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Malik is the author of more than ten award-winning bestsellers including the classic Managing Performing Living. He pens regular columns in opinion-forming media. He is among the most cited and profiled management thinkers of our time. His numerous awards include the Cross of Honor for Science and Art of the Republic of Austria (2009) and the Heinz von Foerster Award for Organizational Cybernetics of the German Association for Cybernetics (2010).
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Süddeutsche Zeitung

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Fredmund Malik

The Right Corporate Governance

Effective Top Management for Mastering Complexity

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Part II

Introduction to the English Edition

Rarely before has a greater doctrine been spread in so short a time as the American doctrine of shareholder value and stock-market-related value creation as the central factors of corporate governance. Rarely before was anything also proclaimed with so much smugness and self-righteousness as this false doctrine. It is wrong and damaging for the management of a company.

It would have been possible to leave the question unanswered for a while as to whether the shareholder value doctrine is suitable as a management philosophy, at least for the USA itself. But the scandals and corporate collapses indicate the opposite, and so far it is also not possible to see that the correct steps for corporate management are being taken.

The damage that has already been done all over the world is immense; but even more is probably yet to come. The financial losses are not even the most important thing, although these, too, are larger than at any other time. It is the immaterial damage that counts. Much more significant than the money are top management's loss of credibility and the loss of trust in the senior management of large corporations. Added to this is the far-reaching miseducation of two generations of managers, who have learned nothing apart from the doctrine of shareholder value and who are incapable of imagining that it is false and that there are alternatives to it. They are so miseducated that the necessary retraining is difficult or impossible.

In the meantime, doubts about the magic recipes have spread. Lack of orientation and perplexity have arisen; the result is helplessness. According to temperament, what follows may be either lethargy or activism. It is time to stop imitating American management methods, in particular those for corporate governance.

Two errors in reasoning have led to the naïve imitation of seemingly superior US management methods. The first is that the US economy is strong. In fact, it is merely large. The second error is to believe that the reason for this strength is that the management of US companies is good and superior to management all over the world. In fact, American management can only be used where it has to deal with simple conditions. For complex, multicultural, or even global tasks it is unsuitable and damaging.

The US economy is in a desperate state, which is disguised by wrong figures, tendentious media reporting, and a dubious economic theory. Neither the growth rates for the economy nor the employment figures are correct; the profit figures for companies are not right and the economic recovery is not worth mentioning when it is compared with the six recessions since the Second World War. The theory of economics dominant in the USA, that of the "asset-based, wealth-driven economy", is one of economics history's ironies.

America has large companies that impress managers around the world and stimulate imitation. The USA does not owe the size of its companies to the quality of their management. US companies are large because they have something that has never otherwise existed in a developed country, namely, a big and largely homogeneous domestic market. It is no wonder that large companies arise where there are about 290 million consumers who all speak the same language, who pay in the same currency, and who, to a large extend, have a mentality which makes the consumers receptive to uniform advertising and promotion and which makes uniform product design possible. Management is simple when there are no customs frontiers to be overcome and where regulations and tax laws are all the same. None of this existed in Europe until a short time ago. We can only envy the Americans for their comfortable situation; we shouldn't imitate them.

The export quota of the typical US company is small or nonexistent; that of the typical European company is large. America is an importing nation; Europe lives from export. Where English is not spoken, the USA is by no means, as people like to believe, the center of global thought and business activity. On the contrary, the center lies where more than five hundred years ago business relations existed with China and Japan, without E-mail, cell phones, and jet planes, and where hardly any fuss is being made about globalization because it has long been nothing particularly new. That center is Europe.

For the reasons mentioned, it is much easier to manage a large company in the USA than in Europe. There is therefore no cause to look at America in order to learn about management for complex situations. American management is like doing the standard compulsory figures in ice-skating; managing a large company in Europe is like doing the more demanding freestyle.

As a result of the shareholder value doctrine, a type of manager has reached the very top of major companies who previously would hardly have had a chance: the money-driven manager, who is unable to distinguish the logic of the real, nonfinancial economy from that of the financial economy, because for him the only thing that exists is what can be quantified in money. This type of manager could be described as the *monetarist manager*. This has little or absolutely nothing to do with good corporate management. Genuine management begins in any case where quantification, especially quantification in money, is no longer possible but where nevertheless decisions and action have to be taken.

Consistent in his error, the monetarist manager believes that the supreme goal of a company is profit, because he is not able to see that in a market economy there are essentially no profits but only costs: the costs of current business and the costs necessary to stay in business. This type of manager is also not capable of distinguishing between dealmakers and genuine entrepreneurs or between the company as the object of crafty financial moves and the company as a productive social system.

The shareholder value doctrine has failed and what is thought to be its salvation, the stakeholder approach, is a step backwards. The americanized managers with their MBAs will now have to change their ideas quickly and fundamentally. They will have to construct a completely different notion of the company which does not focus on interest groups, either shareholders or stakeholders, but on the company itself. The company itself, its health, and its viability have to form the criterion for corporate governance.

Those managers holding an MBA will also have to learn that managing a company does not consist in solving case studies but in exactly the opposite, namely recognizing where what case could be brewing. If everything can be put down in writing nice and neatly in a case study, a case is no longer a problem but merely the carrying out of work. If a business plan à la business schools can be drawn up, others have long done the work, because they reacted to the faint signals instead of waiting for the ten-year cashflow analysis. Business administration is what the name says it is: *administration* and not anticipatory, entrepreneurial, or even strategic action.

This generation will find that the orienting factors propagated around the world as ultimate truths – shareholders, stakeholders, value creation – are in fact the opposite, namely disorienting factors. For this reason, lack of orientation and perplexity are already to be seen in top management; they are less and less easily concealed, even if still glossed over with posturing and showing off.

Preface to the English Edition

In this book I take a view of corporate governance that is fundamentally different from the more or less prevalent view taken in the second half of the nineties. To a major degree, it is diametrically opposed to this latter view. Right from the very beginning, and unlike virtually everybody else, I have taken as my point of departure not wealth for the shareholders but the ability of the company to perform. My thoughts have been focused on the strong, healthy, and viable company and on the question of how it should be managed and supervised.

There have been comments on the subject suggesting that there are no real but only apparent differences between the two ideas – shareholder value on the one hand, and the high-performing company on the other. It has been said that in fact they are the same thing or are very closely related. Above all, it has been claimed that an orientation to shareholder value necessarily and automatically produces a healthy company. I have always had a different opinion and, for logical and empirical reasons, have never accepted this latter view.

It is now being shown, in a fairly dramatic way, that this view is in fact utterly wrong; that not only is it not correct, but that actually the opposite has happened: the shareholders have become poor and the companies weak, and some of them are in a desperate state.

The inspiration for this book came from Germany. However, I did not want to confine myself to the situation in Germany but wished instead to consider the topic of corporate governance on a broader basis. The legal context in different countries certainly varies, but the management issues are the same everywhere, and to a large extent the answers are also the same. Management forms and styles may differ, but in the end there is only one kind of management; namely, good and effective management. In my view, that can be achieved everywhere regardless of the differing legal contexts.

I have thus chosen a general terminology and use the expressions *governing body* or *corporate governance* for the German or Austrian supervisory board and also for what, in my view, the Swiss administrative board has in common with it – and for what they should both be doing. The term *executive body* relates to the role of the board of German or Austrian joint-stock companies, the management of companies with limited liability, and Swiss businesses, which are normally joint-stock companies. *Top management* and *corporate management* almost always mean both of these bodies unless it is clear form the context that is not the case.

This book necessarily deals with the corporate management of a business, for the governing body cannot be understood nor logically controlled without the executive body, and vice versa. It is however written primarily from the perspective of and with regard to the governing body. For this reason, important topics relating solely to the executive body are not considered here. Executive top management alone would of course justify a book in itself, and thus the aspects examined here are primarily those regarding the *interaction* of these corporate bodies.

The basic premise of this book is that corporate governance *can* and *should* manage – in a quite specific sense of course and while upholding the executive body's integrity and ability to function. In countries with a one-tier corporate management structure, this is self-evident. What is not always quite so clear, however, is how this should be done in practice. In countries with a two-tier system, this topic may initially prompt certain skepticism or even be perceived as provocative. Nonetheless, I consider it essential to strive for this solution for reasons that I hope will be made clear in this book.

My intention is not to produce another scientific treatise to add to the scores already in existence. This book is instead intended as a practical guide to the effective design of corporate management and in particular corporate governance. Hence, special cases and exceptional situations are not discussed.

Since the heart of the trouble as I see it is not the advisory bodies as such but the errors of corporate governance, I have changed the original title of this book by making what was previously the subtitle into the title. In that can also be found the starting points for the required reorientation and for the restoration of the economy to a healthy state. However, the key to right and good governance is, of course, the top management, its executive body, and its supervisory body. It is the supervisory body that has the final responsibility; it is there that the expert knowledge is needed; it is there that the courage has to be shown to take a stand against the trends of the day and the idiocies of fashion and, something that is seldom appreciated, it is the supervisory body that is the correcting mechanism that operates in advance of the market. The market does work, but there are important ways in which it works too late. The market does not prevent mistakes, it simply punishes them. They have to be prevented by the top management and, in the final analysis by the supervisory body.

The first edition of this book appeared in German at the beginning if the period when a whole system of errors and misunderstandings relating to the term corporate governance, at the center of which was shareholder value, was being generally propagated.

For the second edition, which appeared (also in German) at the end of 1998 or, in other words, in the middle of the great stock exchange boom, I wrote in the preface that the growth in the American economy appeared to be an exception to the general stagnation, but that in fact the potential there for an implosion or for instability had become not smaller but greater. Those were the days when people still believed that in the "New Economy" there would never again be any cyclical ups and downs, and one well-known economist took the view that "this expansion will run forever".

The third edition, which is here translated into English, appeared at the beginning of the phase of disillusionment and doubt about the correctness of shareholder value as a guiding principle for sustainable corporate management. My view is that that really does mark the beginning of the end for this economic and management paradigm. I mentioned the short life that could be conjectured for it in chapter 4 of this first edition of this book. There are more and more indications that its decline could be accompanied by a collapse of those economies that believed this approach should be followed with particular exactness. There have already been some initial cases of this.

I saw no reason to make any amendments to the text of the book. The Great Transformation of business and society that is described in chapter 3 is in full swing. Neither at the time nor now was there any reason to interpret this as any sort of "New Economy", even though, by the time it comes to an end, we shall probably have a New Society. And the errors of management described in this book are continuing to be made, though in some cases under different names. As I mentioned in the preface to the second edition, they have also been joined by a few more.

Rather than making amendments to the text, I have written a detailed new introduction, in which I start by giving a summary of the position I adopt and relate it to the developments since the book first appeared.

I have also added two appendices, in which I discuss two particular subjects in detail. The first of these subjects is the fact that the much-lauded American economic miracle was not a genuine miracle but a phony one. This is an important point because the American economy, which appeared to be booming in contrast to the stagnating economies in Europe, was the strongest argument in favor of the claimed superiority, and hence the spread of the shareholder value theory, as well as the sort of corporate governance that was based on it.

The second appendix is a discussion of the other "miracle" that the advocates of the wrong sort of corporate governance appeal to for support, that of the "New Economy". Both these miracles have proved to be deceptive mirages; unfortunately though only after the false management doctrines based on them had had their effect.

The book is divided into two parts. The first part considers the direction in which corporate governance should develop and why. Chapter 1 raises the question whether corporate governance should manage. Chapter 2 looks at how the governing body functions today and where its functional shortcomings are. The third chapter considers the question of whether corporate governance is equipped for the future, even if one feels it has been so in the past and is in the present. It also looks at whether corporate governance is properly prepared and effective enough for the radical changes currently experienced by economy and society in almost very country, for what I call the Great Transformation. Chapter 4 is devoted to the question of the standards by which an enterprise should be managed and in whose interest an enterprise should be run, regardless of industry and business area. It is in my view essential that the governing body should be involved in clarifying these issues and have the last word in answering them. Following this, the fifth chapter discusses the variables and benchmarks for assessing a business, in particular in the light of the question of what a healthy business is and how its health can be assessed.

The second part looks at the "what" and "how" of corporate management. Chapter 6 provides a brief overview of the elements of the company constitution (also known as corporate bylaws). Chapters 7 and 8 consider the issues surrounding the formation of supervisory and executive bodies, their roles, how they function, and the principles for their effectiveness.

Chapter 9 takes a view on the differences between management and leadership, the latter of which is threatening to become a fashion trend. It is precisely the top corporate bodies that need to look very closely at this difference, for it is from the top of a business, if anywhere, that leadership stems. Chapter 10 goes to the very heart of the problems of power, responsibility, and liability. And chapter 11 examines the key issues of personnel selection and recruitment to the most senior positions.

The book is thus intended first and foremost for top managers and for all owners of company shares. It should further be of interest to anyone who has to work with senior managers or those on the higher managerial echelons. And finally, it may well be of use to anyone with a broad interest in general business management or who has to take an interest in it for professional reasons – for anyone who has any interest in a well-functioning economy and society.

The economy is unmistakably in a phase of experimentation. Solutions need to be found for new problems, and seldom before has it been possible to study attempts to do so and the effects of them so well. The basic tasks of corporate governance I describe in this book are therefore still highly topical.

A brief word about individuals' and company names: descriptions of actual cases and examples would perhaps have been useful illustrations in the book, and may also have pandered to the public's taste for sensation. However, I have exercised extreme restraint in this regard. Although I am quite familiar with a few real-life examples of dramatic failure by supervisory and executive bodies, I do not think it is right to detail dates, facts, and names. It is my opinion that name-dropping does not provide any useful information; furthermore, it could wrongly implicate people whose involvement was not causal, and in many cases even the person actually responsible may previously have produced excellent performances in other domains. As I will establish, success and failure do not depend solely on people but also and to a considerable extent on the situation in which they are placed – a situation that they all too often did not seek out. In the final analysis, this is no excuse; the consequences of failure cannot be ignored. However, people and situations must be considered in close relationship with each other.

That is precisely what why I make no attempt to improve the effectiveness of corporate governance primarily by *people-driven* proposals, but instead by *constitutional* controls. This thinking pervades the whole book and is, as I am often able to see at first-hand, largely a new concept for business managers with a technical of scientific background. Lawyers in contrast have no problem in accepting it. They know from their own discipline that if anything will work, a constitutional solution will.

Where I do name people in this book, I have abided by the following principles: first, the people are no longer alive – in fact in most cases they died quite some time ago. I know there is huge interest in examples of today, but in my view a certain chronological detachment is needed to be able to come to a relatively reliable assessment of someone's performance. In the media world of today, judgments – and prejudices – are, it seems to me, made too hastily and without proper thought. Second, other than a few exceptions, which seem well justified, I have only mentioned people in positive terms. Third, I only use the names of people where I believe I have studied their lives in sufficient depth to be able to form an opinion. I have no truck with the popular game of "name dropping". Based on these principles, I hope I have dealt fairly and honestly with a topic that is discussed almost exclusively in terms of personal categories.

The views expressed in this book come from a number of sources. They stem from experience I have gathered in my professional activity with top management bodies as a consultant and as an active member. A further source is the numerous talks with managers who are on governing bodies or who work with governing bodies as executive managers. Furthermore, the content of all the chapters in this book have formed the material of countless lectures and above all seminars I have held for thousands of managers over the past twenty years. I have been able to learn a great deal from the ensuing discussions, and in this perspective, the views expressed here and the suggestions proffered have most certainly been put to the test. Without any false modesty, I would also say that a large number of current managers and entrepreneurs have told me that these seminars have helped them gain a new and better perspective.

I would like to thank the many managers with whom it has been possible for me to discuss the problems of corporate governance in seminars and at lectures and whose critical attitude demonstrated that they had quickly and rightly become concerned about the direction in which things were developing. They became so because their experience told them there was something about this loudly trumpeted new type of corporate management that could not be right.

Although they were also obliged to pay lip service to what the stock-

exchange analysts were saying, they managed their companies from totally different and correct points of view. They kept quiet for a time for tactical reasons, because they needed to spend their time on something more important, namely on managing their companies well. And perhaps they did not always have their counterarguments ready to hand, neatly grouped and organized, particularly when the "experts" tried to make a big impression with complicated formulars for calculating things. What they had instead, though, was a great sense of what is right and what is not, which is perhaps the most important ability that competent managers can have. Also influential in writing this book was the outcome of discussions stretching over one and a half years in a focus group initiated by Dr Dana Schuppert and run by Mr Hans-Wolfgang Pfeifer on the functioning of the German supervisory board. The following people belonged to this focus group: † Dr Dr hc Reinhard Goerdeler, accountant and solicitor, Dusseldorf; Dr Wolf R. Klinz, deputy chairman of the board of Lurgi AG, Frankfurt am Main; Dr Heiko Lange, member of the board of Deutsche Lufthansa AG, Frankfurt am Main; Dr Frank Niethammer, president of the Chamber of Trade and Industry, Frankfurt am Main; Dipl.-Ing. Dr-Ing. Eh Hermann Franz, chairman of the supervisory board, Siemens AG, Munich; Dr Guido Sandler, personally liable shareholder Dr A. Oetker, Bielefeld; Dr Horst Teltschik, member of the board of BMW AG, Munich; Rüdiger von Tresckow, Palm & Partner, Frankfurt am Main; Dr Udo N. Wagner, member of the board of ABB AG, Mannheim.

I would also like to thank Professor Dr Hans Siegwart for reading the manuscript with the critical eye of the business manager and experienced administrative board member, and for his valuable suggestions. My thanks also go to Ms Ruth Blumer for her typing, and to Mr Hans-Wolfgang Pfeifer for his patience. He could not believe the number of manuscripts passed to him. I would also like to express my special gratitude to Dr Dana Schuppert, who ensured with such kindness and determination that I actually started and finished this book. She performed her task of coach judiciously and efficiently.

Terminological Aspects

The discussion about corporate governance over the past ten years has been strongly influenced by the juridical perspective. At the time when corporate law in most of the highly developed countries came into existence, one actually knew little about corporate management. This fact dominates the legal standards and how to deal with them until today. Particularly the latest reforms, which have been implemented under the influence of the corporate governance debate – and above all under the pressure of corporate governance scandals – show how little modern knowledge about management has been incorporated into legal reforms.

I wrote this book accordingly from another standpoint, namely, from the perspective of management. Only when the question of what is effective and good business leadership is answered can a comprehensive body of legislative norms within the framework of the general legal system be created. One of the many results of this book has been hereby proved: that effective management is possible under all current legal systems as they developed, as different as they may be, especially when one compares the Anglo-Saxon and the German laws.

Proper management does not depend on the technical terminology within the individual legal systems. I have therefore not paid special attention to the question of terminology and intentionally use general concepts, based on German usage, throughout. Nevertheless, the English-speaking reader may find the following definitions helpful:

Top management: The highest leadership organ or body, including both the executive and supervisory bodies together, independent of any particular juridical conceptualization.

Corporate governance: The institution that oversees the managing executive body of a corporation to ensure that the latter is fulfilling its mission and running effectively vis-à-vis internal and external factors.

This term is used interchangeably with *governing body* and *supervisory body*.

Executive body: In the German joint-stock company (AG), the board of managers (*Vorstand*) in its entirety; in the company with limited liability, the top managers (president, chief executive officer, etc.) as a whole. In other legal systems there are other combinations between the executives and the advisory board.

Supervisory body: In the German joint-stock company, this is the advisory board (*Aufsichtsrat*), also referred to here as the *governing body*. It is comparable to the Anglo-Saxon board of directors. In other legal systems there are combinations between executives and the advisory board.

Chairman of the governing body: In German, the chairman of the supervisory board (*Vorsitzender des Aufsichtsrats*), comparable to the chairman of the board in English. Under German law there is no connection between the chairs of the executive and supervisory bodies, as there is between the chairman of the board and the CEO.

Board of managers: In German this is the *Vorstand*, or executive board. These managers fulfill their duties as a collective, and their liability is collective as well, regardless of their internal organization.

Chairman of the board of managers: There is no comparable position in the Anglo-Saxon community; the best parallel would be the CEO. The German *Vorsitzender des Vorstands*, however, is not at all related to the CEO, even though that is often claimed on business cards and other documents. The realm of powers of the CEO are large, nearly limitless; those of the chairman of the board of managers are very small. He leads the meetings of the board of managers and coordinates the domain of the *Vorstand*; he is however not the superior of its members and has no supervisory authority over them. The members are appointed and recalled by the so-called governing body (*Aufsichtsrat*). Disciplinary questions are handled by the supervisory board, in most cases in a committee.

Preface

This book was written for *practitioners*, in particular those in charge of the overall governance of organizations, who are determined to carry out their task with diligence and to manage correctly and well. These can be practitioners in any function: members of administrative and supervisory boards or executive officers and their shareholders. It is intended, above all, for those who will not content themselves with fulfilling legal diligence duties, but who strive for entrepreneurial success, nothing less.

Current corporate governance practices are far from achieving that. In my view, virtually all business failures since the mid-1990s have been caused in one way or another by the kind of corporate governance that emerged at that time. Owing to the current corporate governance theory, *wrong* corporate management has been legitimized as "best practice" and disseminated through negligent consulting practices, executive searches, governance ratings, as well as through Wall Street marketing, MBA programs, and a host of business media. I use the term "negligent" because, contrary to widespread opinion, it is very well possible to define what *right* corporate management is. My understanding of it is laid out in this as well as my other books.

Successful companies are successful because in essential points – and without violating any rules – the way they are managed is altogether at odds to what today's corporate governance standards suggest. Therefore, a right and sustainable way of doing business requires radical reforms: the present corporate governance theory needs to be turned around by 180 degrees, specifically when the interests of real shareholders – not those of investor-type shareholders – are to be protected and high returns are to be achieved.

I would not venture such statements were I not able to base them on many years of personal experience as a member and chairman of several top management and governance bodies, where I have been able to see what right approaches and what wrong ones are, what is feasible and what is not. From an outsider's point of view, it is impossible to make a reasonable judgment of the professionalism and effectiveness of such panels; much less is it possible to form an accurate opinion based on the numbers in published accounts. External ratings are therefore presumptuous. But even supposedly scientific surveys, though they may be based on interviews with experienced individuals, do not permit an objective, fact-based judgment.

It is my contention that, in the absence of any personal experience, it is impossible to acquire a sound knowledge of how top management bodies and corporate governance function and that, consequently, it is just as impossible to judge them or make workable suggestions for improvement. The information required in order to do so – not to mention the necessary theoretical knowledge – can only be gained in many years of active participation in such bodies in a responsible function, preferably not only in good times but also in periods of crisis. I have repeatedly experienced such crises, and there have even been cases where the problems were beyond solution because earlier mistakes and failures had done too much damage.

It is only in situations like those that one will truly experience the reality of corporate governance, and that the true nature of those in charge, their skills, character traits and personalities will be revealed. This is where courage and cowardice, competence and failure come to light – and where it is made very clear what *true* leadership is, as opposed to the naïve and deluded theories that have become fashionable; for it takes a crisis to prove true leadership. It will become evident what works and what doesn't when there is maximum complexity, dynamics, and risk. In circumstances like these, people learn to appreciate the value of knowing the laws of science, which reliably help us to master complexity and to find solutions even where others have long given up trying. With existing corporate governance and the constraints it imposes on management bodies, it is possible neither to master a crisis nor to take advantage of entrepreneurial opportunities – which is just as important.

This book was written at the time when the general corporate governance debate was beginning to intensify. Back then I already had plenty of hands-on top management experience, which I had gained by closely working with companies and corporate leaders, actively participating in top-level management boards, and pursuing my own entrepreneurial activities. Its substance is still valid today.

Some of my key suggestions have been taken up by practitioners, for instance with regard to the size and composition, workings, and management of supervisory boards. Another thing that has largely been implemented is the much-needed two-tier structure of corporate governance, which has been fully established in the UK but not in the United States. In other crucial points, such as the substance of right and good management, current corporate governance practice is still off the track or has not found the courage to formulate clear statements.

I have added a new introduction to this book in chapter 1. It should help readers to get an overview of the major developments that have taken place since the book was first published, and what developments have been missed.

Apart from this book's practical relevance, the reason it remains valid and relevant is that the issues it deals with differ greatly from those generally addressed in the general corporate governance debate. The central question here is: what is right and good corporate governance? In other words, this book is about what top managers need to do to ensure proper corporate governance.

That is in stark contrast to the prevalent view of governance, which chiefly focuses on legal and financial aspects. My aim is not to remind readers of the formal rules of the Stock Corporation Act; rather, I am getting deep into the question of how companies, and thus the business world as a whole, can function properly in a society and a world that are increasingly complex.

Needless to say, good corporate governance will always occur within the boundaries of the relevant legal framework, and will always have to involve financial considerations. Both, however, must be derived from a concept of right governance, not the other way round. After all, the success of corporations is a result of their standing the test of the world market – with globalized business, science, and technology changing at an unprecedented pace, combined with the realities of a radically transforming society. Business success is never a result of a company's abiding by the law, the basic principles of which (despite numerous amendments) go back to as far as the early 20th and even the 19th century.

In other words: the provisions of the law and the corporate governance codes will have to be adapted to the functional principles of institutions that form parts of highly complex global systems, not vice versa. The functional principles of mastering complexity are governed by the laws of nature, just like the functional principles of technology. And the laws of nature cannot be changed with legal provisions and codes.

Wherever this simple fact is not accepted, there will soon be no business sector at all, nor a functioning society, because other countries are able to shape their rules with a view to the future and to align their institutions with the complex circumstances of the 21st century, not with the past.

This book, and my entire work for right and good management, have been influenced by my day-to-day work with practitioners – top managers, entrepreneurs, and those working with them most closely – as well as by my own activities as an entrepreneur and as the owner of the largest and leading Swiss firm in the field of top management consulting and education.

In over 30 years I have probably met more executives than most other people ever will, working with them, giving them advice, and training them in all matters of corporate general management, corporate policy and strategy, structural and organizational issues, corporate culture, and in building top management teams as well as functioning governance bodies. The positions I espouse in this book have proven their worth in hundreds of cases, having been applied in cooperation with managers and entrepreneurs. As for the scientific basis for these views, I provided them in my 1976 professorial thesis entitled *Strategie des Managements komplexer Systeme* ("Strategy of the Management of Complex Systems"). In the same thesis, I also explained and provided my reasoning for why cybernetics, as a science of control, regulation and steering, is the only valid foundation for functioning management and why the economic sciences fail to provide that foundation.

Ever since then, building on the foundations laid in my thesis, I have developed and tested a comprehensive, universal, and modular general management system, published it in several books, and created the organization required for its implementation, with the world's largest staff of general management experts operating from an international office network.

The rapidly increasing complexity of all societal systems calls for professionalism in the management profession, applying technical and conceptual standards of the kind that has long been known for all sophisticated professions. There should be no room for wrong theories, for fashions, and for rotten compromises. Functioning reliably under the conditions of high and increasing complexity should be the maxim for the 21st century:

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this is how we can prevent evolution from being destroyed by stagnation or revolution.

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