



Swiss Code of Best Practice 2023: Promoting Sustainable Corporate Governance and Culture

The revised *économiesuisse* Swiss Code of Best Practice for Corporate Governance (the “Code”) incorporates many elements of relevance to today’s companies, even to those for whom the Code does not apply directly. The changes made, effective as of 2023, underline the importance of seeing the link of governance to topics such as **culture, sustainability, and diversity**.

While the Code is primarily targeted at publicly listed firms, it can be understood as evidencing good governance market practices in Switzerland. It also reflects recent legal changes such as those from the reform of the Swiss

Code of Obligations (CO), which took effect on January 1st, 2023. Those changes include, for example, a requirement of balanced representation of the genders on the Board of Directors and Executive Management and for reporting on non-financial matters.

Swiss market practices, of course, are also influenced by larger international developments. For example, the Code’s effort to balance legal, regulatory, and social considerations can also be seen in the UK Corporate Governance Code (last updated in 2018) and the German Corporate Governance Codex (updated annually).

Culture

A key change in the 2023 Code is that it explicitly makes the Board responsible for “shaping” and “promoting” corporate culture. This is a fundamental new emphasis as the word culture was not mentioned in previous versions of the Code (but in other related documentation of *économiesuisse* such as “Corporate Social Responsibility from a Business Perspective”). Additionally, the Board is assigned a rather active involvement here, instead of the usual “oversight”. Notably it is suggested that this relates to good risk management. The specific provisions in this regard are:

- **Culture.** The Board of Directors should promote a culture of entrepreneurialism, long-term thinking, responsibility and integrity and is accountable for the implementation thereof. To this end, the Board should ensure that employees have the means to freely report concerns without fear of retaliation.
- **Tackling Conflicts.** The Board should actively work to identify and address any potential conflicts of interest and should consider periodic external evaluations of this area. Furthermore, the Code recommends avoiding the Board Chair also serving as Audit Committee chair.

Sustainability

Sustainability also receives special emphasis in the revised Code. The Code explicitly highlights the importance of embracing a multi-stakeholder view (beyond shareholders) of governance. It also recommends an integrated approach so that economic, social, and environmental objectives are pursued simultaneously to achieve more sustainable enterprise success. The specific provisions in this regard include:

- **Shareholder Say.** The Code recognizes the importance of creating credibility in company reporting on non-financial matters. Thus, it requires non-financial reporting to be carried out in accordance with recognized accounting standards and to be audited. In this context, it also incorporates the recent changes in Swiss law that give Shareholders an approval on non-financial matters. Beyond say-on-pay, it is in effect a say-on-sustainability.
- **Incentives Alignment.** The Code requires compensation to be designed to promote the company’s long-term objectives and purpose. Compensation is to be geared to the sustainable interests of the company and be based on strategic goals as approved by the Board.

Diversity

The Code also makes reference to topics such as diversity in higher ranks. Specifically, it refers to:

- **Board level.** A company is expected to aim for diversity at the Board level. This includes looking for diversity in the backgrounds and expertise of individuals, i.e., it goes beyond gender, while at the same time expecting sufficient knowledge of Swiss market conditions.
- **Executive Level.** In addition to considering its own diversity, the Board of Directors is also responsible for ensuring that the representation of genders is balanced on the Executive Board, as also expected under recent changes in Swiss law.

What should companies be doing now?

Because the Swiss Code of Best Practice serves as a useful reference point, companies may wish to consider this revision in reviewing and advancing their own work on governance, risk management, compliance, culture and ESG. In this context, it would also bring value for companies to review their performance management

and compensation systems and assess how well they are serving to support the company's goals in these areas.

Among other things, HCM works with clients in helping make this important alignment. Feel free to contact Linda Kohri at linda.kohri@hcm.com or your regular contact at HCM.