D3 Corporate governance – Solutions

1

a In most enterprises, teams are responsible for reporting on corporate governance. Those in charge of control and command work closely with the finance department, which provides important data, and with the legal department, which is consulted in order to assess risks. The external support of auditors, lawyers or other consultants is also often required.

b Informing and (re-)training employees is associated with significant expenditures in terms of time and financial resources. Especially in large enterprises, it may be difficult to control the effective implementation because the required information can only be gathered with difficulty.

2

a Individual solutions. Suggestion:
Potential stakeholders and conflicting interests:
- Employees (as much free time as possible) – supervisor (greater work effort for the enterprise/team)
- Suppliers (high prices for supplies) – customers (low cost for supplied goods)
- Management (high level of autonomy, little control) – board of directors (influence on operations)
- Doctors (sell more expensive drugs, connection to an insurance company) – patients (buy cheaper drugs, low health insurance premiums)
- Health insurance companies (high deductibles, high premiums) – insured (low deductibles, low premiums)
- Teachers (high learning discipline of students, finished homework) – students (as much free time as possible)
- Etc.

b In a company limited by shares, the shareholders are the principals, while the management (executives, including the CEO) represents the agent. The latter have the task of leading the enterprise in the best interests of the shareholders. This can often lead to conflicts of interest between shareholders (principals) and management (agent), which can then lead to agency losses. To prevent this, Swiss company law provides for a variety of co-determination and control rights that are available to shareholders and fall within the concept of "corporate governance":
- Art. 692 OR: Voting rights in the general assembly
- Art. 696–697 OR: Control rights of the shareholder (insight into the annual report, right to disclosure and inspection)
- Art. 697a OR: Right to initiate a special audit

ISBN 978-3-06-450883-5
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3

Power	Enterprise	Democracy	Association
Legislative	Owner Controlling bodies → General assembly	Parliament → Federal assembly	Association members → General assembly
Executive	Board of directors Management	Government and public administration	Board
Judicial	Financial controlling → Auditors	Courts	Financial controlling → Auditors

Separation of powers between the executive, legislative and judicial branches in a democratic nation distributes governmental power to several independent bodies and is intended to ensure that freedom, equality and justice are ensured and that no person or institution in the nation has too much power.
Separation of powers is reflected in the case of the enterprise where tasks are distributed among the general assembly (shareholders/owners), the board of directors and management (e.g., CEO) and where the board of directors and the auditors monitor the management. For the purposes of checks and balances, just like in the case of a democratic nation, the concentration of power in the enterprise should be counteracted (balanced), in that the bodies of the nation as well as the enterprise are subject to reciprocal controls (checks). The enforcement of the checks-and-balances concept appears to be particularly important in light of the principal-agent theory, which is based on the assumption that actors will seek to maximize their individual utility: Should any one person or institution have sole power, there is a danger that only those interests would be promoted.
In an association, the power is likewise shared. The tasks of the general assembly include making decisions (votes on items of business and the election of the board). The board shall implement these decisions. In financial terms, it is controlled by the auditors.

4

In Germany, the management and supervisory functions are staffed separately (two-tiered system). This means that members of the board are only responsible for the management and executives while members of the governing body are only engaged in control/monitoring.
In Switzerland, the board of directors takes on operational tasks in addition to the control function: Particularly important in this regard is that the board must not delegate its operational tasks to senior management (e.g., a CEO) or to third parties but can take these on itself (which often then case in smaller enterprises).

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5

Justifications for this form of organization:

- As a principal shareholder and director at the same time, Mrs. Reichmuth can best represent her own interests.
- She maintains an overview, because all information flows to her.
- The uncomplicated corporate structure makes high working efficiency possible (no long official channels that could delay decisions).

Dangers:

- Minority shareholders could be disregarded.
- There is no guarantee of adequate oversight.
- Mrs. Reichmuth could put her personal interests above those of the enterprise.
- Family disputes might hinder positive enterprise development.

6

Individual solutions.

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