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Best Practice in SMEs (BP-SME)

Recommendations for the direction and
control of small and medium-sized enterprises

**You can find tried-and-tested board tools and checklists for these
recommendations free of charge at:**

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Background: the value of self-regulation

We believe that management and supervision based on self-regulation instead of ever-increasing regulation from the State will create added value for Swiss SMEs and therefore for the Swiss economy. This is because self-regulation has a different objective, which involves striving for the best possible SME practice rather than simply complying with minimum legal standards. This focus on ambitious goals helps Swiss SMEs to compete internationally and secures sustainable employment opportunities and prosperity.

Switzerland leads the global national rankings in:

- competitiveness
- innovation
- continuing education and
- the level of freedom.

The governance of SMEs should continue to contribute to these success factors.

Aim and intended audience of these recommendations

These recommendations are intended to assist

Small enterprises with up to 50 employees and
Medium-sized enterprises with up to 500 employees
in the form of unlisted Swiss stock corporations

after the start-up phase as a basis for responsible and sustainable value-adding direction control. Successful SMEs always promote the long-term satisfaction and genuine loyalty of

Suppliers and customers,
Managers and owners, and
Employees and the public.

As a handy and simple management tool, these recommendations contain best practice tips for privately managed small and medium-sized enterprises. They are intended to provide a means of reflection for the target audience. Deviations should be reasonably justifiable.

For micro-enterprises and companies in the start-up phase, the recommendations should only serve as suggestions.

SME opportunities

SMEs achieve above-average and sustainable success when they

- model themselves on successful companies,
- adopt the good parts from them,
- make use of appropriate digitalisation options,
- simultaneously utilise the particular strengths of SMEs, such as flexibility, short decision-making processes and long-term time horizons of the owners, and
- have a strategy geared towards uniqueness.

Structure

Based on the four key success factors for the effective direction and control of SMEs, the recommendations are divided into four dimensions:

1. Situational dimension: consideration of the special situation SMEs find themselves in
2. Strategic dimension: targeted direction of SMEs
3. Integrative dimension: efficient board and management teams in SMEs
4. Monitoring dimension: effective control in SMEs

Relationship to the “Swiss Code of Best Practice”

Economiesuisse has published the current 2023 version of the “Swiss Code of Best Practice for Corporate Governance”, in particular for listed and other larger companies.

According to this code, corporate governance is understood to:

“ ... encompass all of the principles aimed at safeguarding the sustainable interest of the company. While maintaining decision-making capability and efficiency at the highest level of a company, these principles are intended to guarantee transparency and a healthy balance of management and supervision. Business activities are sustainable when the interests of different stakeholders in the company are taken into account and economic, social and environmental goals are pursued holistically.”

These guidelines apply to non-listed, small and medium-sized enterprises in the form of stock corporations.

1. Situational dimension: consideration of the special situation SMEs find themselves in

1.1 Advantages and disadvantages of SMEs

The following potential advantages must be exploited for effective direction and control of SMEs:

- + Long-term business horizons from an economic, social, technological and ecological perspective
- + Enabling high value creation for customers, employees, owners and society
- + Simple, clear and flexible structures
- + Short and rapid decision-making processes
- + Appropriate formal and distinctive informal communication

The following potential disadvantages must be actively avoided for effective direction and control in SMEs:

- Lack of time and often a lack of expertise in the area of strategic direction
- Less attractive to qualified employees
- Lack of funds to finance growth
- Inadequate succession planning

1.2 Owner's strategy

The shareholders of the SME must define a comprehensive owner strategy for the attention of the board that reflects the interests of the owners. This must be reassessed periodically and adjusted if necessary.

The focus of the owner's strategy is on defining the owner's objectives: These can be divided into:

- corporate
- economic
- social and
- political

objectives.

The owner strategy includes the following requirements in particular:

- corporate values and objectives
- independence
- location
- focus on results
- responsibility towards society, employees, customers, suppliers, business owners and the environment

- management structure and type of management influence
- focus on innovation
- growth targets
- financing
- opportunity and risk management
- dividend policy
- shareholders' agreement
- dealing with shareholder minorities
- shareholder changes
- succession planning at board, management board and personnel level

The owner's strategy can be made legally binding by means of a shareholders' agreement.

The shareholders have no authority to issue instructions to the board and management and only legally limited rights to information and inspection.

1.3 Representation of family interests in family SMEs

In small and medium-sized family businesses, a family constitution may also need to be developed (e.g. family values, dealing with shareholder minorities, procedure in conflict situations).

In family businesses, the same criteria must apply to family members for supervisory or executive board positions as to external candidates.

1.4 Board size

The size of the board must be determined according to the situation. As a guideline, we recommend three board members for small enterprises (with up to 50 employees) and five board members for medium-sized enterprises (with up to 500 employees).

1.5 Board structure

The board should be made up of an independent chair and one other independent member. A vice chair must be appointed and entered in the commercial register.

The keeper of the minutes should not be a member of the board and, as far as possible, should be independent and have the appropriate training.

If additional tasks are assigned to this person (such as keeping the share register or updating company documents), the functional title "secretary of the board" must be used.

A person is independent if there are no circumstances that impair their freedom to form an opinion vis-à-vis the shareholders, supervisory or executive board.

2. Strategic dimension: targeted management in SMEs

2.1 Main responsibilities of the board

Under Swiss company law, the board essentially has five irrevocable and non-transferable responsibilities ("The **5 S's**"):

- **Strategy:** The board ensures that the future of the SME is secured, determines the strategic objectives and the means to achieve them and ensures a constant balance between these objectives and means of achieving them.
- **Systems:** The board establishes the organisation and is responsible for the structure of accounting, financial planning, financial control (including monitoring the company's solvency) and opportunity, risk and crisis management (including cyber security).
- **Staff:** The board is responsible for the appointment and dismissal, assessment, remuneration and succession planning of the persons entrusted with the management of the company.
- **Supervision:** The board fulfils a role model function and is responsible for both the corporate culture and the leadership of the persons entrusted with management. It ensures compliance with laws, regulations, directives and ethical guidelines.
- **Special situation:** If necessary, the board is required to submit an application for a debt-restructuring moratorium or, in the event of over-indebtedness, to notify the court (notice of over-indebtedness).

2.2 Corporate strategy in SMEs

The board must formulate strategic guidelines for management on the basis of the owner's strategy, within the framework of which the management board will develop a corporate strategy. The proposal is reviewed and approved by the board. The corporate strategy must be periodically reassessed and, if necessary, adjusted. The development and implementation of the strategy must be clearly anchored in a process and include the following six main steps:

- **Situational analysis:** Competitive position, skills and core competences, concisely summarised as strengths and weaknesses.
- **Outlook:** Analysis of future trends and market and competitive developments, derivation of alternative scenarios, concisely summarised in opportunities and threats.
- **Strategy:** Strategic guidelines from the board to the management board (derived from the owner's strategy), development of the corporate strategy by the management board (derived from the strategic guidelines of the board) with regard to products/services, target markets (market segments and regions), depth of added value, innovation and financing. Effective management and supervision of SMEs must be sustainable, i.e. all important decisions should simultaneously take into account the needs of customers, owners, staff and the environment.
- **Decision:** Adoption of the strategy document by the board.
- **Measures:** Definition of the organisation, programmes of measures and budgets.
- **Monitoring:** Periodic (e.g. quarterly or half-yearly) review of the implementation measures and their effectiveness in achieving the objectives.

If a promising corporate strategy cannot be developed on the basis of the owner's strategy, the board must propose changes to the owner's strategy to the shareholders.

2.3 Corporate culture

The board is responsible for a corporate culture of integrity and trust and sets an example in this respect. There must be a balance of power between the supervisory and executive board.

2.4 Allocation of roles between supervisory and executive board

The supervisory board is the strategic body of the SME. It draws up the strategic guidelines, approves the corporate strategy and monitors its implementation. The executive board develops the corporate strategy and implements it. The supervisory board delegates operational management to the executive board to the extent permitted by law.

In crisis situations, the supervisory board must focus particularly intensively on the company, devote the necessary additional time to it and, if necessary, intervene operationally in line with the situation.

Particular attention must be paid to the regular exchange of information and trusting cooperation between the chair of the supervisory board and the managing director.

2.5 Requirements for board and management members

The successful management of an SME requires individuals of integrity and commitment with professional, leadership and social skills who act as role models within the supervisory board and executive board.

To this end, a written requirements profile for the board must be defined and position descriptions drawn up for the chair of the board, the board secretary, the managing director and the members of the executive board.

2.6 Organisational regulations

An organisational regulation is mandatory in the event that management is delegated to the executive board. It organises the functions and cooperation of the supervisory board and the executive board, in particular:

- allocation of tasks, authorisations and responsibilities to the board and management board
- signatory authorisation (only collective signatory authorisations)
- frequency of board meetings (at least 4 times a year, with key topics according to the management calendar such as strategy, finance, human resources, organisation, markets, products and opportunities/risks)
- quorum, passing of resolutions and necessary majority, possibility of circular resolutions and telephone and video conferences
- minutes of meetings and keeping a list of pending matters
- regulation of internal and external communications
- guidelines regarding conflicts of interest and stand-down procedures

The organisational regulations are issued by the supervisory board and must be reviewed regularly.

2.7 Decision-making within the board

The board should consider the relevant interests of the various stakeholder groups in all important decisions. Each board member can represent a different group: “4-hats principle” (customers, owners, staff and environment). Board members must stand down in the event of a conflict of interest and may not influence the decision-making process in any way.

2.8 Sustainability of management and supervision

Effective direction and control of SMEs must be sustainable.

3. Integrative dimension: effective supervisory and executive board teams in SMEs

3.1 Composition of the board

The board works as a team on the basis of a culture of trust.

The composition of the board should be based on the following criteria:

- The board should have the necessary competences and the same overall expertise as the management so that the management and controlling functions can be exercised effectively.
- The board should have different role strengths that are relevant to the SME, such as those of the critical thinker, the controller or the innovative thinker, in order to challenge the executive board with relevant questions.
- In smaller companies, at least one woman should be a member of the supervisory board and the executive board, while in larger companies these should be at least two to three women, in order to incorporate as much diverse experience as possible into the decision-making processes relevant to the SME.
- The board and management should each have one member with, among other things, experience and a track record in the digitalisation of SMEs and the business.
- With regard to succession planning, it is worth creating a requirements matrix with strategically necessary expertise and team roles for both the supervisory board and the executive board.

3.2 Chairmanship of the board

The chair of the board acts as a leadership role model and is committed to a constructive and open culture of trust between shareholders, the supervisory board, the executive board and employees. They are responsible for safeguarding the company’s interests, taking up new ideas, dealing with current challenges and effectively preparing and chairing board meetings. They guarantee that the board receives relevant information in good time.

The chair of the board ensures that the board entrusts individual board members (or, in the case

of medium-sized enterprises, committees) with special tasks in the areas of controlling and opportunity and risk management as well as other relevant areas of expertise.

A competent vice chair of the board should be appointed.

In SMEs, the part-time employment of an independent external lawyer who is also responsible for (ethical & legal) compliance is recommended as a board secretary.

3.3 Avoiding conflicts of interest

Every member of the board must avoid conflicts of interest. If a conflict of interest arises, this must be reported by the board member concerned to the chair of the board.

The board takes the measures necessary to safeguard the interests of the company. This specifically includes a stand-down order.

3.4 Selecting the members of the supervisory board and the executive board

The supervision board is responsible for the professional selection of members of the supervisory board and the executive board.

3.5 Objectives and assessment of the supervisory and executive board

The board periodically assesses its performance as a body.

The chair of the board, in consultation with the supervisory board, assesses the performance of the members of the executive board, who report directly to the supervisory board on an annual basis, and inspects the assessment of the other members of the executive board carried out by the chair of the executive board. The assessments are based on agreed qualitative and quantitative targets.

3.6 Remuneration of the supervisory board and executive board

The board ensures that the SME pays the total remuneration for the supervisory board, executive board and employees in line with requirements, the market and the company's performance.

As a guideline, a daily fee is recommended for members of the board that is in the range of the fee of the strategy consultant working for the SME and takes into account the special responsibility of the board. No initial or severance payments should be made to members of the supervisory board or the executive board.

3.7 Support for the supervisory board and executive board

The supervisory board ensures that newly elected members are suitably inducted and that the members of the board and management receive adequate further training.

3.8 Replacement arrangements and succession planning

The supervisory board makes timely and considered replacement arrangements and succession planning for members at the supervisory board, the executive board and personnel level.

4. Monitoring dimension: effective supervision in SMEs

4.1 Information

The chair of the board and the managing director ensure that timely, relevant and transparent business information is provided.

4.2 Communication

The chair of the board and the managing director ensure a culture of mutual trust. This forms the basis for sustainable corporate success.

4.3 Integrated reporting (board and management information system)

The board ensures a strategic reporting system that is adapted to the needs of the SME and enables the necessary direction and control of the SME. This contains all customer, personnel, financial and environmental data relevant to management and supervision, including a liquidity plan for the next 12 months and a commentary by the management board. As a rule, monthly reporting is required.

4.4 Opportunity and risk management

The board ensures a meaningful, integrated opportunity and risk management system that is appropriate for SMEs. All SME areas and processes are analysed for sources of risk, potential opportunities are identified and threats are minimised in order to be able to take calculable risks.

4.5 Internal monitoring

Depending on the size and complexity of the SME, the board should introduce simple internal control mechanisms and periodically review their appropriateness and function.

4.6 Regulation compliance

The board takes measures to ensure compliance with the relevant legal and ethical standards.

4.7 Minute-keeping

The board ensures that appropriate and sufficient minutes are kept. Minutes of resolutions are sufficient at executive board level. A list of pending issues must be kept by the supervisory board and the executive board.

With regard to the “Business Judgement Rule”, the decision-making process must be clearly recorded in the minutes. This includes the initial situation (including proposals), the available documents, the weighing up of advantages and disadvantages and the voting ratios for the resolution.

4.8 Auditors

The board proposes to the AGM the election of a competent and independent auditor. It assesses their effectiveness. To this end, the board or a member of the board meets with the auditors at least once a year

4.9 Annual report to the shareholders

The supervisory board is accountable to the shareholders for the performance of the supervisory board and the executive board. The accounts for the past financial year are presented at the annual general meeting (AGM).

The written management report to the AGM should include information on the effective direction and control of the SME.

4.10 Reporting to the owners

The supervisory board conducts an annual evaluation of the direction and control of the SME. The views of the owners, management, customers, staff, the public and the environment should also be taken into account.