

Challenges of Supervisory Boards

Results of BCG's 2018 Survey of German and
Austrian Supervisory Boards

Foreword

Rethinking supervisory board activities

Technological changes and their economic implications are bringing about dynamic changes in industries and markets. This presents new challenges not only for management but also for supervisory board members. How do the new conditions impact the focus and setup of the supervisory board's work?

We surveyed 120 supervisory board members in Germany and Austria to find out. This report provides an overview of the results.

The results show that today's supervisory boards want not only to monitor, but also to actively shape the change. The focus is increasingly on strategic activities.

But the setup of supervisory board work also has to change. The survey clearly shows that new competencies are needed. The board has to work more intensively in committees and focus its agenda and formats more consistently on strategic topics. Faced with an already heavy workload, the board must discuss its setup systematically in order to develop it further and increase its effectiveness.

Agenda

/01

Who did we survey?

/02

Which activities do supervisory boards focus on?

/03

How do supervisory boards work?

/04

How satisfied are supervisory board members?

Who did we survey?

101

Largest survey of supervisory board members to date

For our study, we wrote to 339 supervisory board members in Germany and Austria; 120 of them responded to us. To prepare, we first interviewed more than 20 successful and experienced supervisory board chairs from large German firms.

The companies involved come from various different industries and size categories. Around one in three of them are family owned. Most of the surveyed supervisory board members have been on their board for some time and thus have significant experience. Around two-thirds of the respondents are the chair of their board or of one of its committees.

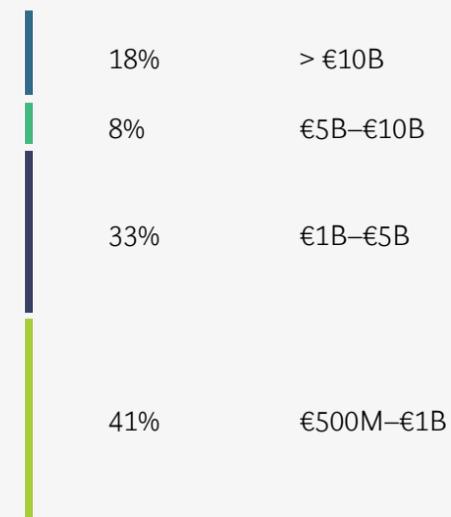
Some findings apply only to a two-tiered system, where the supervisory board and the executive board are strictly separated. Also, in the case of large German companies, the supervisory board may include workers' representatives ("codetermination").

Largest survey among German and Austrian supervisory board members to date

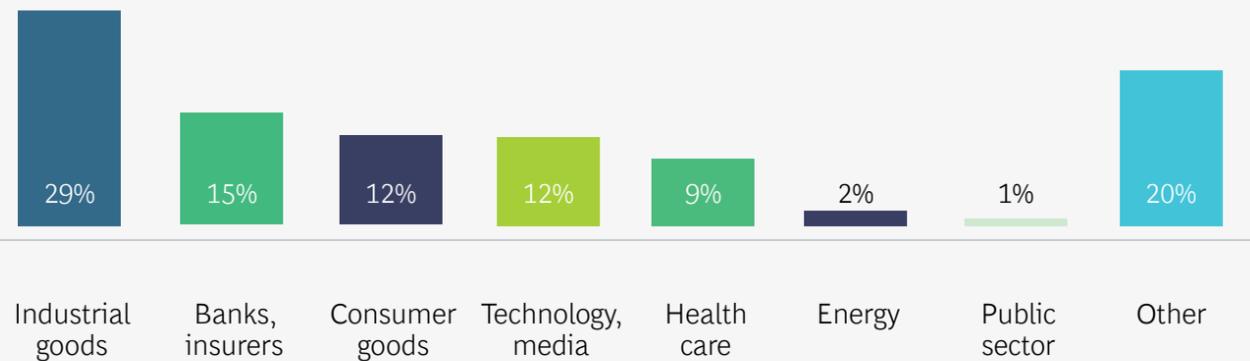
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responses

Company revenues



Industries



Mostly long-term shareholder orientation

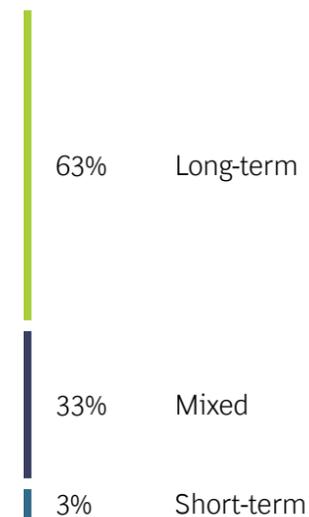
Strong shareholder influence



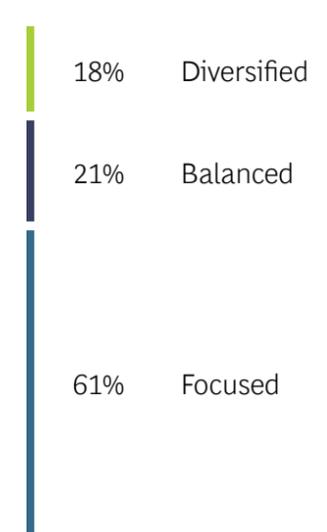
Share of family-owned businesses



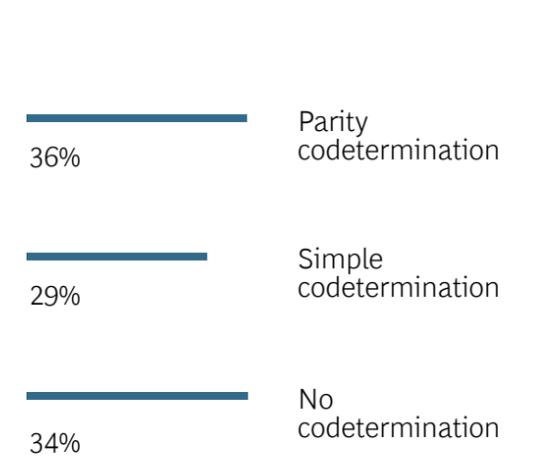
Shareholder orientation



Complexity of the portfolio



Type of codetermination





Carsten Kratz

“Almost all supervisory boards predict that their company will face significant change sooner or later. Many of the supervisory board members we spoke to are currently actively thinking about what that means for their work.”

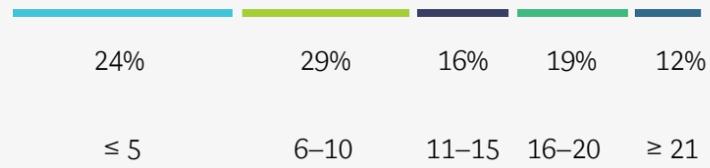
Stable performance today—
but nearly all expect significant disruption

Situation of companies

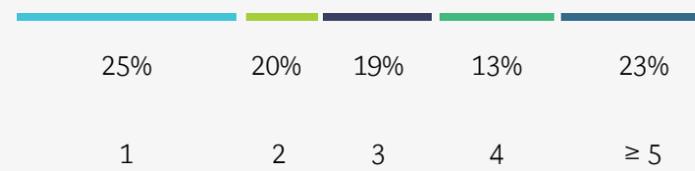


Wealth of experience among the surveyed supervisory board members

Experience as a supervisory board member (in years)



Number of supervisory board mandates



Exercise of the mandate (in years)



Shareholder representative



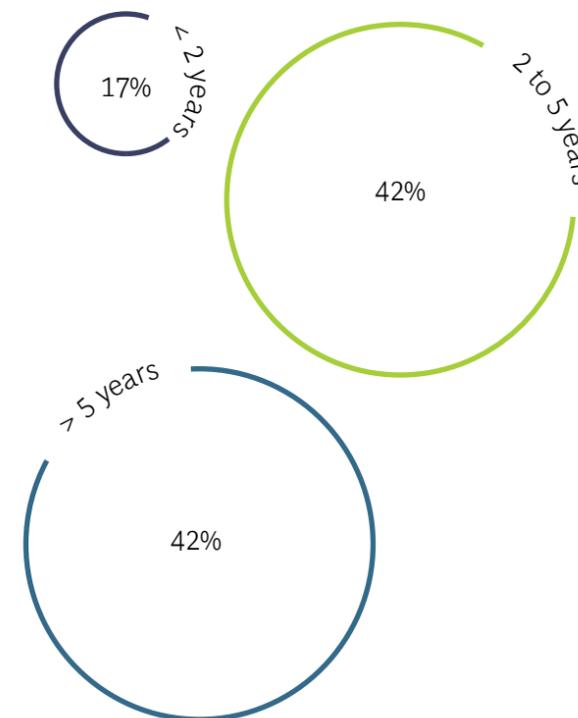
Supervisory board or committee chairmanship



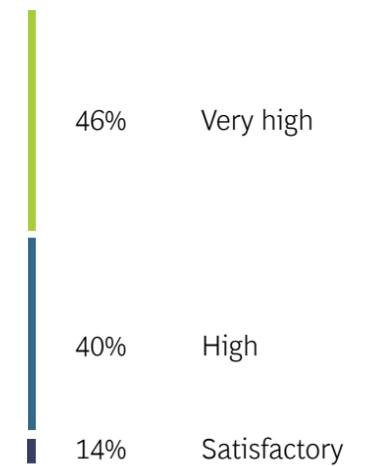
Former employment in the company



Term of office of the chairman of the management board



Confidence in the management board





Which activities do supervisory boards focus on?

Moving beyond monitoring—shaping as a core task

Monitoring, shaping, and advising—in a two-tiered system, these are the core tasks of the supervisory board. While the focus used to be on monitoring, we identified a new focus: Actively shaping the direction of the company is becoming increasingly important in light of the expected far-reaching economic disruption. Many supervisory board members believe that participation in strategy development and deeper strategic monitoring are needed.

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activities of supervisory board members



MONITORING

Strategic monitoring

Monitoring market developments and competitive position
Tracking the success of strategic initiatives

Financial monitoring

Defining the audit process and approving financial accounts
Tracking investments and financial measures

Risk monitoring

Monitoring the risk management system
Discussing major risks and necessary measures

Evaluation of the executive board

Assessing the target achievement, competency, and integrity
Defining management compensation

SHAPING

Appointments to the executive board

Deciding on the appointment/dismissal of executive board members
Planning succession, promoting young talent

Target setting for the executive board

Agreeing on targets with the executive board
Defining the incentive and compensation system

Involvement in strategic direction

Participating in decisions on time frames, assumptions, and success metrics
Approving the overall strategy

Decisions on transactions requiring approval

Defining the approval requirements
Approving the budget, investments, M&A, capital measures, and dividends

ADVISING

Advice on key business decisions

Discussing alternatives in the supervisory board
Contributing experience and knowledge, questioning assumptions

Provision of relevant expertise

Providing specific content expertise
Supporting the implementation of particularly relevant issues

Coaching of the executive board

Promoting the personal development of executive board members
Acting as personal sparring partners and advisors

Support with professional network

Referring relevant contacts
Discussing selected topics with third parties

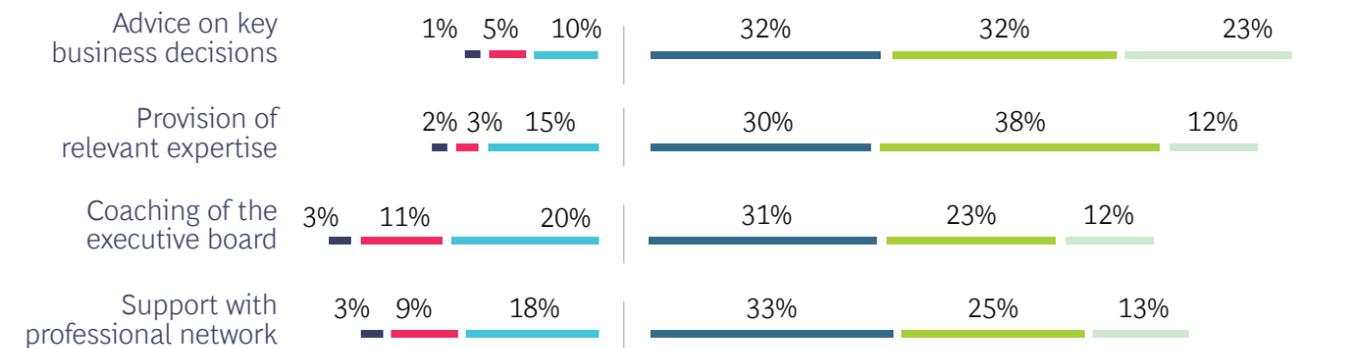
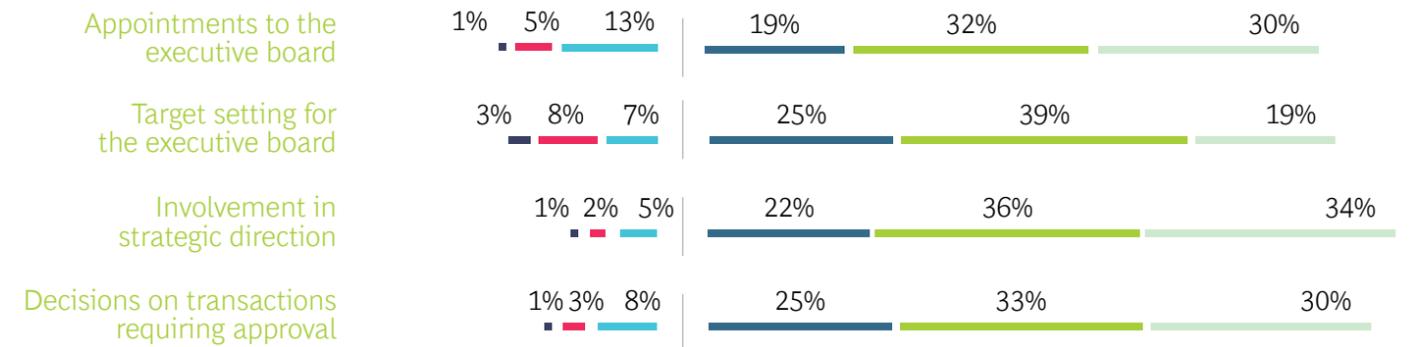
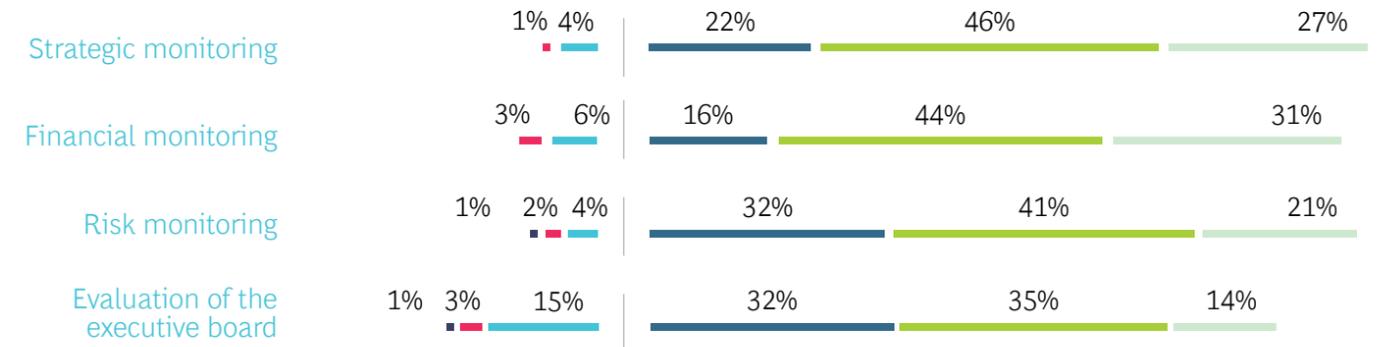
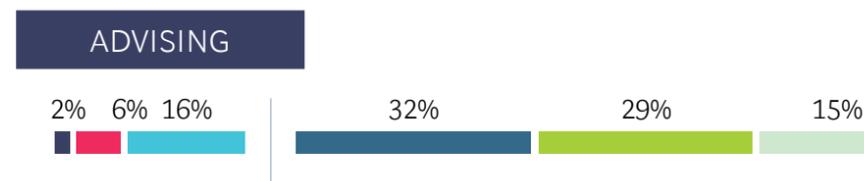
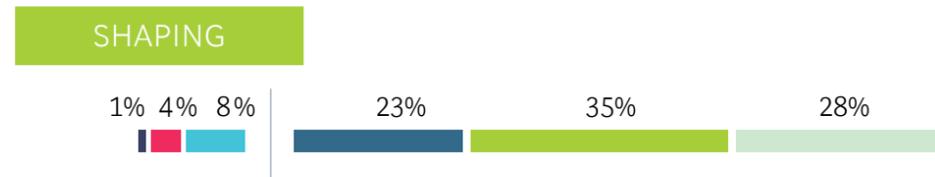
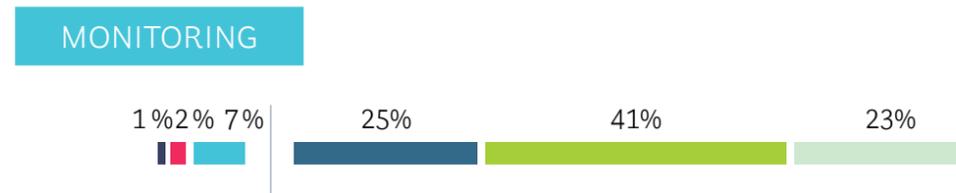
Focus of supervisory board activities

Supervisory boards today put equal emphasis on shaping and on monitoring. A particular focus is on strategic activities, in order to account for the anticipated market disruption. Advisory activities, in contrast, are not given as high priority.



“Nowadays, supervisory boards are no longer content merely to monitor. They want to proactively shape the change. Before, there was a strong focus on monitoring and compliance. Today, the situation is different.”

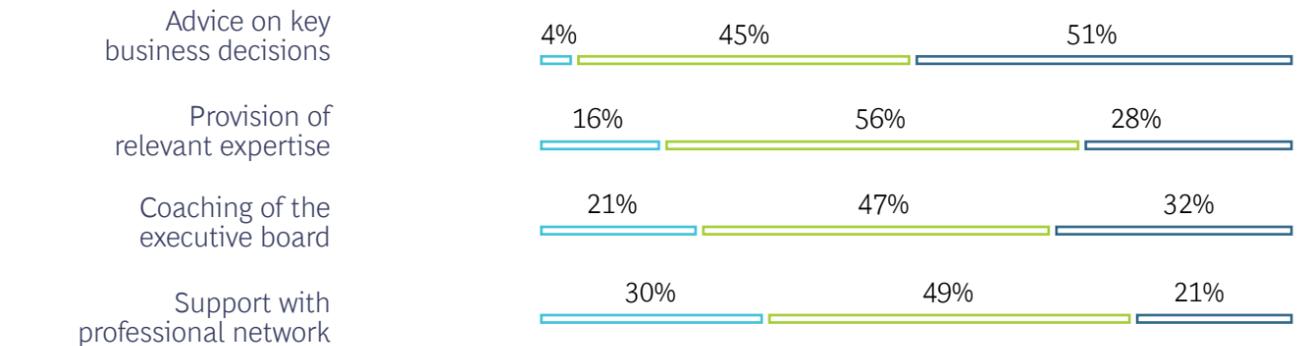
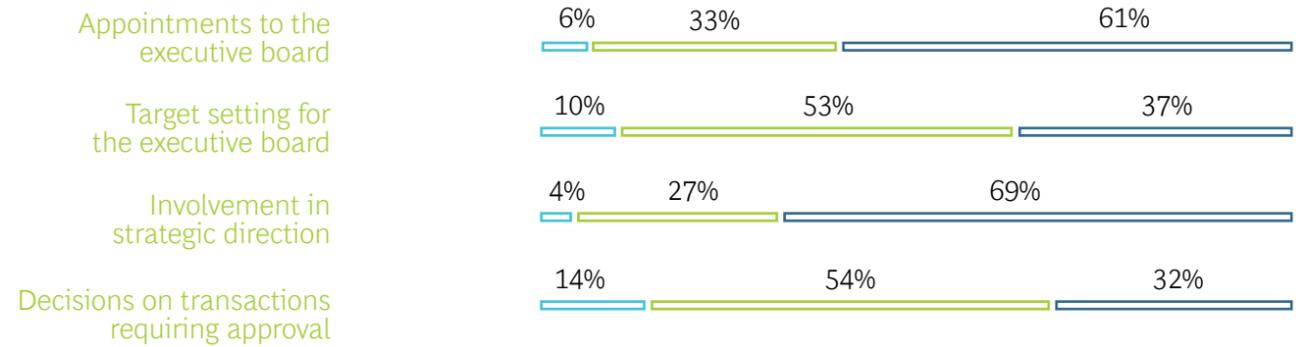
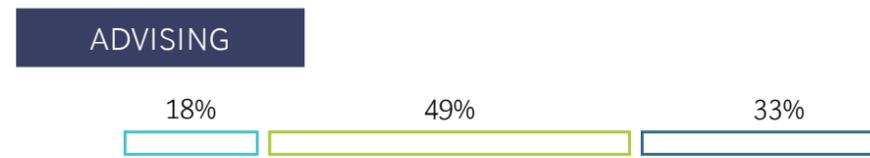
Alexander Roos



Very low Low Somewhat low Somewhat high High Very high

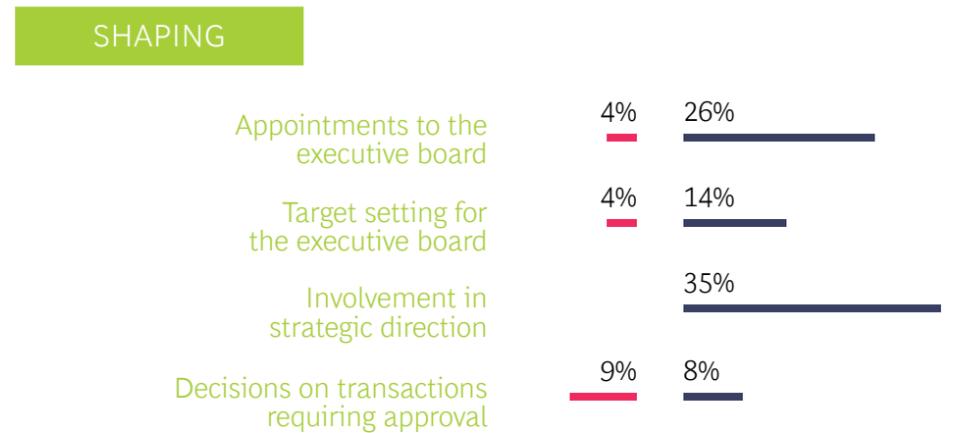
Importance of the activities

Monitoring and shaping are seen as similarly important today. Supervisory board members attach particular importance to appointments to the executive board, helping shape the strategic direction, and strategic monitoring. In contrast, they consider providing support through their network and professional expertise less important.

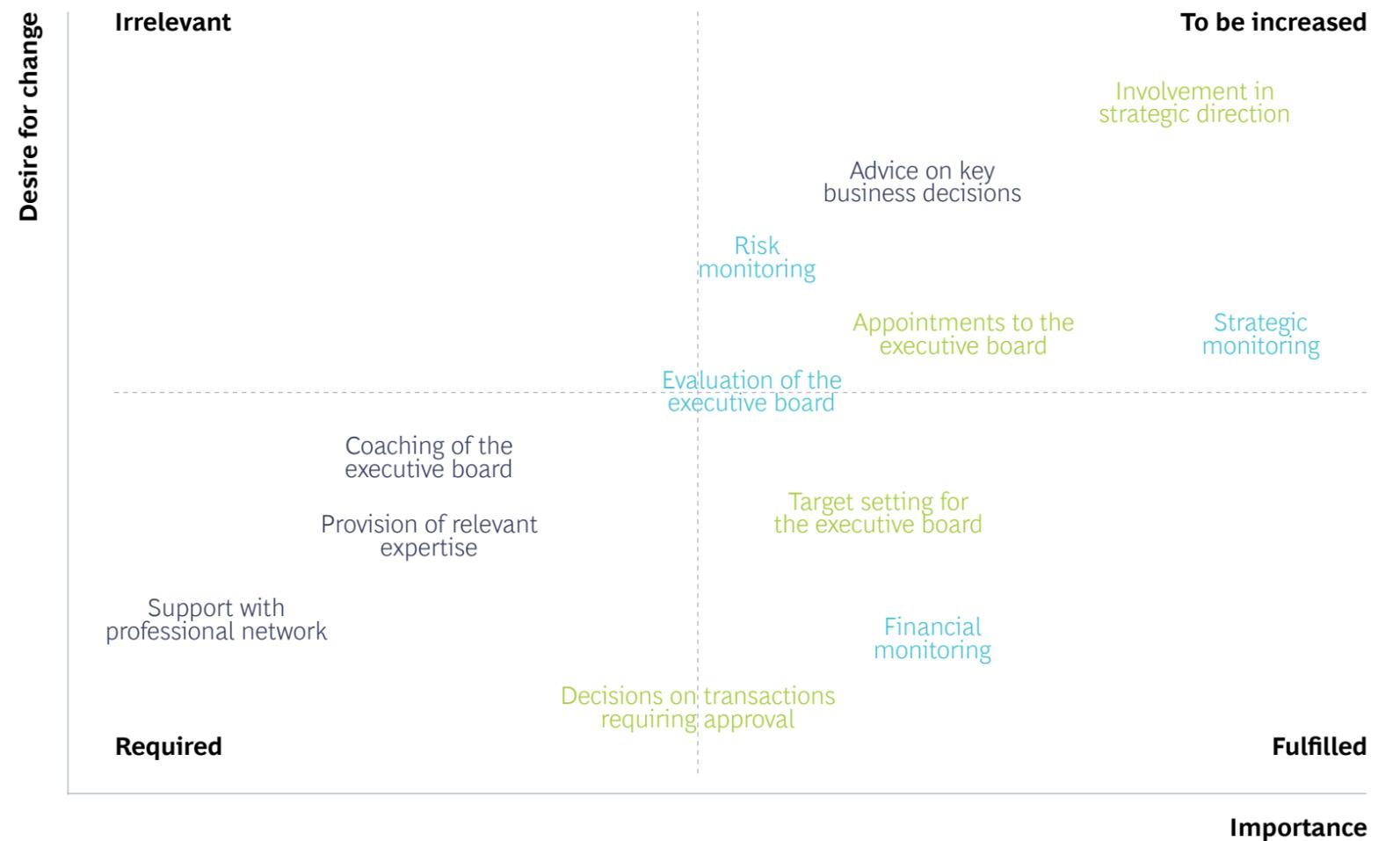


Legend: Necessary (light blue), Important (green), Very important (dark blue)

Desired changes to the focus of activities



Stronger focus on participating in strategic design



“Supervisory boards want to be more intensively involved in strategic activities. However, as one supervisory board chairman aptly pointed out to us, the role in shaping the company is limited by the fact that effective monitoring cannot be restricted.”

Dr. Sebastian Stange

How do supervisory boards work?

/03

Continuous improvement

Supervisory boards must systematically rethink the way they structure their work in order to meet the challenges facing their companies. This concerns the structure (composition and responsibilities) and instruments (agenda, information, and work processes) of the supervisory board, as well as the ways of working and the culture (focus of the chairman of the supervisory board, cooperation in committees, and cooperation with management).

Where are structural changes needed? Are the agenda, information level, and work processes still appropriate? How should the collaboration be changed? The work of the supervisory board can be developed further only by enabling open discussion and questioning across all dimensions.

Setup to be actively
rethought in
eight
dimensions

Structure



1 COMPOSITION

Structural limitations (size, tenure/rotation, age)
Competencies (independence, expertise, etc.)
and diversity (nationalities and gender)
Succession planning and staffing process



2 RESPONSIBILITIES

Scope of transactions requiring approval
Roles of individual members
Committees and committee participation

Instruments



3 AGENDA

Meeting frequency
Content focus and priorities
Meeting procedure



4 INFORMATION

Type (scope, medium, quality, deadlines,
contact with second-level management,
onsite visits, and external advisors)
Training



5 WORK PROCESSES

Time commitment and resources
Meetings without the executive board
Pretalks
Decision-making processes and key procedures
Effectiveness evaluation
Involvement of workers' representatives

**Ways of working
and culture**



**6 FOCUS OF THE SUPERVISORY
BOARD CHAIRMAN**

Role and tasks
Bearing and behavior
Frequency of contact with the executive board



**7 COLLABORATION WITHIN THE
SUPERVISORY BOARD**

Atmosphere and group dynamics
Participation of all members
Ways of working (culture of discussion,
conflict resolution, transparency, trust)



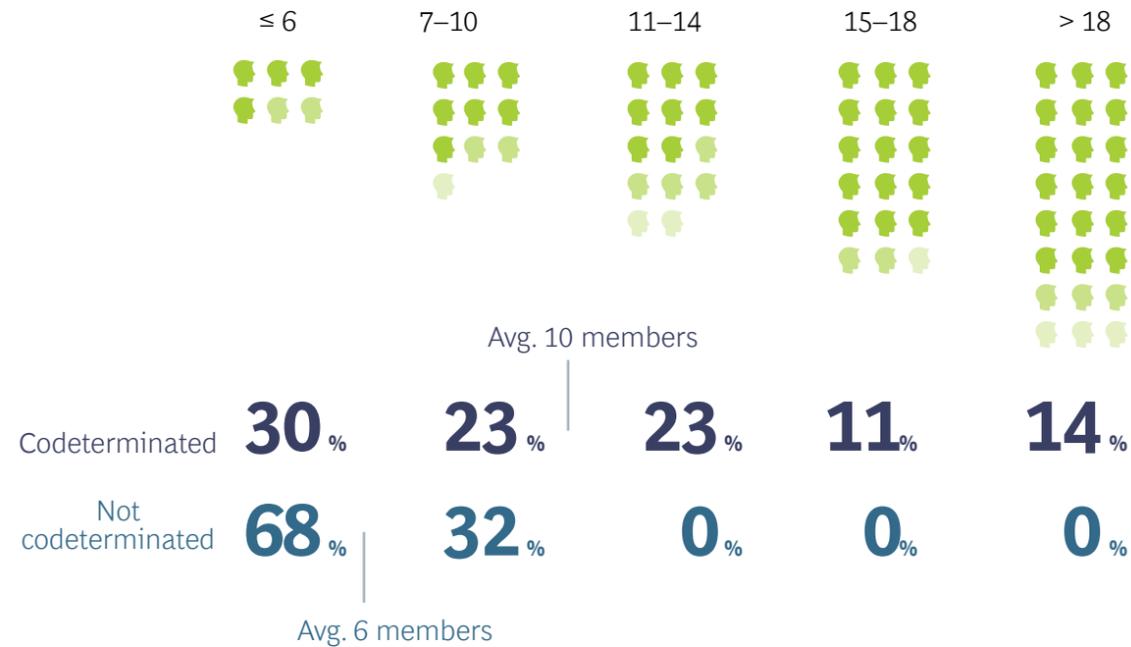
**8 COLLABORATION WITH THE
EXECUTIVE BOARD**

Atmosphere and relationship with the executive board
Ways of working (communication style, conflict
resolution, transparency, trust)

1 COMPOSITION

Large supervisory boards

Size of the supervisory board



Maximum tenure

NO 84%

Age limit for supervisory board members

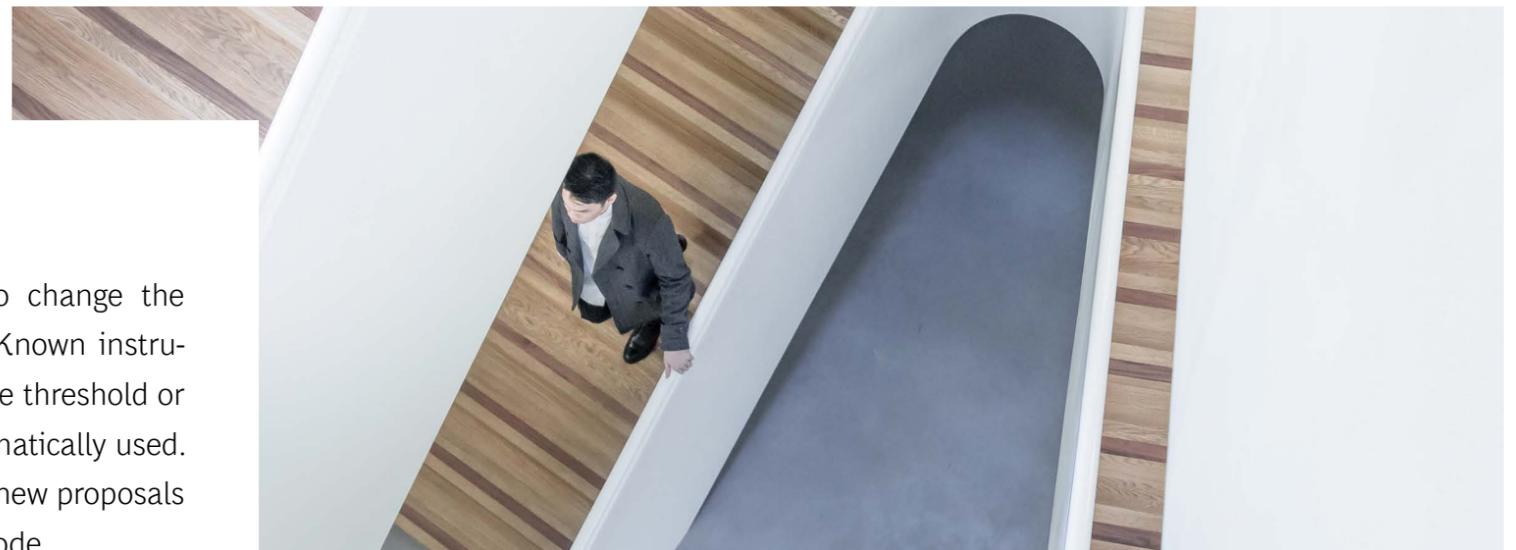
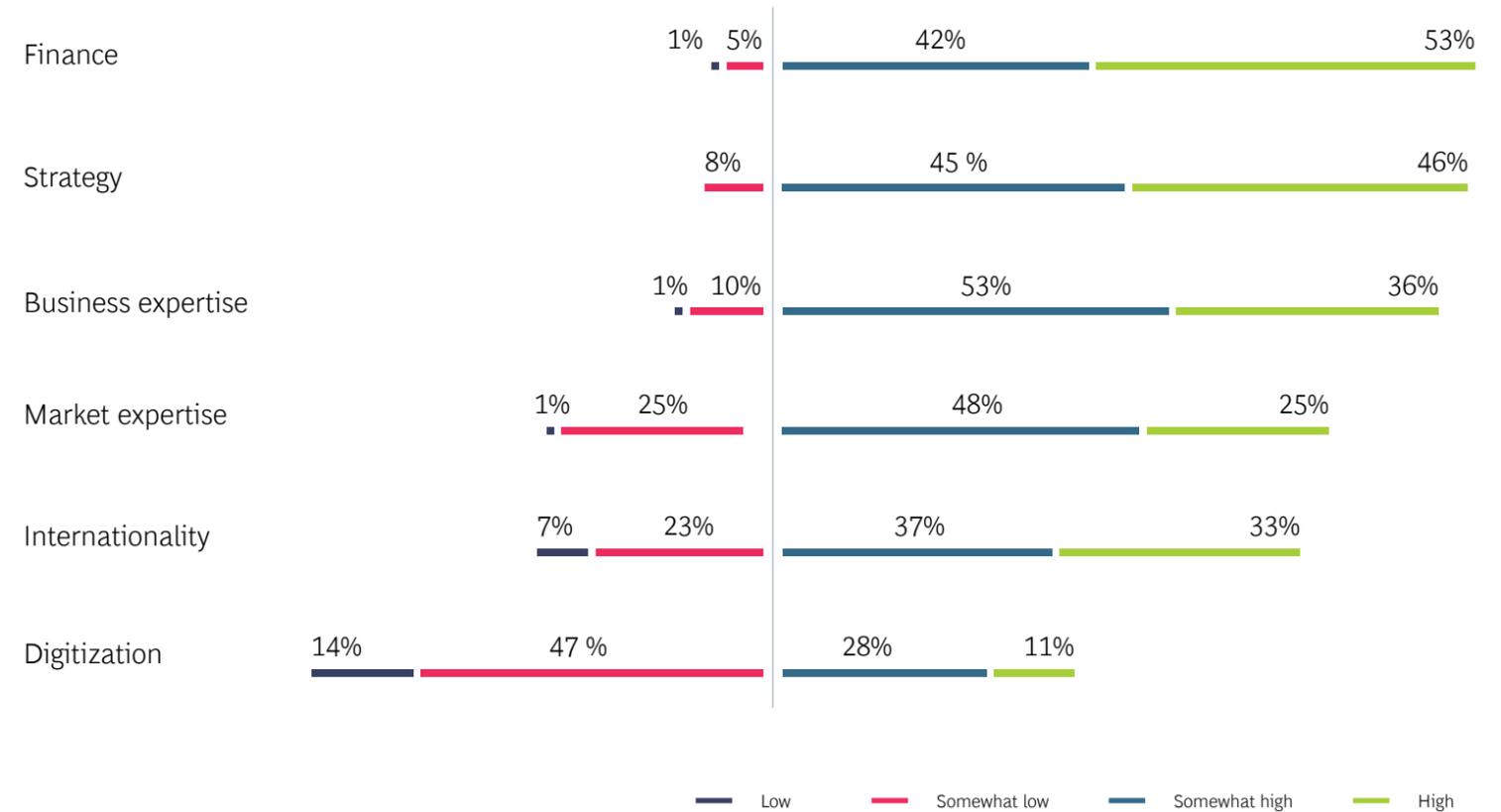
NO 61%

Few have limitations

In practice, it often proves difficult to change the composition of the supervisory board. Known instruments such as the introduction of an age threshold or a limitation on tenure are not yet systematically used. Such changes would be in-line with the new proposals of the German Corporate Governance Code.

Need to catch up on competencies in strategic content

Available competencies on the supervisory board



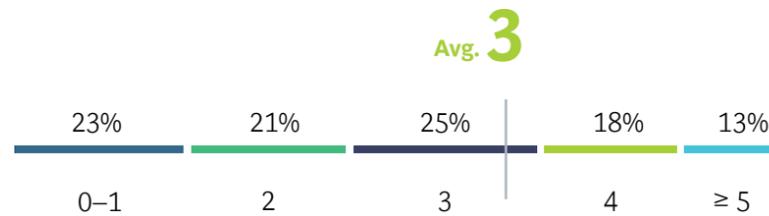
2 RESPONSIBILITIES

Committees are essential

Share of supervisory board activities in committees

63% Significant or dominant

Number of committees



“The board as a whole is often unable to manage the significant change and growing complexity. We therefore expect committee work to continue to increase. But this also makes it important for all members to be active in committees so that their competence can be applied there.”

Dr. Ulrich Pidun

All supervisory board members are active in committees

NO 61%

Not all boards involve their members broadly

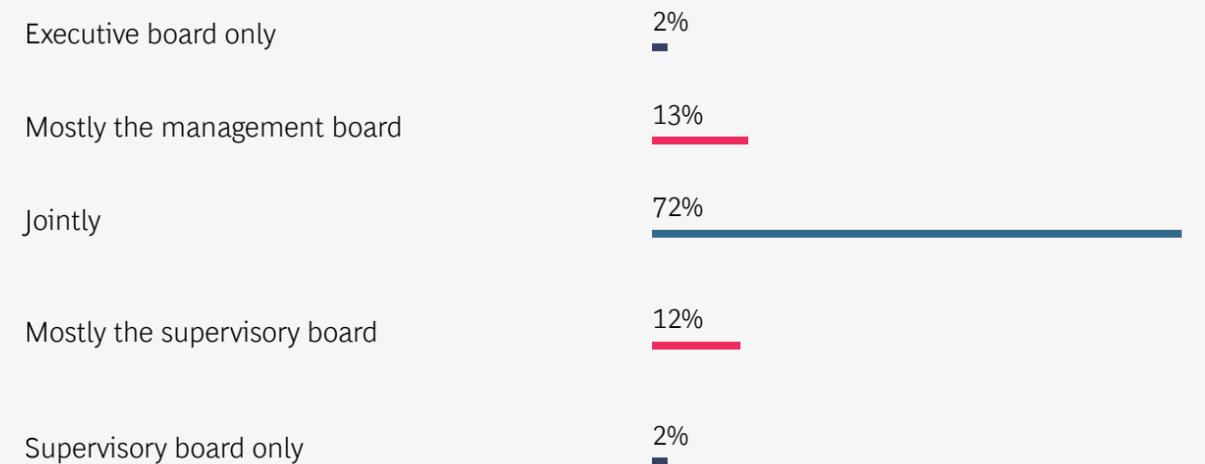
A significant share of the supervisory board’s work already happens in committees. However, on many supervisory boards, not all members are active in committees. As a result, their individual experience and skills are not systematically leveraged.

3 AGENDA

Number of regular meetings per year



Definition of the agenda

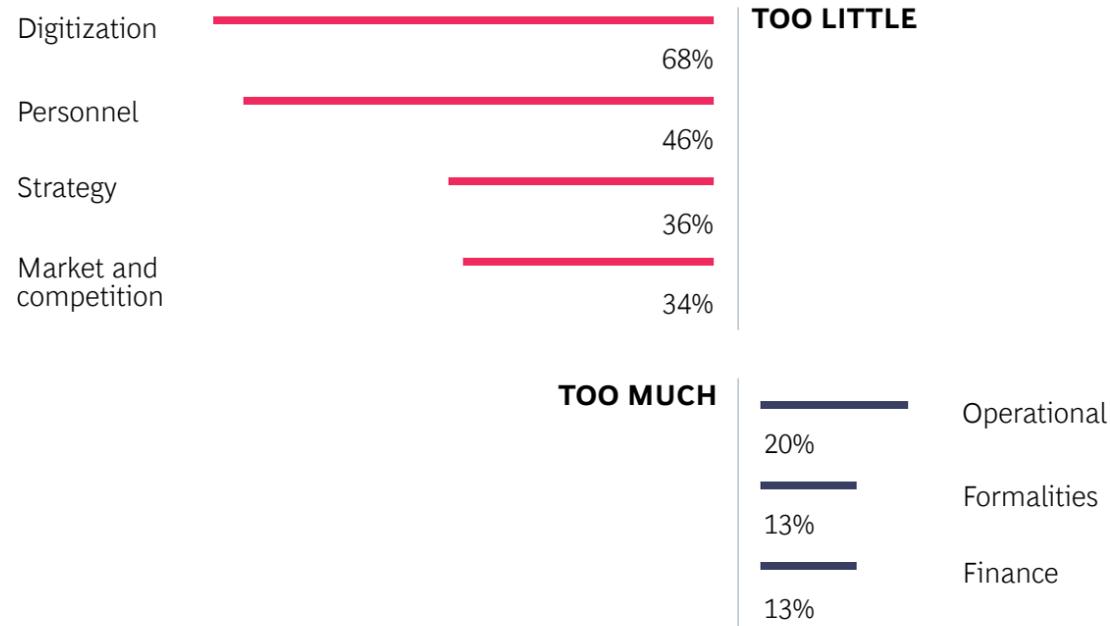


The agenda is not always jointly defined

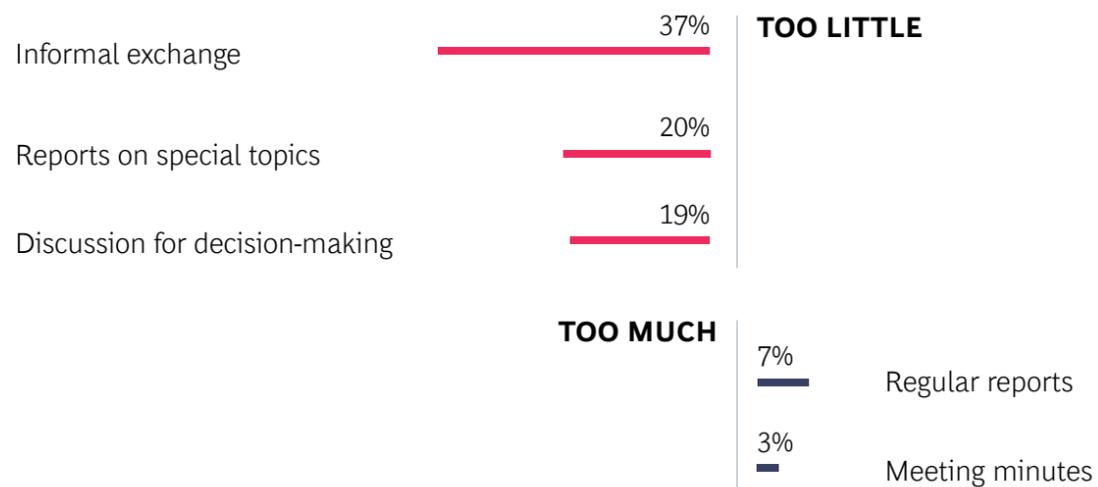
3 AGENDA

Too little time for strategic formats and topics

Topics of supervisory board meetings

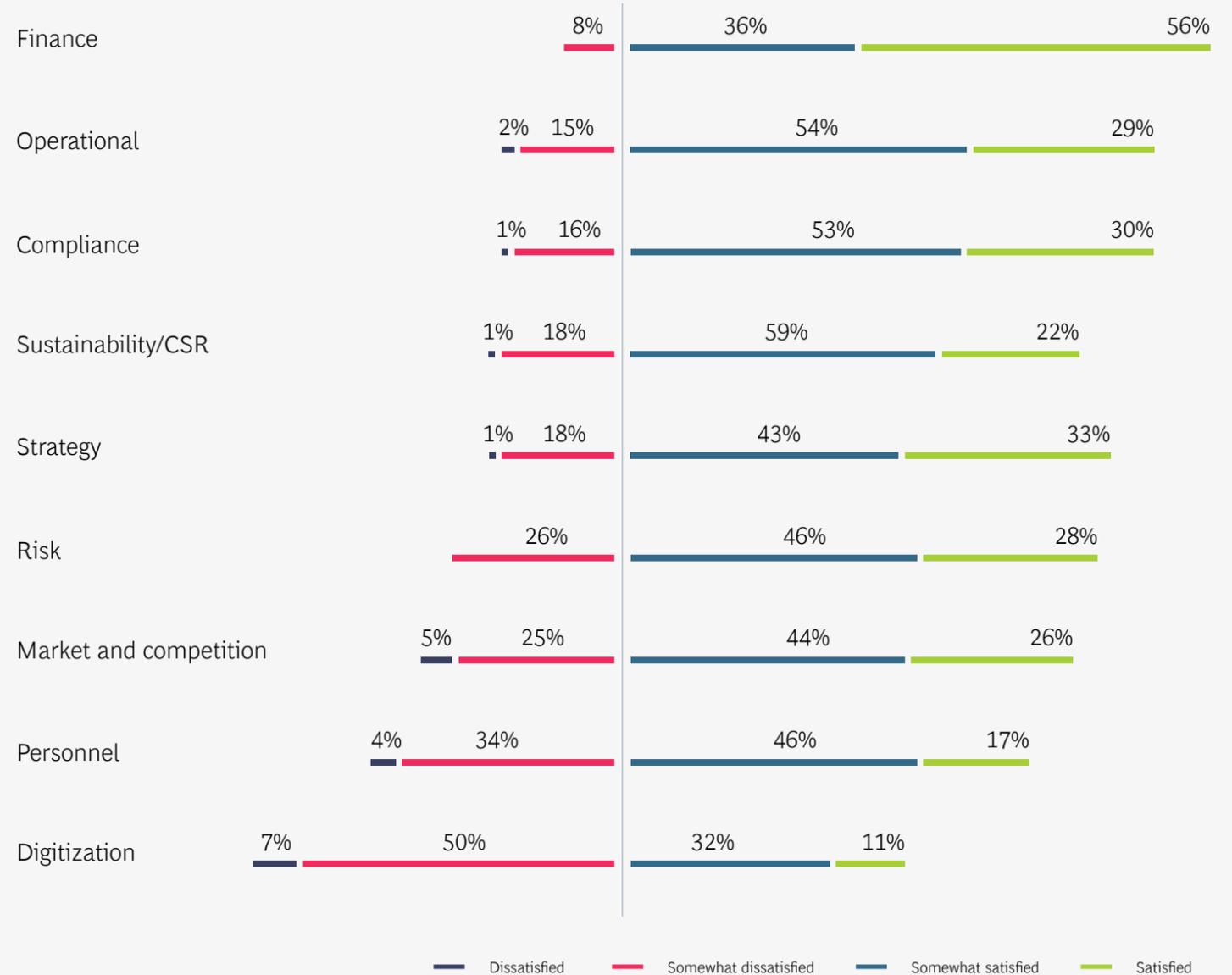


Formats in supervisory board meetings



4 INFORMATION

Information available to the supervisory board



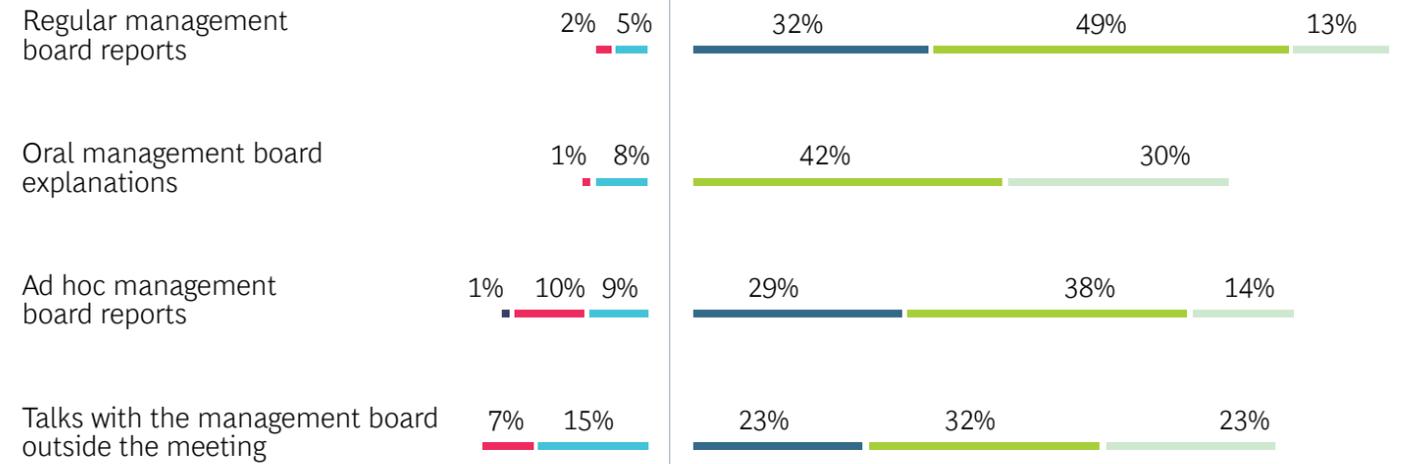
The growing change requires the board to focus the agenda more strongly on strategic issues. To meet this need, topics, formats, and information have to be actively adapted. Digitization in particular has to be reflected comprehensively as an urgent challenge.

Supervisory boards feel they're not informed enough about strategic and HR topics

Independent, external information sources are used too rarely.



Use of internal information sources



Use of external information sources

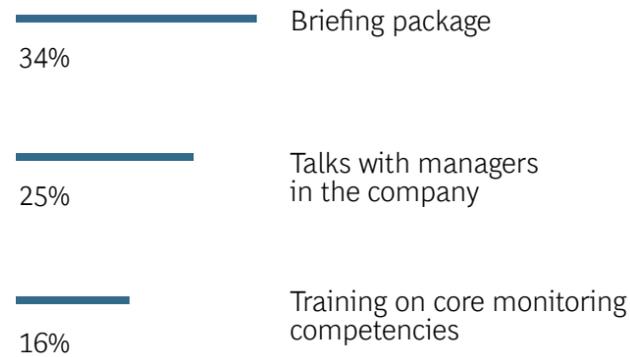


Not available Low Somewhat low Somewhat high High Very high

4 INFORMATION

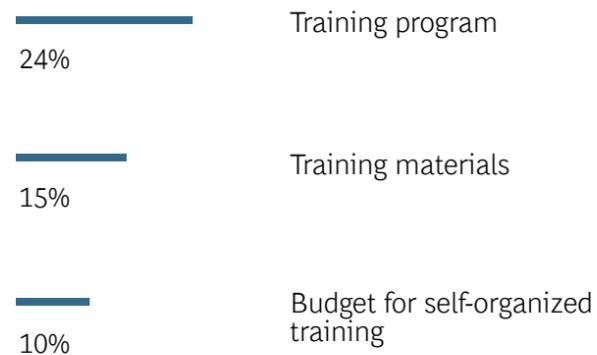
Lack of systematic onboarding and training programs

Available onboarding support

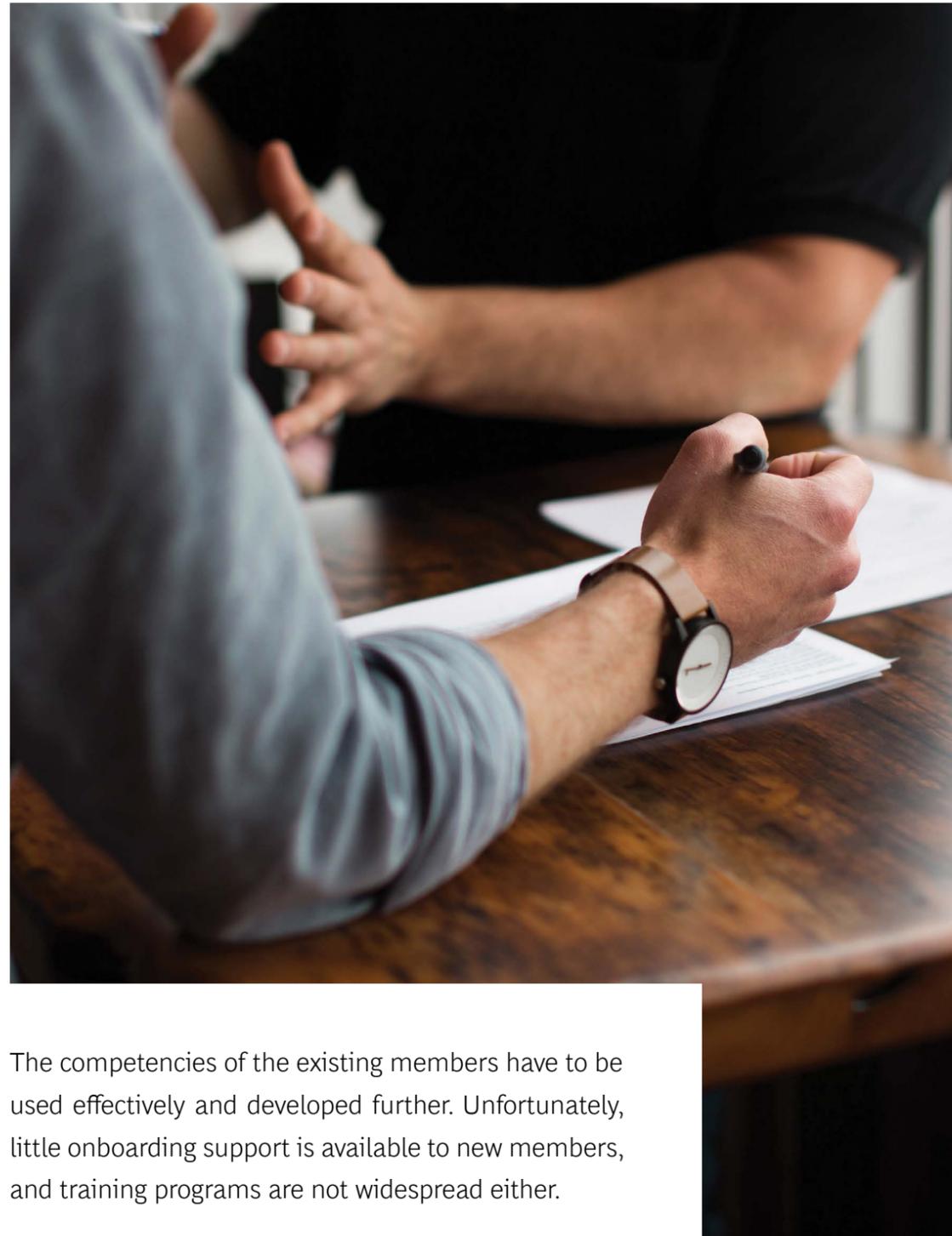


NONE 13%

Training offerings



NONE 53%

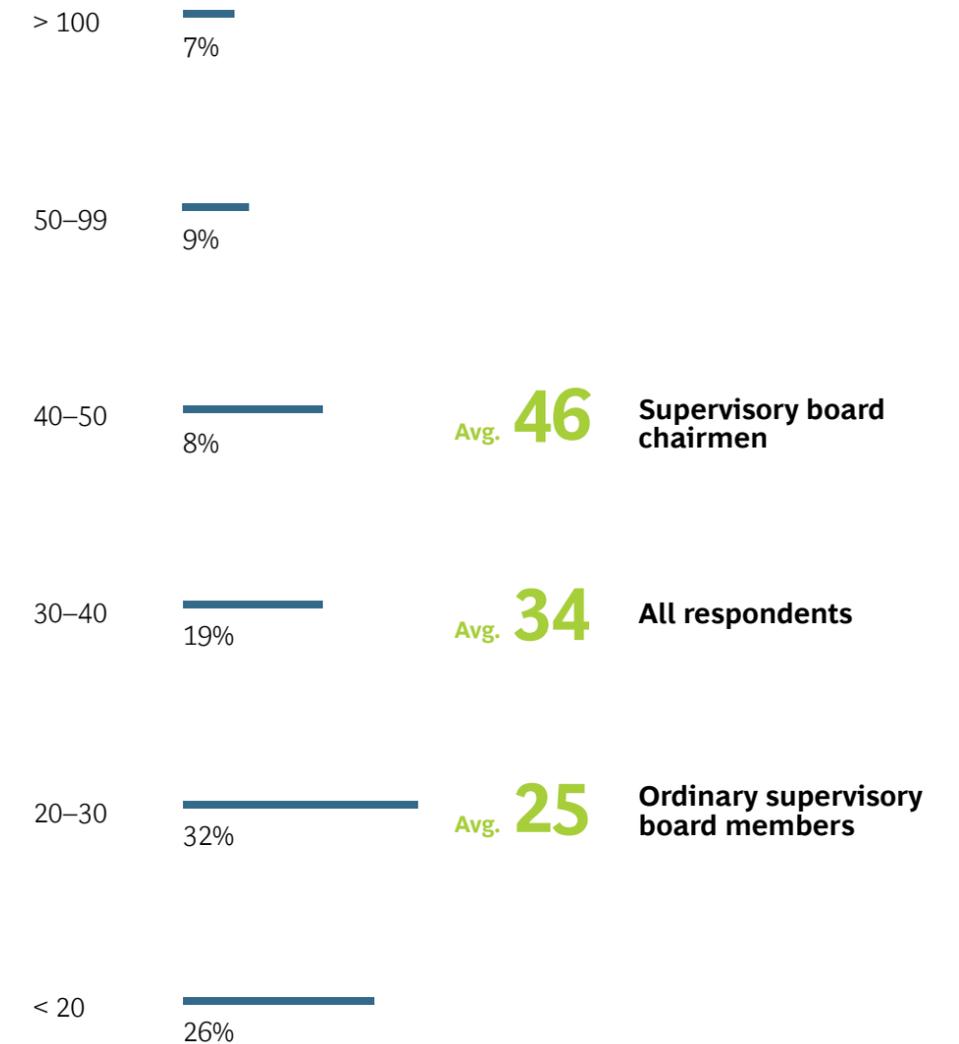


The competencies of the existing members have to be used effectively and developed further. Unfortunately, little onboarding support is available to new members, and training programs are not widespread either.

5 WORK PROCESSES

High workload of 34 days per year on average

Supervisory board workload (days per year)



5 WORK PROCESSES

Potential obstacles to effectiveness



“Supervisory boards have to further professionalize to meet existing challenges and to use their limited time more effectively. The setup should therefore be reflected regularly and systematically among members.”

Dr. Michael Wolff

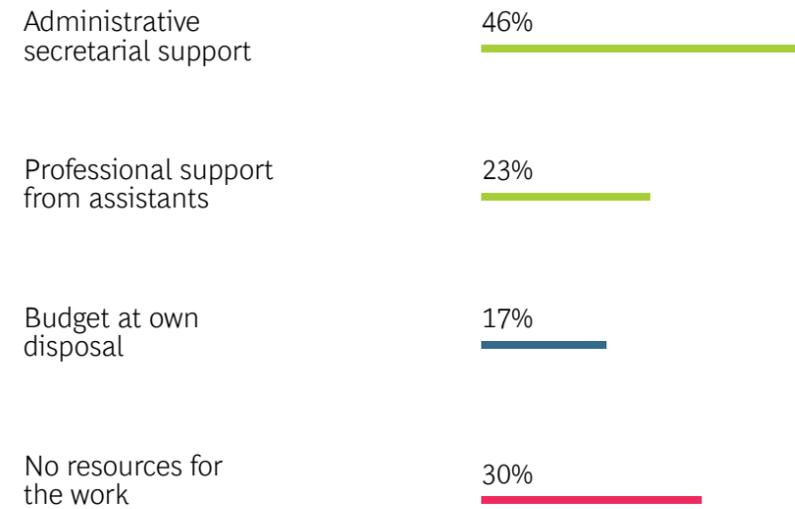
No meeting without the executive board **55%**

No coordination before the meetings **28%**

No (regular) discussion of the setup **64%**

No systematic review of effectiveness **49%**

Only a few supervisory boards have sufficient resources for their work



“It is surprising that high-caliber members of the highest body in the company, who often have to do these activities in addition to their regular work, receive so little support. Is this an effective use of their valuable time?”

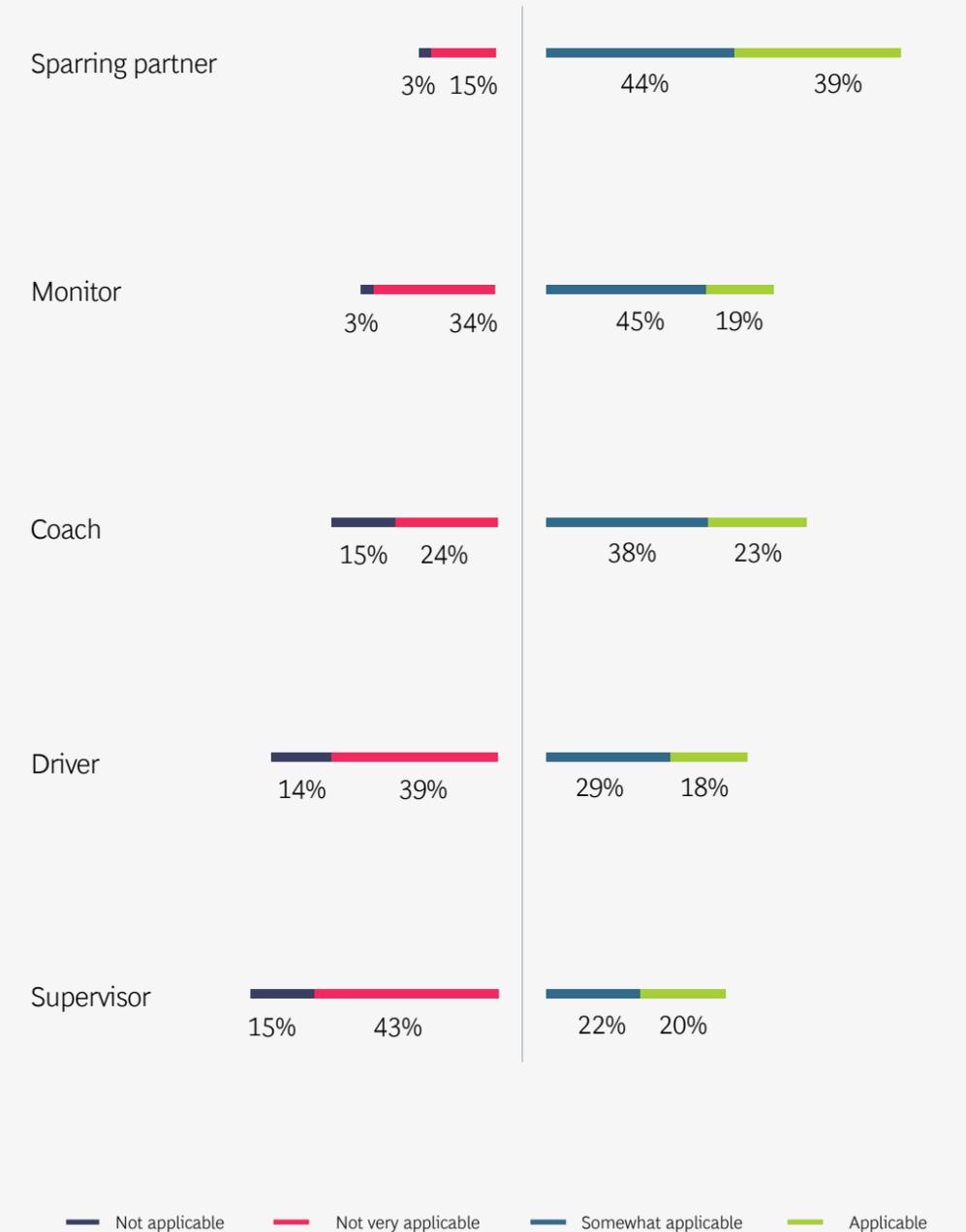
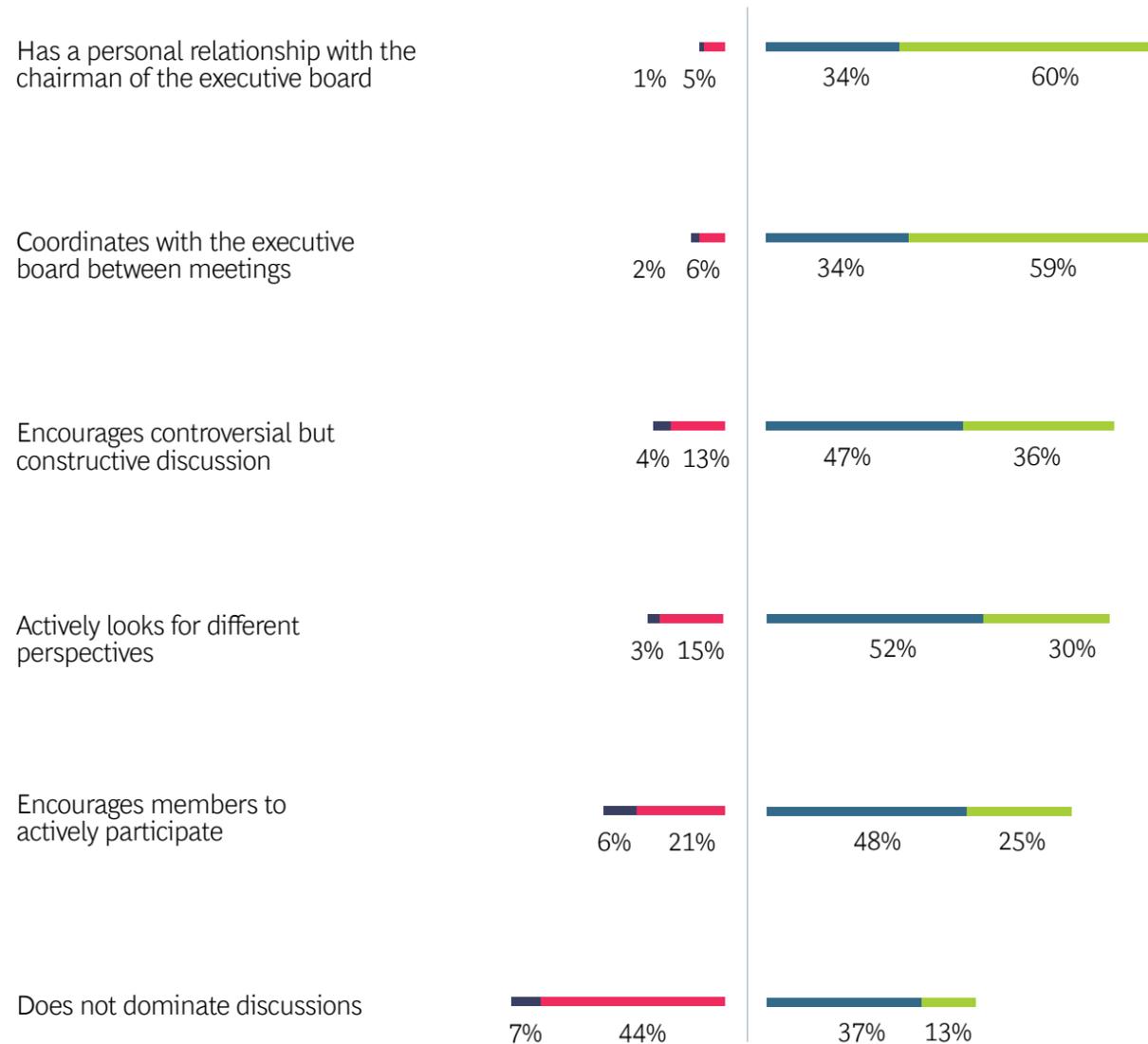
Dr. Sebastian Stange



6 FOCUS OF THE SUPERVISORY BOARD CHAIRMAN

Chairmen of supervisory boards could do more to encourage member participation

Supervisory board chairmen play an important role on the board. They maintain a good relationship with the executive team, but could do more to encourage members to actively participate. Chairmen see their role more positively than the other members do.

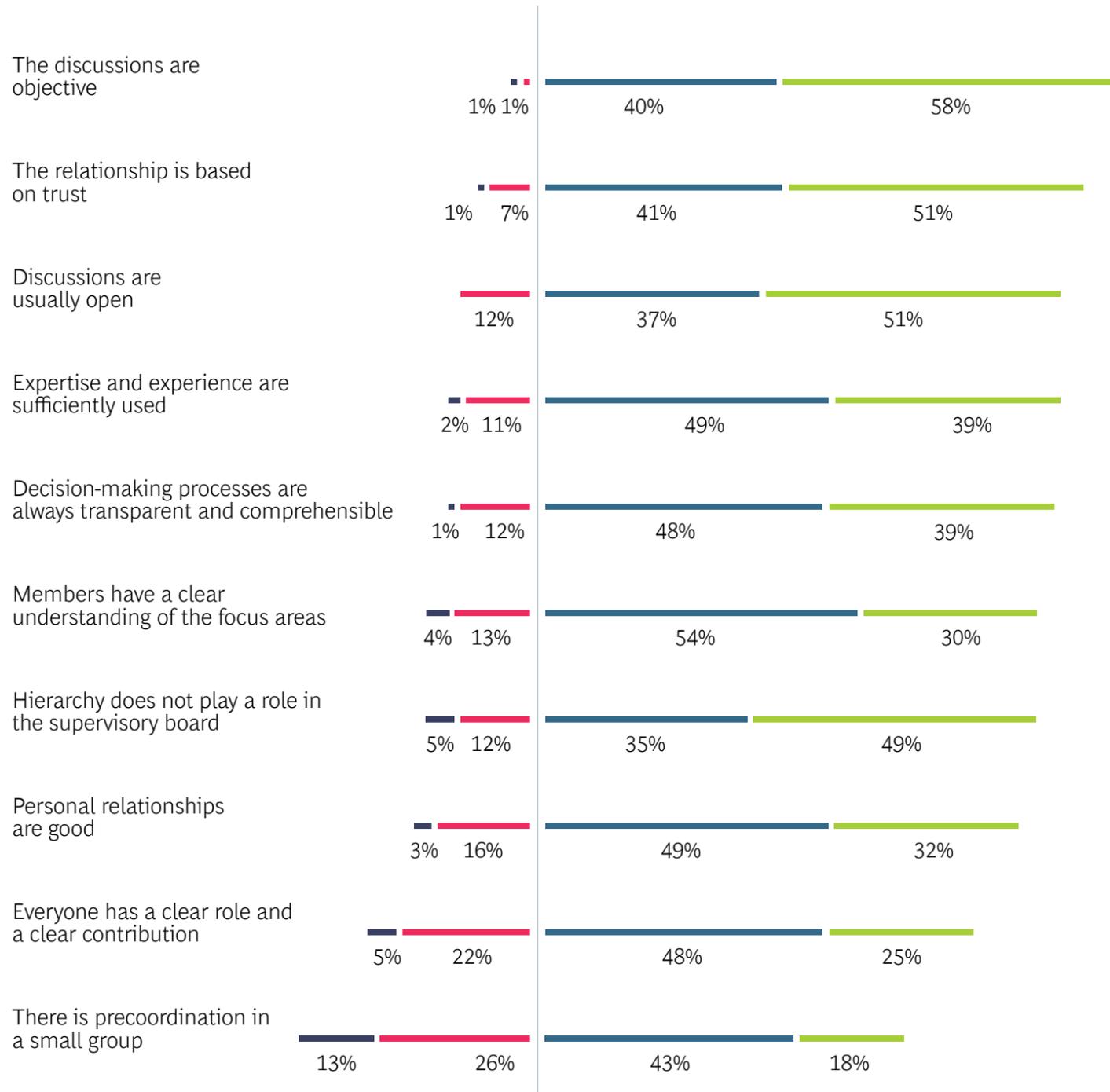


Supervisory board chairmen are seen mainly as sparring partners and coaches.

7 COLLABORATION WITHIN THE SUPERVISORY BOARD

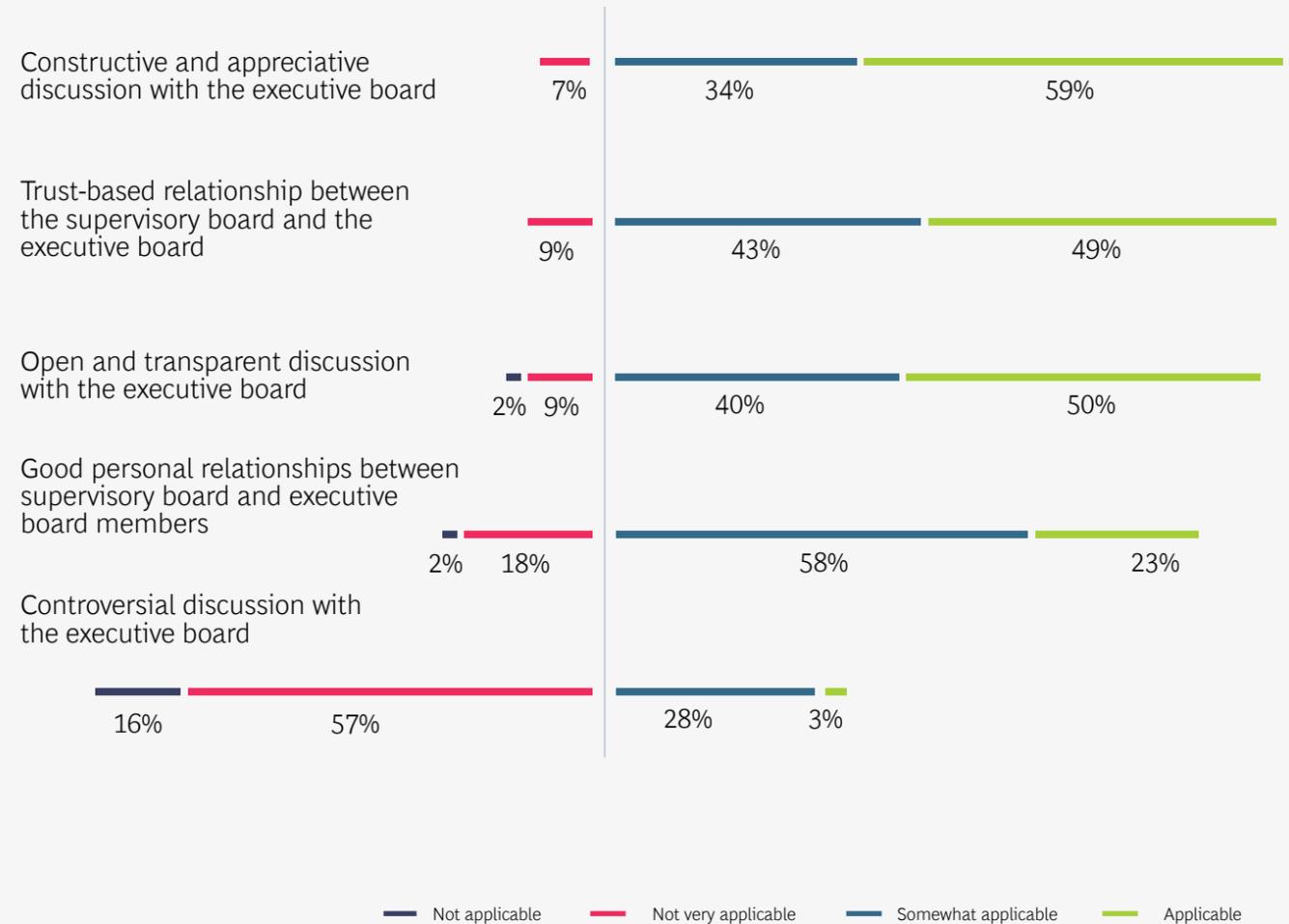
Trust-based discussion, but individual members' roles are often unclear

Collaboration within the supervisory board



8 COLLABORATION WITH THE EXECUTIVE BOARD

Collaboration with the executive board



Discussions with the executive board are constructive but often not controversial



How satisfied are supervisory board members?

Focus on effectiveness

Overall, most supervisory board members are highly satisfied with their current work. However, in light of the challenges ahead, both efficiency and effectiveness need to be further increased. Information and work processes are topics that can be developed most strongly on supervisory boards. The composition of many supervisory boards also has to be adapted to new requirements.

Where supervisory boards stand as a whole

EFFECTIVENESS

 51%

High or very high value contributed by the supervisory board

EFFICIENCY

 57%

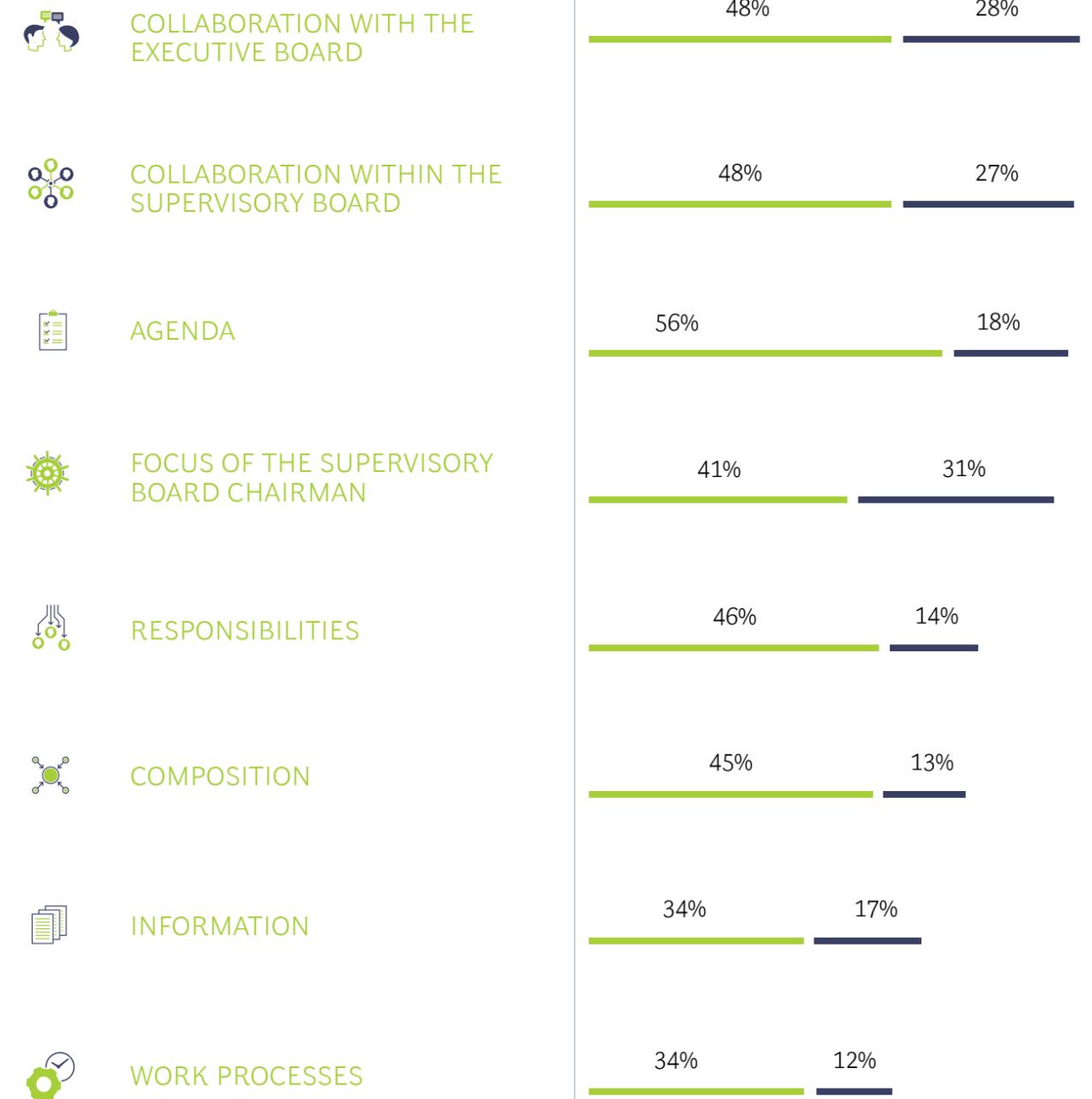
Low or medium time commitment relative to the value contribution

SATISFACTION

 73%

High or very high satisfaction with supervisory board work

Room for improvement on work processes, information, and composition



— Satisfied — Very satisfied

Other BCG publications



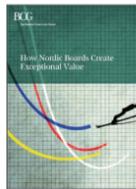
From Monitoring to Actively Shaping

How Supervisory Boards Must Evolve
<https://www.bcg.com/de-de/perspectives/211649>



Learning from the Best Supervisory Boards

Recipes for Success by Board Chairs of German DAX Companies
<https://www.bcg.com/publications/2018/learning-best-supervisory-boards-success-chairs-german-dax-companies.aspx>



How Nordic Boards Create Exceptional Value

A BCG Study of Top Nordic Value Creators
<https://www.bcg.com/publications/2016/strategy-value-creation-strategy-how-nordic-boards-create-exceptional-value.aspx>



Looking for Smoke Under the Door

The Case for an Actively Engaged Board
<https://www.bcg.com/publications/2016/people-organization-leadership-talent-looking-smoke-under-door.aspx>



Value-Focused Corporate Governance

How to Engage Boards and Enhance Decision Making
<https://www.bcg.com/publications/2012/leadership-strategic-planning-value-focused-corporate-governance.aspx>

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