

# NEW RULES FOR REPRESENTATION OF A COMPANY TOWARDS ITS EMPLOYEES

## WHO IS AFFECTED BY THE DECISION? WHAT SHOULD BE DONE?

In its recent decision, the Czech Supreme Court provided its position on who is authorized to act for a company towards its employees (File No. 29 Cdo 880/2015). This decision plays a key role for the companies which have a collective statutory body – Board of Directors or Board of Executives.

### Who is affected by the decision?

The decision affects the companies which have a collective statutory body. Such statutory body is, primarily, Board of Directors of a joint-stock company which has more members and Board of Executives of a limited liability company. Limited liability companies, which have only individual Executives (who according to the Memorandum of Association do not form a Board of Executives) are not affected by this decision.

### How to correctly act towards employees?

**Only an authorized member of the collective statutory body** (for example, a member of the Board of Directors) or **any of the authorized employees** (for example, the HR Director) may act for the Company towards its employees.

Other members of the collective statutory body may not act for the Company towards its employees. The authorized member of the collective statutory body always acts independently towards employees, the four-eyes rules do not apply.

**The collective statutory body may choose** its member who will be authorized to act towards employees. If no such member is appointed, **the chairman** serves as such authorized member.

The authorization of a member of the collective statutory body to act towards employees should be also recorded in the Commercial Register.

All labour documents should be, therefore, signed by the authorized member of the statutory body or by an authorized employee.

### What is the consequence of an incorrect signature on an Employment Contract?

If the performance has already started (for example, the employee started to work), the Employment Contract is not invalid. However, the Company is exposed to a fine up to CZK 10 million (approx. EUR 370,000).

If the performance has not yet started, the employee may seek invalidity of the relevant Employment Contract. The Company has no such option.

### What is the consequence of an incorrect signature in case of a notice of termination?

The failure to adhere to binding rules may result in invalidity of unilateral acts (such as a notice of termination).

### What should be done?

Companies having a collective statutory body (Board of Directors, Board of Executives) should:

- appoint a member of the collective statutory body who will be authorized to act towards employees
- have the authorization granted to a specific member entered in the Commercial Register
- adjust internal rules and procedures, so that only the authorized member or authorized employee act towards the employees

We will be happy to assist you in the identification of an appropriate procedure suitable for your specific case.



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