

UBS Outlook Switzerland

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Focus on employees

Survey on innovation capability and labor shortage



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Editorial



Daniel Kalt
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Dear Reader,

Switzerland ranks as one of the world's most innovative countries, thanks to its outstanding companies that are extremely successful on the international stage. Although Swiss companies are not particularly favored in terms of natural resources, their inventive talent and focus on specific product and service niches have seen them achieve remarkable successes even beyond national frontiers; some have even risen to the ranks of "global" champions and are making their mark in the corresponding sectors worldwide with their product innovations. Measured in terms of its population, Switzerland probably has more companies with an international presence than most other countries.

We know that inventive talent and innovation, with a clear emphasis on client requirements, requires imaginative minds. We have therefore devoted our latest survey of around 2,500 Swiss companies to this topic, where we also took a closer look at the link to one of the greatest challenges they are up against: the widespread lack of skilled professionals. The results attracted our attention. Even though the pandemic, energy crisis, and supply chain bottlenecks have hardly impacted the innovation of Swiss

companies so far, and may have even strengthened them, it is evident from the responses that the lack of suitable employees with the corresponding know-how will probably compromise their innovation capability in the future. A company with latent understaffing and an overburdened workforce simply does not have the scope and energy to implement changes, improvements, and new ideas. Because the respondents believe that immigration will not compensate for the shortage of manpower over the longer term, many companies are looking for ways to make better use of existing domestic labor potential. With regard to the specific measures and directions, our survey results in turn reveal striking differences between the sectors and company types.

I hope you enjoy reading this issue!

A handwritten signature in black ink, appearing to read 'D. Kalt', written in a cursive style.

Focus on employees

Swiss companies are considered highly innovative by international standards. They have improved this ability in recent years and want to reinforce it further with additional training for their employees. At the same time, the companies are aware of the labor shortage that puts employees under pressure and therefore also jeopardizes innovation capability. The companies want to counter this labor shortage by retaining older employees for longer and creating an environment that motivates part-time workers to increase their workload.

Alessandro Bee, Florian Germanier

Over the past three years, as elsewhere in the world, Swiss companies have focused on their response to the global pandemic. This was followed by supply bottlenecks and more recently with concerns about energy security. Although not all these challenges have been overcome yet, they have become much less important. This has opened up space to tackle other important long-term challenges, such as companies' ability to innovate and the country's imminent labor shortage.

Employees are the most important resource of every company. Based on the UBS Compensation Survey of fall 2022, the majority of the 300 participating companies reported difficulties in filling vacancies. Because the baby boomer generation will be retiring in this decade, the labor shortage situation is likely to deteriorate further.

Innovation is key for companies in a high-wage country that is lacking in raw materials and finds itself in an increasingly competitive global environment. These companies are considered to have a high level of innovation

capability relative to their international peers. Switzerland topped the Global Innovation Index in 2022 for the 12th time in a row. Innovation capability is often linked to research and development (R&D) in large industrial companies, particularly in the pharmaceutical sector, which counts for more than one third of R&D expenditure in Switzerland. A new representative survey of 2,500 companies, which we conducted along with market research institute Intervista in March 2023, looks at the innovation capability of the Swiss corporate landscape as a whole.

61% of the companies surveyed are micro-enterprises with up to 10 employees. The rest is made up of small companies (up to 50 employees), which account for 25%, medium-sized companies (up to 250 employees) for 10% and large companies (more than 250 employees) for 4%. 12% of the companies operate in the industrial sector, 9% in construction and maintenance, and the remaining 79% provide services.

Broad-based focus on innovation

Most companies rank their innovation capability highly. It is an important factor that sets them apart from their competitors, not only for large companies in the pharma or tech sectors but for companies of all sizes and in all sectors. Nine out of 10 large companies and companies in the industrial sector say that innovation capability is important. This compares with eight out of 10 among service providers and small and medium-sized enterprises (SMEs).

Innovations in the products or services offered by the company (product innovation) are by far the most important area across all sectors. However, typical sector differences can be seen in this regard in the other business divisions (Fig. 1). Innovation in the production process is ranked highly in industry, but innovation also plays an important role for service providers in IT and the digital domain.

Improved innovation capability

The innovation capability of Swiss companies has not suffered in the last three challenging years (Fig. 2). Only every 10th SME has said that they feel they have lost ground in innovation against their competitors. In contrast, every third SME has said that they feel they have improved their innovation position relative to their peers.

This was achieved by every second large company, which would have had more access to resources than SMEs in recent years to overcome immediate challenges, such as the pandemic, and to further advance the innovation process.

Innovative potential in going digital

Looking ahead, more than half of the companies see the greatest potential (or the greatest necessity) for innovation in the products and services they offer. Service providers see almost the same potential in IT innovations, which highlights the high priority for modernization in this sector. The service providers also see some potential for innovation in sustainability in the companies.

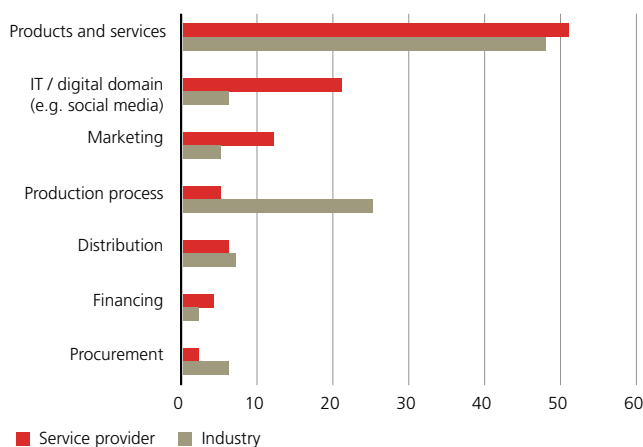
The potential of digital innovation is not as important to industrials as it is to the service providers. Industrials view the potential in the production process as being far greater. The sector recognizes less potential or necessity in the supply of energy and supply chains than with products and in production processes. Concerns about these two sectors

Figure 1

Innovations: Products and services ahead of IT

Question: «In which areas does innovation carry the greatest weight in your company?»; share of companies in the survey sample for which innovation is important

In %; multiple answers possible



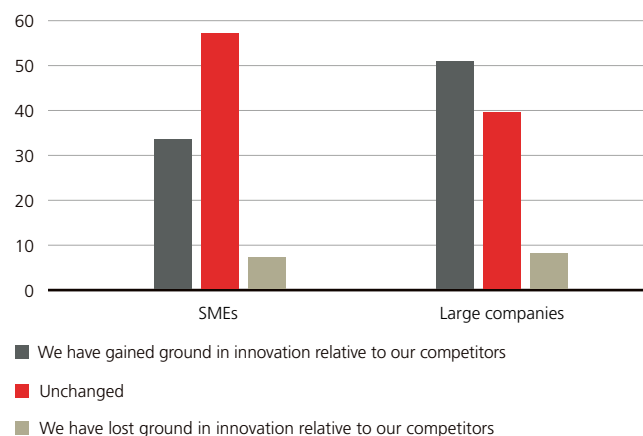
Sources: Intervista, UBS

Figure 2

Companies have gained innovation capability

Question: «In your opinion, how has the innovation capability of the company you work for changed in the last three years?»; share in the sample survey of all companies

In %



Sources: Intervista, UBS

have not yet triggered any great impetus for innovation.

Investing in staff

For more than half of the companies, innovation becomes effective when cooperating with clients (Fig. 3). For service providers, it is by far the most important driver of innovation ahead of cooperating with other companies. This is also true in large parts of industry, where cooperation with clients is mentioned slightly more frequently than in-house R&D or developing innovations in the production process.

First, cooperation is an important factor in innovation capability, with both clients and with companies. 50% of the companies see closer cooperation with other companies as a means of reinforcing the improvement in innovation capability (Fig. 4).

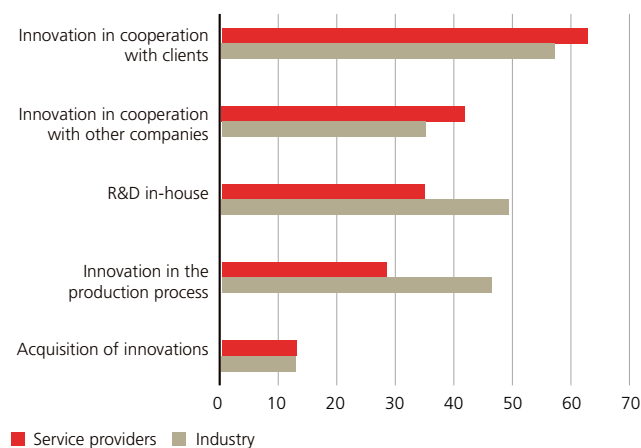
Second, almost two thirds of the companies strengthen their innovation capability by providing employees with training and continuing education. A similar approach is applied to changes in the way in which employees collaborate, such as the trend toward “agile” working. Half of the companies view this as a measure for strengthening innovation.

Traditional measures for strengthening innovation capabilities are quoted less frequently. Only one-third of the companies consider more investment in IT, machinery, or equipment relevant in this respect. The same goes for expenditure on R&D or for purchasing innovation through the acquisition of entire companies. This does not only hold true for service providers. Even if these instruments carry more weight in the industrial sector, they are ranked well behind investing in staff there too.

Figure 3

Clients as innovation drivers

Question: «How does (product) innovation come about in your company?»; share in the sample survey of all companies
In %; multiple answers possible

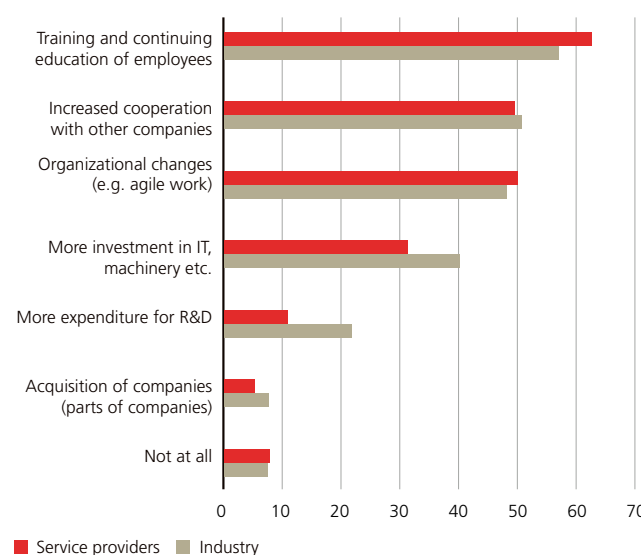


Sources: Intervista, UBS

Figure 4

Focus on employees

Question: «How do you improve the innovation capability in your company?»; share of companies in the sample survey that are strengthening their innovation capability; «Not at all»: Share in the sample survey of all companies
In %; multiple answers possible



Sources: Intervista, UBS

To strengthen innovation capability, a majority of those surveyed want the government to remove administrative requirements and regulations (Fig. 5). Proposals to make investments more attractive from a taxation perspective and to improve the education system were also popular. The latter goes hand in hand with the companies' willingness to reinforce their innovation capability through training and continuing education. However, there was little support for direct government involvement in the innovation process, such as public research or the provision of risk capital.

Labor shortage across the board

The survey of 2,500 companies shows that the Swiss economy is facing a serious shortage of labor. Only one-quarter of those surveyed say they can easily fill vacant positions. A further 22% can only fill positions by making concessions on the necessary qualifications. In more than half the cases, the companies are reporting difficulties or are having no success in filling vacancies (Fig. 6).

The differences between trade (vocational training), academic, or management profiles are minor. The companies find it easier to recruit staff only where no particular qualifications are needed. 40% of the companies say they can easily fill these vacancies. Only 30% find it difficult to fill open positions or are not able to do so at all.

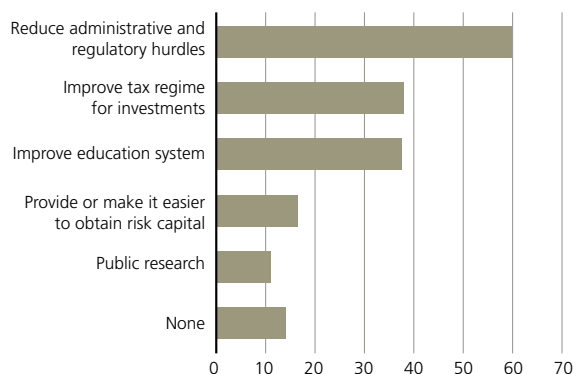
All sectors are experiencing a shortage of labor, with the worst being in construction and catering. The cultural sector is the only sector where labor shortages are not as widespread.

The job profiles in which companies face a labor shortage depend heavily on the sector they are in. Almost half of those surveyed in catering state that they find it difficult to fill vacancies that have no specific qualification requirements. The shortage among tradespeople is most pronounced in industrials and construction.

Figure 5

Companies appreciate an improvement of the education system

Question: «In your opinion, what economic or political framework should the government improve to support your companies' innovation capability?»; share in the sample survey of all companies
In %; multiple answers possible

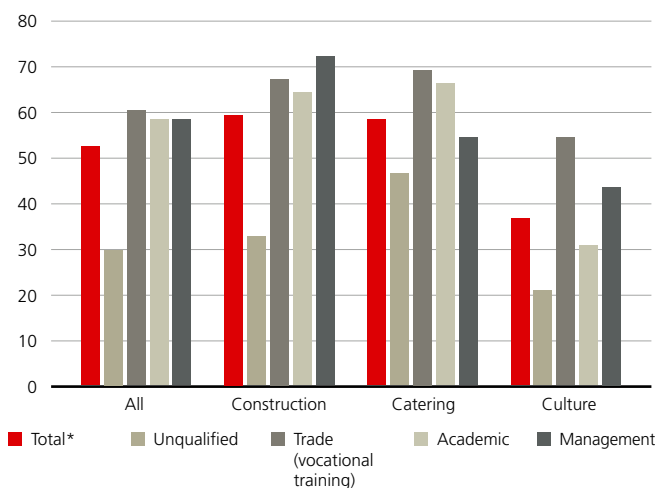


Sources: Intervista, UBS

Figure 6

Labor shortage in nearly all sectors and job profiles

Question: «Is your company currently facing a shortage of workers?»; companies that find it difficult or are unable to fill vacancies in different profiles
As a percentage of all answers



Sources: Intervista, UBS

* The different job profiles are weighted according to how much demand there is for the job profiles at the companies.

Labor shortages at the expense of employees

Of the surveyed SMEs, only every third sees itself as not impacted by the effects of labor shortages (Fig. 7). Only 4% of the large companies are not concerned about the impact. The vast majority of the companies of all sizes and in all sectors that see ramifications due to the labor shortages state that their employees are overworked as a consequence.

The results of this survey will likely raise alarm bells. If the labor shortage continues, work overload will lead to higher costs, not only for the employees themselves and the companies, but for the entire Swiss economy. In a first phase, the employees' mental and physical performance could deteriorate, as could their motivation. This will likely have repercussions on the innovation capability of companies, as they rely primarily on their employees for this. In a second phase, labor force participation could fall, which again reinforces the labor shortage.

Employees cannot sustain excess pressure over a long period of time, also from an economic perspective, and companies will have to consider changing their offering if the shortage persists. Although the survey shows that they are currently not prepared to make compromises to the range of goods or to the quality of the products and services, more companies responded that they are shelving new projects as a result of the labor shortage.

Further escalation feared

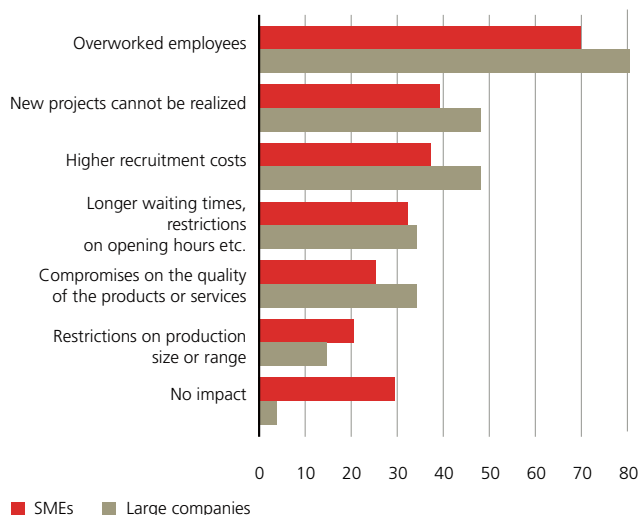
The surveyed companies believe the situation concerning the labor shortage is likely to escalate further (Fig. 8). Almost 40% of the SMEs expect the problem to grow in the coming five to 10 years. Only 16% expect the situation to ease. Even 53% of the large firms believe it will worsen.

The culture (20%) and communication sectors (29%) have relatively few concerns about future recruitment. This might be due to the fact that both sectors have faced structural

Figure 7

Employees suffer under labor shortage

Question: «How does the labor shortage currently impact your company or what impact would it have in the future?»; share in the sample survey that see an impact; «no impact»: Share in the sample survey of all companies
In %; multiple answers possible

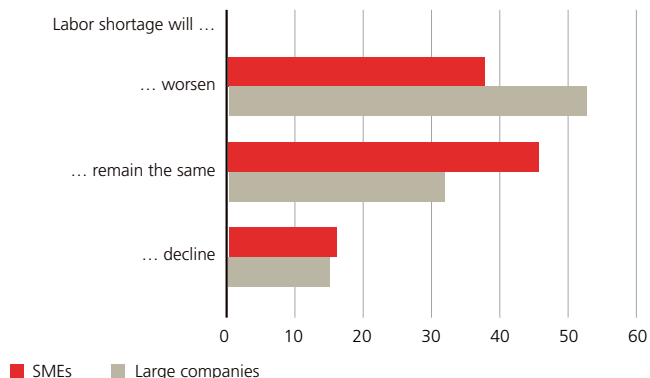


Sources: Intervista, UBS

Figure 8

Workers will become scarce

Question: «Do you expect your company to face a greater or weaker labor shortage in the next five to ten years than it does today?»; share in the sample survey of all companies
In %



Sources: Intervista, UBS

challenges in recent years or suffered under the pandemic, and had little demand for new staff.

Older rather than foreign workers

The main priority for companies taking measures to deal with the labor shortage is to make better use of their own employee base. Nearly half of the companies want to retain older employees for longer and 37% want to offer part-time workers an environment that motivates them to increase their workload. Many companies are focused on enhancing their attractiveness for potential and current employees.

Measures, such as reducing the range (of products or services) and using digital technologies and robotics, are less popular for reducing personnel expenses.

The option of increasing the use of foreign potential was seldom mentioned (15%). The low priority given to recruiting abroad is surprising, given the dominant role it has played on the Swiss labor market in the last two decades. Only 6% of the companies mentioned relocating to regions with a better supply of labor.

There are significant differences between large companies and SMEs. While 25% and 12%, respectively, of the large companies want to step up international recruitment or are considering the option of relocating, the corresponding proportion is only 14% and 6% for SMEs. Alternative digital technologies and robotics are a preferred option for large companies (40%) compared with SMEs (22%). Weighted by company size**, greater use of digitalization and increased immigration play a greater role. Large companies account for only 4% of all companies in the survey sample but employ a third of the entire Swiss workforce. A weighting by company size takes into account the relatively strong influence large companies have on the labor market.

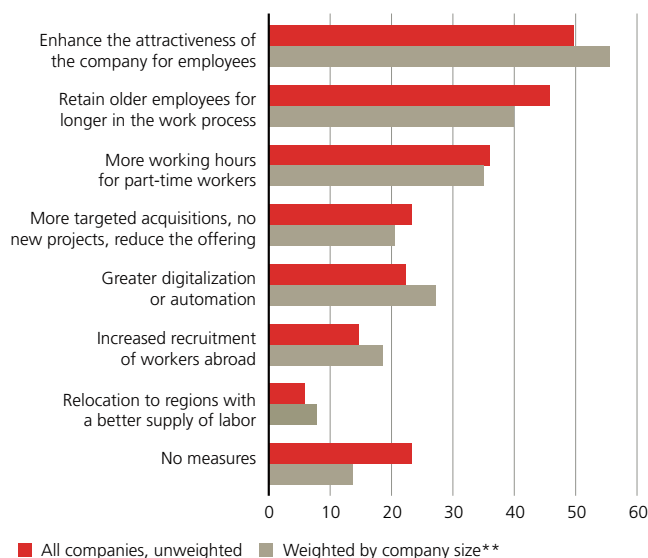
Sector characteristics are also an important factor. In the IT-related finance industry, 41% of the companies are considering stepping up digitalization to address the labor shortage. This compares with only 5% in the labor-intensive catering sector. In the healthcare sector, where part-time work models are very common, 49% of the companies want to encourage part-time workers to increase their workload. The figure is only 18% in the watch industry, which has considerably less part-time employment.

Figure 9

Companies want to commit to older employees

Question: «What measures do you take to counter an existing labor shortage and how are you likely to respond to a future shortage?»; share of companies in the survey sample that are taking measures; «no measures»: Share in the sample survey of all companies

In %; multiple answers possible



Sources: Intervista, UBS

Focus on employees

In summary, swiss companies are considered innovative by international standards and have further improved their innovation capability in the last three years. Employees are central to this success, which is reflected in the priority given to the training and continued education of workers.

However, the difficulties companies have finding staff are often evident in the increased workload of their employees and will likely hamper the companies' innovation capabilities in the long term.

To achieve success in the years ahead, it is essential that companies must not only be in a position to recruit qualified employees. They also have to offer them an attractive environment to retain them as long as possible and motivate them to take on as high a workload as possible. This will maintain or even strengthen the companies' innovation capabilities. The employees take center stage.

** Share of total employment in % – micro enterprises: 26, small companies: 21, medium-sized companies: 20, large companies: 33 (source: SFSO)

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