

Beyond Davos

6th Experts for Leaders Agora 26 August 2019 with R. James Breiding
Round-up

"Wherever many shares are held by many shareholders, everybody's company turns into nobody's business."

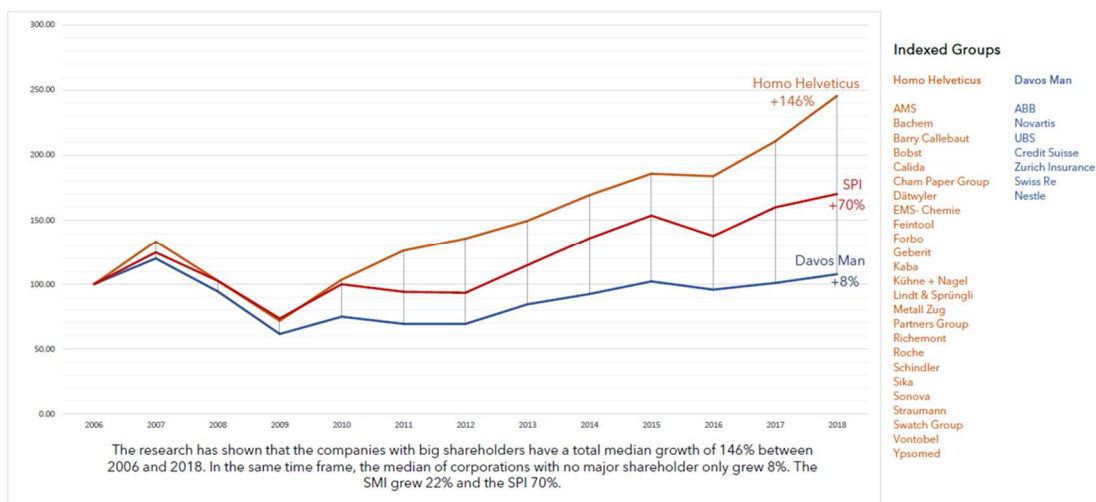
(Andrew Carnegie, 1889)

The lively exchange at the 6th Agora proved that impulse speaker R. James Breiding hit a nerve. His call for a more prominent profile of the "homo helveticus" in corporate Switzerland and for a stronger voice of the competitive smaller states on the international political and economic stage has fallen on fertile ground with the 20 participating leaders from various disciplines.

The case for the "homo helveticus" in business

Over the last decade, value creation by Swiss companies with a substantive, engaged and long term owner adhering to traditional Swiss values ("homo helveticus") have greatly outperformed Swiss multinationals owned by transient, complacent, and often unintentional owners (ETFs) who have tended to pursue an Anglo-saxon management approach (the "Davos men"). Breiding strongly advocated to heed the respective virtues of traditional Swiss entrepreneurship that has, and continues to distinguish the nation's success.¹

Performance Groups Homo Helveticus and Davos Man 2006-2018)



Breiding pointed out that the concentration of multinational companies (MNCs) leading across a variety of sectors is Switzerland's crown jewel. Since this represents such an important part of the Swiss economy (ca. 25%) and constitutes such a strong comparative advantage vs. other nations (ca. 4x density of large nations) it is a treasure worth actively preserving. These MNCs are also important as know-how and talent generators, serving as hubs for clusters of fast growing SME's and Start ups.

¹ See also „Swiss Made – The untold story behind Switzerland's success.“ - <https://www.amazon.com/Swiss-Made-Untold-Switzerland%C2%92s-Success/dp/1846685869>

A point was also made to fight the silent take-over of the large listed Swiss companies by fiduciary investors such as ETFs which have no intention of fulfilling their ownership responsibilities. This “ownership disease” makes this national treasure vulnerable to mismanagement and takeover. The substantial rise in executive pay, and short term orientation of investors, means that management has little incentive to invest for the long term or indeed to undertake bold initiatives.

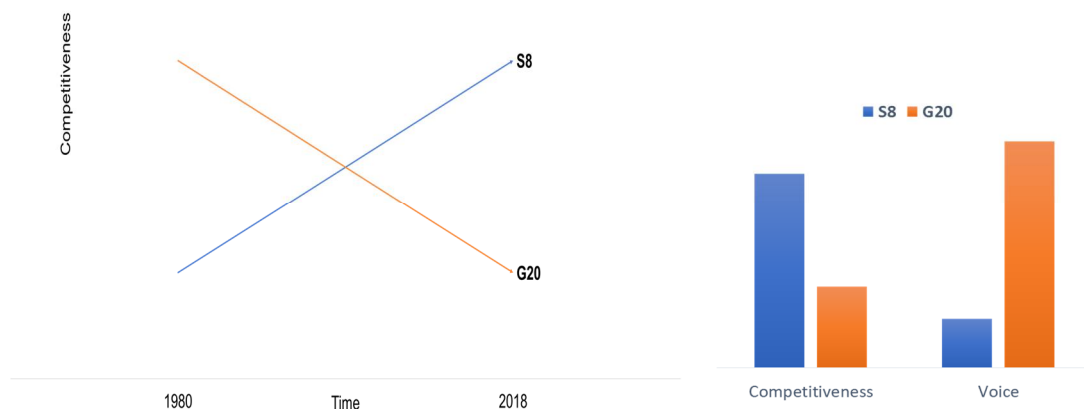
The participants argued as to what extent the proliferation of stakeholders on platforms such as Economiesuisse et al. has rather weakened economic leadership in Switzerland as incumbents lack profile and public trust and issue management is torn up by particularity politics. At the same time, the negative image of the “Davos Men” type of industrial leaders means that even “homo helveticus” type leaders and entrepreneurs with appreciated radiance usually stay clear from any wider public involvement as they focus on running their own business.

Going forward, James Breiding offered some ideas to bring trust back into the public reputation of Swiss economic leadership. He suggested regulatory means requiring investors either to attend the general assembly of shareholders (AGM) and vote their shares responsibly, even if such shares are indirectly owned by an ETF et al. Or, if they cannot or do not wish to attend the AGM, confer their votes to a Swiss Continuation Board, led by renowned and trusted Swiss members of industry, academia and government. This would provide the check and balance intended from ownership on management currently lacking among large Swiss MNC.

A bolder variation in addition, or instead, of this solution could be to launch a Swiss government bond with a life of 50 years at a -1% rate and invest the proceeds in companies that constitute the SPI index yielding a ca. 3% dividend. Such a bond would be subscribed by foreigners and could generate a 4% yield (-1+3%) to be used e.g. to reduce taxes, improve AHV benefits, increase investment in top education. The Swiss Continuation Board would also vote the shares acquired in SPI companies from the bond proceeds. The benefits of the bond issue would be that it (a) creates an ownership stake that can increase accountability (b) generates an attractive and reliable income stream over a very long period of time, and is (c) effectively funded and subsidized by foreigners.

Too small to fail: More voice for small states through the S8 network

James Breiding also made a point that economic power has decoupled from size as small, nimble, innovative nations such as Switzerland are leading the world grappling with a number of challenges facing all of us (social contracts, externalities, prosperity, social cohesion etc.). He also stressed that there is considerable discrepancy between their achievement and voice. While the costs of distance is going down, the cost of social cohesion is going up, creating a very different opportunity set for nations.



Zurich, 28 August 2019

Concluding from his forthcoming book he suggested convening a new annual event called the *S8 'Big Lessons from Small Nations'*, where leaders from each nation would come together and share and learn from each other's experiences.

True leadership is about making not about showing

In conclusion, the 6th Agora reminded the participants of the importance to actively shaping effective ownership and trust in leadership. Freedom to operate comes with responsibility, property with obligation. Switzerland has traditionally well balanced these ingredients that require the right mindset of the people in charge also in the future. The self-image of Swiss business is usually drawn from the many highly competitive SMEs. But they rely to a large extent on the big players in a solidly clustered Swiss economy. Hence, the development in ownership and leadership in the segment of the large and listed Swiss companies is regrettable and needs to be addressed more vigorously to continue to write the Swiss success story.

Kind regards
Experts for Leaders AG

Ralph Siegl
Chairman and Managing Partner

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