Corporate Governance
Competence Centre

Universität St.Gallen

Press release, 7 November 2019

Short-term profit versus growth that is sustainable in the long term: Why a debate about the role of large companies is necessary

Implenia, Syngenta, Clariant: These are just three of many Swiss corporations that have recently fallen under pressure from investors who demand better financial results – in the short term, no less. But can the meaning and purpose of companies be purely short-term and monetary? How much influence should investors be able to exert for the sake of short-term interest, if they endanger the company's long-term development in the process? And why do we stand and watch this happen? The Corporate Governance Competence Centre of the University of St.Gallen (HSG), led by Prof. Dr. Andreas Binder and chaired by Prof. Winfried Ruigrok, Ph.D. believes there is an urgent need for a debate on this subject.

For some time now there has been a discussion underway worldwide as to the meaning, purpose and future of capitalism. Two opposing positions have formed as a result.

On the one hand, companies must implement forward-looking strategies efficiently and profitably. And when they do so, their shareholders profit from higher share prices. "This financial incentive promotes entrepreneurship and economic innovation; it serves as the very core of modern capitalism and ensures that Switzerland will remain an attractive business location in the future", says Prof. Winfried Ruigrok, Ph.D., Dean of the Executive School of Management, Technology and Law and Professor of International Management at the University of St.Gallen.

On the other hand, the demands of the public have risen. The globally active Swiss corporations are expected to live up to the principle of sustainability; they should be global leaders in innovation; they should offer secure, well-paid jobs; they should be committed to social and societal responsibility, in short: they should simultaneously create value for shareholders, employees, customers, suppliers and the public, and foster their long-term satisfaction and loyalty.

"However, the instruments provided by law and established practice to business leaders are often contrary", says Prof. Dr. Andreas Binder, Director of the Corporate Governance Competence Centre at the Research Institute for International Management (FIM-HSG) of the University of St.Gallen. "The quarterly reporting demanded by investors leads to constant high pressure from these investors, the media and thus the public to achieve short-term successes and rising share prices." If a company's share price development lags behind its peers for a couple of quarters, regularly urgent measures are required to increase the share price, such as the sale of parts of the company, mergers or the return of equity to shareholders in order to increase the return on equity. "If these suggestions are successful, this is often at the long-term expense of the company's innovative strength and thus its sustainable success", says Andreas Binder.

Fundamental change of shareholder structure

Thirty years ago, two-thirds of the shares in major Swiss companies were owned by private individuals and companies. Today the vast majority are held by institutional investors, namely pension funds, insurance companies, mutual funds and hedge funds. Thirty years ago, the majority of those shares were held by Swiss citizens, now the majority is held by foreigners. And thirty years ago, shares were held for several years on average, now they are sold in mere months.

Another new phenomenon are large sovereign wealth funds and other investors from countries that are not open economies and that are based on a different economic system than that of the Western world. These investors have enormous financial resources that enable them to purchase jewels of the Western industrial world on their ever bigger and faster shopping sprees, without these states granting Western companies the reciprocal right to acquire companies in their countries. "Swiss companies are a preferred target of these investors, because it is very easy to acquire a company and its expertise in Switzerland", says Andreas Binder.

Four corporate governance guiding principles as a basic coordinate system
In view of these developments and challenges, the members of the Advisory Board of the Corporate Governance Competence Centre at the HSG – an interdisciplinary team comprised of leading figures from academia and the business world – have formulated four guiding principles to serve as a basic coordinate system for questions regarding corporate governance in public companies (that is, companies whose shares are traded on a stock exchange).

1. **The role of the public company in society**
   Public companies (and larger companies in general) have a *societal responsibility*.
   The societal responsibility consists in striving for macroeconomic value creation and the sustainable and healthy development of the company while respecting generally recognised ecological and social goals. This presupposes that the company over-earns its capital costs.

2. **Bearers of societal responsibility**
   If companies have a societal responsibility, this guideline must apply to *all decision-makers in the company*: board of directors, management, employees and shareholders.
   The board of directors and management are primarily responsible for the performance of this task. Responsible shareholders respect this and provide support.

3. **Investing and innovating**
   The future success of a company – and an economy – depends crucially on the willingness to invest and innovate.

4. **Patient capital**
   Long-term capital is needed to enable investment and innovation.
   Institutional investors and asset managers committed to sustainable investment behaviour should account to the persons to whom they are accountable how they vote and if and why they sell or lend their shares in a takeover situation or another significant event for the company.

The following persons are members of the Advisory Board:
- Andreas Binder, Prof. Dr. iur. et lic. oec., University of St.Gallen (Chair)
- Winfried Ruigrok, Prof., Ph.D., University of St.Gallen
- Peter Gomez, Prof. em. Dr. oec., University of St.Gallen
- Franz Jaeger, Prof. em. Dr. oec., University of St.Gallen
- Peter Forstmoser, Prof. em. Dr. iur., University of Zurich
- David P. Frick, Senior Vice President Nestlé

- Bruno Gehrig, Prof. em. Dr. oec., University of St.Gallen
- Roman Gutzwiller, Dr. iur., member of the World Economic Forum Global Shapers Community
- Bruno Heynen, former Secretary to the Executive Committee and the Board of Directors of Novartis
- Ines Pöschel, attorney-at-law and corporate governance expert
- Katja Roth Pellanda, Dr. iur., Secretary to the Executive Committee of Novartis
- Markus Steiner, Dr. iur., CEO State Street Bank, Zurich
- Gianina Viglino-Caviezel, Dr. oec., member of the World Economic Forum Global Shapers Community
- Rudolf Wehrli, Dr. phil. et Dr. theol., former Chairman of Economiesuisse

The members of the Advisory Board are convinced that a broad socio-political discourse on the subject is necessary and that politicians, business leaders and the public must give fundamental thought to the meaning and purpose of the public company and its role in society. “And because the antimony of shareholder value vs. stakeholder value, which has been celebrated for decades, will not get us any further in this challenging intellectual work, we have been looking for new terms that will lend momentum to the necessary debate”, says Andreas Binder. The Corporate Governance Guiding Principles are meant to serve as the basis for an open and unprejudiced discourse.

In signing the Corporate Governance Guiding Principles, the members of the Advisory Board are expressing their personal opinion, and not that of the organisations to which they belong.

Specific issues
According to Andreas Binder, the Corporate Governance Guiding Principles touch on a multitude of current and specific issues, including the following:

- the creation of legal certainty regarding the possibility of companies issuing loyalty shares to long-term investors (addressed in the ongoing revision of corporation law);
- the possibility of denying shareholders voting rights if they do not personally bear the economic risk associated with the shares (addressed in the ongoing revision of corporation law);
- the creation of a screening and approval authority for Foreign Direct Investments (currently addressed in the Federal Parliament by the Rieder motion);
- how the governance of public companies can be shifted to promote greater sustainability with means outside the scope of law;
- what a liberal corporation and takeover law is (one that contains many mandatory provisions or one that constitutes enabling legislation).

“In the end, it all culminates in the question of what is the purpose of the public company. Today, this question is being addressed all over the world, and we want to make an active contribution to this ongoing discourse”, says Andreas Binder.

- **Guiding principles and basic articles: https://fim.unisg.ch/en/competence-centres/corporate-governance**

Corporate Governance
Competence Centre

Universität St.Gallen

If you have any questions or would like more information, please contact:
Prof. Dr. Andreas Binder, Director of the Corporate Governance Competence Centre at the Research Institute for International Management (FIM-HSG)
Phone: +41 79 431 76 93, andreas.binder@unisg.ch, www.fim.unisg.ch

Corporate Governance Competence Centre
The Corporate Governance Competence Centre at the Research Institute for International Management of the University of St.Gallen (FIM-HSG) aims at contributing to the national and international development of effective corporate governance practices in listed and non-listed companies and state-owned enterprises.
To this end, we work to build a network of leading figures from business circles, academia and politics both nationally and internationally. We are convinced that an interdisciplinary and international approach helps to enhance the corporate governance in many companies and thus serves the broader economy. An effective corporate governance framework is founded as much on soft law, best practice, evaluation, education and improvement as on hard law.