

## **Granting of mandates, business relationships and governance in the area of start-up companies and entrepreneurship**

### **Key facts**

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The Swiss Federal Audit Office (SFAO) conducted an audit on the Commission for Technology and Innovation (CTI). The audit assessed the granting of mandates and business relationships in the area of start-up and entrepreneurship (referred to below as "start-up funding") and CTI governance.

The CTI is the federal body responsible for promoting scientific innovation in all disciplines which are represented in university establishments. As an official commission, the CTI is part of the decentralised Federal Administration and has the authority to take autonomous decisions in its area of responsibility. The CTI has a secretariat and is administratively affiliated to the Federal Department of Economic Affairs, Education and Research (EAER). The CTI has the mandate of promoting application-oriented R&D projects and entrepreneurship. It supports the creation of economic performance from scientific research through advice, networks and financial resources. The CTI is subdivided into four funding areas, innovation projects, start-up and entrepreneurship, support for knowledge and technology transfer, and the Swiss Competence Centers for Energy Research, although the innovation projects sector is the biggest. As a result, these areas of funding influence the core processes of CTI. The CTI's overall budget for 2014 amounted to CHF 150 million, with approximately CHF 12 million of this accounted for by start-up funding. The other funding areas were not the subject of this audit.

The examination as to whether or not the mandates had met the requirements is the responsibility of the secretariat's start-up section. The management of conflicts of interest is set out in the code of conduct, which must be signed by the coach. Economic independence is confirmed when the coaching contract is signed. The secretariat is also responsible for verifying compliance with the contractual milestones and for taking appropriate measures when the requested relevant material documentation is not forthcoming. In addition, compliance with the corresponding maximum hours by the people mandated as coaches is ensured by means of institutionalised controls. The practice of awarding contracts to coaches was examined in greater depth based on two specific cases.

Between 2002 and 2014, there was a large accumulation of personal assignments for [REDACTED] (coach up until 2013, subsequently head coach) and [REDACTED] (regular coach), as well as of contracts to their company. As a result of annual contract extensions, which were justified by the Executive Board with above-average qualifications, there was virtually no competition anymore. The earnings amounted to approximately CHF 3 million over 12 years for these two people and their company (in which third parties are also involved). There could be no question of the required economic independence in relation to CTI involvement from the point of view of CTI taking the federal requirements into account. These facts recently led to an abandonment of any further contracts being awarded to [REDACTED]. To be able to ensure an orderly handover of the current coaching mandates, termination of the contract with [REDACTED] was scheduled for the end of May 2014. Renewed employment of [REDACTED] at CTI is out of the question for the SFAO if the associated reputational risk is taken into account. [REDACTED] still acts as a regular coach at CTI but is now subject to strict controls relating to compliance with the existing requirements by the secretariat. In this connection and from the point of view of the SFAO, it must also be ensured that there is no

economic dependence on the Confederation at [REDACTED] and that the existing legal and regulatory requirements for correctly awarding coaching mandates are consistently and comprehensibly implemented and enforced.

#### **Business connections with [REDACTED]**

As early as 2012, the CTI found that [REDACTED] had multiple mandates at the CTI which were and still are partly interconnected. Particularly the activities as expert coach and the connections with [REDACTED] and [REDACTED] are significant. The abundance of mandates awarded directly and indirectly by the CTI to [REDACTED], and the tolerance of an uncontrolled momentum involving additional financial consequences for the CTI ([REDACTED]), not to mention the lack of information given to the secretariat on the use of funds contrary to the Subsidies Act is incomprehensible for the SFAO. Even though [REDACTED] gets high marks from the CTI in terms of his motivational capabilities, his largely unsupervised action is not acceptable.

The SFAO recommends an urgent examination of [REDACTED] contractual relationship. Compliance with subsidy requirements and regulations must also be taken into account when doing so. If requested documents remain missing or retained, the basis for payment will cease to apply.

From the perspective of the SFAO, the main reason for both of the cases mentioned is the insufficient cooperation between the Executive Board and the secretariat and poor supervision for structural reasons provided by the EAER General Secretariat. This constellation is examined more closely below.

Governance problems at the CTI had been highlighted by the SFAO in the past. The CTI secretariat is responsible for compliance with the administrative framework conditions and normative basis, and must implement these. Requirements and substantiated decisions of the secretariat do not always meet with acceptance by the Commission, the Executive Board and the coaches and are seen as bureaucratic meddling. It is obviously difficult to reconcile the represented views of "legality and regularity" (logic of subsidies) and "entrepreneurship" (funding logic) and this is bound to lead to conflicts, which increasingly required the involvement of the EAER General Secretariat. The problems raised and the conflicts now identified within the scope of this audit are based on a conceptual unfavourable development which originates from the reorganisation of the CTI in 2011. The problems are mainly due to blurred functional demarcations and malfunctioning communication between the Executive Board and the secretariat. This is due to the woolly wording of the legal framework and the different interpretations of task allocation. Added to this are the personal differences between the President of the ICT and the Director of the secretariat. The SFAO assumes that both the Executive Board and the secretariat spend a large part of their working hours in overcoming these communication problems.

The problems highlighted will not be resolved in the long term without a general overhaul of the structures. Even if a number of the problems are due to personal animosities, replacing the most important key figures will also not reduce the potential for friction. For this reason, it is essential to have a rethink of the individual roles and bodies and a clear delineation of responsibilities.

The SFAO supports the EAER's efforts based on the Gutzwiller motion to give the CTI a sustainable new structure, whereby many of the fundamental structural problems could be tackled. In the redefinition and subsequent implementation, it should be noted that the Executive Board manages

the secretariat via structures and hierarchy and not with direct intervention in the activities of the secretariat.

The SFAO has taken note of the coaching concept currently being drawn up and recommends that the CTI revise the concept with regard to activity duration, bottleneck role of the head coaches and term of office restriction.

Primarily, solutions to the current conflicts must be found immediately. This should happen as quickly as possible for the transition period up until the new CTI structure is introduced. Improvements would already be possible just by amending the business regulations or implementing operational measures concerning the roles of the President, the Executive Board and the Director of the secretariat. If no pragmatic solution drawn up by mutual consent is possible, personnel changes implemented by the EAER would be inevitable.

**Original text in German**