

Corporate Governance Competence Centre at the Research Institute for International Management at the University of St.Gallen

The purpose of the public company – Corporate Governance Guiding Principles

A. The reality of public companies today

Today, public companies worldwide are confronted with new questions and challenges and conflicting interests.

The demands of the public and politicians are clear: the globally active large Swiss companies are expected to live up to the principle of sustainability; they should be, and continue to 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 freely-given loyalty.

At the same time, however, the instruments provided by law and established practice to business leaders to implement this challenging task are contrary. 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.

We are convinced that, in view of this reality, a broad socio-political discourse is necessary, and that the public must give fundamental thought to the meaning and purpose of the public company and its role in society.

And we are convinced that the antinomy of shareholder value vs. stakeholder value, which has been celebrated for decades, will not get us any further in this challenging intellectual work. In order to give the necessary debate a boost, we therefore have been looking for new terms.

Against this background, we have formulated guiding principles that should serve as the basis for an open and unprejudiced discourse.

We base our further ideas and considerations on these guiding principles. We are open to discussion and to refining the guiding principles on the basis of new ideas and developments.

B. Corporate Governance Guiding Principles

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.

Corporate Governance Competence Centre

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