

Effective corporate governance structures are essential for companies where capital provider and management are separated in order to assure sustainable success by means of management and control.¹ Based on the German Corporate Governance Code (GCGC), the elements of corporate governance can be grouped into three sections: Effective structures for the **management** of a company comprise both duties to supply information and incentives aligned with business success. Good **internal control** requires independent boards with rights to receive information, to control the management, and to make decisions. **External control** that is exercised by the shareholders and partly by the greater financial community is the third important section. Shareholders must be provided with rights of information, control, and decision-making. Although the described elements are essential for all companies, growth companies have a particular requirement for effective corporate governance structures due to their characteristics.

As in other types of companies, principal agent problems exist in growth companies due to the separation of ownership and control. But two further characteristics of growth companies increase the risk for investors: the downside of their growth potential and the shareholding of management. The **growth potential** – which is the basic characteristic of growth companies – has apart from its upside potential also a downside. High uncertainty exists in the development of the markets and the operations of the management. Furthermore, growth is connected with changing and increasing challenges for the management so that uncertainty in the sufficiency of management capabilities arises. Apart from that, the **shareholding of the management**, which is typical for growth companies where members of the management either founded the company or took it over in the case of management-buy-ins or management-buy-outs, gives rise to further risks. Information asymmetries exist in this case not only between the capital provider and the management but also among the capital providers: between internal and external investors. This can also lead to conflicts of interest between the shareholding management and other investors, as the management often aims at several targets apart from return. These factors increase the importance of good corporate governance structures for growth companies in order to ensure sustainable business success, which is also associated with attracting potential investors.

¹ Vgl. Jensen/Meckling (1976), Theory of the Firm Managerial Behaviour, Agency Costs and Ownership Structure, in: Journal of Financial Economics, Vol. 3, 1976, S. 308 f.; Shleifer/Vishny (1997), A Survey of Corporate Governance, in: Journal of Finance, Vol. 52, 1997, S. 737.

Taking this as a starting point, the quality of corporate governance in German growth companies is examined. The empirical study is targeted at finding out if German growth companies possess effective corporate governance structures, thus reflecting the high importance of such structures. Companies listed on the TecDax – the German stock market for high growth companies – are analysed in terms of their conformity with the criteria of the GCGC. The code is not legally obligatory, but according to the law (§ 161 AktG) a declaration of conformity has to be released by all listed German companies. Assuring a comprehensive and objective picture, all 83 criteria of the GCGC – 67 should-recommendations and 16 shall-suggestions – are analysed from an external investors' point of view. That means only publicly available information such as annual reports, corporate governance guidelines, and the websites of the companies are analysed. Results of the study are presented in two ways. First, the corporate governance quality of individual growth companies and the entire segment are evaluated. Second, critical criteria that are not fulfilled by at least 10 % of the analysed companies are identified.

Results show an average **conformity of 83 %** of TecDax **companies** with all criteria. The spread of 28 points between companies with the highest and lowest quality indicates that different levels of attention are dedicated to corporate governance. Reinforcing this argument are problems of some companies with the interpretation of the character and the content of the GCGC criteria. Compared to the corporate governance quality of German blue chip companies listed on the Dax, there is no indicator at first glance that the particular importance of corporate governance is taken into account by German growth companies. There are more **critical recommendations and suggestions** on the TecDax than on the Dax: 29 vs. 20. Most striking among the 13 critical recommendations is the individualised and differentiated publishing of the compensation of the management and supervisory board. When looking at the 16 suggestions, it shows that only 9 % of the companies declare conformity with the suggestions voluntarily and that all suggestions are critical.

Based on these findings, the question arises whether the criteria of the GCGC are appropriate for growth companies, as the GCGC does not include special criteria for particular types of companies. The code includes several requirements for the structure of the work of the supervisory board, asking for the establishment of special committees. Given the small number of board members in growth companies these requirements can be seen as inefficient. The GCGC allows for adaptations to the companies' individual situation, but does not state any exception for growth companies.

The empirical analysis indicates that German growth companies should further improve their corporate governance structures in order to attract investors that are afraid of the high risk associated with growth companies. They should invest more efforts in establishing efficient structures and in communicating them to the financial community. Apart from that, policy makers should consider adaptations of the GCGC for growth companies.