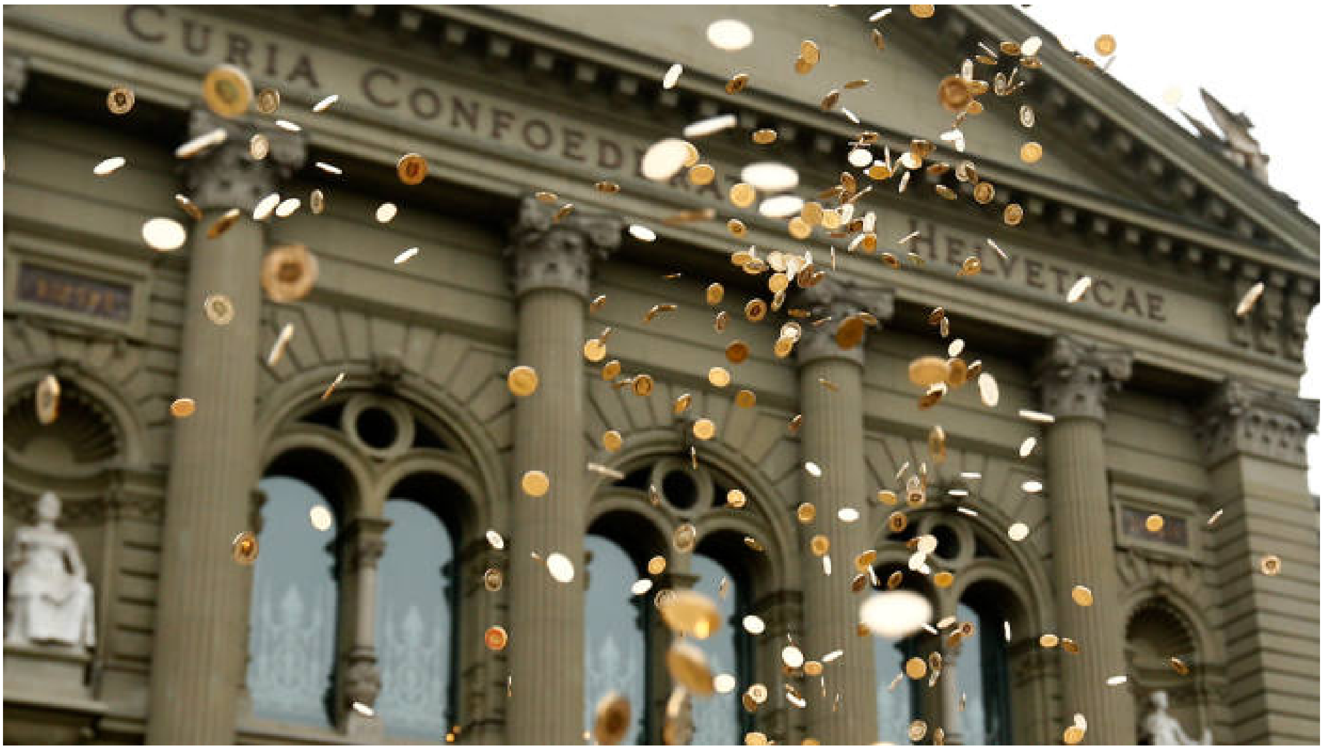
Executive Pay

Swiss executives braced for Sunday poll on pay



Coins are thrown in the air as part of an activists' event in Bern. Voters will decide on the 1:12 initiative this weekend

NOVEMBER 22, 2013 by James Shotter in Vienna

The Swiss group Victorinox is probably best known for its distinctive red penknives. But in recent weeks, it has attracted attention for another reason: despite its international success, it pays its top earner only six times the wage of its lowest.

With Switzerland in the throes of a heated debate over a radical proposal that would make it illegal for companies to pay anyone more than 12 times the wage of their lowest earner, such examples of corporate restraint have particular resonance.

For supporters of the so-called 1:12 initiative, on which Switzerland will hold a referendum on Sunday, companies such as Victorinox, a 129-year-old family-run group based in the rugged canton of Schwyz, are proof that it is not necessary to pay top executives enormous salaries in order to remain competitive.

But opponents of the measure retort that wage comparisons between different industries are misleading because different industries require varying levels of expertise, and that accepting the measure would do untold damage to Switzerland’s hitherto ultra-competitive economy, which hosts corporate giants as diverse as pharmaceutical group Roche, consumer goods companies Nestlé and Procter & Gamble, and financial services such as UBS and Credit Suisse.

The proposal, if accepted, would be the most far-reaching legislative response to the rising income inequality that has become a fraught topic of debate in many western countries since the financial crisis. And it would certainly impact the country's well-known multinationals, which have much higher multiples than 12:1.

According to Travail Suisse, an umbrella organisation for trade unions which tracks executive pay, the highest multiple in 2012 was at Roche, whose chief executive, Severin Schwan, earned 261 times the wage of the group's lowest-paid employee.

Nestlé and Novartis also pay their chief executives more than 200 times what they pay their lowest earners, while the likes of UBS, Credit Suisse, Lindt & Sprüngli, and Swatch all have ratios of between 200 and 100:1, Travail Suisse estimates.

Experts say large numbers of Mittelstand groups – the often family-run small and medium-sized businesses which form the backbone of the Swiss economy – would also be affected.

"We are not just talking about multinationals, this measure would hit around 1,300 Swiss companies," says Stéphane Garelli, a professor at the IMD business school in Lausanne.

Exactly how companies would respond to the proposed measure is not yet certain – partly because the initiative's precise provisions will not be clear until it has been translated into law, and partly because executives are hoping that it will not be accepted in the first place.

Nonetheless, chiefs at some groups, such as the commodities group Glencore and the reinsurer Swiss Re have suggested that they could move some or even all staff out of Switzerland. Backers of the 1:12 initiative dismiss this as scaremongering.

"Companies could also try and get around the ratio by outsourcing low-level jobs, or changing the salaries of top earners to advisory contracts," says Prof Garelli. "But small Switzerland-focused companies would have far fewer options. They are the ones who would be hurt most."

Along with concerns over the impact of the measure on the public finances, the impact on local businesses is one reason the measure looks increasingly unlikely to pass. The latest poll found 36 per cent of voters in favour and 54 per cent against.

However, observers say business leaders would be unwise to interpret a rejection as a sign that the Swiss public is no longer concerned about high pay.

In a study carried out by the Zürich-based consultancy HKP in August, 75 per cent of respondents said there should be an upper limit on executive pay – a figure that has remained stable for the past four years.

“The question is how companies will react if the initiative is rejected. Will they assume that the issue is dead and buried? Or will they say, ‘this is still food for thought: we should react’?” says Stephan Hostettler, a managing partner at HKP.

“They would do better to take the second option, because there is a relatively stable majority of people who still think that there should be an upper limit on pay – they just don’t think this particular initiative is the way to achieve it.”