

**The untold story behind
Switzerland's success**
R. James Breiding

SWISS MADE



PROFILE BOOKS

For my children – Johanna, Joshua and Nick
May you imagine beyond, work hard and stay humble

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Introduction

In his seminal 1990 book *The Competitive Advantage of Nations*, Michael Porter, a Harvard professor, argued that, given the surfeit of low-cost labour, the basis of competition in most industries was rapidly shifting towards the creation and assimilation of knowledge. Thus a nation's competitiveness depended on its ability to innovate and raise productivity, drawing on unique elements of its history and character.

Porter did not cite Switzerland as a model in his comprehensive study, but he could have done. Indeed, the importance of the nation as a competitive force was evident in Switzerland long before the modern global environment developed. From the early 19th century, the emergence in this small, landlocked country of several globally competitive companies in a number of industrial sectors is little short of astonishing. *Swiss Made* describes and tries to explain how it was that Swiss companies were among the global leaders in textiles, machinery, chemicals and several other sectors from the earliest days of the industrial revolution. It seeks to show that this success, which has been sustained and expanded right up to the present day, was due in no small part to the national values, culture, institutions and history of this nation. It then asks whether the Swiss can sustain their position in today's rapidly shifting global industrial environment. If so, are there lessons for industrialists and public policymakers elsewhere to learn from what might be called 'the Swiss way'?

No other country of its size has achieved such a high level of disposable income while maintaining a relatively equitable distribution of rewards. No other country of or near its size holds leading positions in so many industries, notwithstanding the pressures of globalisation. No other developed country has avoided burdening future generations with large debts or fostering illusions among its people about meeting pension and healthcare costs. In no other country are individual citizens so powerful and so certain that their voices count.

Humble beginnings

Jean Pierre Roth, a former president of the Swiss National Bank, said once that Switzerland became successful because it was poor and small. Certainly, the background from which this success emerged was unpromising, to say the least. Switzerland is poor in minerals, and over large areas the soil is not fertile or the terrain is unsuitable for agriculture. Only water is plentiful: for domestic or industrial use, as ice and snow for recreation, or as a source of energy.

Although situated at the heart of Europe, Switzerland's mountainous topography has been a continuous challenge over the centuries, in terms of transport and communications. The country has no direct link to the world's oceans, which is a serious disadvantage compared with those countries that, since the early modern era, have achieved a global presence and seized imperial power and colonial wealth. Conversely, the transport corridors through the Alps gave Switzerland an important strategic position between the great mercantile regions of northern and southern Europe, although this also made it a potential target for the imperial ambitions of its larger and more powerful neighbours.

In language, culture, and political and religious persuasion, Switzerland was, and is, heterogeneous, to say the least. This characteristic normally militates against peace and common purpose – think of the former Yugoslavia. This heterogeneity has been reinforced by the arrival of immigrants from many cultures from an early date. Almost a third of the present population consists of immigrants or the descendants of immigrants. In the past, many of them arrived as political refugees, taking advantage of Switzerland's long-held policy of neutrality. More recently, immigration has reflected the country's labour needs.

Yet the Swiss have found ways of living together in harmony and, to the envy of many other countries, have contrived for over two centuries to stay aloof from the world's conflicts, to preserve their independence and to build up a mighty industrial base.

This rise was never planned. There was no 'Swiss master plan', no sense of cultural mission, no Swiss ideology and no all-embracing strategy imposed by a powerful government that evolved into a national formula for success. The country has never had a centralised structure and there has never been a charismatic leader, as in Russia, for example, where Peter the Great relentlessly drove forward the modernisation of his backward realm. Politically inspired projects, which in other countries have sometimes formed the basis for economic success, have usually had a rough ride in Switzerland, and still do. Jacques Herzog, a Pritzker Prize-winning architect and co-founder of Herzog & de Meuron, an architecture firm based in Basel, feels that Switzerland's success is due in part to the absence of vision: 'Visions impose boundaries and require directives, and neither melds well with the Swiss notion of enterprise.'

Scepticism about government involvement in industrial development appears well founded. What government planning department could have guessed that the Swiss watch industry could be rescued by a plastic watch (Swatch)? Or that coffee packed in aluminium capsules would be a global success (Nespresso)?

Features of success

Entrepreneurship and industrial success do not emerge from a void. They thrive in the soil of a political structure and a culture that comprise many elements. None of these elements on its own explains success and most of them are found in many countries. Yet in Switzerland they have interacted in a particularly fruitful way that, while taking various forms, nonetheless enables us to recognise

patterns at three levels: individual, business institutions, and governmental or political organisations.

At the individual level

One of the most important groups in any society – although it is perhaps misleading to refer to such powerful individuals as a group – comprises entrepreneurs. They are the ones who build factories, hire people, engage in trade and, ultimately, create the wealth on which society depends. The bulk of this book describes their initiative, their struggle and their achievement. Like all human ‘types’, entrepreneurs come in various shapes and sizes, but they have common traits. Their progress is driven by the efforts of individuals to improve their lives. To challenge and change the established way of doing things is never easy: the routine and familiar status quo is firmly entrenched and inherently resists change. To take on strong resistance and break new ground well beyond the beacons of familiarity requires special aptitudes present in only a small number of people. Progress always depends on trial and error, so an ability to brush off failures is necessary. Someone has to be bold enough to risk making those errors and ignore the legions of naysayers. More than anything, an entrepreneur knows what it takes to overcome obstacles and to get things done.

Pathways vary too. As this book shows, among Swiss entrepreneurs there have been examples of bold exploration of technological possibilities to produce something completely new, such as Roche’s Valium or Nestlé’s instant coffee. Some have produced something old, but in a different and better way, such as César Ritz’s hotels, SMH’s Swatch, Phonak’s hearing aids or Nespresso. Others have ventured out to identify a new source of supply or new outlets to sell their products, such as Holcim, a cement group, and DKSH, a trading company. In other instances Swiss entrepreneurs simply bought innovation and let others do the work, for example Roche’s prescient investment in Genentech, or Nestlé’s investment in L’Oréal. Irrespective of the methodology, it has been the aggregate and recurrent flow of entrepreneurial activities over a long period of time and across several industries that forms the solid composite of Swiss prosperity as we know it today.

Ironically, many of Switzerland’s most prominent entrepreneurs were not Swiss at all. Much of the country’s success has been due to that of immigrants. Swiss industry would not be recognisable today if it were not for immigrants. Henri Nestlé was a German political refugee. The Brown (not ‘Braun’) in Brown Boveri was Charles Brown from the UK. Nicolas Hayek of Swatch came from Lebanon. Zino Davidoff was a Russian Jew. Leo Sternbach, the inventor of Valium and saviour of Roche, was a Polish refugee. Pietro Bertarelli, an Italian, collected urine from nuns’ toilets to extract hormones for fertility therapy in women. Two generations later, his grandson Ernesto is considered to be the wealthiest Swiss citizen; he led *Alinghi’s* 2003 and 2007 victories in the prestigious and highly contested America’s Cup. Tennis legend Roger Federer’s mother is South African.

The success of immigrants is a result partly of the Swiss environment and partly of the immigrant mentality. Being a small and diverse country, Switzerland has been forced to develop an understanding of, and a selective openness to, people of different cultures. This does not mean that immigrants are warmly welcomed. As in other countries, they are regarded with suspicion unless and until they prove their worth. But the opportunity has always been there. For their part, immigrants have an enormous incentive to make good in their adopted country. In their home country, they would be a comfortable member of an established community, and even more comfortable if they conformed to average behaviour. As immigrants, they are no longer propped up by a familiar and trusted name, a supportive family, or well-wishers from school, club or business. They must fight for their very existence and only from achievement can they earn respect. There is no point in regretting the past; they must focus resolutely on the future. Moreover, only from commercial success and wealth can they advance up the social ladder, and find the better life that will confirm the wisdom of their decision to leave home.

This is not to say that Switzerland has been to every immigrant's taste. Potent thinkers such as Einstein, Erasmus, Lenin, Rousseau, Bakunin and Trotsky lived in Switzerland, but their views and talents were not especially appreciated.

Perhaps even more surprising is the number of Swiss entrepreneurs and businessmen who have made their mark abroad. Ritz was the first to export Swiss expertise in managing hotels and developed a standard of luxury that has transcended his lifetime and is synonymous with his name. Louis Chevrolet co-founded the Chevrolet Motor

Migration background of Swiss resident population in 2008

Swiss citizens without migration background	4,362,000
Swiss citizens with migration background	651,000
Foreigners in Switzerland with residence permit	1,352,618
Other foreigners in Switzerland: asylum seekers / short-term residence	122,121
Total	6,487,739

Note: Figures exclude persons of 0 to 14 years of age
Source: Swiss Government Office of Statistics

Car Company. Peter Voser is the CEO of Royal Dutch Shell, the world's largest energy company, and Josef Ackermann has navigated Deutsche Bank through the financial crises of the early 21st century without government assistance or the need to raise outside capital. Jorge Paulo Lemann is among the most influential people in Brazil and the largest shareholder of Anheuser-Busch Inbev.

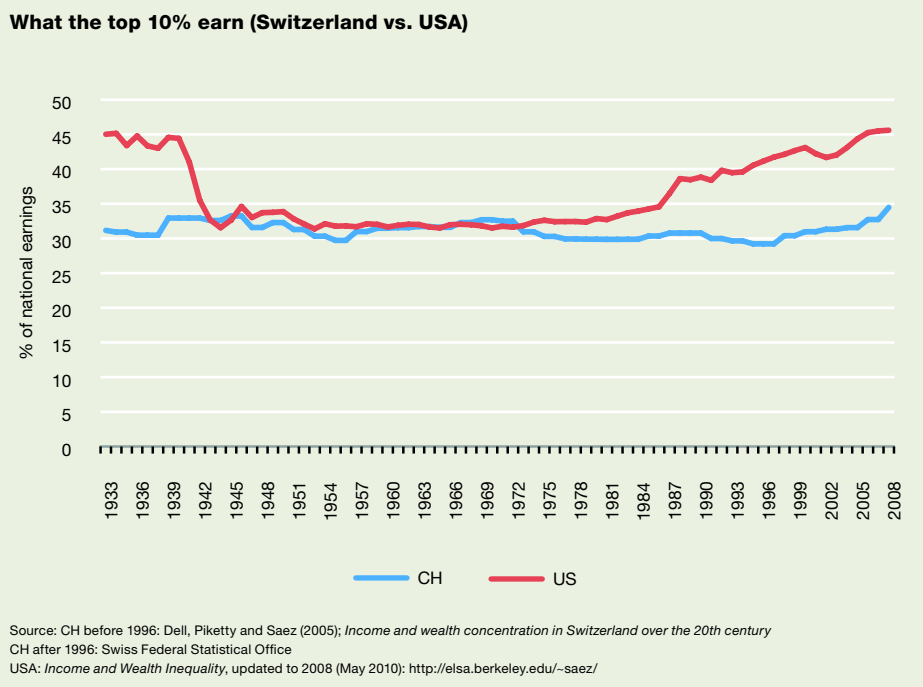
This bilateral flow of intellectual and entrepreneurial energy of the highest quality has played, and continues to play, a large role in the extraordinary industrial strength of Switzerland. About a third of Switzerland's resident population is of foreign origin, while nearly 700,000 Swiss citizens, some 10 per cent of the total population, live abroad.

At the level of business institutions

The Swiss have always had a high work ethic. This is not unique to Switzerland but is undoubtedly critical to industrial success. More unusual is the high value the Swiss place on professionalism throughout the working population. This is expressed in, among other things, an education system that still allots a central place to traditional vocational training (apprenticeships) alongside university education. People with vocational qualifications, no matter how modest the vocation, are respected, and therefore feel a dignity in what they do and what they are. Perhaps most importantly, teachers are well paid and revered in Swiss society, so students are generally taught by motivated and capable people in what Johann Pestalozzi, a Swiss education reformer, once described as 'God's chosen profession'. All this has facilitated the emergence of a broad, educated and secure middle class, which has probably moderated the tendency towards 'winner-takes-all' outcomes characteristic of free-market societies.

This respect for workers is almost certainly a significant factor in Switzerland's lack of industrial strife. The gains in productivity as well as the predictability and reliability that result from good industrial relations strengthen Swiss companies in international markets, benefiting both employers and employees.

Early internationalisation in many industries, as a result of Switzerland's tiny domestic market, forced companies to deal adeptly with foreign workforces and cultures, notably avoiding the pitfalls of colonial connections. Learning foreign languages, behaving modestly as guests and integrating unobtrusively in foreign countries are things that Swiss entrepreneurs and business people seem to excel at. This may also have helped Swiss companies in their acquisitions of foreign companies. Swiss firms were (and are) often exceptionally successful at integrating into their own corporate culture the cultures of foreign companies that they have taken over – and in a way, this is an important competitive strength in itself. Certainly, the number, variety and magnitude of Swiss mergers and acquisitions have been breathtaking. ABB resulted from the merger of Asea (a Swedish firm) and Brown Boveri; Novartis from that of Ciba-Geigy and Sandoz; and Syngenta from that of the agrochemicals businesses of Novartis and AstraZeneca (a British–Swedish firm). Most of Roche's profits come not from Roche but from its acquisition of Genentech and Boehringer Mannheim.



The majority of Nestlé’s so-called ‘billion-dollar brands’ (those with annual turnover in excess of \$1bn), such as Carnation, Friskies, Gerber, Kit Kat, Perrier and Purina, were acquired.

Yves Paternot, former CEO of Adia (now Adecco, the largest temporary services company in the world as a result of its merger with Ecco, a French company), says that Swiss companies are preferred buyers because they allow acquired companies considerable autonomy and control over their destinies, echoing the national political culture. Switzerland’s detachment from major power blocs may also occasionally give a slight advantage to Swiss companies in corporate takeover battles. A target company may well prefer falling into the hands of a company based in neutral Switzerland to succumbing to the embrace of an American, German or Chinese group.

At the level of government

The balance between government and the private sector is radically different in Switzerland from that in most other developed countries. Swiss industry has been imperialistic and expansionist, whereas the government tends to be inward-looking. Switzerland claims the highest density on

a per-head basis of *Fortune* Global 500 companies, twice as high as its nearest competitor, the Netherlands. And it has never had a colonial possession or started a war.

The Swiss governing structure is characterised by three principles: a suspicion of big organisations ('less is better'); subsidiarity (administration and taxation are passed down to the lowest practical level); and respect for the rights of the citizen.

Swiss government has always been comparatively minimalist, reflecting the traditional 'social contract' bargain by which government offers safety, security and justice in exchange for the citizen offering allegiance. Georg Kraye, former president of the Swiss Private Bankers Association, believes that the Swiss do not really want to be governed by anyone:

The Swiss were like peasants who went to the market shopping for a 'social contract' as though they were trying to buy the cheapest cabbage available. They gave up the least freedom in exchange for the least government.

The second important element is the confederal structure. Swiss cantons have great autonomy, much more than American states or Canadian provinces. And within cantons, municipalities have considerable autonomy. Decision-making happens at the lowest practical level. Public expenditure is decided largely at the community and state level, and taxes are raised locally and voted upon. This results in a highly decentralised administration of government and taxation. The Swiss believe that this structure imposes self-discipline on each level of government. If Zurich charges too much tax, businesses will move to Zug or Schwyz. If one planning authority does not like an application from a business to build a factory, the chances are another one will.

Density of <i>Fortune</i> 500 companies					
	Switzerland	Germany	France	USA	Japan
Companies in <i>Fortune</i> Global 500	15	39	40	140	68
Population	7.5m	82m	62.5m	306.6m	127.6m
Companies in <i>Fortune</i> Global 500 per million inhabitants	1.98	0.48	0.64	0.46	0.53

Data: 2009. Sources: CNNmoney.com, *Fortune* Global 500, Euromonitor

The third element is the sovereignty of the individual. This is expressed most eloquently in the regular holding of plebiscites, in effect direct democracy. Plebiscites come in various forms and with surprising frequency and deal with all manner of subjects, from the frivolous to the momentous, including working hours, genetic research, mosques and European integration. The striking thing about these plebiscites is that they tend not to produce extreme results, but rather to confirm the strength of the moderate majority. For example, initiatives demanding an extension of holidays, shorter working hours, a lowering of the pensionable age and even lower taxes were rejected by a large majority. Sometimes a change will be approved, but only on the third or fourth plebiscite attempt, such as women's right to vote. Arguably, the process defuses extremism by providing both legitimacy to challenge, and a real prospect of gradual reform. Admittedly, it slows the processes of government, but many would say this is no bad thing, especially for businesses seeking stability and predictability in their environment.

The net result of these three features is a bottom-up society. Jonathan Steinberg, an economic historian and a professor at the University of Pennsylvania, pointed out that the Swiss political system is 'like one of those dolls with lead in the bottom that rights itself whenever toppled'.

Although it is less important today than it was 100 years ago, Switzerland's neutrality has played a substantial role in the development of the country. The many armed conflicts in Europe over many centuries created fine opportunities for Swiss merchants and manufacturers and brought waves of talented and persecuted immigrants to the country, notably Huguenots and Jews. But perhaps the greatest benefit of neutrality is that the Swiss economy

Marginal effective tax rate (including social security)

Switzerland	16%
USA	24%
Japan	26%
Germany	35%
France	35%

Source: KPMG

Since the promise of money began: Bretton Woods until now

Swiss Franc vs. currency, January 1973–July 2012	% change	% change p.a.
USA	282%	3.5%
United Kingdom	477%	4.6%
Germany (DM/euro)	90%	1.7%
Italy (ITL/euro)	927%	6.2%
Norway	250%	3.3%
Brazil	224 x 10 ¹² %	107.4%
Mexico	354 x 10 ³⁹ %	23.3%
South Africa	3,628%	9.7%
Indonesia	7,431%	11.7%

An investor who chose to hold their wealth in cash denominated in Swiss francs since the breakdown of the Bretton Woods system in 1972 would have gained (or lost) wealth as per this analysis. The results are also a proxy for the relative discipline of a country's central banking policies.
Source: Swiss National Bank, World Bank WDI indicators and author's calculations

has again and again been spared the devastation of war. It also demonstrated to Swiss manufacturers the advantage of being reliable suppliers while their competitors faced the shortages and interruptions incidental to war. And since a consequence of war is often high inflation, Switzerland has acted as a kind of 'piggy-bank' for the wealthy of many countries seeking to preserve the value of their capital. In 1894 one Italian lira was worth one Swiss franc, but in 2002 – after Italy had fought in two world wars – you needed more than 1,000 lira to buy one Swiss franc, just before the lira was replaced by the euro. In 1970 \$1 was worth about SFr4; it is now worth only SFr0.9, or 75% less.

Switzerland's notorious 'bank secrecy' ironically originated as a legitimate means of protecting asylum seekers like the Huguenots and Jews, who brought with them what wealth they had and often faced the dual risks of persecution and confiscation. Others soon discovered that this veil of secrecy (and protection) could be effectively used for 'sensitive' transactions and hiding wealth from governments. Today, bank secrecy is under threat and apparently no longer as important to the world's wealthy anyway, but Switzerland's respect for privacy has probably contributed to its recent rise as a global centre for trade in raw materials and its status as a preferred place to live for those with great wealth.

Switzerland may be neutral but it is not pacifist. It has one of the largest citizen militias in the world. Although

it has never been engaged in any hostilities, the Swiss Army has nevertheless played an important role in the country's culture; serving as a national melting-pot; as a builder of networks and as a prep school for company executives. Thanks to obligatory military service, much of the male population gets to know other language areas and other strata of society to the benefit of the country's internal cohesion. Military service also had an egalitarian impact, to the extent that, in Switzerland – unlike many other countries – the officer corps is not trained separately from other ranks. Fritz Gerber, the former chairman of Roche and Zurich Insurance, and a colonel in the Swiss military, says that in the Swiss military a lawyer or doctor can find himself reporting to a plumber. Until recently, officer rank was virtually a 'must' for anyone wanting to take up a managerial position in civilian life. Thus, through the army, the country's ruling elite was able to weave a close-knit fabric of relationships, based and nurtured to a considerable extent on merit rather than background. People knew each other well, having bivouacked together on an icy mountain crag while on army manoeuvres. They thought in similar ways, and followed the same patterns of decision-making and management – military, commercial, and civilian experience of leadership complemented each other.¹

Tradition and evolution

These are some of the formative and sustaining forces behind Switzerland's huge industrial base and stable political institutions. Some are no longer what they were – the profile of immigrants has shifted from those seeking political refuge to those seeking better jobs, and military training no longer seems an adequate or even appropriate background for global corporate executives. And, of course, we should not forget how often the success of a company rests on chance – on a crucial discovery, on the right person in the right place at the right time or on a favourable opportunity and the ability and will to seize it.

The process of forming businesses has also evolved. In the late 18th and early 19th centuries, it was all about resourceful entrepreneurs discovering, developing or exploiting new products and markets. As machinery and production methods became more expensive, capital was required, leading to more external financing via banks or non-operating shareholders. Power began to shift from owner operators and their labour forces to capitalists. Wealth was soon inherited and families became dynasties. Heirs often distanced themselves from operations and comfortably collected their dividends or frittered away their fortunes. Management became more mercenary and ownership more anonymous. The pendulum of power shifted from remote and increasingly short-sighted shareholders to fiduciary appointed and similarly short-sighted managers.

To describe the emergence of different forms of corporate structure over two centuries as an evolution is, of course, an oversimplification. Prominent examples of the older structural forms continue to appear. Daniel Borel of Logitech, Andy Rihs of Phonak and Hansjörg Wyss of Synthes have been