

ECBE Governance Perspectives 2025

The Board of the Future

**Trend Analysis on Challenges and
Developments for the Supervisory Board**

Ready for the Future – Proactively Addressing Challenges

The role of the Supervisory Board has changed significantly in the last years and has become more complex than ever before. With rapidly advancing technological developments, an increasingly globalized and networked economy and a profound change in social values, Supervisory Boards around the world are facing new, often unexpected challenges. The traditional control tasks of the Supervisory Board are still required, but the demands on a modern Supervisory Board have become more comprehensive and diverse.

From digital transformation and cyber security to the implementation of sustainability strategies and increasing responsibility for corporate ethics: the questions that the *Board of the Future* must answer concern the long-term survival and credibility of companies in an uncertain world. Added to this is the increasing regulatory complexity. In recent years in particular, numerous regulatory requirements for companies have been tightened. This means that Supervisory Boards must not only have a deep understanding of the respective requirements, but also the ability to recognize potential risks at an early stage and react accordingly.

The current disruption and transformation processes as well as increasing socio-economic volatility are resulting in profound changes for the *Board of the Future*.

Mutual respect is one of the most fundamental principles of a successful Supervisory Board. It serves as a guiding principle in interactions with all stakeholders. True mutual respect is built on trust, openness, and transparency – it not only acknowledges diverse perspectives but actively seeks them out. A culture of mutual respect thrives on diverse input. It fosters an environment where innovative ideas can be explored collaboratively, without compromising the board's oversight responsibilities. Ultimately, an organization that embraces mutual respect is structured for both effectiveness and efficiency.

Martin Jetter

i.a. Chairman of the Supervisory Board of Deutsche Börse AG

The established procedures and processes, the defined tasks of a Supervisory Board and the current structure of German corporate governance are under strong pressure in view of the rapid changes in the economic, technological and political landscape. These developments are challenging the traditional framework and stimulating discussion about whether and how Supervisory Boards need to adapt in order to fulfil their role in a dynamic environment.

Objectives and methodology

With this *Board of the Future* study, we would like to take a look with you at the noticeable changes in the work, structures and processes of German Supervisory Boards.

To get to the root of these changes, ECBE has collected and analyzed qualitative and quantitative data from various sources:

1. Through the collection of publicly accessible data from all Supervisory Boards from the DAX index family, we have evaluated information regarding the organization and structure of the Supervisory Boards at the company and individual level.
2. With the help of language models, all the annual reports of DAX index family companies are systematically analyzed, specifically the Report of the Supervisory Board, the Management Report and the Corporate Governance Statement, to identify the main Supervisory Board topics in 2023.
3. The results were additionally supplemented by ECBE's extensive experience gained from numerous evaluations and self-assessments carried out by Supervisory Boards.
4. The results were critically reflected upon and discussed in personal interviews with selected chairmen/women of Supervisory Boards and committees of German listed companies.

We have summarized the results of this multidimensional analysis in this study.

Key Findings at a Glance

1. Exploitation & Exploration: Understanding the Role of the Supervisory Board

At their meetings, the Supervisory Boards of companies in the DAX index family dealt with topics such as the pandemic & war, digitalization & sustainability and strategy in addition to control topics. The *Board of the Future* will have to strengthen the balancing act in times of transformation and crisis: between monitoring the existing core business and the achievement of targets and, on the other hand, promoting innovation and new business models. This requires efficient processes, structures and routines as well as flexibility, agility and continuous innovation - and more room for strategic discussions with the Management Board.

2. Role Model & Tone from the Top: Leadership of the Supervisory Board Chairperson

The role of the chairmen/women of the Supervisory Board is central to the effectiveness and function of the Supervisory Board and for the team dynamic and optimal consideration of the competencies of the members. The chairman/woman must find balance between active leadership and fostering individual responsibility within the Board. With the ability to shape team dynamics, support committee chairs and promote cooperation between the Supervisory Board and Management Board, the *Board of the Future* not only influences the quality of monitoring, but also the strategic direction of the company.

3. Board Dynamics Start with Composition: A Diverse Competency Profile with Clear Objectives

Systematic, long-term succession planning based on a clearly defined skills profile is often insufficiently implemented. The Nomination Committee plays a key role in identifying and closing skills gaps at an early stage and ensuring that the Supervisory Board is diverse. Staggered boards with staggered or different terms of office are becoming the norm. They promote continuous renewal while at the same time ensuring Board stability. The *Board of the Future* must expand its internationalization. While the proportion of women on Supervisory Boards continues to increase, the internationality of Boards remains a critical issue. German Supervisory Boards are still considered too formal and inflexible.

4. Committee Structure: Specialization, Responsibilities, and Transparency

The growing importance of committees on the Supervisory Board is a reflection of increasingly complex requirements. Committees enable in-depth discussion of specific topics that often cannot be adequately dealt with in the plenary meetings, which are usually formal and focused on efficiency. The *Board of the Future* avoids overlaps, gaps in processing and information asymmetries between Supervisory Board members with a clear allocation of tasks, structured coordination between committees and transparent reporting to the plenary meeting. The efficiency of committee work is optimized through a balanced distribution of committee memberships and greater involvement of previously underutilized committees.

5. Shaping Transformation: Strategy, Implementation, and Risk Management Combined

The number of transformation committees, particularly ESG committees, has once again increased significantly. On the other hand, the corresponding topics are increasingly being viewed as overarching tasks and dealt with from a strategic, regulatory and risk-based perspective. Close cooperation between the plenary session and the committees is essential. The *Board of the Future* must deal with uncertainties in the implementation of the European Sustainability Reporting Standards (ESRS) and take into account external influences such as the current backlash from the USA. It should also actively address the opportunities and risks of artificial intelligence (AI): in the monitoring of Board activities as well as to optimize its own working methods, for example with simultaneous translations or minute-taking. Cyber security should be on the Supervisory Board's agenda regularly as a central component of the corporate strategy.

6. Rewarding Engagement: Supervisory Board Remuneration & Focus on Management Board Remuneration

The increased demands and growing time commitment are leading to an increase in Supervisory Board remuneration, accompanied by a simplification of the remuneration systems. Some companies have introduced share ownership rules to strengthen the alignment of interests. With regard to important developments in Board remuneration, sustainability targets are increasingly being integrated in order to promote the implementation of the corporate strategy. Pay for performance remains essential, with transparent justifications for exceptional remuneration adjustments strengthening investor confidence. The *Board of the Future*, in particular the chairman/woman of the Supervisory Board, plays a key role in communicating with investors to ensure approval of remuneration systems through early dialogue and strategic coordination.

The Supervisory Board as Controller, Sparring Partner, and Challenger

The role of the Supervisory Board in German listed companies has significantly expanded and changed in the last years. The Supervisory Board has long since ceased to be perceived solely as a control body that monitors the work of the Management Board and fulfills regulatory duties. Instead, many Supervisory Board members increasingly see themselves as sparring partners who advise and support the Management Board, as an initiator for new ideas and, above all, as challengers that critically scrutinize strategic decisions and encourage the Management Board to adopt innovative approaches.

Expanded scope of duties und focus topics

A glance at the main topics which are discussed in Supervisory Board meetings shows the expanded role considerably. Next to classic monitoring tasks, topics such as corporate strategy, sustainability and digital transformation are becoming increasingly important. Current crisis-topics such as the war in Ukraine and the effects of the pandemic have demonstrated how important it is that Supervisory Boards act flexibly and are prepared to respond to unexpected challenges.

Strategic involvement and necessary frameworks

The role of the Supervisory Board requires not only an in-depth understanding of the company's strategic orientation, but also an intensive cooperation with the Management Board. The self-evaluations show, that many Supervisory Boards wish they had more time and room for deeper discussions to talk through strategic ideas in detail and to identify potential challenges early on. The current, often very formal format, of Supervisory Board meetings allow for only limited leeway. Thus, many Supervisory Boards see the necessity to develop and strengthen current formats and structures to better facilitate and promote deeper discussions.

Platform for strategic discussions

Various formats have been established in practice to give strategic topics the appropriate space. Strategic discussions are shifting to corresponding committees, which has led to a significant increase in strategy committees.

Looking at the bylaws of Supervisory Boards of DAX index family companies shows that the responsibility for strategic development is anchored in several committees. So that the ideas and strategies developed can also be discussed and approved in the plenum the committees should report back their findings regularly and transparently.

Several Supervisory Boards choose intentionally against addressing important strategic topics in a committee, to address it sufficiently in the entire plenum. As there is often not enough room in regular meetings for in-depth discussions, annual strategy meetings in particular have been established. In these one to two-day lectures, the Management and Supervisory Boards discuss – often involving selected external perspectives and expertise – mid and long-term strategy as well as current strategic projects and goals.

The difference between the inclusion in the strategic development and the monitoring of the implementation of the strategy is important here. It has been observed that Management Boards are increasingly involving their Supervisory Boards at an early stage in the strategy development process as initiators and challengers. The Management board should regularly inform the Supervisory Board about the progress in the implementation of strategy. Regular strategic-updates from the Management Board during Supervisory Board meetings have been established for this purpose to involve the Supervisory Board in the developments.

Mutual understanding and open dialogue

The effectiveness of the Supervisory Board depends largely on how often exchange with the Management Board is arranged. A mutual understanding of the role of the Supervisory Board as a valuable partner in the strategic development of the company is central to this. Regular updates and an open dialogue between the Management and Supervisory Board creates a foundation for transparent and constructive cooperation. This cooperative partnership enables the Supervisory Board to fulfill its role as a sparring partner and challenger, thereby contributing to the long-term success of the company.

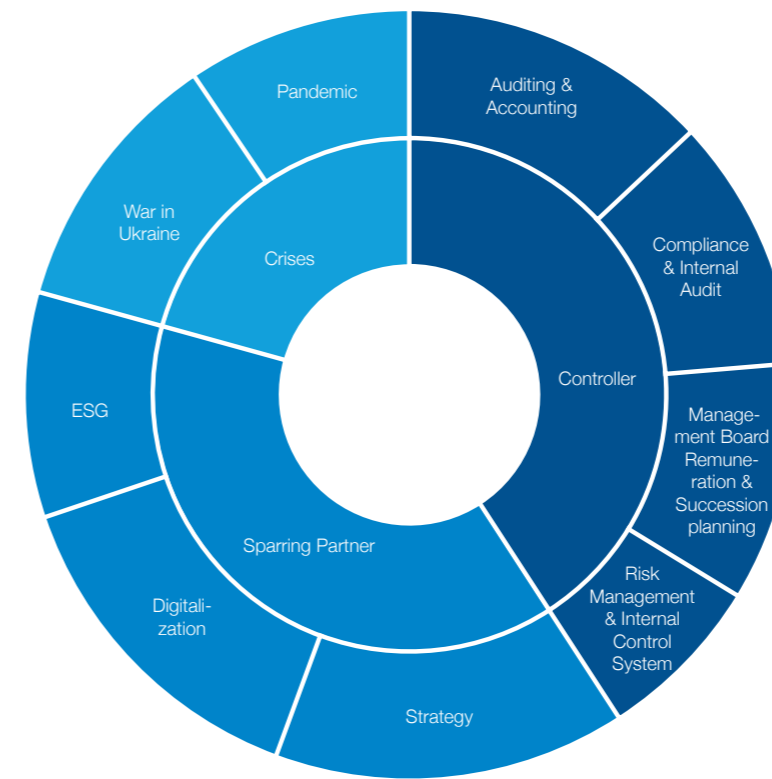


Fig. 1 shows the main topics addressed in the Supervisory Board meetings, which were evaluated using the text analysis tools from the 2023 annual reports

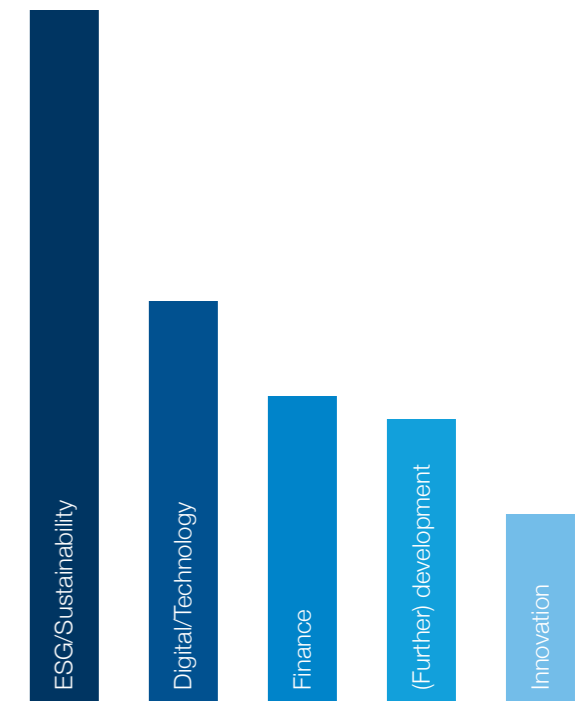


Fig. 2 shows the main topics of the strategy committee meetings of the DAX index family, which were analyzed using our text analysis tools from the 2023 annual reports.

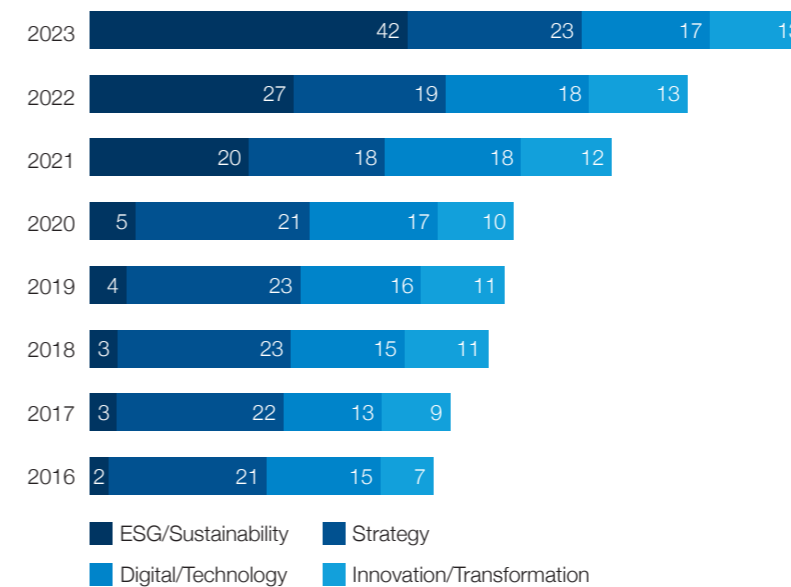


Fig. 3 shows the development of committees with the names ESG/Sustainability, Strategy, Digital/Technology and Innovation/Transformation of the 160 companies in the DAX index family. Individual committees are taken into account several times due to their dual function.



Fig. 4 shows the committees of DAX companies which, according to the committee definition, are responsible for strategy development.

Particularly in times of uncertainty, it is essential to also discuss long-term strategic goals and visions. Within the Supervisory Board, we have developed a clear understanding of roles in collaboration with the Management Board, enabling us to effectively contribute our expertise as both catalysts and challengers. As Chairman, I see it as my responsibility to ensure that all supervisory board members are appropriately involved in this process.

Prof. Dr. Rüdiger Grube

i.a. Chairman of the Supervisory Board of Hamburger Hafen und Logistik AG and Vossloh AG

The Role of the Supervisory Board Chairperson – Leadership and Role Model

The chairman/woman of the Supervisory Board takes on a central role in the management and governance of the Supervisory Board. He or she is not only a coordinator and mediator, but also sets the standards for the cooperation of the entire body and between the Supervisory and Management Boards. This task requires a fine balance: the chairman/woman must act as equals and at the same time act as a role model, creating trust and inspiring the other Supervisory Board members. The ability of the Supervisory Board chairman/woman to promote a dynamic and cooperation within the Board not only has an impact on the effectiveness of the Supervisory Board itself, but can also influence the company in its strategic orientation.

Importance of the team-dynamic and cooperation of the Supervisory Board

The role of the chairman/woman of the Supervisory Board is decisive for the team-dynamic, the cooperation of the Supervisory Board and the utilization of individual strengths and expertise of the individual members. As reflected by the self-evaluations of Supervisory Boards, the chairman/woman plays a central role in knowing which members are the best-suited for specific topics, and what members should belong to which committees. This skill is not only important for an efficient distribution of topics, but also to ensure that the expertise of the members will be optimally utilized.

Encouragement for committee chairs and the less visible role of the chairman/woman

Another important aspect of the leadership role of the Supervisory Board chairman/woman is the encouragement and support of the committee chairman/woman. Studies like that from Bezemer et al. (2018)* suggest, that the Supervisory Board chairman/woman should take on a more moderate and rather reserved role, to allow room for the committee chairman/woman's own contributions and responsibility. By supporting the presence and commitment of the members, the chair helps to ensure that the entire Board can fully utilize its strengths. This approach can significantly increase the effectiveness of the Supervisory Board.

The distribution and significance of committee memberships of the Supervisory Board chairman/woman

A glance at the committee memberships and chairmanships shows the wide range of responsibilities of the Supervisory Board chairman/woman. On average, the chairman/woman is a member in 75 percent of the committees at the company, and

leads as the chairperson in nearly 44 percent of the committees. Among them, they primarily chair the Presidential Committee, Mediation Committee, Nomination Committee and Strategy Committee. It is worth noting, that against the recommendation of D.3 of the German Corporate Governance Code, a portion of Supervisory Board chairmen/women are also the chairperson of the Audit Committee, which implies a concentration of responsibilities that should be avoided in accordance with the Code.

Tenure and internationality of the Supervisory Board Chairman/woman

In the last years, the average tenure of Supervisory Board chairmen/women of DAX index family companies is declining. Only in the SDAX, due to the new composition of the index, has there been an increase in the length of tenure of Supervisory Board chairmen/women. Another interesting aspect of the analysis is the decline of international Supervisory Board chairmen/women – measured as having a nationality outside the DACH-region – in the DAX index family. The loss of international perspectives represents a step backwards in terms of cultural and global market experiences. Increasing international expertise should be a valuable contribution to strengthening global competitiveness in today's globalized and connected economy.

* Bezemer et al. (2018): The influence of board chairs on director engagement: A case-based exploration of boardroom decision-making; Corporate Governance: An International Review, Vol 26 (3): 219-234.

A strong foundation of trust is essential for constructive and interactive strategy discussions in the boardroom. The Chair of the Supervisory Board holds the responsibility of fostering a culture of openness, transparency, and a clear understanding of roles – creating an environment that enables in-depth engagement with critical strategic issues. An effective Supervisory Board takes a forward-thinking approach, positioning itself as a sparring partner to the Management Board on an equal footing. After all, missed opportunities can quickly turn into strategic risks for a company.

Doreen Nowotne
i.a. Chairwoman of the Nomination Committee of RENK Group AG

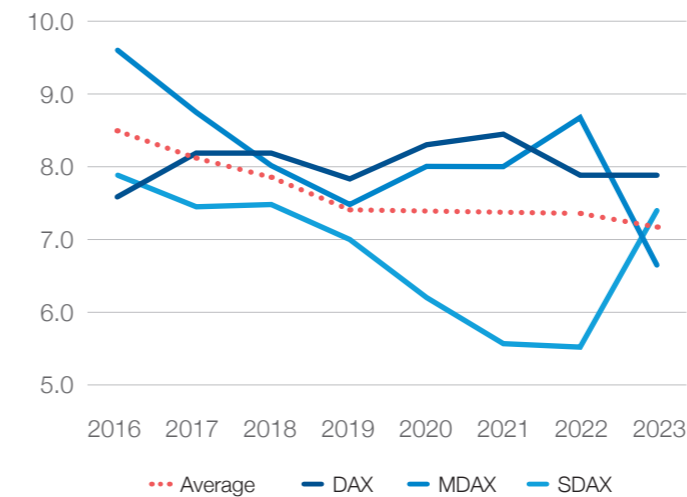


Fig. 5 shows the development of the average tenure of the Supervisory Board Chairmen/women of the DAX index family from 2016 to 2023.

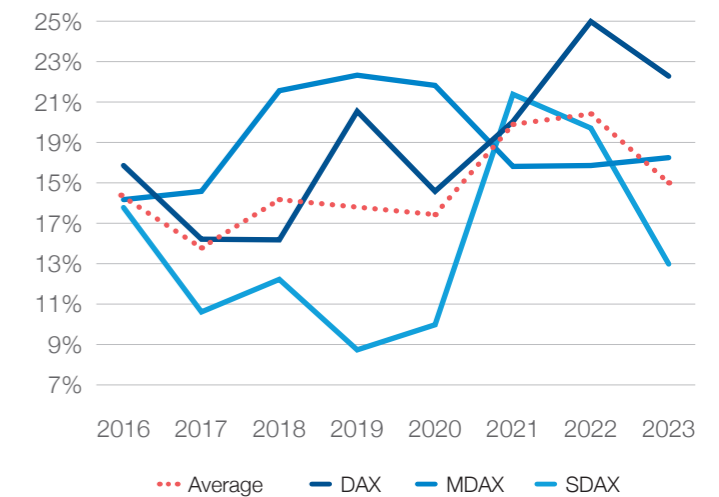


Fig. 6 shows the proportion of international Supervisory Board chairmen in the DAX index family – measured by nationality outside the DACH region.

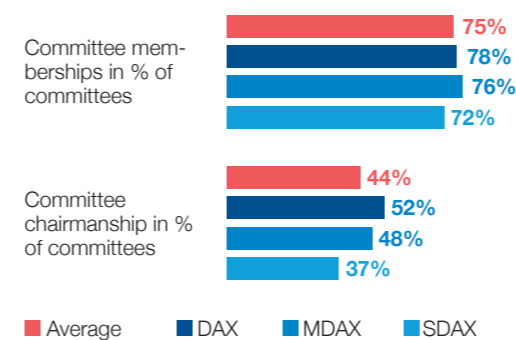


Fig. 7 shows the relative proportion of committee memberships and chairmanships in relation to the total number of committees of the respective Supervisory Board.

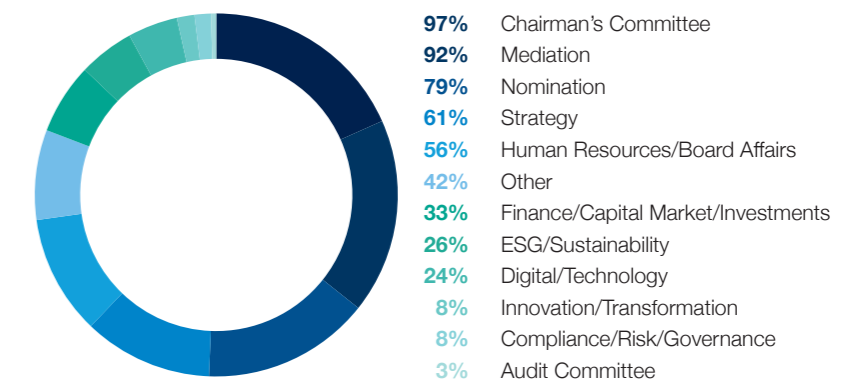


Fig. 8 shows the percentage of committee chairmanships of the Supervisory Board chairmen/women in relation to the respective committee categories.

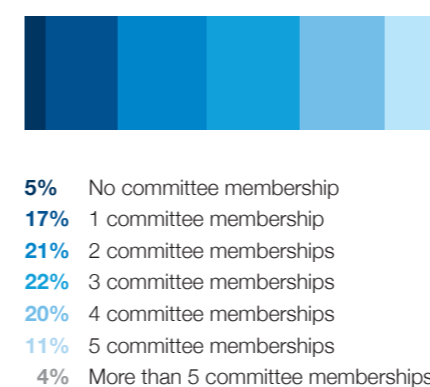


Fig. 9 shows the number of committee memberships of the DAX index family's Supervisory Board chairmen/women.

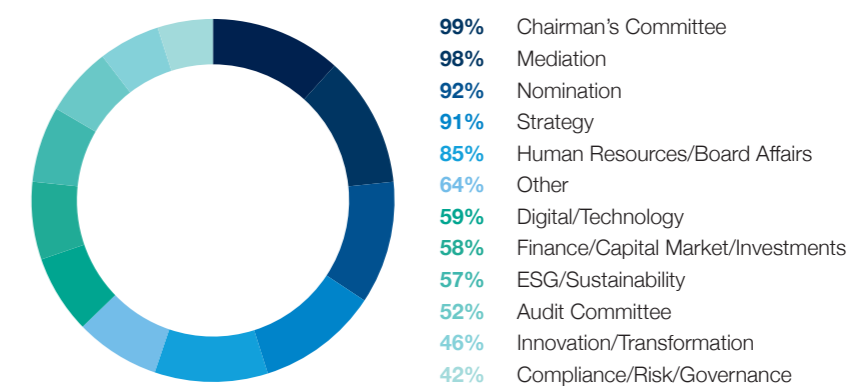


Fig. 10 shows the percentage of committee memberships of the Supervisory Board chairmen/women in relation to the respective committee categories.

Supervisory Board Composition – Systematic Succession Planning as Best Practice

The composition of the Supervisory Board is directly related to its ability to perform and adapt to changing corporate requirements. The question of which skills, backgrounds and perspectives should be represented on the Supervisory Board has become increasingly important in recent years. A well thought-out and diversified group supports not only further strategic development, but it also says something about the company's resilience to crises. Diversity in the Supervisory Board means much more than considering the gender quota. Topics such as internationality, industry-specific experience, and cross-generational knowledge play another decisive role.

Skills profile and long-term planning

A best practice in modern Supervisory Boards is systematic, long-term succession planning based on a clearly defined skills profile. This profile should be regularly reviewed and adapted to current company requirements to ensure that the necessary skills and experience are represented on the Board. While many companies have recognized the importance of this planning, the results of self-evaluations of Supervisory Boards show that implementation is often still patchy. Regular reviews and adjustments to the competence profile are often neglected, which makes the Board vulnerable to strategic challenges.

The Nomination Committee as the key factor

The Nomination Committee is the central element for successful and forward-looking succession planning. However, the potential of this committee is often underestimated or not fully utilized. A strong involvement of the Nomination Committee via frequent meetings and continuous examination of the competence profile of the Supervisory Board enables more flexible and agile adaptation to new requirements.

The Supervisory Board has no excuse. A higher level of ambition, an entrepreneurial mindset, and a clear commitment to both operational and strategic excellence are essential prerequisites for achieving above-average results in an international comparison.

Dr. Martin Sonnenschein

i.a. Chairman of the Supervisory Board of Heidelberger Druckmaschinen AG

By regularly involving all Supervisory Board members in the assessment and discussion of competence gaps, the committee can identify existing weaknesses at an early stage and resolve them through targeted appointments. Thus, the composition of the Supervisory Board becomes continuously optimal.

Skills profile & Qualification matrix

With the new version of the German Corporate Governance Code in 2022, the requirements for the implementation of the Supervisory Board's skills profile were specified. The status of implementation of the skills profile is to be disclosed in the corporate governance declaration in a qualification matrix.

However, the qualification matrix is only fully effective if it serves as a basis for the internal discussion and further development of the Supervisory Board's skills profile.

A look at the stated skills levels reveals a significant discrepancy between the self-reported skills levels of the Supervisory Board members in the qualification matrices and the skills levels used in empirical studies, which are predominantly obtained from publicly available information. This is particularly evident in the transformation topics of sustainability and digitalization, as reflected in the comparison of Figures 11 and 13.

Sustainability skills after ESRS

With regard to the implementation of the Corporate Sustainability Reporting Directive, it should be noted that the European Sustainability Reporting Standards require companies to disclose the composition of their administrative, management and supervisory bodies, their tasks and responsibilities and their expertise in relation to sustainability aspects. The description of expertise can be underpinned by an individual disclosure of the Board members' sustainability expertise. Companies should therefore reflect at an early stage on where and how they demonstrate the sustainability expertise of their Supervisory Board members, among others.

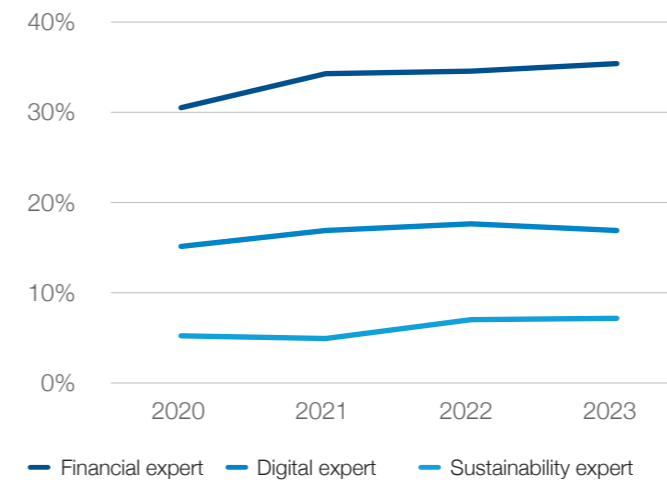


Fig. 11 shows the number of Supervisory Board members of the DAX index family who were classified as financial, digital or sustainability experts based on their CVs

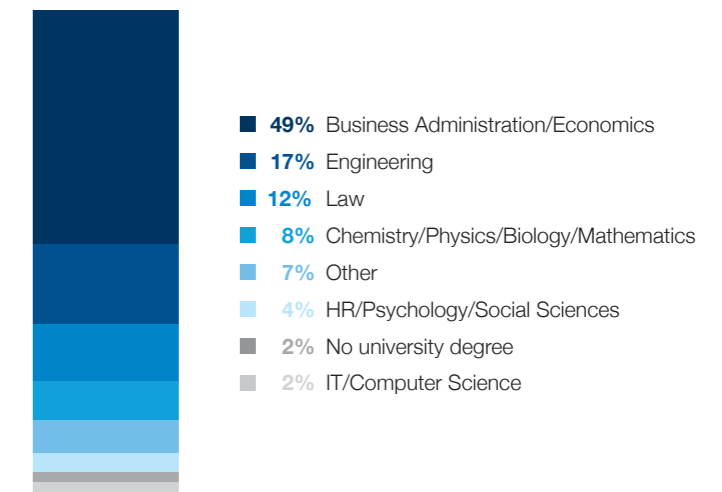


Fig. 12 shows the educational background of the Supervisory Board members of the DAX index family companies analyzed from their CVs.

Competencies	Ø	DAX	MDAX	SDAX
Industries/Business areas	71%	70%	75%	69%
ESG/Sustainability	65%	66%	64%	64%
Human resources	62%	73%	58%	53%
Management/Leadership experience	54%	52%	56%	54%
Digitalization/Technology/IT	47%	49%	45%	46%
International experience	45%	42%	52%	39%
Financial expertise	44%	50%	33%	47%
Compliance	40%	37%	39%	44%
Strategy	38%	50%	27%	35%
Corporate Governance/Organization	38%	40%	34%	40%
Accounting	37%	35%	37%	40%
Internal control/Risk management	33%	31%	28%	41%
Law	33%	32%	29%	38%
Final audit	32%	27%	34%	36%
Controlling experience	30%	39%	26%	24%
Sales	17%	22%	17%	13%
Transformation/Change Management	16%	30%	1%	15%
M&A/Portfolio management	16%	17%	13%	17%
Manufacturing/Production	13%	21%	5%	10%
Marketing	13%	10%	15%	12%
Worker participation/Employee interests	13%	12%	14%	13%
Innovation	11%	19%	5%	8%

Fig. 13 shows the extent of the professional expertise of the Supervisory Board members in the qualification matrices of the companies in the DAX index family, sorted by level of expertise (only expertise >10%).

Diversity in the Supervisory Board – The Importance of Different Perspectives

In recent years, national and international specialist literature has dealt intensively with the influence and effects of diversity on Supervisory Boards. For example, Adams et al. (2018)* show that Supervisory Boards should have a diverse skillset of members, as the combination of characteristics is essential for Supervisory Board decision-making. With a focus on gender diversity, Guldiken et al. (2019)* show that when there are more female members in the Nomination Committee, the companies are more likely to appoint female members to the Supervisory Board. When analyzing the composition of Supervisory Boards in the DAX index family, they identify interesting developments in various diversity characteristics.

The percentage of women in German Supervisory Boards

The proportion of women on Supervisory Boards has increased continuously in recent years and most recently stood at 35 percent (of shareholder representatives), which indicates increasing efforts to achieve a balanced gender distribution in the management body. In addition, the tenure of Supervisory Board members have tended to become shorter, which indicates a more dynamic rotation and thus a stronger renewal of Supervisory Boards. These developments illustrate the growing awareness of the importance of diversified Board structures and the efforts to achieve a more balanced composition of Supervisory Boards in terms of gender and tenure.

Internationality in German Supervisory Boards

Another important aspect of diversity in German Supervisory Boards is the internationality of its members. In an international comparison, however, German Supervisory Boards are still considered to be less diversified in terms of international perspectives. In particular, the number of Supervisory Board members outside of German-speaking countries has actually fallen recently. International experts often criticize German Boards as being too formal, too large and lacking flexibility in their decision-making. The demand for more international members therefore remains pertinent in order to globalize the

Supervisory Board to a greater extent and enrich it with different cultural perspectives.

Tenure of Supervisory Board members and the importance of staggered boards

Against the backdrop of the current transformation processes and a greater exchange of diverse perspectives on the Supervisory Board, the current debate is also addressing the tenure of Supervisory Board members and the importance of a staggered board. A key strategy for continuously updating the composition of the Supervisory Board is the implementation of so-called staggered boards. The members of the Supervisory Board are given staggered terms of office of different lengths, which allows for regular, gradual renewal on the Board. This structure allows the Supervisory Board to react dynamically to new requirements, while at the same time ensuring continuity and stability. The gradual renewal of members avoids a situation where the Board does not change over long periods of time or where a large number of members have to be replaced at the same time in one year. This approach ensures that the skills of the Supervisory Board are always up to date and that the diversity of perspectives is maintained. A clear trend can be observed on DAX Supervisory Boards: almost 70 percent of the Supervisory Boards of DAX companies already have staggered terms of office for their Supervisory Board members. In addition, more and more companies are adopting the staggered board approach with different lengths of tenure in their bylaws.

The independence of Supervisory board members

In connection with the tenure of Supervisory Board members, there is also a debate about whether they are sufficiently independent from the Supervisory Board. In the DAX, 7 percent of shareholder representatives have been in office for more than 12 years and in some cases even more than 20 years. Despite the German Corporate Governance Code (GCGC) limit of 12 years of independence, most of these Supervisory Board members are still classified as independent of the Management Board and the company. This means that they fall short of the expectations of investors and proxy advisors. The debate makes it clear that a standardized reference dimension (for example through the GCGC) as well as an extensive degree of proximity to the requirements of investors would support consistent succession planning and the promotion of diversity on the Supervisory Board.

* Adams et al. (2018): Director skill sets; Journal of Financial Economics, Vol. 130 (3): 641-662.
Guldiken et al. (2019): Beyond tokenism: How strategic leaders influence more meaningful gender diversity on boards of directors; Strategic Management Journal, Vol. 40: 2024-2046

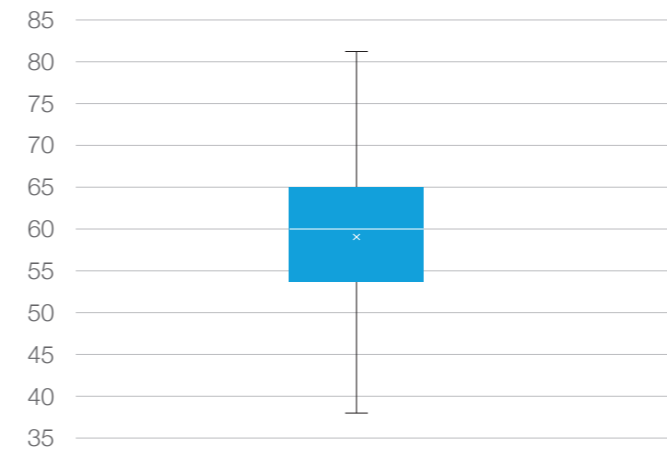


Fig. 14 shows the age of the members of the Supervisory Board (incl. median, mean, upper and lower quartile as well as minimum and maximum). Outliers in the lower and upper percentiles have been removed from the graph.

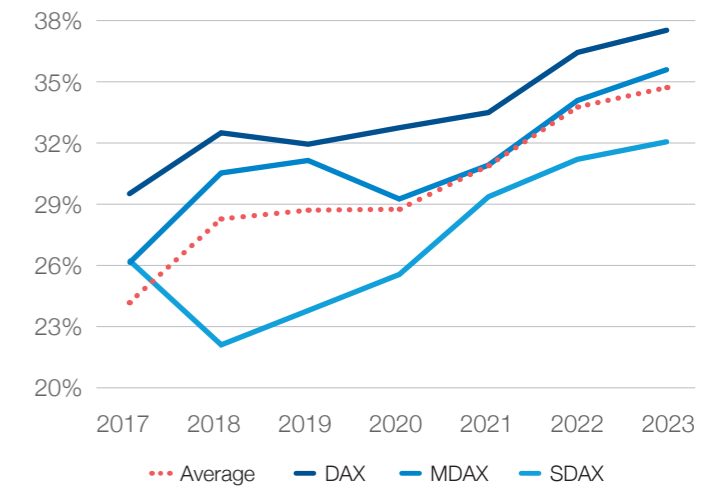


Fig. 15 shows the proportion of women on the Supervisory Boards of companies in the DAX index family for the years 2017-2023.

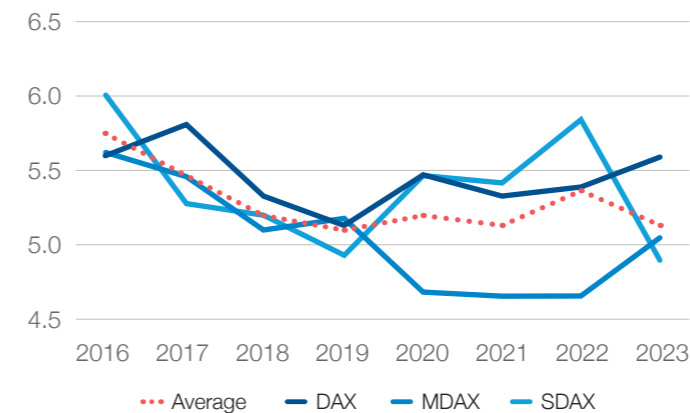


Fig.16 shows the average tenure of Supervisory Board members of companies in the DAX index family from 2016 to 2023.

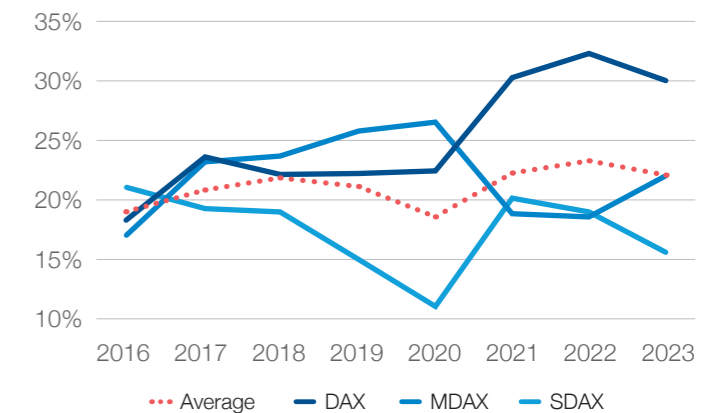


Fig. 17 shows the proportion of international Supervisory Board members outside the DACH region.

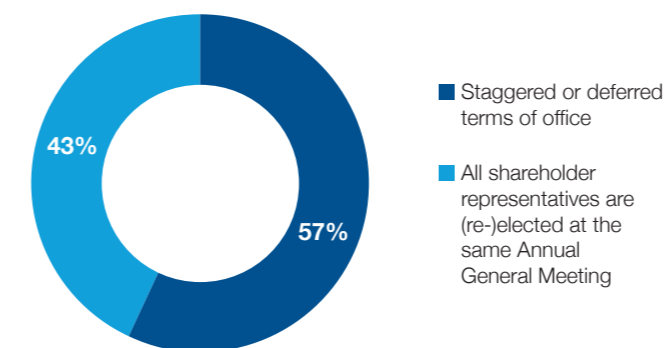


Fig. 18 shows the number of DAX companies with staggered or delayed terms of office on the Supervisory Board.

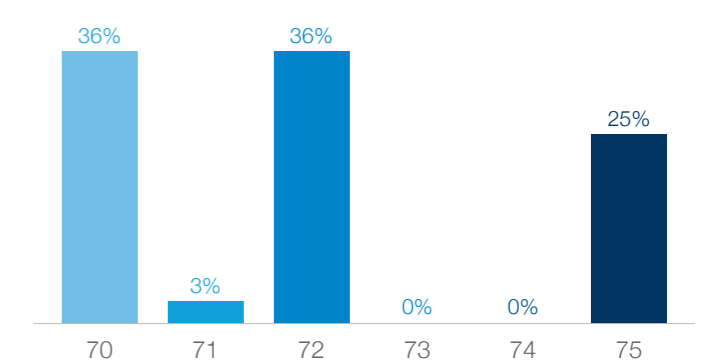


Fig. 19 shows the distribution of age limits in the Supervisory Boards of DAX companies.

The Growing Importance of Committees and Their Interaction with the Plenary

With the increasing requirements and the expanded understanding of roles, committees on the Supervisory Board are becoming increasingly important and are taking on a central role for in-depth and specialized topic-related discussions. Committee meetings offer the opportunity to discuss (strategically) important topics more intensively and in more detail than is possible in plenary meetings, particularly with regard to the transformation topics of sustainability and digitalization.

The growing requirements are reflected in the increase in the number of committees. The average number of committees in the DAX index family was four. While DAX companies have an average of five committees, the SDAX typically has three. This development illustrates that the increasingly complex issues and rising expectations of Supervisory Boards necessitate committee structures that enable specific issues to be dealt with in depth and efficiently.

Effectiveness through cooperation and clear division of tasks

The effectiveness of the committees depends largely on a clear allocation of tasks as well as responsibilities between committees and with the plenary and smooth cooperation. The often formal plenary meetings provide less room for in-depth discussions on specific topics and issues, which are therefore usually conducted in the committees. However, this entails the risk that important information and findings from the committees are not adequately fed back to the other committees or to the plenary session. Structured and regular coordination and communication between the committees, particularly at the level of the committee chairs, as well as in the plenary session is therefore crucial in order to deal with issues in a consistent

and coordinated manner. The self-evaluations show that without clear responsibilities and coordination, there can quickly be overlaps or gaps in the processing of important topics, which impairs the effectiveness of the supervisory work.

Variety of defined committee competencies

A large number of skills and responsibilities are often bundled in certain committees. This is illustrated by the different scope of competencies of the Presidential Committees in the DAX, which are defined in the respective bylaws – and vary greatly from Supervisory Board to Supervisory Board. Figure 20 also shows which topics are bundled in the committees of the DAX index family and how often.

Varying importance and frequency of committee meetings

The importance of the individual committees varies depending on the area of responsibility, which is also reflected in the number of meetings held each year. The Audit Committee and the Presidential Committee are particularly active and meet most frequently. In contrast, the Nomination Committee only meets twice a year on average. Its potential for long-term Supervisory Board succession planning is often not yet fully recognized. Particularly against the backdrop of a long-term and systematic skills profile for the Supervisory Board, the implementation status of which must be published annually in the skills matrix, as well as the increasingly common staggered board approach, the Nomination Committee, like the other committees, should meet regularly during the year and not just on an ad hoc basis.

Distribution of committee memberships

The analysis of committee memberships in the DAX index family shows interesting distributions. Around 17 percent of Supervisory Board members are not represented on any committee, while around half are active in one or two committees. 10 percent of Supervisory Board members are at least active in four committees whereby these are often Supervisory Board chairmen/women. This distribution illustrates the central role of the Supervisory Board chairmen and experienced members, who play a key role in the coordination and overarching management of topics on the Supervisory Board through their membership in several committees. At the same time, this distribution highlights the need to carefully balance the workload and responsibilities of the individual members in order to avoid overloading and ensure effective committee work.

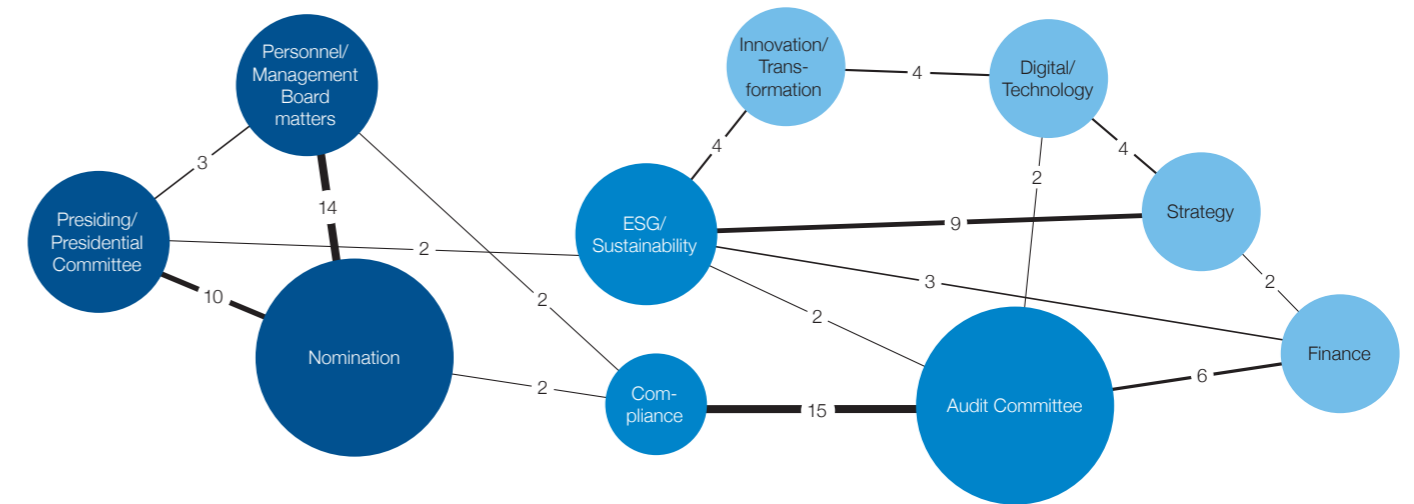


Fig. 20 shows the committee networking within the DAX index family in 2023. The size of the circles indicates the frequency of the committees and the connecting lines and their strength indicate the common mentions in the committee name.

Recommendation/Election proposals for the Supervisory Board	Preparation of resolutions/Plenary decisions
Consent for certain transactions	Appointment/dismissal Executive Board
Succession planning Management Board	Dealing with strategic further development
Advice on key topics	Sustainability topics and strategy
Self-assessment/Efficiency audit	Treatment of the corporate strategy
General HR topics	ESG remuneration targets
Remuneration system	Corporate Governance Topics

Fig. 21 shows the responsibilities of the Presidential Committees of the DAX companies in accordance with the bylaws and corporate governance declarations.

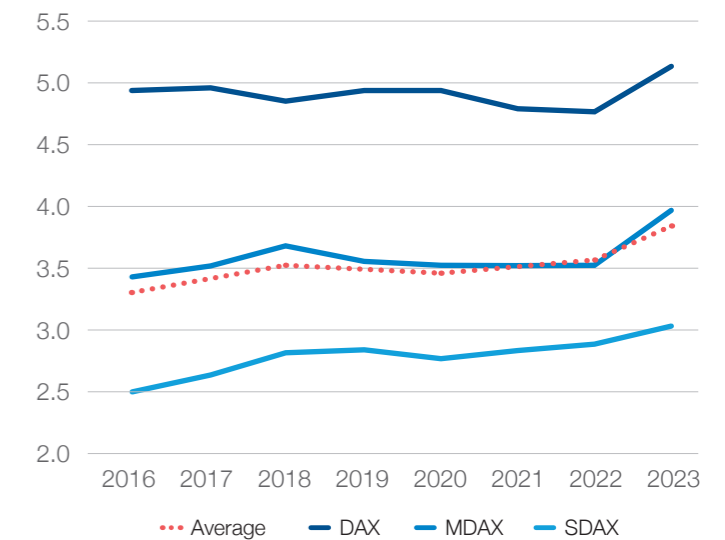


Fig. 22 shows the average number of committees in the Supervisory Boards of DAX index family companies in the years 2016 to 2023.

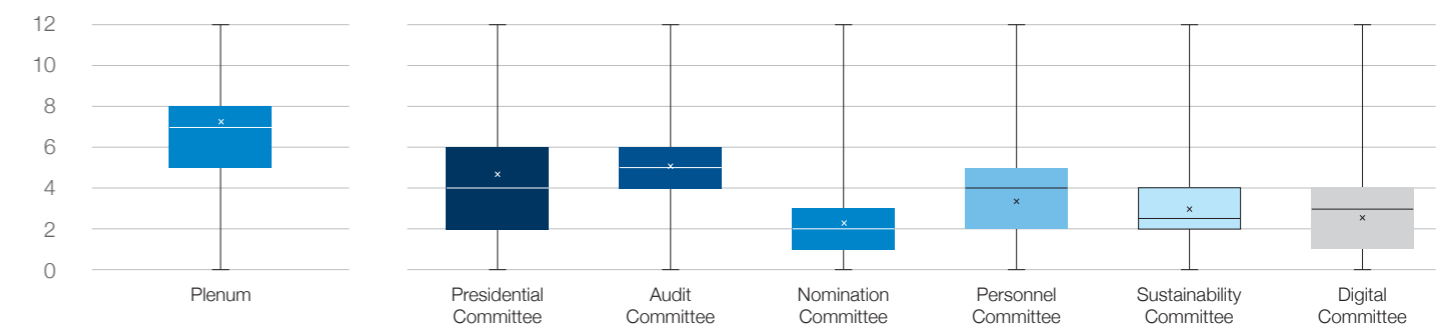


Fig. 23 shows the number of plenary meetings of the Supervisory Boards of DAX index families compared to the number of committee meetings, broken down by committee. Outliers in the lower and upper percentiles have been removed from the chart.



Fig. 24 shows the proportion of Supervisory Board members of the DAX index family with the respective number of committee memberships.

Technological disruptions, regulatory uncertainties, and geopolitical developments must be seen as opportunities that call for proactive action. Future-proof companies need a Supervisory Board that balances innovation with security, provides clear strategic direction, and takes responsibility.

Angela Titzrath

i.a. Member of the Supervisory Board of Deutsche Lufthansa AG and Evonik Industries AG

Uncertainty and Transformation – The New World of the Supervisory Board

The analysis shows that the Supervisory Boards of the DAX index family have been intensively busy with company-related crisis situations such as the war in Ukraine and the pandemic as well as with key transformation processes such as digitalization and sustainability. It is apparent that the topics are dealt with both in plenary sessions and in several committees in parallel. In this way, the topics are addressed strategically and at the same time with regard to their implementation and risk management. This cross-sectional approach requires a holistic approach and close cooperation between the various committees in order to fully grasp and efficiently manage the complexity of the issues.

Sustainability as an overarching topic

The topic of sustainability clearly illustrates the need for cooperation. Sustainability affects strategic issues as well as operational processes and should therefore not only be dealt with in specific sustainability committees. For example, the Audit Committee deals with the integration of sustainability aspects into risk management and reporting, while the Presidential or Remuneration Committee integrates ESG targets into the Management Board's remuneration systems. Figure 26 shows which committees in the DAX – in addition to the implemented sustainability committees – address sustainability topics in their bylaws. The committees must work closely together in order to effectively implement sustainability targets and promote sustainable corporate governance. Figure 28 also shows that 57 percent of the sustainability committees were combined committees, i.e. combined with other topics such as strategy, innovation or investment.

Artificial Intelligence and the role of the Supervisory Board

The rapid development of artificial intelligence (AI) presents Supervisory Boards with new challenges and opportunities. Supervisory Boards must both monitor the use of AI by the Management Board and consider how they themselves can use AI to fulfill their tasks. They are therefore required to create a monitoring framework that ensures that the Management Board uses AI responsibly. They should also consider how AI can support their own monitoring activities, for example by analyzing large amounts of data or identifying risks.

In the self-evaluations with Supervisory Boards, it often becomes clear that they have so far usually paid little attention to the use of AI in the company. Instead, it is often argued that the general digitalization strategy and the digital platforms used should first be brought up to the necessary standard and become the focus of discussions. It should be noted that the way in which the Supervisory Board works using AI is increasingly being questioned. For example, how AI can support

the firmly established simultaneous translations or whether and how AI can be used in session logging to further increase efficiency.

Cyber Security – still too seldom on the Supervisory Board's agenda

With the shift of business processes to digital platforms and the exponential use of AI, the risk of cyberattacks is increasing. Boards should ensure that companies have appropriate strategies, systems and processes in place to identify, assess and manage cyber risks. In particular, the Supervisory Board should ensure that cyber security is an integral part of the corporate strategy and is regularly on the agenda. It should obtain a clear picture of the company's greatest cyber risks, particularly in relation to critical infrastructure and data. This should include a review of whether the security measures in place meet the current threats, including regular stress tests and external audits. It is important that the Supervisory Board assesses whether the Management Board has sufficient knowledge in the area of cyber security or whether external experts should be consulted.

Digitalization and sustainability competencies in the Supervisory Board

For the transformation of business processes to succeed, the necessary skills should also be represented on the Supervisory Board. It is not necessary for all members of the Supervisory Board to have the necessary skills. Rather, sufficient coverage of the relevant expertise should be ensured in the skills profile and the objectives of the skills profile.

The analysis of the published qualification matrices, which show the current status of implementation of the skills profile, shows that some Supervisory Boards focus primarily on control skills, while other Boards emphasize more future-oriented skills. Sustainability skills are included in the skills matrix by 99 percent of companies, while digitalization skills are mentioned by 75 percent of companies. However, only 10 percent of companies explicitly address cyber security. Artificial intelligence is only mentioned by three companies in their skills matrices.

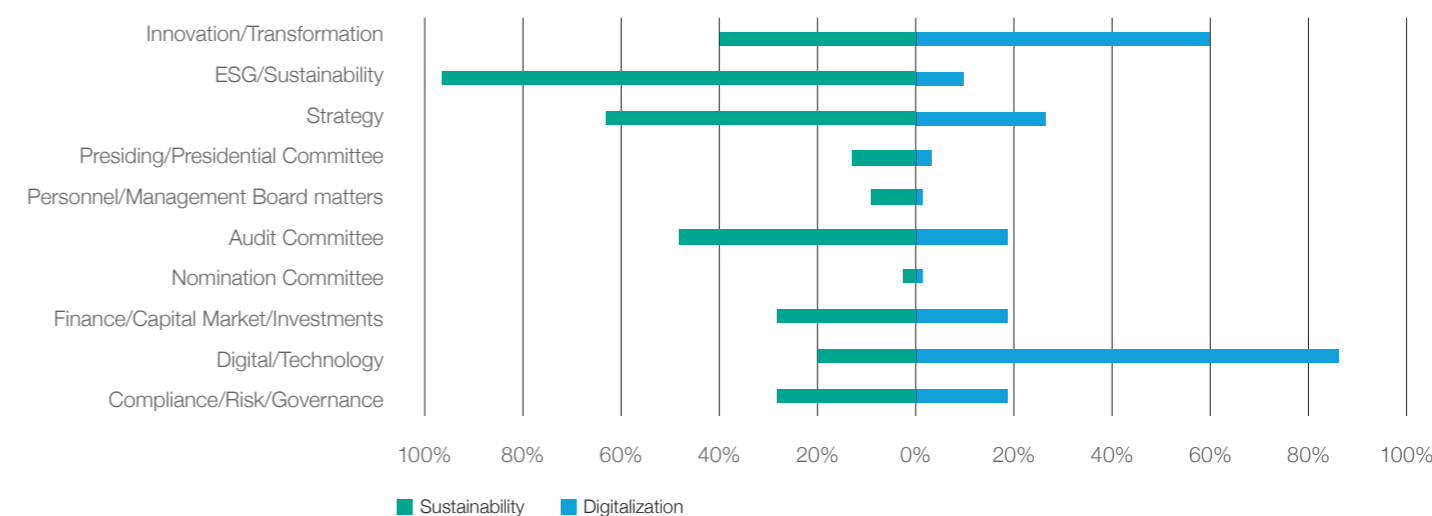


Fig. 25 shows the percentage of committees in the committee categories that dealt with the topics of sustainability and digitalization (text analysis of the 2023 annual reports of the DAX index family companies).

Sustainability strategy	Sustainability topics	ESG remuneration targets
Presiding/Presidential Committee	Presiding/Presidential Committee	Presiding/Presidential Committee
Strategy and Technology Committee	Committee for Legal Affairs	Remuneration Committee
Audit and Compliance Committee	Audit Committee	Audit Committee

Fig. 26 shows the committees of DAX companies that – in addition to the sustainability committees – have responsibilities in the area of sustainability according to the company's bylaws or information in the corporate governance declaration.

Specific digitalization skills	GB2023	DAX	MDAX	SDAX
Digitalization	86	25	26	35
Information Technology (IT)	51	17	15	19
Technology	39	15	9	15
IT and data security	12	7	3	2
Technical innovation	12	2	3	7
Cyber Security	10	4	5	1
Digital transformation	7	4	2	1
Software	5	3	1	1
Data/Big Data	4	2	1	1
Digital business models	4	1	1	2
Industry 4.0	3	0	2	1
Artificial intelligence (AI)	3	1	1	1
Cloud	2	0	0	2
Automation	1	0	1	0

Fig. 27 shows heterogeneous terminology in the qualification matrices when identifying digitalization skills.

ESG Committee	15
Strategy & Sustainability Committee	6
Sustainability Committee	3
Innovation & Sustainability Committee	2
Presidential & Sustainability Committee	2
Audit & Sustainability Committee	2
Special committee on emissions topics	2
Nomination & ESG Committee	1
Transformation & Sustainability Committee	1
Strategy, Finance & Sustainability Committee	1
Investment & Sustainability Committee	1
Sustainability & Finance Committee	1
Ethics, Compliance and Sustainability Committee	1
D&I and Sustainability Committee	1
Strategy, Technology & ESG Committee	1
Strategy, ESG & Innovation Committee	1
Innovation & product sustainability committee	1

Fig. 28 shows an overview of the individual sustainability and ESG committees (57%) as well as the combined sustainability committees with other topics of all companies in the DAX index family.

Supervisory Board Remuneration and Challenges in Management Board Remuneration

As a result of the continuously increasing demands on the Supervisory Board, the average total remuneration of the DAX index family continued to rise in all offices in the 2023 financial year. Many companies are adjusting their Supervisory Board remuneration to consider the increased time required and the higher demands on the qualifications of Supervisory Board members. This also includes the increased importance of committee work and the associated increases in committee remuneration as well as the establishment of new committees to focus on specific topics.

Companies are simplifying parts of the remuneration system of Supervisory Board members

Companies that have recently voted on changes to their remuneration system for Supervisory Board members at the Annual General Meeting have in some cases simplified their remuneration system. For example, some companies abolished the attendance fee for plenary and committee meetings and, in return, increased the fixed remuneration or committee remuneration. In individual cases, companies have even implemented a more comprehensive change to their remuneration system and, for example, have set a fixed amount for offices such as Supervisory Board chair, deputy chair and chair or membership of a committee, whereby only the highest-paid office is remunerated.

With the exception of one company, there is no longer any company in the DAX with variable remuneration for Supervisory Board members. Even when considering the entire DAX index family, only just under three percent of companies still grant variable remuneration. This means that almost all companies comply with recommendation G.18 GCGC, according to which the remuneration of the Supervisory Board should consist purely of fixed remuneration.

Share Ownership requirements for the Supervisory Board

Although there has been no clear trend in the DAX index family in recent years, six DAX companies have now implemented shareholding requirements for their Supervisory Board members. These are often structured as a (self-) obligation to purchase the necessary shares or are fulfilled by withholding a corresponding portion of the remuneration and purchasing at the company's request. An annual investment amount is usually set which is primarily expressed as a percentage of the fixed remuneration. As a rule, the shares must be held by the Supervisory Board members for the duration of their term of office.

Management Board remuneration: Implementing the sustainability strategy

Sustainability is an integral part of the Supervisory Board agenda, particularly through the integration of ESG targets into the remuneration system for Management Board members, which is now best practice. The selection of measurable ESG targets was initially a challenge, but the focus is now on optimizing the implementation of these targets. New key figures that become available through ESRS reporting could be useful in the future when adapting the remuneration systems to the company's sustainability strategy. The Management Board's remuneration thus offers the Supervisory Board a direct means of promoting the company's sustainability goals.

Management Board remuneration: Pay for Performance and extraordinary developments

Investors and proxy advisors attach great importance to transparency and usually reject discretionary remuneration elements or subsequent modifications. The correlation between company and Management Board performance and remuneration is a decisive factor for the approval of the remuneration report and remuneration system at the Annual General Meeting. However, in a globalized economy characterized by unforeseeable events, the Supervisory Board must be able to take these developments into account in the remuneration of the Management Board. Interventions should be well balanced and transparently justified in the remuneration report in order to maintain investor confidence.

The Supervisory Board as a driver for investor communication and alignment of interests

Communication with investors in the run-up to the Annual General Meeting plays an important role in the successful approval of the remuneration system or the remuneration report. The Supervisory Board, in particular the chairman/woman, should actively seek dialog with investors, for example in the case of planned adjustments to the remuneration system. Well-prepared communication, for example through investor roadshows, can thus promote a high level of approval at the Annual General Meeting and avoid negative voting results, which often tarnish the company's image.

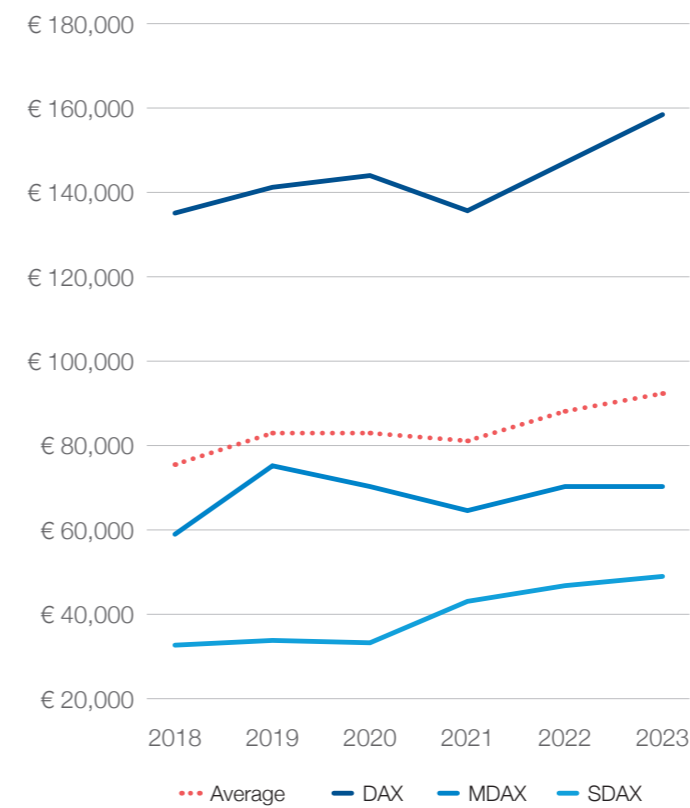


Fig. 29 shows the average remuneration of the Supervisory Board members of the companies in the DAX index family from 2018-2023.

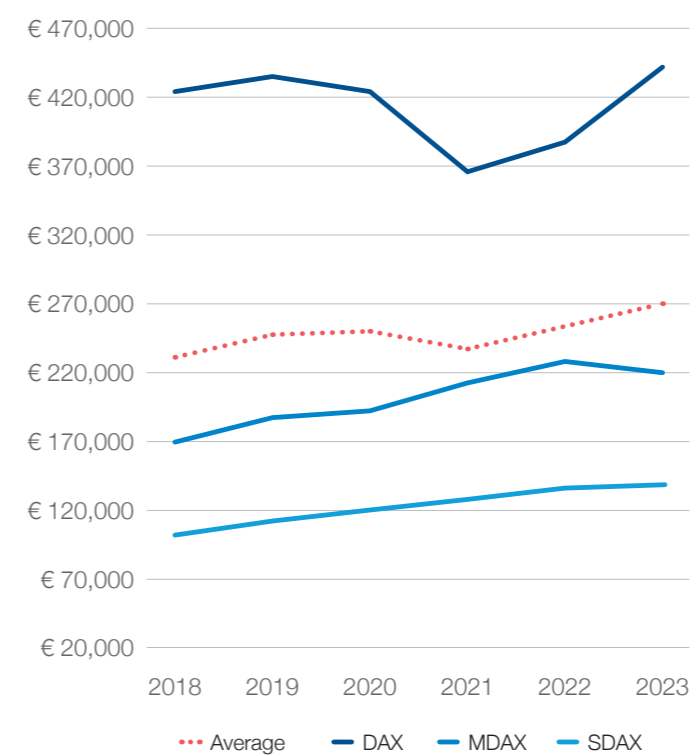


Fig. 31 shows the average remuneration of the chairmen/women of the Supervisory Board of the companies in the DAX index family from 2018-2023.

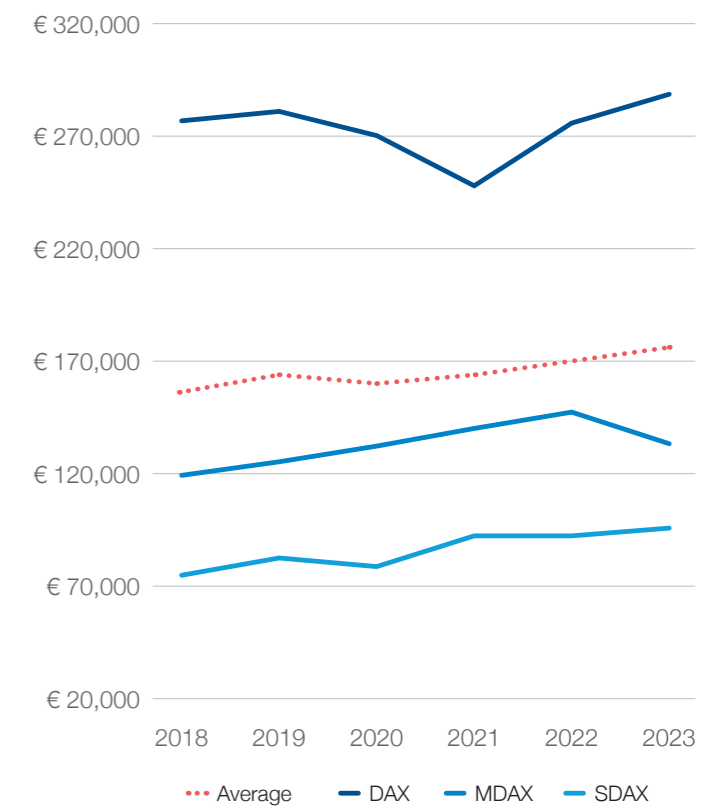


Fig. 30 shows the average remuneration of the deputy chairmen/women of the Supervisory Board of the companies in the DAX index family from 2018-2023.

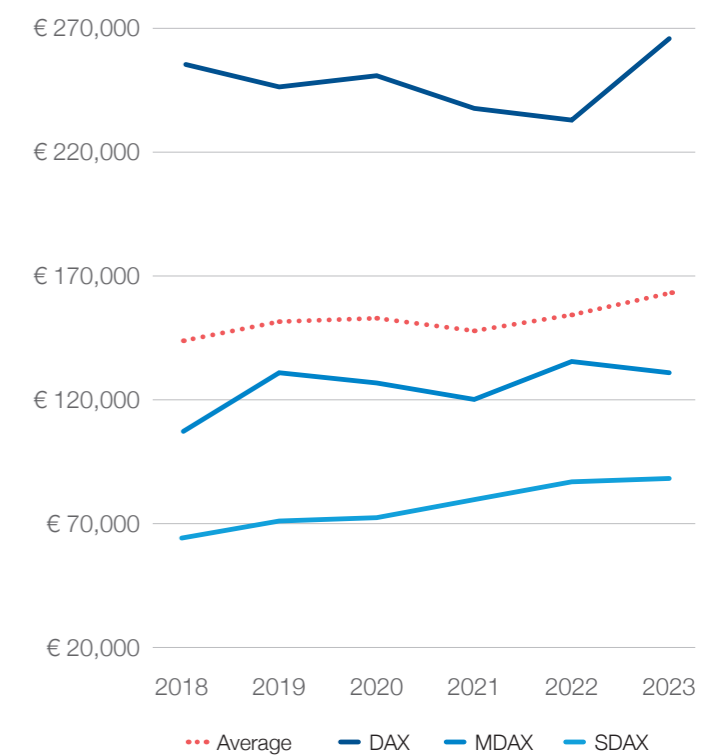


Fig. 32 shows the average remuneration of the Audit Committee chairmen/women of the companies in the DAX index family from 2018-2023.

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Special thanks to all those involved on the ECBE team, especially Nicolas Janßen, and to apparat.wien for the design.

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