How local economic policies shape global business

Research findings illustrate the importance of businesses adapting to currency fluctuations and strategically placing their headquarters.



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As the new U.S. administration's policies go into effect, there is worry about inflationary pressures that could lead to divergent interest rates across developed economies. This could greatly affect firms with an international presence, since a company's home country has a huge impact on its global performance and strategic decisions.

In our research paper, published in the *Journal of International Business Studies*, my co-authors and I found that when multinational companies (MNCs) are headquartered in countries with favorable financial conditions (i.e., low interest rates), they gain an advantage over competitors in countries with less favorable conditions (i.e., higher interest rates). That's largely because companies in the first group will have an easier time accessing funds.

We looked specifically at Swiss-based MNCs in light of the Swiss National Bank's (SNB) unexpected decision to cut interest rates to record-low levels. Our findings — which can be applied across the world — confirm that local economic policies can have powerful effects on the growth and international competitiveness of MNCs. Lower interest rates in Switzerland led to an 8.4% to 9.7% increase in investments and a 6.7% to 9.8% growth in employment for Swiss-based MNCs, compared with their EU-based counterparts. Our findings also illustrate the importance of businesses adapting to currency fluctuations and strategically placing their headquarters.

The Swiss franc shock

In January 2015, the SNB made a bold policy move that sent ripples across the global economy. By removing the euro-Swiss franc exchange rate floor and introducing negative interest rates, the bank created a unique scenario for Swiss-based MNCs. It also served to showcase the pivotal role that domestic financial conditions can play in shaping global business strategies, particularly for employment and investment decisions.

The SNB's new policy had immediate effects: the value of the Swiss franc rose sharply, making Swiss exports more expensive and less competitive in global markets. At the same time, the SNB reduced interest rates to an unprecedented -0.75%, aiming to soften the blow of the currency shock by lowering borrowing costs for businesses.

For Swiss-based MNCs, the results were mixed. On the one hand, the Swiss franc appreciation hurt companies reliant on exports by eroding price competitiveness. But lower interest rates also provided a critical lifeline, enabling these companies to borrow more affordably and offset some of the challenges posed by the stronger franc.

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The Swiss franc shock provides a broader lesson for our current globalized world: that local financial conditions remain a powerful force in shaping the strategies and successes of multinational corporations. While globalization has increased companies' access to international capital, the home advantage in funding costs can still make a significant difference.

Implications for business leaders and policymakers

Our research underscores the importance of firms being attuned to the financial conditions of their home markets. We found that favorable borrowing conditions facilitated the expansion of Swiss-based MNCs, even in the face of adverse currency fluctuations. This adaptability not only preserved jobs but also allowed companies to strengthen their global competitiveness. Companies in less favorable financial environments, however, often needed to adopt alternative strategies, like geographically diversifying their operations.

Our paper also offers critical insights for policymakers. To begin with, the SNB's dual strategy — allowing the franc to appreciate while cutting interest rates — demonstrates how central banks can mitigate the negative impact of policy decisions through complementary actions. Policymakers across the world can learn from this approach, particularly in balancing exchange rate management with interest rate policies to support domestic businesses.

What's more, our research highlights the importance of tailoring financial policies to the specific needs of local labor markets. We found that while lower interest rates fueled an increase in investments and employment for Swiss-based companies, the effect wasn't uniform. While capital-intensive industries and financially constrained firms benefited the most, export-heavy industries faced lingering challenges from reduced competitiveness in global markets. These sectors may require additional support during periods of currency appreciation, such as targeted subsidies or tax breaks to sustain competitiveness.

As businesses and governments navigate an increasingly uncertain economic landscape, the interplay between financial policies and labor markets will remain a crucial area of focus. Understanding these dynamics can help create policies that support job growth, economic resilience and global competitiveness. By examining the Swiss experience, we can gain valuable insights into how to adapt to sudden financial shifts while maintaining long-term stability and growth.

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