

# 2014

## BUSINESS COMPETITIVENESS

## SWITZERLAND

## SUMMARY OF RESULTS



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Business Competitiveness Switzerland 2014: Summary of Results

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## I. Introduction

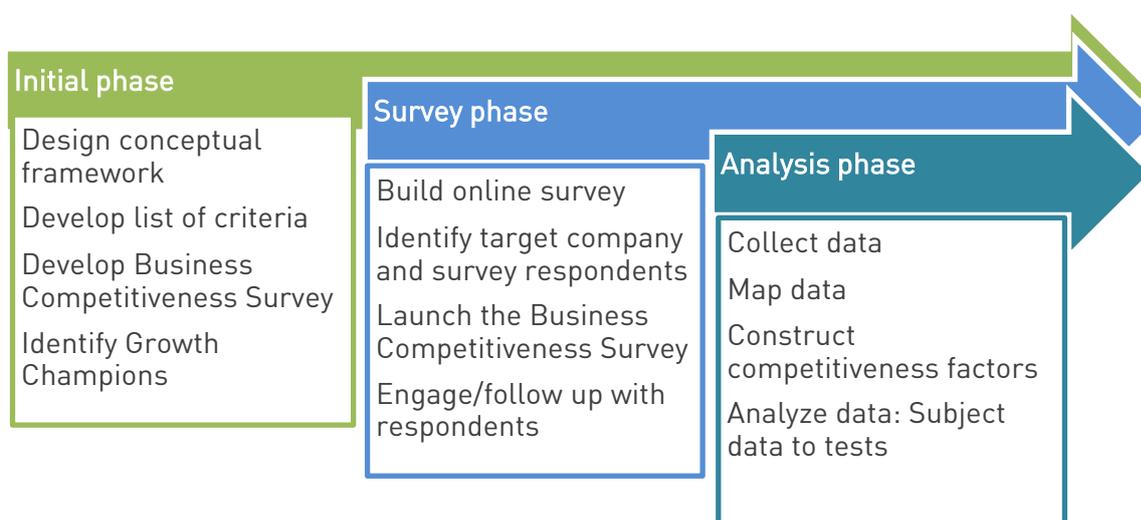
The IMD World Competitiveness Center, a pioneering institution in the study of competitiveness, has developed a groundbreaking conceptual framework and methodology to study firm competitiveness. The Center partnered with Accenture Switzerland to conduct a study about the competitiveness of the largest Swiss firms.

The report focuses on the firm-specific practices and processes that successful Swiss companies employ to strengthen their competitiveness. Our aim was to obtain insights into the internal behaviors and dynamics of those firms and their effects on the different dimensions of competitiveness. We did so by gathering relevant data through our Business Competitiveness Survey, which captured the opinions of respondents regarding their respective industries, the position of their firms in the business cycle and several intrinsic corporate dimensions.

We used the Handelszeitung Top 500 Swiss companies (2014) and the Capital IQ Company Screening Report to identify our sample of companies. We identified the Swiss Growth Champions (or more competitive firms) according to their profitability from 2009 to 2013. Using the compound annual growth rate (CAGR) of revenues and profit margin indicators, 36 Growth Champions were identified, including 26 cross-industry firms, 7 banks and 3 insurance companies. Companies were eligible only if data for all five years was available. In addition, the Growth Champions included only companies with their main headquarters in Switzerland. The assessment does not include firms that experienced extraordinary events such as mergers and acquisitions during the 2009 to 2013 period because such events influenced their results. It also excludes the real estate industry because it showed extremely volatile results, which were heavily influenced by single development projects.

The IMD World Competitiveness Center contacted 7,333 possible survey respondents from 289 companies. Final results are based on a total of 660 survey responses (9% rate) representing 104 firms, 69 respondents belong to 14 Growth Champions.

Figure 1. Summary of methodology



## II. Business competitiveness structure

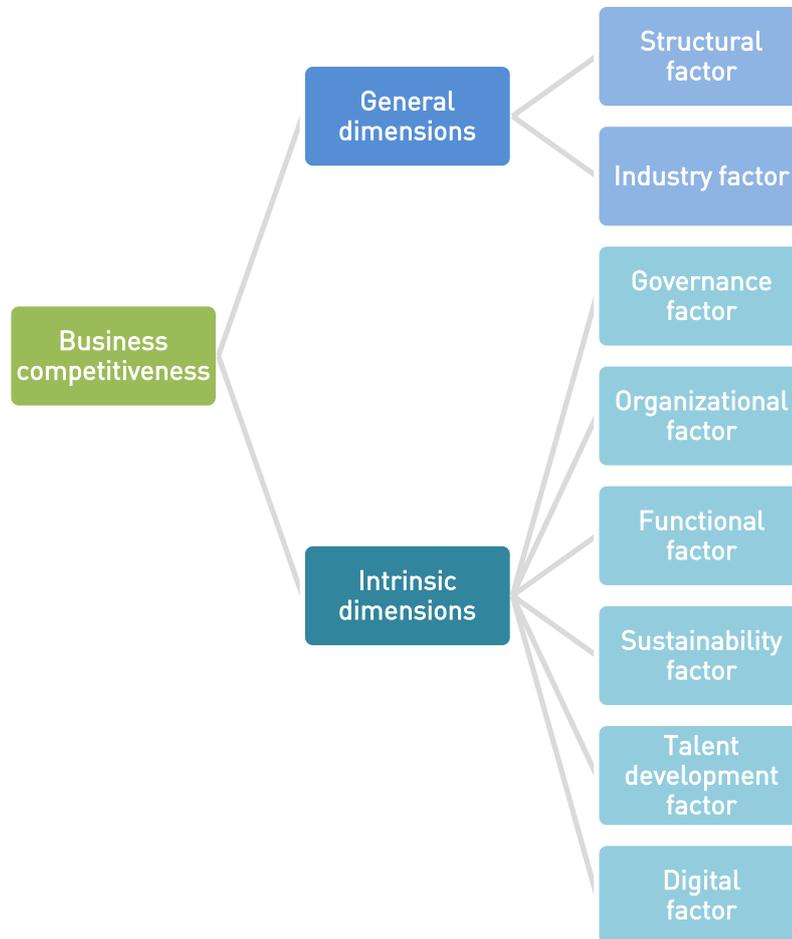
Business competitiveness is the capacity of a firm to create value through sustainable long-term growth and profitability. There are two dimensions of business competitiveness – general and intrinsic –. The general dimension influences the nature of the practices a firm chooses to adopt. It refers to structural elements that define the context in which a firm operates (e.g., the regulatory framework of a given country) and its industry-related variables (e.g., whether a particular industry is capital or labor intensive).

The intrinsic dimension refers to the behaviors and practices that allow a firm to sustain its performance over the long term. It includes governance, organizational, functional, sustainability, talent development and digital factors. The governance factor concerns all the practices, processes and structures necessary to govern the firm effectively, e.g. the effective fulfillment of the board of directors' role. The organizational factor refers to the top management team's practices and processes that allow for the sound operation of the firm, e.g. the ability of the management team to adapt the firm's strategy to market changes. The functional factor relates to the firm's operational processes, e.g. marketing strategies and innovation.

The sustainability, talent development and digital factors concern practices that enable firms to ensure the effectiveness of its governance and organizational and functional factors, e.g. practices that enable firms to remain dynamic vis-à-vis their competitors (e.g. level of digitization) and the ability of firms to build an organizational culture that fosters collaboration among its members. **Figure 2** represents our conceptualization of business competitiveness.

Firm performance is an outcome of intrinsic factors in combination with structural and industry factors. That is to say, intrinsic factors include the capabilities of a particular firm, which in combination with structural and industry factors impact the performance of the company. Indeed, the correlation among these factors may be strong, but this is not surprising because it reflects that firms with high levels of competitiveness function in contexts that facilitate the conduct of businesses and they implement certain practices and develop internal processes that have a strong impact on their performance.

Figure 2. Structure of business competitiveness



### III. Key Findings

1. Successful Swiss companies adopt more **dynamic governance practices** with **clear accountability**:
  - Boards guide the actions of senior leaders by exercising their supervision and strategic roles effectively.
  - Boards continuously interact and collaborate with management through an open information policy.
  - Accountability is upheld throughout all levels of the company by implementing consistent performance measurement and evaluation processes.
  
2. **Human capital** and **employee engagement** are crucial for sustaining growth:
  - Growth Champions consider the development of talent as a key factor in sustaining growth and profitability.
  - The fostering of employee engagement complements the recruitment, development and retention of talent.
  - The focus on talent as a key priority enables companies to enjoy higher productivity, lower turnover of key positions and lower absence rates.
  
3. An **innovation-centric culture** is key for expanding into new revenue pools:
  - Continuous innovation is among the factors that significantly differentiate top performers from other companies in the study.
  - The encouragement of an innovative culture is however coupled with a limited willingness to make capital-heavy investments in times of uncertainty.
  - Top managers recognize the positive correlation between innovation and competitiveness and encourage employees to work on the improvement of products and services.
  
4. A strong and focused organization with **transparent management** is essential for surviving uncertainty:
  - The focus lies in promoting internal strength rather than pursuing unproven market opportunities.
  - It is particularly important that objectives for top management and the entire workforce are set in accordance with the company's strategy.
  - Transparent decision-making is essential for reducing uncertainty and building trust.
  
5. Growth Champions develop **market-focused** strategies:
  - Successful companies establish long-term client relationships by ensuring ongoing and in-depth interactions with customers.
  - Strong emphasis is assigned to the significance of customer insights for the development of firm strategy.
  - Acquiring a good understanding of customer needs and businesses is required for developing customized products and services.

6. Successful Swiss companies **transform** through flexible and **lean processes**:

- Top managers are ready to transform their core business in order to match new market requirements.
- Adjustments to new market forces and requirements are realized without disrupting daily business.
- Process excellence and lean management result in streamlined core business operations and make room for innovation and future growth.

7. A more **risk-averse strategy** with ethical standards and a compliance culture is essential for retaining profits and limiting expenditures:

- A high level of trust relates to a lower need to allocate budgets to risk control measures.
- The commitment of employees to the company's targets and guidelines ensures compliance and consistency with legal requirements.
- Appropriate levels of net loans and a stable financial basis enable companies to react to sudden market changes in an uncertain environment.

We also find that Growth Champions create value at the shareholder and employment levels. At the shareholder level, Growth Champions achieved abnormal stock market performance (7.6% per year) during the 2010–2013 period. At the employment level, Growth Champions generated about 18% more jobs than other companies in the study did over the same period.

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