

Governance, Risk Management and Compliance (GRC) in Company Practice – the Role of the Supervisory Board

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Agenda

1. Introduction
2. Theory
3. Hypotheses
4. Methodology and Results
5. Discussion

Questions and Suggestions

References

Introduction

- Modern Companies face increased requirements regarding **governance, risk management and compliance (GRC)** mechanisms (*Tadewald 2014*).
- Concerning GRC, **supervisory boards** are believed to have a positive effect, furthering GRC activities (e.g. *Bezemer et al. 2013; Lin et al. 2014*).
- Recent studies suggest that other **contingency factors** – e.g. company size and family influence – might also affect company GRC activities (*Stiglbauer and Velte 2014*).
- Within the GRC context, **corporate compliance** is becoming increasingly interesting, as there exists an ongoing debate on the „how“ and „if“.
- Thus, the **research question** of this paper is as follows:

„Does the existence of a supervisory board positively affect the use of governance, risk management and compliance (GRC)?“

Theory

- **Agency theory** suggests that supervisory boards are implemented to monitor agents' activities (e.g. *Johnson et al. 1996*).
- **Contingency and complexity theory** further suggest that bigger organizations show increased levels of formalized management and control (e.g. *Flamholtz and Randle 2012*).
- Compliance is seen as a **task** for the supervisory board from the legal (*Fischhuber and v. Preen 2012*) and functional perspectives (*Härig 2011*).
- In the field of compliance, the **actor based view of management** and control can be applied. Thus, formalized management and control through supervisory board should enhance the probability of corporate compliance usage, institutionalization and interaction (e.g. *Desender et al. 2013*).
- Underlying conflict: **compliance vs. integrity** (e.g. *Laue et al. 2014*).

Hypotheses

Existence of Formalized GRC activities

H1: In companies with a supervisory board, there exists a higher probability of GRC activities.

Establishment of a Compliance Officer

H2: In companies with a supervisory board, there is a higher probability of the establishment of a compliance officer.

Use of GRC Instruments

H3: Companies with a supervisory board use GRC instruments more often than companies without a supervisory board.

Role of Actors for GRC management

H4: In companies with a supervisory board, other actors than the compliance officer play a more important role for GRC management.

Methodology

- In 2015, an **empirical survey of GRC** management activities in German companies was conducted.
- 1,792 companies were randomly extracted from the Hoppenstedt Database (now included in Nexis). 191 or 10.7% answered the questionnaire, **173 or 9.7%** could be used for statistical analyses.
- In addition, **five interviews** with GRC experts were conducted.
- The questionnaire included the **following areas**:
 - Context factors of GRC management;
 - Functions and instruments of GRC management;
 - Organisation of GRC management;
 - GRC management and company performance.

Sample

Legal form	65% GmbH; 23% GmbH & Co. KG; 9% AG; 1% KG; 3% others.
Industry	52% manufacturing, 17% retail, 12% construction, 9% services, 6% financing, 4% others.
Sales	3% < 6 Mio. EUR; 38% $6 \leq x < 60$ Mio. EUR; 47% $60 \leq x < 600$ Mio. EUR; 8% ≥ 600 Mio. EUR; 6% unknown.
Employees	3% < 30; 39% $30 \leq x < 300$; 45% $300 \leq x < 3000$; 8% ≥ 3000 ; 5% unknown.
Position	59% board members, 9% CCO, 8% CFO, 8% financial directors, 5% legal, 2% supervisory board members, 8% unknown.
Executive Board Structure	52% managers only, 27% mixed, 21% owners only.

Correlations

		Supervisory Board	SIZE0_99	SIZE100_249	SIZE250_499	SIZE500	FAMILY
Supervisory Board	Pearson-Correlation	1	,008	-,057	,060	-,026	-,234**
	Sig. (2-seitig)		,922	,458	,433	,737	,002
	N	173	173	173	173	173	173
SIZE0_99	Pearson-Correlation	,008	1	-,227**	-,217**	-,319**	,117
	Sig. (2-seitig)	,922	,003	,004	,000	,000	,126
	N	173	173	173	173	173	173
SIZE100_249	Pearson-Correlation	-,057	-,227**	1	-,305**	-,450**	,099
	Sig. (2-seitig)	,458	,003		,000	,000	,194
	N	173	173	173	173	173	173
SIZE250_499	Pearson-Correlation	,060	-,217**	-,305**	1	-,429**	,056
	Sig. (2-seitig)	,433	,004	,000		,000	,465
	N	173	173	173	173	173	173
SIZE500	Pearson-Correlation	-,026	-,319**	-,450**	-,429**	1	-,212**
	Sig. (2-seitig)	,737	,000	,000	,000		,005
	N	173	173	173	173	173	173
FAMILY	Pearson-Correlation	-,234**	,117	,099	,056	-,212**	1
	Sig. (2-seitig)	,002	,126	,194	,465	,005	
	N	173	173	173	173	173	173

Hypothesis 1 GRC Function – accepted

Model 1		
COMP_FUNCTION		
Dependents	β -Coeff.	Sig.
Independents		
SB	0,638	0,082 *
SIZE_100_249	0,033	0,952
SIZE_250_499	0,186	0,738
SIZE_>499	0,480	0,348
FAMILY_FIRM	-1,445	0,002 ***
Constant	-0,230	0,626
<i>Model fit</i>		
-2LL	218,150	
Cox and Snell R ²	0,116	
Nagelkerkes R ²	0,155	

β -Coeff. denotes the logistic regression coefficient, and Sig. gives the probability of the Wald statistic.

* Significance at the 10% level (Wald test).

** Significance at the 5% level (Wald test).

*** Significance at the 1% level (Wald test).

Hypothesis 2 Officer – **rejected**

Model 2		
COMP_OFFICER		
Dependents	β -Coeff.	Sig.
Independents		
SB	0,294	0,414
SIZE_100_249	-0,457	0,394
SIZE_250_499	-0,622	0,254
SIZE_>499	0,118	0,813
FAMILY_FIRM	-1,246	0,006 ***
Constant	0,202	0,660
<i>Model fit</i>		
-2LL	222,268	
Cox and Snell R ²	0,091	
Nagelkerkes R ²	0,122	

β -Coeff. denotes the logistic regression coefficient, and Sig. gives the probability of the Wald statistic.

* Significance at the 10% level (Wald test).

** Significance at the 5% level (Wald test).

*** Significance at the 1% level (Wald test).

Hypothesis 3 Instruments – **rejected**

	Model 3 COMP_CODEX		Model 4 COMP_REPORTING		Model 5 COMP_CHECKLIST	
Dependents	β-Coeff.	Sig.	β-Coeff.	Sig.	β-Coeff.	Sig.
Independents						
SB	0,268	0,490	0,437	0,270	0,048	0,906
SIZE_100_249	0,108	0,837	-0,881	0,178	0,006	0,992
SIZE_250_499	-0,296	0,575	-0,876	0,182	-0,752	0,267
SIZE_>499	0,879	0,087 *	0,185	0,734	0,224	0,684
FAMILY_FIRM	-0,690	0,089 *	-1,819	0,018 **	-0,798	0,142
Constant	0,382	0,402	-0,698	0,172	-0,950	0,066
<i>Model fit</i>						
-2LL	209,608		174,100		183,108	
Cox and Snell R ²	0,081		0,115		0,040	
Nagelkerkes R ²	0,110		0,169		0,060	

β-Coeff. denotes the logistic regression coefficient, and Sig. gives the probability of the Wald statistic.

* Significance at the 10% level (Wald test).

** Significance at the 5% level (Wald test).

*** Significance at the 1% level (Wald test).

Hypothesis 4 Actors – accepted

Dependents Independents	Model 6 CONTROLLER		Model 7 REVISION	
	β -Coeff.	Sig.	β -Coeff.	Sig.
SB	0,898	0,014 **	1,076	0,005 ***
SIZE_100_249	0,349	0,528	1,168	0,086 *
SIZE_250_499	0,371	0,506	0,720	0,296
SIZE_>499	0,953	0,066 *	1,362	0,033 **
FAMILY_FIRM	-0,580	0,179	-1,661	0,010 ***
Constant	-0,909	0,061	-1,801	0,003
<i>Model fit</i>				
-2LL	221,841		191,611	
Cox and Snell R ²	0,088		0,155	
Nagelkerkes R ²	0,118		0,215	

β -Coeff. denotes the logistic regression coefficient, and Sig. gives the probability of the Wald statistic.

* Significance at the 10% level (Wald test).

** Significance at the 5% level (Wald test).

*** Significance at the 1% level (Wald test).

Discussion

- For the **GRC function**, the existence of a supervisory board is a positive contingency variable. Family influence, on the other hand, is a negative contingency variable.
- Interestingly, the existence of a **compliance officer** is neither significantly affected by the existence of a supervisory board nor by company size.
- The use of **GRC instruments** is negatively affected by family influence and positively affected by company size. The latter effect shows itself only for companies with more than 500 employees.
- As for the compliance function, supervisory boards and family influence are also important influence factors for **GRC actors**.
- The study is **limited** by its **type** (quantitative) and **lack of interpretation**. Further studies should focus a qualitative, in-depth approach.

Questions and suggestions



References

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Back-up: Constructs

Supervisory Board (SB)

Existence of a supervisory board was measured by a 0/1 dummy variable.

Company Size

Company size was measured in four categories to be able to determine size effects. 0-99, 100-249, 250-499 and >500 employees. 0-99 was used as reference group for the statistical analyses.

Family Influence

Family influence was measured by using a broad approach. The broad approach FAMILY included all companies with a family ownership of more than 50%, regardless of the management structure.

Back-up: Constructs

Compliance Function

Existence of the compliance function was measured by a 0/1 dummy variable.

Compliance Officer

Existence of a compliance officer was measured by a 0/1 dummy variable.

GRC Actors

Importance of other compliance actors was measured by a five-point Likert scale. Data were then recoded to represent a 0/1 dummy variable (1-3 → 0; 4-5 → 1).

GRC Instruments

Usage of a catalogue of 8 corporate compliance instruments was measured by a 0/1 dummy variable.