

Cognitive diversity as a key success factor in innovative corporate governance

Interview with Prof. Dr Michèle Sutter-Rüdisser

Today, more than ever, corporate governance demands innovative approaches and solutions. Prof. Dr Michèle Sutter-Rüdisser is an Adjunct Professor at the University of St. Gallen where she heads the Network for Innovative Corporate Governance (NICG). She is also a long-term Visiting Professor for Banking and Insurance at the SDA Bocconi School of Management in Milan, and serves on the board of directors of Helsana Group and Graubündner Kantonalbank as well as on the supervisory board and audit committee of Erste Group Bank AG in Austria. In an interview with Prof. Dr Reto Eberle, Prof. Dr Michèle Sutter-Rüdisser shares her experiences as a scientist, business leader, woman and mother in our changing world.

Reto Eberle: *As someone who's involved in research and practice, you have insight into both dimensions. Where do you see overlap, and how do the two worlds differ?*

Michèle Sutter-Rüdisser: Science is primarily defined by theory rather than practice. But it should always strive to build bridges to practice, especially when it comes to empirical sciences. Organizational control and corporate governance fall within the category of applied sciences. This means, on the one hand, that instructions for practical application are derived from theory. On the other, theoretical work needs to consider the phenomena and problems that emerge in practice, and then incorporate these in proposed solutions. Ideally, these two dimensions are mutually beneficial.

Of course, there are sometimes large discrepancies between a theoretical scientific perspective and the practical business reality. Hopes and ideals paired with intellectual expectations often clash with the specific reality that is actually experienced. Finding a common denominator between the two worlds is often about getting the right mix: a portion of inspiring creativity plus the necessary pragmatism.

Before we move on to discussing your practical experience, let me ask you about science again. How does Prof. Sutter-Rüdisser, the scientist, assess the state of corporate governance in Switzerland? Where does the country have an edge over international competitors, and where does it lag?

If you take the overview published by the European Corporate Governance Institute (ECGI), you'll find 583 corporate governance guidelines worldwide. The United Kingdom leads the pack, with no less than 53 codes, then comes Germany with 21, the US with 20 and France with 18. Switzerland is mid-field with seven corporate governance codes.





It's hugely important to have a sense for the relevant questions.

If we focus on board and executive committee compensation, though, we see that Switzerland has certainly taken a pioneering role in Europe thanks to the entry into force of the 2013 Minder Initiative for listed companies. Switzerland also led the way when it comes to institutional duties in corporate governance, steering and supervision. Article 716a (1) of the Swiss Code of Obligations was enacted in 1992 and sets out the non-transferable and inalienable duties of the board of directors.

Otherwise, Switzerland has been somewhat cautious and emphatically tentative in its approach in my view. That means comparing, adopting a wait-and-see stance and then adapting everything to individual circumstances. This is reflected, for example, in the voluntary nature of the Swiss Code of Best Practice.

Where do you see a need for concrete action in Switzerland?

In my opinion, research has focused for too long on the structure and composition of the board of directors. Much more relevant would be to explore the areas of board processes, the board working style – which includes professionalizing the way people work together – and board relationships. These relationships are about active stakeholder management and communication with investors and the company's own C-suite.

What can we expect in the long term? What do you think corporate governance will look like in 2030?

Debates about ownership, i.e. legitimized or non-legitimized co-determination rights and obligations within the wider stakeholder community. This includes discourse on the role of the state and its influence on the private sector. Right now, as we speak, cumulative US debt is piling up to USD 28 trillion and EU debt to just short of EUR 11 trillion.

We will feel the ongoing – and drastic – effects of limited availability of resources, and we'll see further regulatory intervention in this regard. The EU stands out as a global pioneer, for example with its "EU taxonomy for sustainable activities" or the "EU climate benchmarks and benchmarks' ESG disclosures". Companies would do well to embed sustainability throughout their activities and, where possible, turn it into a competitive advantage.

I also strongly believe that smart data management systems and AI-empowered data analysis in automated controls will offer a significant strategic advantage. Processing and auditing of authentic transactions is particularly relevant here. This type of blockchain will receive increased attention in corporate governance. Possible fields of application include real-time accounting, smart contracts or e-voting.

In the long term, companies can only survive if they operate sustainably. This isn't a new insight, but it's become even more evident during the coronavirus crisis. Management literature highlights a common feature of resilience: having sustainability as an important part of the company's purpose. Is this an observation you share?

Absolutely. Only sustainable business will be viable in the long run. Depending on the industry, this is of course more or less difficult to implement. But making no effort at all in this direction is simply not an option.

I think special attention should be paid to the shift in generational thinking. The word sustainability has real meaning for the majority of young people today – it's no longer just a cool trend, it's become a veritable life philosophy. The principle "less is more" and a return to what really matters are virtues and guiding principles that people increasingly apply in choosing where to work and what to buy. I'm witnessing this social change among my students as well as with my primary school-aged children. And it's been reinforced by the pandemic. The companies that best understand and anticipate the needs of this new generation of employees and consumers stand to benefit enormously.

Are market drivers or the increasingly ESG-motivated investor behavior not enough to ensure sustainable business models? Does the state really need to exert pressure in the form of new regulations?

Unfortunately, I would have to say yes. I am essentially a liberal at heart and wish that self-regulation would be more successful in this regard but that isn't the case, regrettably. People in general, and especially when it comes to their personal feelings and needs, seem unwilling to compromise. As I said before though, I have great faith in the new mindset and more considerate actions of the younger generation.

Some companies will have to rethink their corporate purpose in the long term as a result of these developments, won't they?

I sincerely hope that every company has already asked itself what the purpose and meaning of its business activities are. At the same time, this is an ongoing process that never really ends. It's important to have a sense for the relevant questions. Why do we and our services or products need to exist at all? Who will our future customers really be? Who will we inspire to work for us tomorrow, and how will we do it? Who or what supports us in our activities? Which stakeholders engage with us and for us, and why?

What's the relationship between sustainability and compliance for you? Some companies are already combining responsibility for compliance and sustainability within the organization.

Compliance is a very important element of corporate governance. As the second line of control, the compliance function shares responsibility for managing and monitoring a company's sustainability activities. Unfortunately, compliance has a somewhat battered reputation that doesn't do justice to the important role it plays. The term "second line of defense" is often used in the context of compliance, which, for me, is too passive and negative. I don't think compliance should be seen as a necessary evil, but as a way to better assess and improve systems and processes, and enable checks of compliance with standards and policies. The better compliance is embedded in the company, the more effective its impact – and this includes in relation to sustainability. Let me give you a concrete example: a well-designed, central compliance database can use AI-empowered data analysis to identify and actively prevent emerging regulatory violations throughout the group.



Successful and resilient companies also seem to have a strong corporate culture. What characterizes such a corporate culture? And how do you bring it to life, especially at the board level?

The board of directors, as the sounding board of the executive committee, sends important signals both internally and externally. Together with the executive committee, the board is regarded as a role model for employees and other stakeholders. In this function, I believe that the motto should always be “walk the talk”. A strong and positive corporate culture is one underpinned by a desire to participate as well as tolerance, diversity of ideas, trust and appreciation. I would welcome a bit more courage and innovation from top management at the strategic level. At its core, this is what makes a sustainable business model.

And that’s where the chairperson of the board of directors plays a key role, right?

Absolutely. Ultimately, she (or he) is also responsible for putting the board together according to various technical and cultural criteria. In an ideal world, this would be based on a system of shared values, social norms and symbols that are subject to constant common reflection. This enables all actors within an organization to feel actively involved – and to act accordingly.

Looking to the future, what skill sets will the board of directors need to have in 2030?

An old Chinese proverb says “When the winds of change blow, some people build walls and others build windmills.” A decisive success factor in future will be how innovative the board is in responding to circumstances, and whether it can then influence them. People are at the center; only then do content, structures and processes follow. And it is also people and their diverse profiles and backgrounds that make the board of directors an innovative and courageous corporate body.

A critical, reflective mindset and the utmost in independent free thinking are indispensable. I also truly believe that cognitive diversity is the key to successful innovative corporate governance. Only then can future-oriented issues be debated from all angles, allowing real solutions to be co-developed. Personal dedication and commitment also remain sure advantages throughout.



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