

Retention period
Friday, 2. September 2005
11.00 Uhr



Check Against Delivery

Tag der Wirtschaft
2. September, 2005, Zürich

“Standort Schweiz – Standort Welt” - Switzerland’s opportunities in local and global business

Jürgen Dormann, Chairman of the Board of ABB

Ladies and gentlemen,

Thank you very much for inviting me to your annual conference. It is a particular distinction for a non-Swiss to have the opportunity to talk to you here. At the same time, I represent a Swiss company, ABB, as Chairman of the Board of Directors. I also consider your invitation today a token of your recognition of our achievements at ABB in the last two to three years. And of course I am also particularly pleased for the current management team and staff of ABB.

Ladies and gentlemen

In the course of my 40-year career in industry I have had the opportunity to become closely acquainted with conditions in various countries: in Germany, of course, but also in the USA, in France and over the past years here in Switzerland as well. While on the management team of ABB I felt like a Swiss CEO, and I can tell you that I have always felt very much at home in your country, in both the professional and the personal sphere, despite the considerable problems and pressures. To a certain extent, I have become an insider – with the experience of an outsider.

A review of your country as an outsider, comparing it with other countries and regions, delivers top marks in all of the most important categories: infrastructure, political and economic stability, employment, education, research and development, prosperity and quality of life through to the beautifully tended and impressive countryside –where else in the world do you find such a high standard?

When more than 50 out of 100 companies looking to relocate to or within Europe decide to make their base in Switzerland, I think that speaks for itself. Other countries boast comparable rates of taxation. The total package is the decisive factor. That represents a major opportunity and a valuable asset for a business location. Switzerland is a clear winner among international free markets – and that includes capital flows and international trade, too.

When you consider how many millions of people all over the world dream of the kind of conditions that prevail here, knowing that they will never in their lives be able to

achieve them; but hoping that their children or grandchildren might reach that level, then it is a great challenge for Switzerland as a business location – Standort Schweiz – and for the Western industrialized countries in general. Because these people work hard to improve their circumstances, they take on a lot that the typical Western European nowadays would hesitate to do, they press forward on education, into markets, as soon as they get the opportunity.

At any event, these people - who are hungry for prosperity - will not leave our idyll undisturbed, and will not allow us to stand still. They are forcing us into competition. And I think that is only fair in a free world; it is in accordance with the principles of a free market economy. We have to face up to this competition.

That leads to a conflicting situation:

when you listen to complaints by Swiss people about conditions in their country, you are inclined to think: like so many things in Switzerland, the complaints are at a very high level. In actual fact, things are going very well here.

However, ladies and gentlemen, that does not mean the complaints are unwarranted. We cannot make maintaining the status quo our main goal; in an open and networked world that is neither possible nor desirable. But if you stand still, you risk getting left behind. The point at issue has to be the development thrust and the dynamic of the country as a business location and – I am talking now more as an insider – in this area there is considerable potential for improvement and it needs to be tapped speedily and decisively.

First of all, let us consider the symptoms:

To start with, sluggish growth is cited repeatedly – it is mentioned at this conference every year, too. We need increasing productivity – and fortunately we are achieving it – to maintain our competitive positions. However, higher productivity has to be accompanied by growth in order to avoid job losses.

At this point it should be stated that Switzerland is holding its ground, but of course it cannot escape the general Western European trend. Germany, for example, is by far the most important export market for Switzerland. We are talking about a European problem here.

With growth rates somewhere between one and two percent per annum, Europe is continuing to lose market shares to the USA, and particularly to the big Asian economies.

China's economy grew by 9.5 percent in the first six months of 2005; industrial production by more than 16 percent. If this widening gap in the growth dynamic is not closed, China will have a higher share of global production than Europe in just a few years' time.

In their most recent reports on the euro zone, the OECD and the European Central Bank assume a continuation of the poor economic conditions. And what is more: the growth potential will decline in the medium term, partly due to demographic shrinkage.

The growth problem includes – in a fatal mutual interaction – investment fatigue, a phenomenon that has been increasingly in evidence recently. Investments are our strongest and best commitment to a business location. However, investors do not place their money where no growth opportunities are seen. But where there is no investment, there is no growth.

Interest rates are at an all-time low. Funds are available and plentiful. As far as financing is concerned, “the table is set”, as Otmar Issing of the ECB described it not so long ago. But appetites do not appear to be keen. Why is that?

Despite good, or at least satisfactory profits, chiefly due to export growth, companies in Germany, for instance, have invested little on the domestic front. They have sufficient or under-utilized capacities in their home country. Any visible growth rates relate to foreign investments. Companies are seizing the opportunities of a more favorable growth climate in other regions, and investing in capacities close to the relevant markets.

Foreign direct investments by OECD countries show a net capital outflow for 2004 of over USD 260 billion. Most of the funds went to Asia and Latin America. High growth rates, low production costs and increasing numbers of consumers are attracting foreign investors and foreign companies.

Unfortunately, here at home private households are also adopting a negative and wait-and-see attitude. People are being cautious about spending. Accordingly, the economy lacks the stimulus of domestic demand and so the downward spiral continues.

In my view, the frequently voiced argument that all that is needed in this situation is to increase salaries to boost domestic demand and thus trigger a new upward spiral, is an archaic way of economic thinking. Such proposals entirely miss the reality of global competition.

Every additional cost burden is a thorn in the flesh of companies in the present competitive situation for one thing, and in addition much too little of the wage increases stay in the domestic market, they do not provide the leverage to achieve the necessary turnaround.

Ladies and gentlemen,

Where then will we find the leverage to put us back on the track of stronger growth?

In terms of economic policy, we can pull – to stick with the same metaphor – a whole array of levers to put us back on the growth track. The Chairman of *economiesuisse* has just discussed the current catalogue of essential structural reforms and economic policy measures.

A lot of this catalogue reads the same in the countries of the old EU. However, in most cases the problems there are far greater and far more pressing than in Switzerland; take the situations in Germany and France, for example:

- Government is withdrawing, there is more individual responsibility on the part of the citizen
- Budgets are being consolidated, the total burden on individuals and businesses is being reduced
- Protectionism and subsidies are being cut back, instead, there is more free market competition

These, in a nutshell, are the economic measures that should be constantly reinforced, and that point towards growth and general prosperity.

But, ladies and gentlemen,

Are such reforms sufficient, and are demands on the political sphere enough to bring about economic recovery? Will this lead to a much needed “jolt” passing through the country? I feel that reforms that move towards more of a free market economy are necessary and need to be implemented, but in today’s world they alone will not solve the problem.

The challenges facing us in the world market are of a very different nature. We have to address them with more than repairs to the existing system. To illustrate the scale of the problem, I should like to use the example of China, partly because we have relevant experience there through ABB.

At the latest since China joined the World Trade Organization, or since its recent announcement of a more flexible monetary policy, it has become evident that market mechanisms are becoming increasingly established in the country. At the same time, the continuing close and rigid relationships between politics, government and industry are being used to build strategic positions in the world market. High trade surpluses with the USA (USD 162 billion last year) and currency reserves of USD 700 billion provide the financial scope.

Thus, China has started a targeted policy of obtaining access to sources of raw materials and to the necessary transportation capacities. Consider, for example, the attempt by the Chinese to acquire Unocal, the ninth largest US number energy group, to secure access to sources of gas and oil chiefly in Asia – although that endeavor failed due to dubious measures on the American side.

We are on the threshold of a new and expansive strategy on the part of the Chinese economy. This strategy is aimed at globally established brands and to securing direct access to industrial customers and end consumers all over the world.

China is already the world’s third largest PC manufacturer, following the take-over of IBM’s PC division by the Chinese Lenovo group. Another example in consumer goods is the Whirlpool brand.

And, finally, the Chinese are very interested in acquiring companies with a high level of technological competence – of which there are quite a few in Switzerland.

Behind these moves is a second discernable offensive in these up-and-coming nations: the drive for qualitative growth. This offensive is also clear in their rapidly increasing efforts and investments in the areas of education, science and research.

The number of university graduates in China is currently around three million per year. More than 500 colleges have been founded in China in the past few years; that means the number of graduates will continue to grow quickly in both absolute and relative terms. In 2004, the government set up a scheme to train 500,000 highly qualified technicians in three years, primarily for industrial production, in anticipation of continued major expansion in this sector. We envisage no problems at ABB, for example, in covering our demand for skilled workers from local sources.

China has tripled its research expenditure in the last five years. It is expected that China's research efforts – measured as the share of economic output spent on research – will outstrip those of the European Union in five years' time.

India produces more science graduates than Europe. The quality of its research and development work is improving rapidly, it is moving in the direction of innovative research. European companies are considering expanding or setting up research facilities in China or India. At the same time, local competitors are becoming established.

Ladies and gentlemen,

So far the issue has been competition between production locations. We are now being affected by competition between development locations. And it will not be long before competition between research locations is in full swing. That means that Western Europe's last domain, our sole source of global competitive advantage, will be up for grabs maybe within five, and undoubtedly within ten years.

Is this reason for pessimism? I do not think so; on the contrary, this development presents us with major opportunities. However, we have to accept that strong new players will be entering the stage. We have to take advantage of our opportunities in trading and cooperating with these partners.

Ladies and gentlemen,

To do this successfully in the long term, I think we need to make intensive efforts in three areas:

- We should be more aware of our strengths and concentrate on them with all our powers.
- We should promote free-market, entrepreneurial action, particularly at the interface between science and industry.
- And we, as the business community, should demonstrate more public leadership – including moral leadership – and thus offer direction and prospects.

To return to the first point: what are our strengths? In Switzerland, we have a unique economic infrastructure. That is the combination of innovative, globally successful

large companies with a network of many specialized, highly competent small and medium-sized enterprises. This produces a rich mixture of opportunities, experiences and employee skills, brought together in finely-meshed value adding and supply relationships.

This network is embedded in an outstanding general infrastructure, from the education system, traffic and transportation, communication and administration to political and social stability. These standards are a long way from being reached in other regions of our planet, and are very difficult to build up. They give us the opportunity to offer tailored solutions in the segment of technologically sophisticated production and high-quality services, to respond rapidly, and to be sound and reliable business partners.

The global activities of the large Swiss companies, which generate 90 percent of their revenues abroad and also have to invest abroad, close to the markets, to protect and expand their business, have positive effects on small and medium-size enterprises in Switzerland.

They contribute to employment protection and to growth here at home, and at the same time they pave the way for an increasing number of SMEs to enter the global market as well.

This symbiotic relationship between global conglomerates and domestic specialists must be further expanded and developed as a characteristic Swiss strength.

Secondly: the link between science and industry. The performance of Swiss universities and scientific institutes is very good. This is also confirmed by the latest international comparative studies. The impression is that the accumulation of knowledge and innovativeness is far in excess of the absorptive powers of the economy of Switzerland, which has only seven million inhabitants.

Nevertheless, improvements are needed. The efforts of the Swiss Federal Institute of Technology in Zurich and Lausanne point in the right direction. The scientific community, too, needs to network with the top universities worldwide. This applies in particular to important future-oriented areas such as energy, the climate and the environment, viruses, gene and biotechnology, and nanotechnology.

Another thing I feel could be done better is increasing the focus of scientific work on projects leading to economically competitive innovations. In other words, application-related research and development.

That is, of course, a difficult balancing act. I am aware that creativity thrives best when it can develop freely and is not tied "a priori" to a specific purpose. I would not like to advocate restrictions on scientific freedom. Rather, I would like to see the creative spark making the leap from the laboratory to the business idea more frequently and more quickly.

I think we can promote this through closer co-operation between institutes, universities and industry as early as the project design stage, also involving small and medium-sized enterprises. More public private partnerships, more varied forms of

collaboration and shared financing of research projects should also be put in place. We have a great deal of experience with this at ABB, in our research centre in Dättwil alone we are pursuing projects with more than 20 universities, including the Swiss Federal Institute of Technology in Zurich and universities outside Switzerland.

Another good idea is cross-cantonal centers of expertise. For instance, Alexander Zehnder, Chairman of the Council of the Swiss Federal Institute of Technology, recently proposed an energy-related center of expertise.

And finally, more teams should be encouraged to translate their scientific work into economic results by starting up new businesses. What could motivate them to do so?

- Better acceptance of talented people moving from science to industry and back
- Tailored financing models
- Rapid approval and administrative processes
- Organizational and infrastructural support, for example by setting up technology parks or a campus for start-ups

All these elements can stimulate and facilitate the creation of new businesses.

We should create a climate that rewards risk-taking and commitment. This would also strengthen Switzerland's SME structure. Entrepreneurial courage to take risks should, in my opinion, be particularly acknowledged. Even if failures occur, these should not be considered a blow to the individual's honor.

Ladies and gentlemen,

Finally, we come to the third point, which can be no more than a call to action: The public image of entrepreneurs and managers. This is a decisive factor for the amount of trust society places in industry. And I think that psychological criteria such as the trust and confidence of the individual in general economic developments should not be underestimated. The will to achieve, as well as consumer behavior and investor behavior depend on this confidence. Confidence in your own power and performance capabilities are also a precondition for facing up positively to open competition, and not taking refuge in a fortress mentality and xenophobia.

In my estimation, confidence is lacking. I would not call the situation in Switzerland a crisis of confidence – in contrast to Germany, for example. In comparison with Germany's problems, I feel the situation in Switzerland can be relatively easily mastered.

The contribution that the industry leaders among you can make here is to demonstrate that same leadership in public. Experience, knowledge, professional competence, a wealth of all these qualities is available, and Swiss companies are managed very successfully. However, from the political point of view, I do not think that is enough. Motivation and confidence depend crucially on active, credible public communication by entrepreneurs and managers alike – internally within your businesses, but also externally vis-à-vis the public at large.

At ABB, we found out to our cost how quickly a large and well-respected company can reach the edge of a precipice. Today, the company is back on track, down-sized, but with a clear strategy and a new management team. Overall, good growth opportunities are emerging. First and foremost, the rescue of ABB demanded rigorous strategic, financial and personnel decisions. However, later on it became more important to motivate insecure executives and employees, to win confidence internally and externally.

We succeeded in doing that mainly through open and intensive communication not only about the seriousness of the situation, but also about ways out of the crisis, and by conveying confidence and self-assurance in a large number of personal interviews, e-mails and what we called "Friday letters", in which I was able to inform all ABB staff about the relevant topics on a weekly basis. At the same time, employees had the opportunity to send me their questions directly by e-mail and to give feedback.

One way of ensuring the credibility of a tough savings program was to get rid of privileges, from the company jet and armored limousines to the separate executive dining-room; now, members of the executive committee go to the general canteen like everyone else. These were essentially symbolic acts that demonstrated the change in management style.

Credibility, efficiency, and solidarity in the Board of Directors, combined with the commitment of the corporate management team, were very important. Whoever stakes their reputation and personal future on the company will convey confidence, and others will follow that person's lead.

Ladies and gentlemen,
ABB is an extreme example, but for that very reason it is a very good demonstration of the importance of openness and transparency – coupled with clearly assigned responsibilities – in strengthening motivation and confidence.

I feel lessons can be learned from this case that can benefit the discussion of Switzerland as a business location.

If you sense a "bad atmosphere" and loss of confidence in the economic performance capabilities of Switzerland or of its business managers, you should counter it with intensive communication. In my view, there is no reason to be pessimistic about Switzerland. All those of us with management responsibilities, whether in industry, politics, science or the media, should seize every opportunity for dialogue, in order to emphasize the strengths of Standort Schweiz and its opportunities for the future.

Many thanks.