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Good Corporate Governance and Compliance

—Translation of this edition's central ideas and findings (original text in German)—

Seven key insights into good corporate governance

(1) Good corporate governance put into practice is a competitive advantage, both in relation to customers (attractiveness as a business partner) and in relation to job applicants and employees (attractiveness as an employer). To be fully effective, good corporate governance must be embedded in concrete actions and within specific areas of the business.

(2) Listed companies tend to be more aware of the issue than owner-managed SMEs – but both types of company have some catching up to do; as of now, they underestimate the added value of good corporate governance; in many cases, managers and employees do not even find a recognisable definition of good corporate governance at their employer – it is not a part of the corporate strategy, let alone are there measures for its practical implementation.

(3) Managers with compliance experience– in our sample, the majority of whom are corporate group managers – are not necessarily more receptive to adhering to codes of conduct and measures for establishing good corporate governance through compliance frameworks.

(4) The mere existence of compliance frameworks and their mechanical monitoring, for example through IT-supported tools or key procedures, does not in itself guarantee the active practice of good corporate governance. Compliance frameworks can only serve as guideline and may end up as sheer theory.

(5) Vice versa, the absence of compliance frameworks does not necessarily mean that the company lacks an understanding of – or elements of – active good corporate governance.

(6) The introduction of institutions and instruments of good corporate governance, even beyond compliance frameworks, does not in itself guarantee that they are put into practice.

(7) As there is no uniform understanding of the characteristics and elements of good corporate governance, its implementation can only be tailored to individual circumstances; good corporate governance in practice must be achieved through practice and by setting an example; it cannot be anchored overnight, but must become part of the corporate culture.

A 10-steps plan: How to bring good corporate governance to life

(1) **Analysis of the company's situation:** Ask the organisation: What type of company are we, and what requirements for good corporate governance arise from this? Analyse the corporate and compliance culture as well as the set of values; involve as many managers and staff members as possible: What values have we pursued to date; where are elements of good corporate governance already visible; to what extent is or would a compliance framework be accepted within the company?

(2) **Formation of a project and advocacy team:** Call upon the top management and selected managers – for companies of a manageable size, additionally conduct employee surveys or workshops to flesh out the concept.

(3) **Clarifying of objectives:** Further develop the set of values, draft a mission statement: What do we aim to achieve with good corporate governance, where and how should it be manifested in practice?

(4) **Initiation of formalisation:** Define and implement institutions, rules and control mechanisms, but do not overload them as a compliance framework.

(5) **Definition and organisation of on-site implementation:** Clarify and elaborate areas of application, business processes, communication processes, desired behaviours and values.

(6) **Clear communication during implementation:** Engage all managers and employees within the company.

(7) **Visualise:** Document and communicate the most important changes and regulations.

(8) **Deploy a team of multipliers:** Train and qualify managers who act as influencers and multipliers; equip and empower them to become ambassadors for good corporate governance.

(9) **Training and practical sessions led by influencers:** Embed a practical approach to good corporate governance within the organisation.

(10) **Establish a committee and a governance process:** Ensure follow-up and continuous improvement.

Risk profile of common types of companies*

We have already noted that good corporate governance can, at best, be measured against individual standards. To make it easier to understand and for practical reasons, we have developed a framework that allows companies to be categorised, at least broadly, in terms of their risk of misconduct. This makes it clear that every type of company also has a specific risk profile, which in turn directly influences the specific interpretation and safeguarding of good corporate governance:

Rising long-term orientation

Family-owned SME: • No obligation to engage in public relations, a lack of transparency is encouraged • Underdeveloped compliance culture • High-handed management (autocracy)	**Family-owned concern/big player:** • No obligation to engage in public relations, a lack of transparency is encouraged • High complexity, too little communication • Rigid culture based on yesterday's values
Listed SME: • A down-to-earth, family-run culture meets a capital market with high standards for communication and compliance rules • Underdeveloped compliance culture, strong 'hands-on management', senior management engages too little with the capital market • External communication is inadequate	**Listed concern/big player:** • Strict oversight by the capital markets, high standards of communication and compliance rules • Significant influence on senior managers and, consequently, on corporate governance by the capital markets
Private Equity-owned SME: • No obligation to engage in public relations, a lack of transparency is encouraged • A culture typical of medium-sized companies, which may be geared towards the long term meets an investor who is extremely profit-driven and may have a short-term perspective • A hands-on culture and somewhat amateurish approach towards a creating a of compliance	**Private Equity-owned concerns/big players:** • No obligation to engage in public relations, a lack of transparency is encouraged • High complexity, potentially combined with an increasingly heterogeneous corporate culture (fuelled by the intense M&A activity typical of private equity), meets an investor who is extremely profit-driven and, in some cases, short-term in their thinking, and who expects extremely swift, consistent action.

Rising complexity

*Annotation: Companies with more than 5,000 employees were no longer regarded as SME, but rather as big players in this study.