



# From Honorary Post to Profession

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In Germany, the growing demands and tasks of supervisory boards are increasingly forcing them to organise their work in such a way that they can fulfil all their responsibilities. As a result, the professionalisation of the supervisory board is becoming more important than ever before for the success of German companies. Much of what is possible has not yet been realized.

The role of the supervisory board is currently undergoing a radical change. More and more is being demanded of supervisory boards and their individual members; for some time now, they have been acting not only as supervisors, but also as advisers and sparring partners to the management. Stricter environmental laws, compliance and quality regulations, ever shorter development cycles, increasing complexity, disruptive events in rapid succession and the resulting liability risks that follow are just some of the many factors that today's supervisory boards (as well as management boards) have to deal with.

This working environment shapes what is expected of supervisory board members and defines what appears on their agendas. The results of this year's Supervisory Board Survey conducted by Hengeler Mueller in cooperation with AdAR, *the Arbeitskreis deutscher Aufsichtsrat e.V.* (German Supervisory Board Association), shed light on this situation.

## **Key Issues: ESG and Digitalisation**

Overall, three top issues are equally relevant to the work of supervisory boards this year and will determine the long-term success of companies: sustainability/ESG, digitalisation and geopolitical instability. The differences in how the respondents to our survey weighted these considerations were marginal. Eighty-five percent of the supervisory board members we surveyed consider ESG and the transformation of their companies towards more sustainability to be the most important issues on their agendas this year. However, 84 percent of respondents continue to see digitalisation or digital transformation as a key issue. Additionally, ongoing global geopolitical instability continues to dominate board agendas, according to 82 percent of respondents. Supply chains remain just as relevant in 2023. Although they are now more stable, resulting in a slight decrease in importance compared to last year, they continue to be a concern for boards due to bottlenecks and the development of energy prices: 70 percent of respondents considered supply chains relevant in 2023 versus 79 percent in 2022.

## **A New Competence Profile**

As companies position themselves for the future in a rapidly changing business environment, the requirements for supervisory board members are also changing. The German Act to Strengthen Financial Market Integrity and the revised version of the German Corporate Governance Code (GCGC) in 2022 have shifted the focus to raising the level of necessary financial expertise required and defining more precisely what this expertise must cover. The majority of respondents (81 percent) believe that supervisory board members have the necessary financial expertise if they have worked as a CFO. Another key skill set that has found its way into the Code, is the ability to understand sustainability issues. While last year only a slim majority (51 percent) of respondents believed that their companies met this criterion, this year 69 percent said that they did. As a result, the development and publication of appropriate qualification matrices to demonstrate that supervisory board members have the necessary 'skills and expertise profiles' (as the GCGC calls them) has become critical, with 56 percent of respondents reporting that they have experience with creating a skills matrix. While this is both a positive trend and a helpful circumstance, it is important to look beyond the formal criteria that can be outlined in a skills matrix when searching for competent people to fill a board position. Skills that are not easily captured in a matrix should also be considered, such as the ability to work in a team, independent judgment, entrepreneurial thinking, the ability to deal with risk, and more. Nomination committees will have an important role to play in this context. However, this has not yet translated into a large number of board members finding nomination committees relevant: just under 30 percent of respondents said that the importance of nomination committees had increased. It is therefore encouraging to see that 52% of respondents said that the members of their board's nomination committee were remunerated, either

in the traditional form of a fee or at least in the form of an attendance fee, because remuneration shows that their work is taken seriously.

### **Efficiency Reviews are Recommended**

Other aspects of the professionalisation process such as the regular assessment of the boards' activities and decision-making processes, are currently somewhat lower on the agenda, although those supervisory boards that do conduct efficiency reviews consider them to be very important (72 percent). The fact that these reviews play a less important role on boards' agendas may also be due to the fact that in many cases a self-assessment of the supervisory board has just taken place in the company's assessment cycle.

As the responsibilities and demands placed on supervisory boards grow, their members are under increasing pressure to establish a work system that enables them to fulfil all their duties. This makes the professionalisation of supervisory boards more important than ever for the success of German companies. Our study shows that companies are not yet taking advantage of all the opportunities available to them. For instance, only about one-third of the respondents said that they had set up a 'supervisory board office' within their organisations to provide organisational support for themselves and their fellow board members. One reason for this may be a lack of awareness of the benefits that such an office can offer beyond purely administrative tasks. It is fitting that despite the increased responsibilities of boards, a clear majority of respondents (76 percent) indicated that their board does not have its own budget.

### **A Major Challenge**

It would be a positive development if supervisory boards were more professionalised in all of these respects because what investors and regulators expect of today's boards and what many boards can deliver in their current form no longer match up. For some time now, the position of a supervisory board member has no longer been a purely ancillary position; today, highly performing and well-functioning supervisory board teams are required. This transformation will certainly remain one of the greatest challenges for supervisory boards.

### **Click here to view the whole survey.**

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