

Press Release

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Corporate governance in the Czech Republic: Greater attention given to anti-corruption measures, criminal liability of Board members and fixed monthly remunerations

- 54% of members of the Board of Directors receive a fixed monthly bonus
- 66% of companies are not ready for a sudden departure of a key member of management
- 70% selects an employee rotation scheme as an anti-corruption measure

Prague, 15 August 2016 –The system of remunerating members of a company’s management according to economic results is used by more and more companies. While in 2013 it was a half of them (52%), last year it included 71% of the companies. Most often managers achieve fixed monthly bonuses (54%); remunerations for achieving long-term goals are provided to one third of them (25%). The number of companies putting emphasis on anti-corruption measures and elimination of risks connected to criminal liability of their members increases; however, hardly any of them addresses in advance replacements in case of a sudden departure of a key member of management.

These are the conclusions of the “**Report on Corporate Governance in the Czech Republic in 2015**” that was drawn up by the Deloitte Centre for Corporate Governance and the Czech Institute of Directors. The survey investigated the current state of corporate governance in the Czech Republic.

“The survey has shown that a large number of companies still do not put sufficient emphasis on the members of their bodies and their effective functioning, especially in respect of their remuneration, systematic education or formal system of the appointment of the members of bodies to their positions,” says Jan Spáčil, the director of the Deloitte Centre for Corporate Governance. *“However, there is a positive development in terms of criminal liability and corruption where companies adopt sufficient measures eliminating the associated risks,”* he adds.

As emerged from the “Report on Corporate Governance in the Czech Republic in 2015”:

- Annually, there is an increase in the number of companies that adapt the remuneration system to the company’s economic results and choose ways of remunerating members of the Board of Directors and management based on these results. More favourite are **fixed monthly bonuses** which in 2014 showed a slight drop but last year they went up **by 21% year-on-year**, whereby rewards for the achievement of long-term goals were raised by two percentage points only.
- More than a half of the companies (66%) do not have a formal system in place for appointing members of bodies to positions. **Only 29% of companies put measures in**

place that are able to cope with a sudden departure of a key member of the body in order for the whole company not to be paralysed.

- Companies do not underestimate the risk of corporate criminal liability, **69%** of them **took preventive measures and control mechanisms with the aim of minimising the associated risks**. Most often they choose the system of rotating the members of the Board of Directors or statutory executives (70%) and employees (68%) or they rely on fraud reviews conducted by independent advisors (38%).

"The survey also implies that in the last year companies paid major attention to anti-corruption and anti-fraud measures, most often in the form of employee and management training and courses. There is a year-on-year increase in the number of the respondents that are convinced of the effective functioning of the measures they put in place," says Jan Spáčil.

What is interesting is that more than a half of the companies use internal resources in conducting annual evaluations of their managers and nearly one third of the respondents do not evaluate the performance of the members of management bodies at all. *"No company uses the evaluation based on external advisors which is really specific given that such practice is common abroad. An external evaluation can provide an independent and a more comprehensive view, often, on top of that, with better feedback for all stakeholders,"* notes Monika Zahálková, the executive director of the Czech Institute of Directors.

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