 2010

Figure 31: Stakeholder (n=94)



Source: University of St. Gallen, Institute of Management, 2010

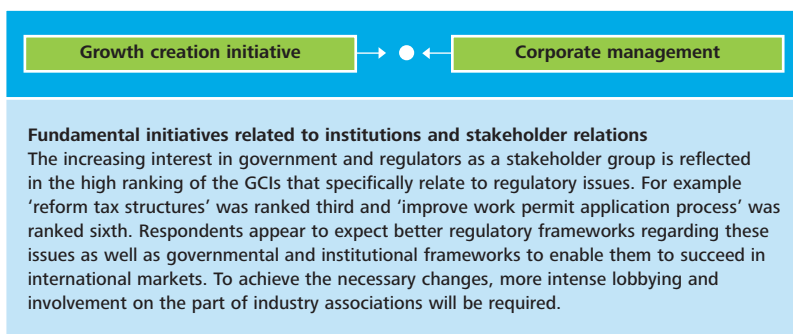
2.8 Stakeholder

Stakeholders are those groups that have direct or indirect expectations and interests in a firm. Important stakeholder groups are customers, shareholders, employees, suppliers, competitors, government and regulators, society at large and non-governmental organisations.

The results indicate that all stakeholder groups will become more important over the next five years, as shown in Figure 31. While firms in Switzerland already have a stakeholder-oriented management approach (the most important being customers, followed by employees and shareholders), in future stakeholders other than shareholders will also gain in importance. Hence, there will be a further shift from a shareholder-oriented approach towards a stakeholder-oriented approach. The results also show a significant increase in the importance of government and regulators as stakeholders. Thus both the private and the public sector should improve their relationships with each other and invest in appropriate measures.

The importance of specific stakeholder groups varies across industries. While customers will be very important for firms in the life sciences sector over the next five years, respondents indicated that they also intend to focus greater attention on suppliers and regulators. This result is no surprise since the life sciences industry is very dynamic with many regulatory issues on the agenda, such as in the area of genetics. This is also the case for financial services and consumer business firms with respondents from both indicating that regulators will become far more important in future.

While performance followers attributed less importance to their customers during the past three years than performance leaders, the results indicate that they are planning to close the gap. Interestingly, performance followers already attach significant importance to the role of government and regulators as stakeholders. Looking ahead both performance leaders and followers regard this stakeholder group as important.



Appendix A

Executive summary 'The future for business in Switzerland?' November 2009

Bright prospects – but action required

Switzerland has a proud tradition of leading the global prosperity rankings. However, even before the current financial crisis, Switzerland's performance had been showing signs of weakening. This has intensified as the world endured the worst economic and financial upheavals in more than a generation. In spite of this environment, the prospects for business could be very bright, due to the strong alignment between the country's core business strengths and the new economic order. Switzerland's economic prospects could be further enhanced by reconfiguring key elements of its regulatory and tax regimes, and its labour market. Switzerland should also look at ways of reinvigorating the competitiveness of key industry sectors, such as financial services and life sciences, to meet the new global challenges.

The CHF 10,000 prosperity challenge

We have calculated that the Swiss economy has the opportunity to generate an additional CHF 10,000 of Gross Domestic Product (GDP) per capita growth (equivalent to CHF 80 billion) by 2015. To achieve this target it must respond effectively to the global challenges it faces, to a level beyond its current path of growth. Swiss business has an excellent track record. Indices compiled by the World Economic Forum (WEF) and IMD confirm that Switzerland has a very broad-based competitive economy – one of the best in the world.¹⁰ However, if the economy is to maintain its competitive edge, action needs to be taken. The key to success lies in improving business competitiveness, which will in turn drive wealth creation and safeguard Switzerland's reputation for one of the best standards of living in the world. Recent weakening of the economy, combined with increased competition from Asia, requires reinvigoration of business competitiveness.

Switzerland should now seize the opportunity and find better transmission mechanisms to convert its competitiveness capabilities into higher levels of prosperity while maintaining its enviable environmental standards.

18 growth creation initiatives

Achieving the additional CHF 10,000 GDP per capita growth by 2015 requires a range of actions across key parts of the economy to improve business competitiveness. We have therefore set out an agenda based on 18 growth creation initiatives (GCIs) targeted at reinvigorating the economy. On the institutional side, a number of initiatives aim to modify the rules governing tax and financial regulation. Without attempting to second guess the ongoing diplomatic discussions on these two areas, we have set out seven GCIs relating to human capital, finance and tax issues.

On the business front, the analysis shows the importance of four sectors: financial services, life sciences, consumer/luxury goods and manufacturing/engineering as the engines of growth for the next five years. In each of these broad industry sectors we have proposed GCIs (11 in total) targeted at enhancing business competitiveness.

Deloitte's GCIs are as follows:

1. Elevate the status of engineering, science and technology across the economy.
2. Remove barriers to global mobility to attract and retain the best international talent.
3. Create alternative labour models to reintegrate women into the workplace.
4. Strengthen linkages between established capital pools and business start-ups.
5. Foster the retention and growth of international and regional HQs.
6. Reform the personal tax system to reduce complexity.
7. Explore enhancements to the tax rules for companies.
8. Establish a National Financial Advisory Board.
9. Enhance Switzerland's reputation as the global hub of wealth management.
10. Become a global centre for pension solutions.

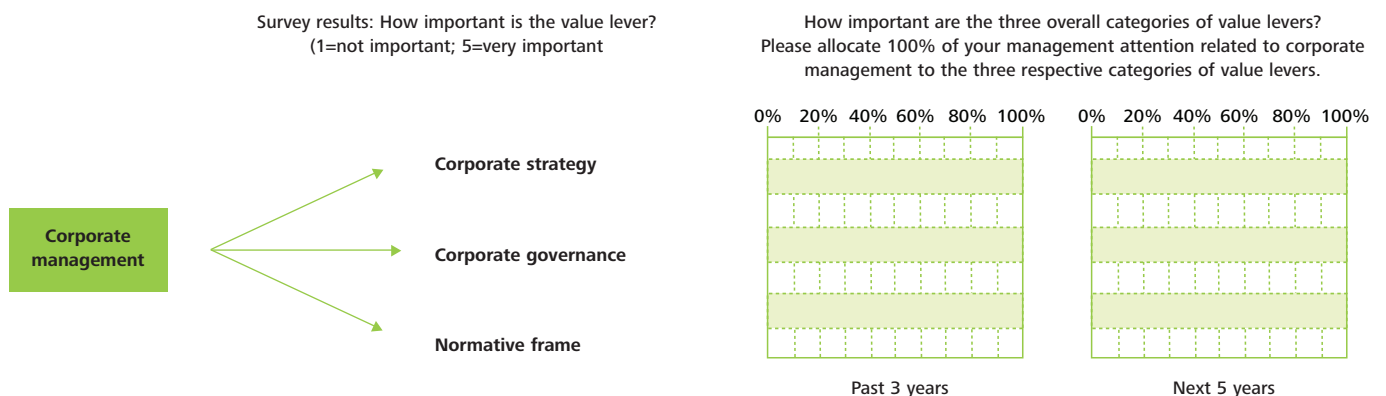
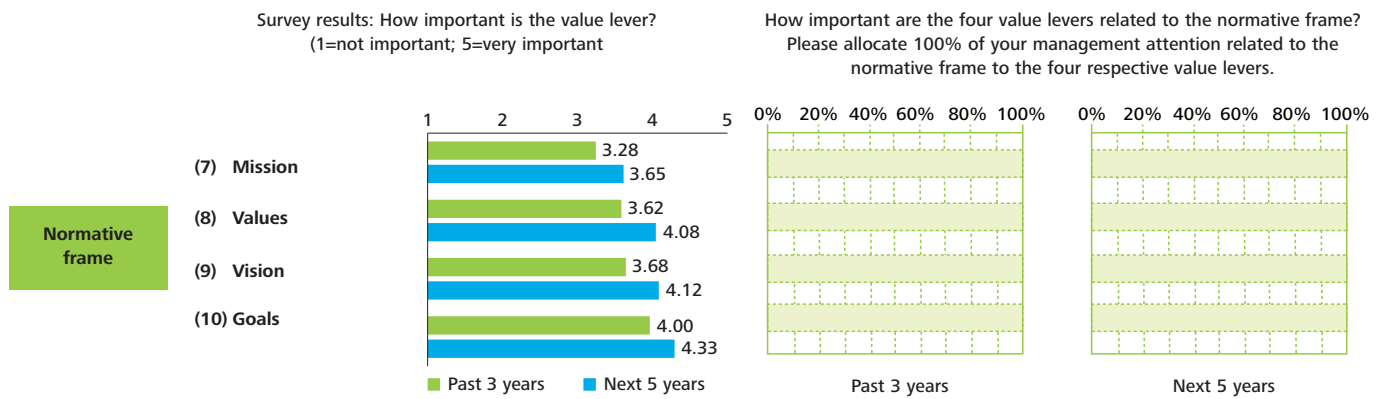
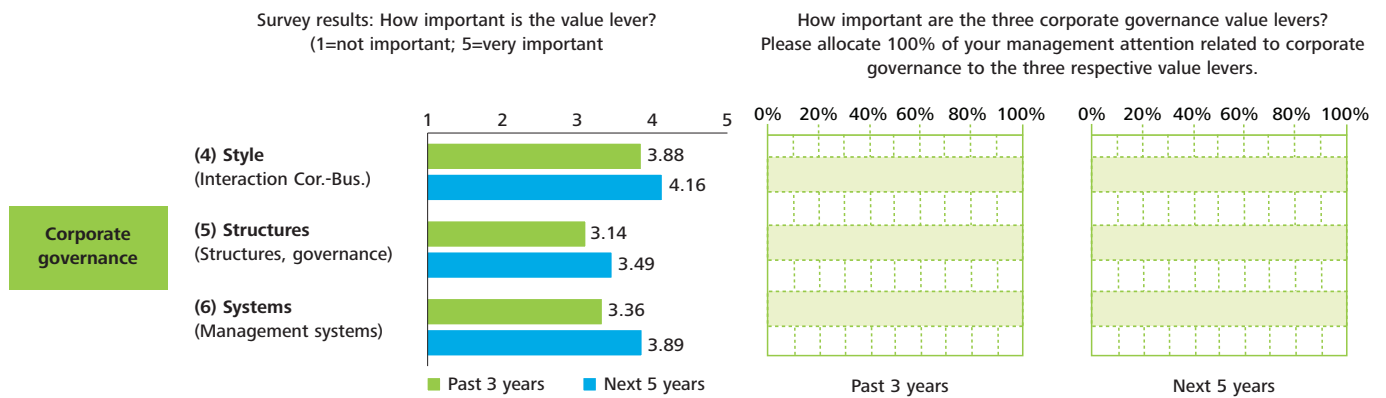
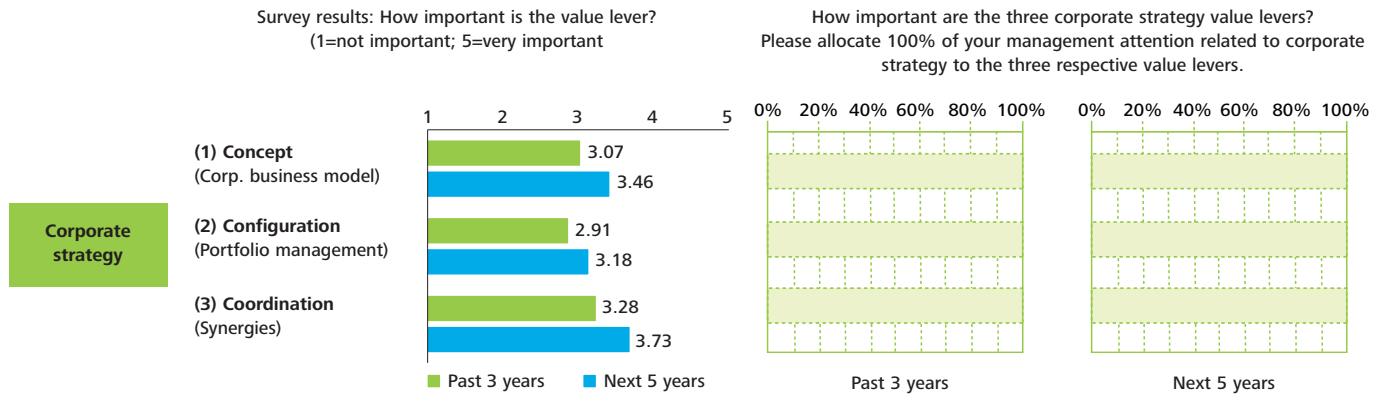
11. Excel as a biotechnology hub.
12. Exploit worldwide expertise in operating a healthcare system.
13. Create a 'Designed and developed in Switzerland' brand for mid-priced goods.
14. Establish a world-class 'Clean Tech' and renewable industries hub.
15. Build on strong manufacturing services revenue, selling 'Swiss know-how'.
16. Develop a leading position in consumer health capabilities.
17. Increase R&D capabilities in food science and nutrition.
18. Drive international presence in consumer and luxury goods through M&A.

Switzerland's future: A call to action

As the economic crisis abates, the world is becoming a very different place. Although in the short term the focus is on stimulating economic growth, it is imperative that Switzerland looks to the longer term. Switzerland's reputation as providing the best quality of life and level of prosperity in the world needs to be safeguarded. It is also important that business responds to the challenges of the new economic order and quickly grasps the opportunities it presents. The challenge ahead is to pinpoint the specific areas requiring attention. The Deloitte White Paper is a call to action aimed at reconfiguring policies across vital components of the economy, and accelerating growth within business. Our goal is to help Switzerland to accomplish its full growth potential over the next five years.

Appendix B

St. Gallen Corporate Management Scorecard



Notes

1. More than 58 per cent of the respondents came from senior management – chief executives, chief financial officers or chief operating officers. The participating firms employed on average 15,100 people in 2008, although more than two thirds had fewer than 10,000 employees. Most firms (84) are from one of the four following industry sectors: financial services (30 firms), life sciences (13), manufacturing (26), and consumer business (15). It is important to note that ongoing inter-governmental discussions on regulatory and tax issues are outside the scope of our study.
2. While there are minor inconsistencies with some of the GCIs presented in the Deloitte White Paper, this is due to the survey implementation process.
3. To distinguish between performance leader and follower we divided the sample into two groups with the median (self-reported) performance value as cut-off point.
4. For a detailed explanation of each of the 18 GCIs please refer to the Deloitte White Paper, 'The future for business in Switzerland? 18 growth creation initiatives'.
5. Due to the survey implementation process, there are minor inconsistencies compared with some of the GCIs in the Deloitte White Paper; however changes relating to the content are marginal.
6. NZZ: Erkleckliche Geldzuflüsse für Schweizer Privatbanken, 15 January 2010, article on the recent developments of Swiss private banks.
7. For example, Credit Suisse Economic Research provides detailed analysis of 32 industries for Switzerland (Credit Suisse: Swiss Issues Branchenhandbuch 2009).
8. Credit Suisse: Swiss Issues Branchenhandbuch 2009.
9. See, for example, Dwyer/Richard/Chadwick, 2003: Gender diversity in management and firm performance: the influence of growth orientation and organizational culture, *Journal of Business Research*, 56(12): 1009-1019.
10. The Global Competitiveness Report 2009-2010. See: <http://www.weforum.org/pdf/GCR09/GCR20092010fullreport.pdf>, page 13 and IMD World Competitiveness Yearbook 2009, <http://www.imd.ch/research/publications/wcy/upload/scoreboard.pdf>, page 1.

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