



# FROM MONITORING TO ACTIVELY SHAPING: HOW SUPERVISORY BOARDS MUST EVOLVE

RESULTS OF BCG'S 2018 SURVEY OF GERMAN AND AUSTRIAN SUPERVISORY BOARDS

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**I**NCREASING CHANGE AND UNCERTAINTY, fueled by the digital transformation, present new challenges to supervisory boards. In the largest-ever survey of its kind in Germany and Austria, BCG surveyed 120 members of supervisory boards from large corporations ([see “Methodology” at the back of this article for details](#)).

The signs point to change. The vast majority (80%) of the supervisory board members we surveyed expect major disruption in their companies' markets; one in four ex-

pects considerable changes will occur in the near future. This dynamic development significantly impacts the work of supervisory boards: although supervisory boards have traditionally focused on monitoring tasks, strategic activities are now taking higher priority. In order to carry them out, boards must develop new competencies. Since supervisory boards already have so much on their plate, they must organize their work more effectively to face the new challenges.

## A New Focus of Activities: From Monitoring to Actively Shaping

Over the past 20 years, supervisory boards have focused much of their work on improving their monitoring mechanisms. During this period, compliance and risk control have also been at the center of the public discussion.

Given the current economic and technological disruptions, mere after-the-fact monitoring is no longer enough, according to many supervisory board members. Surprisingly, survey respondents rate the activities of monitoring and shaping almost identically. By comparison, advising the executive board carries less weight.

Consequently, many supervisory board members see a need to push strategic activities more to the fore. The most important topics, according to survey participants, were strategic monitoring (75%), involvement in strategic direction (69%), and advising on key business decisions (51%). That's why supervisory boards would like to have more influence in these areas.

To help shape their company's future, supervisory boards need to adjust how they conduct their meetings. Respondents expressed the view that discussing strategic topics—particularly in terms of market and competition, digitization, and personnel—needs to have a more prominent place on the agenda. Formalities, finances, and operational topics are taking up too much time.

Similarly, many endorsed the idea that more strategic formats would be beneficial. About one-third would like to see more time devoted to informal exchange, and 20% would like to see more reports on topics of special interest and would prefer that boards spend more time in discussion prior to making decisions.

## Urgently Needed: More Competencies in Strategic Areas

The new conditions require the monitoring body to gain new competencies, and the supervisory board members we surveyed agree that this is a necessity. There is

enough general functional know-how on strategy and finance, as well as company knowledge. Most respondents feel, however, that their board needs more competencies related to specific strategic content. For example, survey participants say that there is room for improvement on the topics of digitization (61%), internationalization (30%), and market and competition (26%).

Modifying a supervisory board's competency profile does create some challenges in practice. Unfortunately, only a few bodies apply existing instruments to alter their composition. For instance, the overwhelming majority of companies (84%) have no tenure limit for supervisory board members, and 61% have no age limit. That stands in contrast to current best practice recommendations. Proposed reforms of the German Corporate Governance Code include regular limits on tenure, for example.

Few companies offer board members systematic training. Half of respondents receive no support to develop their own competence further. Training programs are established in only a quarter of the monitoring bodies, and training material is provided in only 15%.

The pending change requires that supervisory boards receive the right information. Of the supervisory boards we surveyed, 80% still rely heavily on information that the executive board gives them. Fewer than half of all supervisory boards systematically use independent sources of information—even though press reviews, market reports, analyst reports, and even discussions with customers can help in forming an opinion and evaluating executive board initiatives.

## Further Professionalization: Using Time More Effectively

Most supervisory boards (60% of respondents) convene regular meetings only four times per year. In the face of necessary and often complex change, that will likely be insufficient. Only about 20% of supervisory boards surveyed currently meet at least six times per year.

Supervisory board members already spend an average of 34 days annually on their activities. Due to the nature of the position, board chairs average 46 days per year, while normal members devote 25 days per year—no small feat for what is often a side job.

How can board members cope with an already heavy workload and increasing demands? Since the time budgeted for supervisory activities cannot be stretched indefinitely, effectiveness and efficiency must increase. Supervisory boards can take six possible approaches:

- 1. Actively shape the agenda.** The design of its agenda has a significant impact on a supervisory board's effectiveness. The board must actively influence what items are put on the agenda, so that it can address all relevant topics and yet leave enough time for result-focused discussion. This practice is not established in all German supervisory boards. For example, 15% of respondents say that the executive board exclusively determines the agenda for supervisory board meetings. And more than half of survey respondents indicated that they meet only when the CEO is present, which hampers open discourse and the formation of an independent opinion within the monitoring body.
- 2. Approach committee work systematically.** In the most effective supervisory boards, committees prepare most of the work, reflecting the complexity of the topics and allowing the workload to be spread over more shoulders. However, 37% of survey participants say that a committee-centered approach is not
- 3. Clearly define roles.** To encourage the active participation of all supervisory board members, the board must clarify each member's role. Performing this step will also ensure that all required competencies are represented in the body. Unfortunately, 25% of the supervisory boards we surveyed had not engaged in any explicit discussion of tasks, responsibilities, and time commitment.
- 4. Make resources available.** All companies look for experienced, highly qualified individuals to work in their supervisory boards, but these high expectations contrast starkly with the few resources available to such bodies. Despite their heavy workload, 30% of respondents say that they do not receive any resources for their activities, while 50% have to make do without the support of a secretary. Only one-fourth receive the support of a professional assistant, and a mere 17% have a discretionary budget. No executive board would work without secretarial assistance or staff, so it's all the more surprising that their controllers get so little support in the effort to put their time to good use.
- 5. Train new members.** Members who are new to the body should be familiarized with the board's work as soon and as fully as possible. Nevertheless, that frequently does not happen. During onboarding, many new supervisory board members must rely on conversations with colleagues on the supervisory board and executive leadership. Only one-third of the companies we surveyed offer briefing packages, and in only a

common practice at their company, and 44% say that their board has set up fewer committees than the survey average of three. Moreover, in less than a third of all cases are all members of the supervisory board active in committees. Obviously, a supervisory board can take advantage of the competencies of its members only if every member is actively involved.

quarter of all cases do formal talks with other managers in the company take place. Around 15% of boards do not offer incoming board members any onboarding measures.

- 6. Conduct regular effectiveness reviews.** Successful supervisory boards take the time to systematically question and improve the way they work. Among the companies surveyed, however, only one-third of the supervisory bodies regularly talk about their own way of working. Just 12% avail themselves of external support for their effectiveness review, although doing so increases objectivity and makes it easier to bring up critical issues.

## Supervisory Boards Must Take the Next Step

The work of supervisory boards in large companies has improved by leaps and bounds in recent years. But far-reaching technological and economic change requires that board members rethink their work. To lead companies in the 21st century, supervisory boards must adapt their work processes accordingly. New competencies and more effective work are also indispensable. Only then can supervisory boards actively shape the answers to the challenges that lie ahead.

## METHODOLOGY

The largest survey to date of supervisory boards in Germany and Austria forms the basis of this report. A total of 120 supervisory board members took part.

Most respondents have wide experience in the position: 47% of survey participants have been in their role for over ten years; more than half have three or more mandates; and 41% are the chairperson of their supervisory board.

Three-quarters of respondents represent stockholders, and one-quarter come from the company itself.

The survey participants represent a wide range of large companies from various industries. Almost 60% of the supervisory boards surveyed serve in companies with revenues exceeding €1 billion. Also, 65% of the companies are codetermined, and 34% are family owned.

As part of its systematic preparation for the report, BCG interviewed more than 20 successful and experienced supervisory board chairs from large German firms. The results of these talks are compiled in BCG's report *Learning from the Best Supervisory Boards: Recipes for Success by Board Chairs of German DAX Companies* (<https://www.bcg.com/de-de/publications/2018/learning-best-supervisory-boards-success-chairs-german-dax-companies.aspx>).

The complete results of the survey have been published in our report *Challenges of Supervisory Board Work: Results of BCG's 2018 Survey of German and Austrian Supervisory Boards* and can be found at [www.bcg.com](http://www.bcg.com).

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