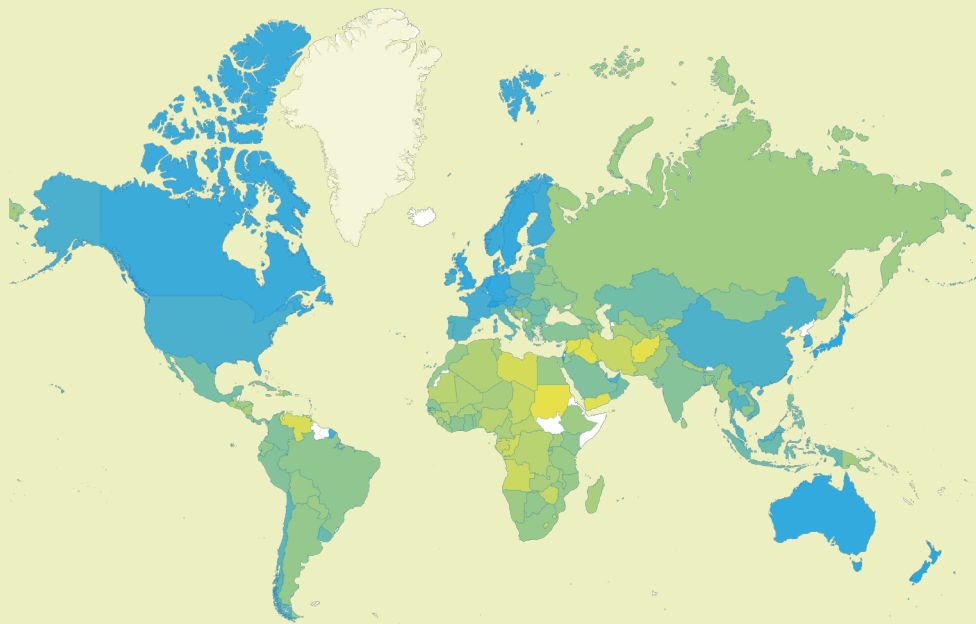


This PDF includes a contribution from the following book:

ELITE QUALITY REPORT 2023

Resilience and vulnerability in the Swiss elite system:
Fostering a Daedalus mentality to prevent another
Icarus moment

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Cite as:

Hilb, M. (2023). Resilience and vulnerability in the Swiss elite system: Fostering a Daedalus mentality to prevent another Icarus moment. In T. Casas-Klett & G. Cozzi. (Eds.), *Elite Quality Report 2023: Country Scores and Global Rankings*. Zurich: Seismo. <https://doi.org/10.33058/seismo.30882.1173>

Published by Seismo Press AG, Zurich and Geneva in partnership with the Foundation for Value Creation.

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Resilience and vulnerability in the Swiss elite system: Fostering a Daedalus mentality to prevent another Icarus moment

The Swiss elite system was shaken in 2023 by the collapse of Credit Suisse, a national financial institution with a rich history and the source of much pride. This is the third such symbolic shock in the last 25 years, following the bankruptcy of Swissair, the national airline, and the urgent government intervention to rescue Union Bank of Switzerland (UBS) in 2008. Not only do the three affected companies share the word 'Switzerland'; in their brand names, but the disasters have demonstrated to everyone that unbridled growth and hubris ultimately lead to failure. This has been commonly referred to as the Icarus syndrome.

Is the EQx2023 top ranking for Switzerland deserved? Do the misadventures of national institutions not show that the business models of Swiss elites have fundamentally failed? At first glance, this might seem to be the case, but the fact that the Swiss system allowed these major companies to fail and then absorbed the shocks with impressive resilience could also be interpreted as a show of strength.

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The question, then, is not so much why the business models of the Swiss elites have failed, but rather why an elite system that has proven to be so resilient overall allowed these disasters to occur in the first place and whether such events could and should be prevented in the future. Or, to reference Greek mythology, how can elites help to foster a Daedalus mentality to prevent another Icarus moment?

The resilience of the Swiss elite system

Allowing institutions to disappear, or, in Schumpeter's words, to "creatively destroy" themselves (Switzerland ranks # 8 globally for Creative Destruction in the Eqx 2023; The figures in parentheses refer to Switzerland's rankings) is a sign of the strength of the elite business system. This can be explained by Indicators in the Political Power Index Areas that point to the highly decentralized and distributed structure of the Swiss system (*Political decentralization*, PDE, i.1, rank # 1; *Administrative decentralization*, ADE, i.1, rank # 1; *Fiscal decentralization*, FDE, iii.8, rank # 1). Where central elites have little power, decisions must be based on consensus and take into account deeply held beliefs of autonomy, freedom, and fairness. As a result, it would be difficult for Swiss elites to find a universally accepted solution to nationalize a failing company, be it a national airline or one of its largest banks, as would be the case in many other national elite systems.

The decentralized Swiss power structure leads to a second advantage that makes the Swiss elite system quite resilient. It simply makes it impossible for the failure of one part to lead to the collapse of the entire system. Rather, the decentralized structure spreads risk and makes the overall system less vulnerable, allowing for a quick recovery.

Finally, this strong sense of self-reliance and self-responsibility is combined with a strict regime of social punishment: Swiss society grants individuals and institutions a high degree of autonomy as long as they act responsibly, but socially sanctions them quickly and harshly when something goes wrong. This self-correcting mechanism proves to be very effective and efficient in normal times, as it drastically reduces transaction costs, such as those associated with legislation, regulation and justice.

The vulnerabilities of the Swiss elite system

The above discussion also highlights a central weakness of the Swiss elite system: the inability and unwillingness to decisively intervene in a timely fashion to avoid disasters.

First of all, one could argue that the system works well in a world dominated by Small and Medium-sized Enterprises (*Family business revenues as percentage of GDP*, FAM, ii.5, rank # 1; *Entrepreneurship*, ENT, ii.6, rank # 1). However, as is shown by the countries dismal ranking of # 143 in the Firm Dominance Pillar, the Swiss system struggles when faced with large companies dominated by investors, managers or clients from other elite systems. This was the case in all three of the above shocks. The ultimate demise of these elite business models was due to uncontrolled international expansion and the adoption of the practices of foreign elite business models that operate on different assumptions.

However, it would be too easy to blame the failure of these Swiss elite business models solely on external influences. The strengths outlined above clearly make the Swiss elite system resilient, but political, business, and knowledge elites must effectively check and balance each other to find solutions that work for everyone. In many cases, this leads to desirable outcomes for all involved (*Ease of challenging regulations*, ECR, i.2, rank # 1) and should not be confused with corruption (*Control of corruption*, COC, i.1, rank # 1). At the same time, such a system makes it more difficult for stakeholders to express their opinions and criticize each other. Moreover, the consensus-oriented culture that posits a heterogeneity of opinions and perspectives as its hallmark makes it difficult to proactively address problems and can lead to a tolerance of intolerable behavior. The voice of Daedalus can easily be ignored and even discredited in such a system. How can this weakness be addressed without compromising the overall strengths of the system?

Serving well a system that serves well

While it is worthwhile to preserve and even promote the proven structural elements of the Swiss elite system, especially the decentralized structure, elite coalitions with relatively low amounts of power, pragmatic problem-solving mechanisms and citizen participation, now is the time for critical self-reflection.

In particular, dissenting opinions should not be seen as insults, but as a positive behavioral approach leading to better outcomes. The transformation towards Value Creation does not require politically correct compromise, but critical consensus.

Every national elite system is served by confrontation and failure from time to time as this allows it to find ways to improve its Value Creation and limit its transfer models. Any failures that can be anticipated and preempted, rather than being experienced the hard way, prevent damage to the credibility of the system. This requires humble elites that are willing to learn and consequently willing to change their value transfer behaviors. Swiss elites have agency and rather than blaming the system they ought to play their part in transforming it so that it serves everyone as well as it is served well by them.

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