

Dr. Cromme, we are talking about sustainability and corporate governance at the same time. Isn't this contradictory?

No, I see no contradiction here. The concept of sustainability stands for continuity and a long-term approach. Corporate governance also aims for a sustained increase in the company's value, and it recommends adequate rules of the game for all those who influence corporate decisions.

These days, however, many shareholders are not looking for long-term prosperity, but quick gains. So where does corporate governance come in?

That is only partly correct. Naturally, fund managers in particular are forced to take short-term actions to boost the value of their funds as quickly as possible, partly because this determines their individual remuneration. It's true that a company's long-term development is often pushed into the background then. But, particularly in continental European countries, the consensus is that companies do not consist only of shareholders. The shareholders' long-term interests are best served when a company also keeps its customers, suppliers, employees and other business and social partners happy.

So the recommendations and suggestions of Germany's corporate governance code aid sustainability?

That's how I see it. In this era of global financial markets, investors can choose from attractive assets around the world. National financial markets are becoming increasingly less important. Companies, in turn, are using the capital of investors who buy stakes in these companies in the hope of achieving a good return. To protect individual shareholders who provide their capital, and in the interest of customers, suppliers and employees, sound corporate governance is indispensable. This is what the code is about. It has a sustainable impact because it promotes companies' long-term existence.

A core part of the code is the call for transparency across the whole company. Does this contribute to securing a company's long-term competitiveness?

Good and transparent corporate leadership and control strengthen a company and make it attractive for investors. Empirical studies have shown that companies with inadequate corporate governance and poor transparency are punished with share price discounts. The German Corporate Governance Code seeks to eliminate these shortcomings, in particular through more transparent corporate decision-making, in the case of possible conflicts of interest among board members or auditors, and with regard to questions of remuneration. Each manager's deci-



Photo Werner Bartsch

‘Corporate governance enhances transparency’

Interview with Dr. Gerhard Cromme, Chairman of the Supervisory Board of ThyssenKrupp AG

Dr. Gerhard Cromme, who was born in 1943, studied law and economics at the universities of Münster, Lausanne and Paris. He obtained a doctorate in law. In 1986, he became chairman of the management board of Krupp Stahl AG, and in 1989 chairman of Fried. Krupp GmbH. After the merger of Thyssen and Krupp he co-chaired the new company, Thyssen Krupp AG, together with Prof. Dr. Ekkehard D. Schulz. He has been chairman of the supervisory board of ThyssenKrupp AG since October 2001.

sions have to measure up against the transparency requirement: If he cannot cite good reasons for a decision he should not make that decision. But if he has good reasons, he has to make this decision even if it won't boost his popularity ratings.

Asked ironically, is the publication of management salaries and other remuneration an attempt to contribute to social justice and an important element of the concept of sustainability? Or, more seriously, won't this fuel the German affinity to social envy?

No, I believe the opposite is the case. The public debate in Germany concerns mostly board members and their salaries. But it is not the absolute level of salaries that I consider to be decisive. If a company has disproportionate business success, its managers and others who contributed to this success should be allowed to share in it accordingly. There can be no doubt about that. But it shouldn't be done secretly. Transparency can help avoid or at least rationalize unnecessary discussions.

The code does not have legal status, but merely builds on existing laws. It pins its hopes on the normative impact of self-commitment. Will the code affect all German companies?

Yes, I'm convinced of that. And one shouldn't underestimate the fact that the management and supervisory boards of all listed German companies have to state whether their company complies with the code's recommendations. Deviations have to be explained. ThyssenKrupp has set a positive precedent here by making its first compliance statement on Oct. 1, 2002 and publishing it on the Internet. With regard to the so-called "shall" rules (recommendations), the code is already a great success. With regard to the "should" rules (suggestions), we're currently witnessing a habituation process, which, however, is pointing in the right direction.

Corporate governance also relates to companies' management committees and their efficiency. The efficiency of supervisory boards has been controversial for a while. Do German companies need professional supervisors?

The times in which – as some caricatures will still have it – a board member selected the supervisory board member, supplied him with sparse information and could then sit back and relax are definitely over. These days, lawmakers and financial markets set much higher quality requirements for the work of supervisory board members. They now face an expanded range of tasks and duties that is far more time-consuming than before, and their responsibility and personal risk have grown enormously. Partly because of this, the code recommends that the management board members of listed companies take on no more than five external supervisory board mandates. Admittedly, though, in-

ternationally speaking, even five mandates for active board members are considered excessive because they take up too much of their time.

Sustainability also means greater efficiency. The question of co-determination and outsized supervisory boards was purposely avoided by the German Corporate Governance Code Commission, over which you preside. Given that efficiency had to be improved with regard to these aspects, when will you start a broader discussion on these issues?

First of all, it should be noted that lawmakers have consistently raised the requirements of supervisory board members since the Co-determination Act of 1976 came into force (see also the recent Law on Corporate Control and Transparency, the Fourth Financial Market Promotion Act and the Transparency and Disclosure Act). At the same time, supervisory board structures have remained unchanged since 1976 – hence the increasing debate over the size and structure of supervisory boards and the future of co-determination. The Code Commission works on the basis of existing laws, which means that these issues do not feature in its activities. Irrespective of all legal parameters, however, there can be no doubt that German supervisory boards are too big to work efficiently and fulfill their growing responsibilities. This is why the Code Commission recommends the increased use of supervisory board committees. Supervisory board meetings attended by up to 30 persons – supervisory board members, management board members, protocol writers – make efficient and discreet discussions all but impossible. The size of the board has to be reduced, regardless of the co-determination debate.

How do you see Germany as a place to do business? Have the key players in business, politics and society ensured sustainability for future generations?

Companies are increasingly acting in line with economic, ecological and social interests. Today a company cannot sustain its economic prosperity and future competitiveness without also paying heed to the other two aspects. But politicians have to provide the necessary parameters – from tax, health care and pension policy to subsidiary wage costs. Sustainable labor market and social reforms are urgently needed. ThyssenKrupp is a company that is internationally active and invests around the world. We directly feel the advantages and disadvantages of Germany as a place to do business when we draw on international comparisons for our investment decisions. Nearly half of our roughly 191,000 employees now work outside of Germany. All employees have the right to demand that our investment decisions are made according to the same transparent criteria anywhere in the world. And wherever we do business we want to be a responsible corporate citizen.

The interview was conducted by Heribert Klein.