Boards and Governance

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Governance Arrangements

As companies moved from single proprietorships into other ownership forms involving families, partners, and at times outside investors, or as they became public companies, governance arrangements started to increase in importance. According to Swiss law, incorporated companies, which all of these companies invariably turned into, require the establishment of a board of directors. Its role and duties are set by the Swiss Code of Obligations,[1] which will not be discussed in the context of this book. However, there are many ways how a board can be tasked to supervise a company. With board members elected by a company's general assembly of all shareholders, the role of that body needs to be examined.

Board Composition at Public Companies

The board composition exerts a major influence, whether or not a company is public and regardless of its shareholder structure. Companies listed on the Swiss Stock Exchange are governed by those regulations and are also subject to the creation of board committees, just like any other large public company. Among the companies researched, this affected **Bachem**, **Medartis**, **u-blox**, **Burckhardt Compression**, **LEM**, and **Komax**. These companies were, in principle, required to select a board of external or internal members, or both. However, the requirement that the audit and compensation committees be composed of independent board members made a number of several external board members mandatory.

- At **Medartis**, founders and majority shareholders Straumann and Miesch were board members, together with five additional external, and independent,

[1]Swiss Code of Obligations No. 716.

J.-P. Jeannet et al., *Masterpieces of Swiss Entrepreneurship*,
https://doi.org/10.1007/978-3-030-65287-6_5

members. Medartis external board members came from a broad range of relevant backgrounds—medical, technical, and investment.

- At **Bachem**, company founder Peter Grogg served as Honorary Chairman; his daughter was also on the board. The other board members were external members with a variety of backgrounds—management, biotech, chemistry, and legal.
- At **Komax**, founder Max Koch, although still the largest shareholder with about 5% of the shares, was not represented on the board, which was composed of six nonexecutive members with divergent backgrounds, including technology, legal, and accounting. The chairman, Beat Kälin, was a former Komax CEO. The company complied with Swiss regulations by maintaining both audit and remuneration committees.
- **LEM**, a public company since 1986, had a board of six nonexecutive members. The company founder, Jean-Pierre Etter, was no longer a member of the board. One of its members represented a large shareholder holding about 50% of the shares. The company had three board committees, including the required audit and compensation committees, plus an additional strategic committee.

> What was important to note for **LEM** was its stable set of shareholders. Two core family shareholders accounted for slightly more than 50 percent of shares. This brought stability to the company and did, as a result, raise the importance of the board chairman interfacing between shareholders and management in terms of monitoring performance.[2]

- **u-blox** started with external shareholders from the outset and went public in 2007, just 10 years after it had been founded. Since the founders and governance accounted for only about 5% of shares, the board structure reflected the requirements of the Swiss exchange. Although all three company founders remained in operational roles at the company, only one of the three founders, plus the CEO, were represented on the board. All the others were nonexecutive members.
- **Burckhardt Compression**, public after the MBO from Sulzer Group, maintained a small board with five members. The board chair, Valentin Vogt, was also a member of the MBO/IPO shareholder pool which still controlled about 18% of shares and thus represented the largest single investor group. The other four members were independent board members. Shares were widely held, but a core group of shareholders did exist.

> With 78 percent of the shares now on free float on the Swiss stock exchange, governance at **Burckhardt Compression** had to reflect requirements of the investor community and stock market regulations. Outside investors, particularly some from the US, were attracted by Swiss companies who maintained a sharp focus in their business and had a clearly articulated business model.
>
> Ownership stability was maintained through a binding contract among the five founding shareholders, controlling about 18 percent of shares following the IPO. Vogt, Chairman of the Board at **Burckhardt Compression**, believed that a public company always required a

[2]Adapted from LEM company profile.

set of core investors who were committed to the long-term. *Particularly US investors like the clear and single-minded business purpose of a company such as Burckhardt Compression* (Vogt, Chairman and CEO).[3]

Board Roles in Family-Owned Companies

In companies with long-term family involvement, sometimes over several generations, the families played more the role of owner than of owner/manager. In the case of **maxon**, the Braun family, in their role as owners, played a dominant role, with Karl-Walter Braun working as the main decision-maker; his two daughters were also shareholders of the firm. Involved in the firm since close to 1975, Braun also had operational roles in the past and continues to stay very close to the business. Braun chaired both the holding company and the operating company.

Along the same vein was governance at **Thermoplan**. The company's board included founder and majority owner Domenic Steiner and his wife, the company CEO Adrian Steiner (no relation to founders), who was able to acquire a 20% stake in the firm and one external member. In the case of **maxon** a long-time former CEO also became a shareholder. However, in both of these two firms, transfer from the founder to the next generation had not yet taken place.

Board composition in firms that had already undergone transitions to later generations of owners naturally became more complex. It was possible to track three of these firms and see how their boards evolved over time, namely **Sefar**, **Caran d'Ache**, and **Plaston**.

In the case of **Sefar**, which had grown to include nine families as owners, board composition and governance had evolved over an extended period, to ensure both stability and, at the same time, include a mechanism to monetize shares if a family member so desired.

At **Sefar** AG, nine families owned between 3 and 20 percent of the company. Each family had one representative on the board irrespective of their ownership share, so that every family had the same level of information and insight into the activities of the company. There were transfer restrictions and shares could only be sold among members of one of the nine families. The tradability of the shares was ensured via an informal 'stock exchange' at a bank. Selected top managers of the company could become shareowners, with their shares reverting to the founding families upon their death. In 2018, less than 10 percent of the company was not family-owned.

Once a year, an event for the members of the owner families was organized so that everybody got to know each other, was inspired and developed an emotional relationship to the firm. Younger family members would consciously be prepared to inherit shares one day. Doing so, Sefar tried to strengthen shareholders' attachment to the company, even if no family member worked directly in the company anymore. In addition, Sefar made sure that there was always an attractive dividend.[4]

[3]Adapted from Burckhardt Compression company profile.

[4]Adapted from Sefar company profile.

At **Caran d'Ache,** with several families also sharing ownership over a long period of time, considerable effort was exerted to awaken and maintain the interest of younger family members and to ease the path toward the next owner generation. This was complicated by the fact that the owning families always played an active role in management.

With the retirement of Jacques Hübscher, Jr., in 1997, as CEO of **Caran d'Ache**, the long reign of three generations of Huebschers as CEO came to an end. For the first time, the company was managed by a CEO without any connection to the three owner families. It proved difficult to find a person who would fit into a family business and still assume the role of CEO. In 2011, Jacques Hübscher, Jr., after serving on the board for 30 years, chose to step down and his daughter Carole Hübscher assumed chairing the board. She had been a board member since 2002, working closely with her father.

Governance at Caran d'Ache rested with the board of directors, with the three owner families as members: two from the Hübscher family and one each from the Reiser and Christin families. In addition, three external board members with relevant experience in finance, innovation and luxury branding complemented the board.

As chairwoman and representing the 4th owner generation, Carole Hübscher felt it was important for the owner families to maintain the passion for the business and not just play the investor roles. She considered private ownership a substantial advantage for the independence of the firm. Financial independence allowed the pursuit of the strategy Caran d'Ache had adopted for decades, which was not to take any shortcuts on quality for the sake of short-term financial gain. To pass the passion for the business on to the next generation, the owner families were already engaging the 5th generation and establishing guidelines, or a charter, on how the next generation could engage while avoiding potential conflicts.[5]

A different path was chosen by **Plaston** where family members were no longer involved in operational management and the board and management were separated.

In 2004, **Plaston** decided to go public and to list its shares on the secondary market. The Frei Family still held over 54% of the shares, with the rest being held by management and a small group of investors. The role of the Board of Directors did not alter much following the death of Hans Frei in 1977. His son Roland then became President of the Board. For the first time, senior, non-family management members joined the Board. Subsequently, the role of management and oversight roles were separated, meaning that Board members were not allowed to hold a management position and vice-versa. In 2013, Roland Frei's son, Jörg, became Chairman of the Plaston Board, thus representing the third generation of the Frei family at the helm of the company.[6]

Board Role in Foundation-Owned Companies

In companies where foundations were part of ownership, the role of the board differed. In the case of **Felchlin**, where the foundation owned the company, management reported periodically to the board. The board function for the company was essentially played by the foundation. At **Jura**, the foundation, established by the

[5]Adapted from Caran d'Ache company profile.

[6]Adapted from Plaston company profile.

founders, owned a substantial stake in the firm next to a few other private owners. These had not changed over many years and appeared to play a more significant role. For **Oetiker Group**, where the board established by founder Oetiker held a noncontrolling stake, some of it placed into a foundation, Thomas Meier-Bickel, CEO and third-generation owner, established a company board that was composed partly of family members and external board members, including the board chair.

> **Jura** was privately owned and did not publish any details on ownership. It was known that Leo Henzirohs and his wife were for a long time the only shareholders in the company. After the fire in 1953, Henzirohs had some of his key staff participated in the share capital. Upon his retirement, the Henzirohs placed the majority of their holdings into a foundation, as they did not have any children. Today, Jura is a closely held corporation with few shareholders, and ownership had not substantially changed over the years. This stability in ownership and governance, combined with Jura's success, had allowed the company to remain financially independent and fund its development from internal resources.[7]

Emergence of Dual Board Structure

The interest of separating ownership from operational management of businesses led several family-dominated companies to introduce a dual board structure. A holding-type board is created to own the key assets of the business, where the influence of the owners is felt most strongly. A second board is created for the main operating business which allows the company to recruit and attract independent board members with relevant expertise in their industry without ownership. Such ownership structures have been observed in the companies **Plaston**, **LNS**, **maxon**, and **Ricola**. We report in more detail below on **Geistlich**, **DC Swiss**, **EAO** and **Felco**.

When the families expand over generations, keeping ownership restricted and respecting everyone's interests becomes a more crucial task. This was particularly important at **Geistlich** where ownership had spread over many family members.

> Over its entire history, **Geistlich** remained a private company owned by Geistlich family members and their descendants. The Geistlich shareholding group was comprised of about 40 family members with a shareholder agreement in place. The group met for a general assembly once per year. Since the retirement of Peter Geistlich, no Geistlich family member had been active in operational management. The boards, for the holding company and for Geistlich Pharma, included Geistlich family members with Geistlich, the prime mover of getting the company into the field of bio regeneration, as chairman. The company owners were committed to a strategy of independence.[8]

At **DC Swiss**, one of the smaller researched companies, the business contained several operating companies, all of them reporting to the board directly. The group had a special structure and a group management. The owner families were no longer involved in the operating business.

[7] Adapted from Jura company profile.

[8] Adapted from Geistlich company profile.

DC Swiss was structured along a two-tiered system with Daniel Charpilloz Holding on top owning all the shares of the operating firms. The main company, owned by the holding, was DC Swiss SA, and that company owned the stakes in the German, Italian, UK and Chinese operation directly. The stakes in Safelock SA, the company with the new type of threading systems and Scorta Srl, the Italian company, were held directly by the Charpilloz Holding firm. The entire group of firms operated under the label DC Swiss Group. However, this was not a legally incorporated firm. DC Swiss SA operating management reported to the board that was comprised of members of the Charpilloz family.[9]

At **EAO**, even though the family remained involved in the operating business through the role of CEO, there was a classical split into two boards, which allowed for the recruitment of external board members with relevant industry experience.

At **EAO** the holding company had only Loosli family members as shareholders. On its board were family representatives, as well as Kurt Loosli in the role of Chairman. For the EAO operating business, Loosli recruited a board of external members who each brought special professional skills to the deliberations. Their experience ranged from a CEO in another company, a CFO elsewhere, one with IT and one with HMI automation experience. Again, it was Loosli who chaired this board: *I tell them, that I am not the son of the founder. I am the CEO* (Loosli, CEO).[10]

The Flisch family, owners of the **Felco** group of companies, used the dual board structure to recruit not only external board members for the operating companies but also non-family CEOs for the operating businesses. The family nonetheless remained very active and involved strategically in the business through the holding company board.

Throughout its history, **Felco** remained a family-owned company. Ownership was in the hands of Félix Flisch's descendants and their families. Félix and Juliette Flisch had one daughter and one son. Flisch managed the company until 1974, when he turned management over to his son-in-law Eric Perrin, who was CEO until 2002, when his son Laurent Perrin took over for the 3rd generation from 1 January 2003 and remained CEO until 30 June 2011, at which time Christophe Nicolet was appointed CEO, after 66 years the first non-family member to head the firm.

Although the Flisch and Perrin families were no longer involved with operative management of Felco, they remained active in the Flisch Holding company which fully owned Felco, and the separate Prétat SA, supplier of the aluminium handlebars for Felco products, and partially owned FELCO Motion. Through membership on the board in the holding company, the Flisch and Perrin families remained actively involved in the strategy of the group and in Felco in particular.

Felco, as an operating company, had its own dedicated board with at least one member of Flisch Holding and external board members. General management of Felco was in the hands of three members, with Christophe Nicolet CEO since 2011.

Since Felco was a privately held company with a family holding as its main shareholder, no financial data were regularly made public. According to Nicolet, its CEO, there was little talk about EBIT at the firm level. The main financial parameter was the re-investment capacity at Felco for new equipment and projects, which was targeted at about CHF 2 million

[9]Adapted from the DC Swiss company profile.

[10]Adapted from EAO company profile.

annually, or about 5 percent of sales. The company did not avail itself of any bank financing or mortgages and was fully financed through the family-owned Flisch Holding.[11]

Board Structures at Investor-Driven Companies

Some companies remained investor or owner-driven largely because the changes in ownership were relatively recent and the acquiring ownership was still in its first generation of managing the company. Different from multi-generational companies, board structures were focused on current owners who also played active roles in management.

Lantal, majority-owned by Urs Rickenbacher and some partners involved in the management of the company, considered private ownership an advantage because it gave the company a strong impetus and motivated partner colleagues. Rickenbacher had acquired the firm from the 3rd generation of the Baumann family and company founders. Lantal was governed by three bodies: management, partners (shareholders) and the board of directors, which consisted mainly of external members not active in the company. When Urs Baumann, aged 70, no longer wanted to serve on the board of directors, he suggested that Rickenbacher, as the main owner and CEO, should succeed him as Chairman of the Board of Directors. However, Rickenbacher declined, because it violated the basic principles of good corporate governance. As CEO, he preferred to be challenged by external members with extensive experience.[12]

Evolving Role of Boards

This review of the documented firms demonstrates a continuous evolution of the role of the board. In most firms, the board had started out as a reflection of ownership. As long as management and ownership were one, and as long as ownership remained active in management, discussions at the board level were largely statutory. The key conversations took place at work, or at the dinner table, as was the case with some of the early founder husband and wife teams.

As the companies grew, and as new generations took over, there was a sense that ownership and management might have to be separated. With the complexity of the business increasing, board expertise began to be in demand. To avoid intermingling ownership with management expertise, companies started to establish separate boards for ownership of the key company assets, such as real estate. That made room for establishing boards at the operating company level to attract external expertise.

Naturally, those firms that became public companies and whose shares were listed on the stock exchange faced new realities with very specific requirements as to how to structure a board. Once the step into public ownership was taken, the board

[11] Adapted from Felco company profile.

[12] Adapted from Lantal company profile.

structures were far less subjected to company choice. Regulations of good practice had to be followed. This applied particularly to companies where original ownership by founders had given way to a shareholder pool that was increasingly dominated by free float.