

A PARADIGM SHIFT IN GERMAN CORPORATE GOVERNANCE: THE IMPLICATIONS OF THE GERMAN CORPORATE GOVERNANCE CODE REFORM FOR SUPERVISORY BOARDS

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How to cite: Ulrich, P. (2026). A paradigm shift in German corporate governance: The implications of the German Corporate Governance Code reform for supervisory boards. In A. Celentano, A. Kostyuk, S. Dell’Atti, & G. Giovando (Eds.), *Corporate governance: Multidisciplinary research* (pp. 18–22). Virtus Interpress. <https://doi.org/10.22495/cgmrp3>

Received: 21.11.2025
Accepted: 24.11.2025
Keywords: Corporate Governance, Germany, Sustainability, Supervisory Boards
JEL Classification: K22, G34, M14
DOI: 10.22495/cgmrp3

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Abstract

The forthcoming revision of the German Corporate Governance Code (*Deutscher Corporate Governance Kodex, DCGK*) marks a potential paradigm shift in the architecture of corporate oversight in Germany. Over the past years, a series of legislative reforms — including the German Act on the Stabilisation and Restructuring Framework for Businesses (*Gesetz über den Stabilisierungs- und Restrukturierungsrahmen für Unternehmen, StaRUG*), the Financial Market Integrity Strengthening Act (*Finanzmarktintegritätsstärkungsgesetz, FISG*) and the Corporate Sustainability Reporting Directive (CSRD) — have significantly expanded the regulatory framework within which boards are expected to operate. Risk management, the Business Judgement Rule, and the integration of *sustainability into corporate decision-making* have moved from peripheral considerations to core elements of responsible leadership (Institut der Wirtschaftsprüfer, 2020; Gleißner & Haarmeyer, 2024). For supervisory boards, this means that their monitoring and advisory duties are becoming both more demanding and more legally sensitive. In this environment, the DCGK increasingly functions as a litmus test of whether German governance practice is capable of

learning and adapting — or whether it remains confined to well-intentioned but vague principles.

1. RISK MANAGEMENT AS A GOVERNANCE IMPERATIVE

Recent analyses, including those by Bantleon et al. (2025), indicate that the current DCGK insufficiently reflects the substantial legal innovations introduced by StaRUG and §93 of German Stock Corporation Act (*Aktiengesetz, AktG*) with respect to risk and crisis management. While the Code reiterates the general responsibility of the management board and the supervisory board for proper corporate governance, it remains notably unspecific regarding concrete duties, thresholds, and methodological expectations. Critical components of modern risk management — such as risk quantification, risk aggregation, scenario simulation, and the systematic evaluation of alternative courses of action — are largely absent. Yet these tools are central to meeting the statutory requirements for early crisis detection and prudent management action.

Under StaRUG, boards are not merely expected to maintain a formal risk management system but to ensure its *functional effectiveness*. This means that supervisory boards must move far beyond qualitative assessments and intuitive judgments. The operative standard is shifting towards *evidence-based governance*, characterised by quantifiable metrics, transparent assumptions, and structured decision support. A supervisory board that continues to rely on qualitative impressions risks not only flawed strategic decisions but also jeopardises its own legal protection under the Business Judgement Rule. The loss of board discharge — historically rare — becomes a real possibility when information deficits are attributable to insufficient oversight (Gleißner & Haarmeyer, 2024).

2. CRISIS PREVENTION AND THE EXPANDED ROLE OF SUPERVISORY BOARDS

The duty of early crisis detection introduced by StaRUG fundamentally alters the boundary between supervision and shared responsibility (“*Mitverantwortung*”). Supervisory boards can no longer limit themselves to reactive monitoring; the legal standard now requires *proactive crisis prevention*. This includes defining thresholds for developments that may threaten business continuity, establishing and reviewing early-warning indicators, and ensuring regular, complete, and escalation-based reporting by management.

Where information is incomplete, delayed, or insufficiently validated, the supervisory board’s own oversight becomes questionable. Liability risks today arise not only for executives but also for supervisory board members. Consequently, scholars and professional bodies highlight

the need for a *new information culture* characterised by completeness, neutrality, and verifiability (Deutsches Institut für Interne Revision [DIIR], 2023; Exler et al., 2023). Standards such as the DIIR Revision Standard 2.1 and the ICV GoP 3.0 emphasise the close coordination among controlling, risk management, internal audit, and supervisory oversight. This integrated approach is indispensable for meeting modern regulatory expectations and ensuring effective crisis governance.

3. SUSTAINABILITY AS AN ECONOMIC AND GOVERNANCE REQUIREMENT

Sustainability has become another focal point of contemporary governance, particularly through the EU’s CSRD and the emerging standards of the European Sustainability Reporting Framework. Yet sustainability must not be treated as a symbolic or moral accessory. Instead, it must be grounded in economic logic and linked to long-term value creation (Eccles & Klimenko, 2019). Supervisory boards play a decisive role in ensuring that environmental, social, and governance objectives are integrated into the core corporate strategy rather than existing in isolated “parallel worlds”.

In practice, this integration means that sustainability-related opportunities and risks must be embedded into the existing risk management and performance measurement systems. Supervisory boards must critically evaluate whether sustainability initiatives are consistent with the company’s *risk-bearing capacity* and *cost of capital*. Persistent returns below risk-adjusted capital costs create credibility risks — both for investors and employees — and may indicate flawed capital allocation or misguided strategic direction (Koller et al., 2020). Sustainability devoid of economic rationale is not a virtue; it becomes a risk category in itself.

4. SUPERVISORY BOARDS AS NAVIGATORS OF RESPONSIBLE CORPORATE LEADERSHIP

These developments collectively transform the role of the supervisory board. It is no longer sufficient to be a passive controller; supervisory boards must evolve into *active navigators* of risk-aware, sustainability-oriented, and value-based corporate management. This expanded role demands deeper expertise, genuine independence, and the willingness to challenge assumptions and articulate uncomfortable truths (Institut der Wirtschaftsprüfer, 2020). Effective governance requires supervisory boards to interrogate information, understand complex scenarios, and insist on demonstrable effectiveness.

Governance is thus not a discipline of courtesy but one of scrutiny and comprehension. Supervisory boards must cultivate an environment in which management information is not merely accepted but critically examined. This includes the expectation that supervisory boards possess sufficient competence to understand the methodologies of risk management, sustainability metrics, and financial valuation. The emerging governance landscape requires continuous learning: board members must invest in their own qualifications to meet evolving legal and professional standards (Organisation for Economic Co-operation and Development [OECD], 2023).

5. BEYOND COMPLIANCE: TOWARDS A FORWARD-LOOKING GOVERNANCE CULTURE

The era of passive oversight is coming to an end. Supervisory boards are no longer peripheral actors but drivers of a renewed governance culture in Germany. The revised DCGK must, therefore, avoid the trap of becoming a symbolic document. Instead, it must articulate *clear duties*, *measurable standards*, and *substantive expectations*. Corporate governance that is taken seriously transforms foresight into an obligation and responsibility into the measure of success.

Only through such a shift can German corporate governance support a resilient and value-oriented economy — one that earns trust not by reacting to crises but by anticipating them. The DCGK's evolution thus offers a unique chance: to establish a governance culture that is competent, courageous, and genuinely forward-looking.

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