CHAPTER 4

Switzerland: Diversity and Diplomacy

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THE CHAIR’S WORK IN CONTEXT

Switzerland began as a loose association of cantons, which became a federal state with its own constitution in 1848. The Swiss confederation has four official languages (German, French, Italian and Romansh) and a system of direct democracy. Swiss citizens elect representatives at the levels of confederation, canton and commune. In 2017 GDP was US$679 billion and population 8.4 million\(^1\)\(^2\) with per capita GDP of Int$65,000,\(^3\) the ninth highest in the world. Switzerland has a highly developed economy but no significant natural resources. The agricultural sector accounts for a mere 0.6% of GDP, industry for 25% and services for almost three-quarters


Switzerland is ranked second in the world on the Human Development Index.\textsuperscript{5} Although a member of the European Free Trade Association, Switzerland is not part of the European Union. In recent decades, the country has become an attractive domicile for international businesses thanks to its politically stable environment, a favourable macroeconomic context, a highly skilled workforce, easy access to financial markets, low corporate taxes, modern infrastructure and a business-friendly regulatory environment.

Switzerland has approximately 600,000 companies.\textsuperscript{6} Despite an impressive number of prominent global corporations such as UBS, Nestlé, Novartis, ABB and Swatch Group, 99.8\% of the total is made up of companies with fewer than 250 employees.\textsuperscript{7} These small and medium enterprises (SMEs) are the backbone of the economy, employing over two-thirds of the workforce\textsuperscript{8} and accounting for 60\% of GDP.\textsuperscript{9} Exports constitute 65\% of GDP.\textsuperscript{10} Key markets are neighbours, Germany, Italy and France, as well as the UK and the US. In 2018, Switzerland topped the Global Innovation Index—an annual research report published by Cornell University, INSEAD and the World Intellectual Property Organization (WIPO)\textsuperscript{11}—with 3.4\% of GDP spent on research and development.

The principal rules of corporate governance in Switzerland are enshrined in company law and provisions are set out in the Swiss Code of Obligations.\textsuperscript{12} As in the US (following the Enron scandal), corporate
catastrophes in Switzerland—such as the liquidity problems of ABB and the collapse of SAirGroup (parent of former Swissair) in 2002—prompted the Swiss government to review and adapt the legal framework to meet international standards.

In addition, two major codes have entered into force:

- A directive on Corporate Governance, released by the Swiss Exchange in 2002 and updated in 2018 (binding)\textsuperscript{13}
- The Swiss Code of Best Practice (SCBP) for Corporate Governance, published by the Swiss Business Federation in 2002 (non-binding).\textsuperscript{14}

Switzerland has a one-tier board system. The shareholders elect members of the board, its chair and members of the committees annually. According to the Swiss Code of Obligations, the board of directors has the non-transferable and inalienable duties of overall management of the company through applying the company’s organizational and financial controls, and appointing, dismissing and supervising executives.

The SCBP describes best practice and makes recommendations that go above and beyond what is required by law. Since its inception, it has had a strong impact on corporate governance in Switzerland. Applying the principle of “comply or explain”, it has been effective in encouraging boards to regulate themselves. According to the SCBP, the board of directors should:

- determine strategic goals, general ways and means to achieve them, and the persons responsible for conducting the company’s business;
- shape the company’s corporate governance and put it into practice;
- ensure in its planning the fundamental harmonization of strategy, risks and finances;
- be guided by the goal of sustainable corporate development.

Although corporate governance law in Switzerland is in many ways similar to that in other European countries, boards of directors operate


there in a specific context of high public engagement and scrutiny. In 2013 a majority of Swiss voters accepted the “Minder Initiative”, aimed at preventing excessive executive remuneration at listed companies. A year later, the Federal Council brought into force the “Ordinance Against Excessive Remuneration at Listed Stock Corporations”, which requires that boards of public companies seek shareholders’ approval for the top executives’ compensation through a binding vote at the annual general assembly. The boards have to ensure that the remuneration of senior executives provides optimal incentives for them and is in tune with the interests of shareholders.

In a country with four official languages, board diversity is another theme that attracts the attention of both the public and the regulators. On the one hand, boards of Swiss companies are among the most internationally diverse in Europe—and this diversity is increasing. At Swiss Market Index (SMI) companies (the top 20 Swiss companies in terms of market capitalization), the percentage of foreigners on boards has increased from 10% 25 years ago to 59% in 2017. On the other hand, only 22% of SMI board seats were held by women and only one SMI board chaired by a woman.

Swiss boards are among the most professional in Europe and have a very high proportion of independent directors: 84% for SMI companies in 2017. Furthermore, the number of SMI companies that conducted an externally facilitated board evaluation has increased from 5% in 2015 to 15% in 2016.\(^{15}\)

Swiss law does not require a separation of the functions of the chair and CEO (except in banks). However, in such cases the Code recommends that the board appoint a senior independent director. In practice, almost all large companies have separate chair and CEO (no company at SMI list has a combined appointment).\(^{16}\)

The Swiss Code defines the chair’s responsibilities as follows:

- To ensure execution of shareholders’ rights
- To organize and conduct effective annual shareholders’ meetings

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• To prepare and conduct board meetings (“ensure that procedures relating to preparatory work, deliberation, passing resolutions and implementation of decisions are carried out properly”)\textsuperscript{17}
• To provide appropriate information to board members

The Code also explicitly stipulates that the chair is entrusted with running the board of directors “in the company’s interests”.

\textbf{Switzerland Culture Map}

Before looking into the specific practices of chairs of Swiss companies, it is relevant to define Swiss culture. Describing Swiss culture in a uniform way would not do justice to the cultural diversity of a country with four linguistic regions: German, French, Italian and, to a lesser extent, Romansh. The three key Swiss regions each border and share a language with large countries possessing rich cultures: Germany and Austria to the north and east, respectively, France to the west and Italy to the south. The people of each Swiss region are influenced by the culture of the neighbours they share a language with, from the books they read at school to the media they consume as adults.

At the same time, there are some values which transcend linguistic and regional differences, and that have become associated with Switzerland. Such values include respect for cultural diversity, a consensus-oriented approach to governing, pragmatism, quality and punctuality.\textsuperscript{18} These common values have been engrained not only through shared experience, but also through the education system, military service and regular language-learning exchanges between people of different regions.

What does this imply for the work of a chair of a Swiss company board? We would hypothesize that the timeliness, quality and reliability associated with the craftsmanship of Swiss watchmaking would also be expected from and by the chairs. We would also expect them to lead in a consensus-seeking, non-hierarchical way. Where neighbouring countries generally


put “principles first”, Swiss pragmatism strikes a balance between honouring principles and recognizing “application needs”. On this basis, chairs will constantly keep their eye on the outcomes and will steer their boards to making actionable decisions. In addition, they will value diversity and will be proficient in managing boards comprising people with different backgrounds (see also Appendix A) (Fig. 4.1).

**Existing Research**

While several empirical studies have been conducted on corporate governance in Switzerland, only a few focus specifically on the role of the chair. One study measures the impact of the age of board chairs on company performance. The authors analyse survey results from over 1500 chairs of private Swiss companies. They show a negative correlation between the age of a board chair and company performance after the former exceeds 19

50 years. These results are specific to the chairs of private companies: in listed Swiss firms, the age of the board chair and profitability appear unconnected. The study claims that this difference between the chairs of listed and unlisted Swiss firms is likely due to weaker corporate governance standards in unlisted firms. This study is consistent with other research, showing that board chairs are “among the most prominent players in a corporation”.

Another study suggests that there is a direct correlation between a chair not renewing his or her mandate and the transition of the CEO to the chair role. In a research paper for which the chairs of international Swiss companies were interviewed, the direct impact of the chair on the culture of the board, and ultimately the company culture, is highlighted. The chairs interviewed as part of the research shared the view that they have a considerable influence on board culture. Open communication, a critical yet constructive discussion culture and an inclusive decision-making process are critical to ensure active and engaged contributions from all members of the board. Through their participation in board meetings, members of the executive committee are also influenced by the board culture. This has a cascading effect on their management and the company culture at large.

DATA

We interviewed nine chairs of companies headquartered in Switzerland. Of these organizations, four are part of the SMI, three are part of the Swiss Performance Index (SPI), one is listed abroad, one is state owned and one is family owned. In four of the listed companies, significant stakes are still held by the founding families with various degrees of voting power. The sectors of the ten companies include financial services, pharmaceuticals, consumer goods, manufacturing, retail and transportation. All but two are significantly involved in international activities, and the majority do most of their business outside Switzerland.


The ages of the chairs interviewed range from 56 to 72. Nationalities include Swiss (seven), Austrian (one), German (one) and British (one), and their educational backgrounds include a mix of economics, business administration and engineering degrees. Only one is a woman. All of the chairs held CEO positions prior to joining boards, and they currently hold an average of 3.8 board mandates. The time dedicated to the chair’s role ranges from 30% to 40% to full time.

In order to get a broader view, we also interviewed three CEOs, three experienced directors and three shareholders. The shareholders (one woman, two men) represented a controlling family, an investment fund and a government-linked company. All non-chair interviewees have served on various boards and worked with several chairs.

**Challenges and Practices**

The INSEAD Global Chair Survey 2015 identified the main challenges for the chairs of international companies, and our interviews were structured accordingly.

**Relationships with Shareholders**

Although our chair-respondents repeated that they owed their duty to the company rather than to shareholders, they devote considerable time and attention to their relationships with the latter. One chair said that he ultimately views the relationship between the board and large shareholders as collaborative: “Don’t look at them as enemies,” he said, “they are your owners and they are your partners.”

When the company they chair has a controlling or anchor shareholder, respondents invested a lot of time in meeting its key representatives—often founders or family members. As one chair put it, “What you absolutely have to do is communicate. This is so important.” Regular meetings ensure that the chair and the influential shareholders stay aligned in terms of company strategy and connected at a personal level. The chairs arrange meetings mindfully and proactively, and acknowledge that they are appreciated by the shareholders, since they give them a sense of control over the strategic direction and ultimately the future of the company.

When a large stake is held by institutional investors, some chairs nurture personal relationships and organize annual roadshows to meet with their representatives and engage them in discussion—often about the governance of the company. While institutional investors do not receive
any substantial information outside the formal notifications sent to all shareholders, they do have the opportunity to engage directly with key company representatives. In the case of a state-owned company, the range of stakeholders increases—from political to union representatives—as does the complexity of stakeholder management. One chair of the state-owned company we spoke to takes a proactive communication approach by organizing regular formal and informal meetings.

Contrary to their relationships with majority shareholders, respondents seldom had personal connections with minority shareholders beyond the annual shareholder meeting. While they took the concerns of minority shareholders seriously and provided investors and the press with written updates, communication with shareholders was handled by the investor relations team or at times the CFO.

For the shareholder-respondent representing a controlling interest in a family business, the long-term view of the chair was of utmost importance. At the same time, he believes that an effective chair meets with shareholders’ representatives on a regular basis to keep them informed about key developments. “The inclusion of an anchor shareholder allows us to focus on long-term value creation rather than react to short-term financial market pressure,” shared one of board members. The same long-term view was also a priority for the representative of the shareholder of a government-controlled financial institution with a public service mandate.

**Recruiting Board Members**

Contrary to many other European countries, board chairs in Switzerland are quite active in recruiting new board members. Our respondents emphasized the importance of vetting directors before putting them forward for election to ensure effective functioning of the board. They invest a lot of time in assessing personality, character, communication skills and cultural fit of future directors, which helps to avoid problems later on.

Collaboration is one of the core national values in Switzerland and it translates directly into chair practices, starting with the selection and induction of new board members. Several chair-respondents mentioned collaboration and openness as key values they expected to see in directors. “Know-it-all” or “know-better” types do not get to join boards. One chair said that an absolute “no go” for him was someone with an overinflated ego. While they sought members who were knowledgeable and experienced, they also wanted directors who would constructively contribute to the work of the board and “play as a team”.

In some instances, “courting” a future director took up to three years, during which time the chair assessed the fit with the company and the board. The values of potential directors are scrutinized to ensure alignment with those of the company. Respondents often mentioned integrity as a key attribute. One said, “We need board members that are team players,” while acknowledging that individual voices had to be heard. He conceded that handling inquisitive and critical board members could be challenging, but still wanted board members to be engaged and speak their minds: “It just needs to happen within certain rules of conduct.”

Facilitating Effective Board Discussions

All of the respondents ensure that board members receive material in a timely manner before meetings. They expect board members to come prepared, having already formed a point of view, and ready to ask questions or raise concerns. Chair-respondents see their role as effective management of the meeting, balancing the tension between sticking to the agenda and keeping within time limits, and giving everyone a chance to speak. Framing the agenda items and staying on topic were essential, yet, as one put it, “One should not be a slave to the agenda.”

The respondents stressed the need to stay humble and refrain at times from intervening, while also making sure all voices are heard: “I listen. I also decide when it is time to decide, but everyone can express himself without fear.” Most share their own views last. Asking questions in a Socratic way, even when one knows the answer, is a good way to solicit other points of view. As one of the directors put it: “I expect the chair to make sure that the opinions of all board members are heard before he/she comes to a conclusion or the board votes on a topic.”

Although consensus-orientation is strong in Swiss boardrooms, voting is not completely absent; some chairs use it as a last resort to make a decision.

All the board members interviewed expect the chair to ensure that relevant challenges are discussed by the board (“For me it is the chair’s responsibility to make sure that the right topics are discussed in the board meetings”—in the words of one director). They see the chair as responsible for setting the regular board agenda and for putting an emphasis on addressing the long-term strategy of the company. They also find it important that the chair help the board reach a consensus in cases of dispute. Two board members believe that chairs increase board effectiveness.
by assigning different board members “special missions”, that is, projects outside of the regular board committee responsibilities.

Chair-respondents indicated that they rarely had to deal with uncooperative or dissident directors. In such cases, they arranged one-on-one meetings to address the issue head on or even asked nonconformist directors to step down from the board.

Board evaluation is not mandatory in Switzerland, but most chair-respondents consider it an effective practice to improve a board’s cohesiveness and productivity, highlight competency gaps and identify directors with the potential to become committee and eventually board chairs. Evaluation generally takes place once a year. Some chairs use external consultants; some prefer to conduct the process privately. Non-chair-respondents emphasized that the ability to conduct a board evaluation is indispensable for chairs and the effective ones make sure every director is engaged and feels free to speak his or her mind.

Beyond board meetings, some board members join field or company visits, which, depending on the location, can be a two-to-three-day trip. These visits are unique opportunities for board members to spend quality time together and get to know each other better, which foster a collaborative spirit.

**Insignificant Time Commitment from Board Members**

Lack of time commitment was not generally identified as a concern by any of our Swiss respondents. In one instance, where a committee chair was clearly struggling to invest the time necessary to perform the additional duties, the respondent recommended changes in the committee’s composition. One mentioned that in a previous role he had asked someone who was not pulling his weight to leave the board (and affirmed that he would do so again if faced with a similar situation). Another evoked the “one chance and you’re out” rule, which he had enforced in the past by asking a board member to step down.

**Diversity in Board Members’ Backgrounds**

Besides the skills and experience that bring complementarity into the board, gender diversity and—particularly for companies operating internationally—cultural diversity are actively sought. The chair of an SME mentioned that his board members actively try to recruit women,
but they had so far been unsuccessful because the women approached already had other offers. Clearly, although the pool of experienced female directors in Switzerland is increasing, it is still small compared to that of men. Hence, the competition for talent is intense.

Several of chairs of multinational companies see diversity primarily through the lens of global operations. In such cases, board composition ideally takes account of the ethnic diversity of the company. At the same time, for companies with a strong Swiss culture, ensuring that the chair and some members of the board are Swiss nationals is seen as critical.

**Informational Asymmetry with the CEO and Management**

There is obviously informational asymmetry between the chair and the CEO, given that the latter is closer to day-to-day operations. Furthermore, an almost full-time chair inevitably has more information than other directors, whose participation is limited to attendance at board or committee meetings. One respondent said, “*When you just come in six times a year, the knowledge you have is limited compared to the chairman.*” In both instances, there is a need for trust and for regular updates. In addition to regular written bulletins from the CEO or the board briefing—sometimes as long as 25 pages—a pre-board-meeting dinner offers a way to mitigate any potential disconnect. This explains why some chairs have moved away from PowerPoint presentations and like to articulate their points of view more personally, leaving less room for interpretation (see also the next section).

**Relationships with the CEO and Management**

Several chairs mentioned mutual respect between the chair and the CEO as a sine qua non of effective leadership. One respondent said that board and management needed to be viewed as “*one team*”: executives and non-executives have their own roles, but “*the aim of what we are doing has to be the same.*” All chair-respondents invested a significant amount of time supporting their CEOs, for whom they served as mentors, supporters or sparring partners. All had been in the role of CEO, mostly in other companies, and thus knew how lonely it can feel at the top. One chair of a large company insisted that in order to be a truly effective chair, you need to know what it is to be in the CEO’s seat but no longer want to sit there. One director mentioned that he expects the chair to be able to develop a
challenging yet constructive relationship with the CEO and foster an open dialogue within the board.

Two chairs had held the CEO post in the company that they were currently chairing. They mentioned that they had to adjust to their new role, particularly the respondent who had formerly combined both positions (CEO and chair). In this dual role, he had to balance a tendency to make decisions with the facilitating and consultative approach required of the chair—not an easy transition, although he felt it was clearly the right way to go. Another went as far as referring to the “unit” formed with his CEO—which he wants people to see—and was confident that this proximity would not blur his judgement. The pair undertakes many international trips together in order to meet staff, potential hires and clients jointly. One chair, who is based in a different country from the CEO, calls the CEO almost every Sunday to touch base.

Trust between the chair and the CEO is put to the test in tough times and crises. One respondent’s number one rule is “no surprises”. He has made a pact with the CEO that any troubling development within the company will be reported to him at once; success stories can wait. Another chair said simply, “I care for him as a CEO but also as a person, and I believe it is mutual.” When asked about their relationships with others in the management team, some said they made a point of meeting with every key executive on a one-to-one basis from time to time. Others did not, preferring to avoid what could be seen as interference in the CEO’s area of responsibility.

On the part of the CEOs interviewed, mutual trust with the chair is important and the foundation of successful cooperation. They expect the chair to be a sparring partner from whom they can get feedback on their ideas. As one of the CEOs put it: “The relationship with the chair has to be a true partnership in the best interest of the company: supporting, inspiring, controlling.” For CEOs, it is also important to have a competent board, which can help him or her, and according to our respondents, it is the chair’s responsibility—and not that of the nomination committee—to ensure that the board is professional, complete and comprised of members with complementary skills and backgrounds.

**Relationships with External Stakeholders**

Most Swiss chairs try to stay away from engaging with external stakeholders beyond the shareholders. However, in situations of crisis or if the CEO
is not available, they have more exposure. In some instances, they do this on purpose to deflect attention from the CEO. One chair is the “face of the company” in its dealings with NGOs, governmental agencies and the public on the specific topic of environment and climate change. However, he insisted that it was important that the chair not step on the CEO’s toes; there needs to be a clear separation of duties. Another was more inwardly focused, preferring “to be seen more in the office than in the newspaper”. The board members interviewed also expect the chair to build good relationships with the various key stakeholders (shareholders, politicians, regulators, etc.).

**Chair Succession**

In Switzerland, the chair, board members and committee chairs are elected directly by the shareholders at the annual meeting. In theory, the nomination committee is responsible for succession planning for the post of chair. In practice, the approach varies depending on the incumbent’s personality, the shareholding structure and other factors. Some of our respondents reported that they had both emergency and long-term succession plans. In an emergency, the vice-chair or a senior independent director takes over until a permanent solution is found. For a long-term solution, some chairs work closely with their nomination committees and even engage external consultants, while others stay away from the process.

Onboarding is an important part of chair succession in Switzerland. It usually takes several months, and the incumbent is very much involved. The induction may include one to ones with the outgoing chair, directors and key executives; company and customer visits; and even coaching sessions with professional providers.

**Summary**

When asked how they would describe the essence of their role, chair-respondents used such terms as “first among equals”, “shepherd”, “conductor”, “trusted advisor”, “link between the board and the CEO”, “servant leader” and “an owner responsible for the well-being of the company”. The discourse they use in describing their work and the practices they espouse emphasize the enabling aspect of their role. Chairs in Switzerland are very diligent with regard to compliance and such technical aspects of board work as frequency and length of meetings, or timely
provision of board materials and their quality. They also pay a lot of attention to board composition, actively selecting and preparing new board members. Other observers seconded this view.

At the same time, personality and previous experience leave their mark on the style of board leaders in Switzerland. Some are more directive than others in managing a board; some focus more on business strategy and others on relationships with the CEO and so on. We found some divergence in our respondents’ views on the need for chairs to have industry expertise. Some felt that it was indispensable, especially in highly regulated sectors, such as finance, where there was a risk of an expert CEO having too strong an influence on the chair and, by extension, the board. However, some of our interviewees were not sector experts and functioned in a very effective manner, by ensuring that specialist knowledge was properly represented on the board.

In the next decade, we predict that the number of CEO-chairs in Switzerland will decrease, but they will not disappear altogether. Most chairs will preside over only one board, committing many hours to it. We also foresee that the diversity in chairs’ backgrounds will increase in terms of gender, age, nationality and professional qualifications. We believe there will be a significantly higher number of female chairs, as currently more than 30% of newly appointed directors in Switzerland are women. Foreigners will continue to represent a significant proportion of chairs in the country, but Swiss nationals will remain a majority. There will be more younger chairs, but the average age will not decrease significantly. The “profession” will continue to require maturity and experience.

In addition, digital and communication technologies will make their presence felt on the boards of Swiss companies, enabling directors to stay connected and reducing information gaps. Chairs will move away from paper to digital board books, while committee meetings will be held via Zoom, Skype and similar technologies. As a result, boards will spend less time discussing historical numbers and more on matters of substance.

We expect that in the next decade board chairs in Switzerland will focus more on the “soft” aspects of their work—board dynamics, quality of discussions and interactions outside the boardroom. Regular board evaluations will become standard practice, not only for listed but also for private companies, and discussions about improving board effectiveness will become routine for directors.

Further specific predictions include the following: board chairs will continue to interact proactively with shareholders, perhaps paying more
attention to equal treatment and other regulatory aspects. Shareholder activism will be on the rise. Delisting will become an increasingly prevalent option for corporate boards.

More generally, corporate governance regulations are likely to tighten, which will require more of the chair’s attention. However, true to its own traditions, Switzerland will remain a country with an emphasis on soft rather than hard regulation.

REFERENCES


