

Swiss vote on fat-cat pay a victory for business

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Hansrudolf Schmid

Hansrudolf Schmid says restoring shareholder power will rein in abuse by elite employees

Sixty-eight per cent of Swiss voters have backed a constitutional amendment on "fat cat" pay. Sunday's verdict was clear: shareholders of publicly listed companies will have a binding say on pay.

However, many comments on the initiative are confusing at best. A measure that is liberal by intent is seen as "restrictive", "curbing executive pay" and "not business-friendly". To discuss the Swiss solution in the same vein as the European Union proposal to cap bonuses for bankers further obfuscates its merits.

The Swiss people have not voted to undermine their liberal corporate laws. Quite the contrary, they have moved to protect the market economy against glaring abuse from the inside. Corporate executives and all those depending on them have corrupted the system. The very fact that their interests are commonly confounded with those of business proves the point.

Elite employees have exploited the power vacuum which developed over time as ownership in large companies with a dispersed shareholder base became weak. It was time to strengthen management's accountability to shareholders. While this may not be of benefit to executives, it is a boost to those who fund them and carry the business risk.

From a capitalist's point of view, the vote is pro-business. Moreover, the Swiss remain reluctant regulators. Executive pay shall neither be set nor limited by government. However, "thou shalt not steal" is crucial enough to be enforced. "Ask before you take" is among the first rules we teach our children. Sadly, corporate elites need to be retrained.

The power grab by the salaried elite in the developed world may only be the tip of the iceberg. Just as shareholders wonder whether managements are working for them, people increasingly question whether politicians, governments and central banks have their interests at heart.

As the system-wide leverage increases, the incentives of decision-makers in business and politics are less and less aligned with the interests of the public. The massive bailouts first of private enterprises and then of entire countries has set the tone. Inflation that will hurt the real income of the middle class is targeted as the easiest way out of the financial mess.

Switzerland is well equipped to address agency problems earlier than others. The right to vote on people's initiatives empowers the Swiss to bypass self-serving elites when the need arises.

Switzerland's reputation rests on defending individual freedom and property rights. It was once again down to the Swiss citizens to protect their country's liberal constitution. The world is taking note.

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