# WHAT IS THE RIGHT ROLE FOR YOUR SUPERVISORY BOARD?

By Ulrich Pidun, Alexander Roos, and Sebastian Stange

The demands on supervisory boards are increasing.[1] The COVID-19 pandemic is just another item on the list of complex challenges that companies are facing, such as digital transformation, climate change, protectionism, and activist investors. Therefore, many supervisory boards want to go beyond monitoring—they want to actively shape change and adapt their role to the new circumstances.

At the same time, supervisory boards confront a growing number of legal requirements and best practices. It is more and more difficult to meet these within the time available. Supervisory boards therefore need to rethink their role in order to focus on the right and most important tasks.

Unfortunately, stock corporation law and Corporate Governance Codices offer only minimum standards and thus provide little guidance. Our discussions with successful supervisory board members show that these boards can structure their work in a number of very different ways. There is no single recipe for success.

So, what role should the supervisory board play? Which board activities create the most value? Which areas should the supervisory board prioritize? Where does it get more deeply involved and where does it give management plenty of rope? How exactly should the board's work be structured? And which factors affect these decisions?

To answer these questions, we statistically analyzed data from our survey of 120 German and Austrian supervisory boards. In practice, supervisory boards in two-tiered governance systems can choose from four roles, which differ greatly in their focus of activity: HR centric, strategic, monitoring, and supporting. Each of the four can be successful, but the role needs to be appropriate for the company's individual situation, and the supervisory board's work needs to be tailored specifically to the role.

## The Activities of the Supervisory Board Are Shifting

Supervisory board work comprises 12 activities in the areas of monitoring, shaping, and advising. (See Exhibit 1.) Almost all supervisory boards that we surveyed focus their efforts—beyond the legal requirements—on monitoring. More than 90% concentrate strongly on monitoring strategy and risk as well as assessing progress toward financial targets. Given that this *ex post* monitoring is not sufficient, supervisory boards also play a strong role in shaping a company's strategic direction and are particularly involved in transactions that require approval.

In times of great change, as we are now experiencing, it is not surprising that strategic tasks are becoming increasingly important. Of the boards in our survey, 35% want to place greater emphasis on involvement in strategic direction, 28% on advising in key business decisions, and 25% on monitoring strategy. They also want to put more focus on appointing the executive board (26%) and monitoring risk (27%).

## Supervisory Boards Can Take on Four Different Roles

In addition to these general observations and trends, our survey showed clear and systematic differences between supervisory boards. This became apparent in our discussions with successful supervisory board chairs, who are all convinced that their own unique way of leading the board is optimal. Using a cluster analysis of our extensive survey data (see "Methodology" at the end of the article for details), we identified four board roles: HR centric, strategic, monitoring, and supporting.

EXHIBIT 1 | The 12 Activities of German Supervisory Boards

| | Activities | Description |
|---|---|---|
| Monitoring | Strategic monitoring | • Monitoring market developments and competitive position<br>• Tracking the success of strategic initiatives |
| Monitoring | Financial monitoring | • Defining the audit process and approving financial accounts<br>• Tracking investments and financial measures |
| Monitoring | Risk monitoring | • Monitoring the risk management system<br>• Discussing major risks and necessary measures |
| Monitoring | Evaluation of the executive board | • Assessing target achievement, competency, and integrity<br>• Defining management compensation |
| Shaping | Appointments to the executive board | • Deciding on the appointment or dismissal of executive board members<br>• Planning succession, promoting young talent |
| Shaping | Target setting for the executive board | • Agreeing on targets with the executive board<br>• Defining the incentive and compensation system |
| Shaping | Involvement in strategic direction | • Participating in decisions on time frames, assumptions, and success metrics<br>• Approving the overall strategy |
| Shaping | Decisions on transactions requiring approval | • Defining the approval requirements<br>• Approving the budget, investments, M&A, capital measures, and dividends |
| Advising | Advice on key business decisions | • Discussing alternatives<br>• Contributing experience and knowledge, questioning assumptions |
| Advising | Provision of relevant expertise | • Providing specific content expertise<br>• Supporting the implementation of particularly relevant issues |
| Advising | Coaching of the executive board | • Promoting the personal development of executive board members<br>• Acting as personal sparring partners and advisors |
| Advising | Offering support with their professional network | • Referring relevant contacts<br>• Discussing select topics with third parties |

**Sources:** Discussions with German supervisory board members; BCG analysis.

The four roles differ significantly in their areas of focus. (See Exhibit 2.) Of all supervisory board members surveyed, about a quarter have an HR-centric emphasis, a third play a strategic role, 40% focus on monitoring activities, and one in ten are assigned to a supporting role. As shown in the following descriptions, supervisory boards make design choices in terms of structure, instruments, as well as working methods and culture, that are consistent with their role. (See Exhibit 3; an overview of the different design dimensions can be found in *Challenges of Supervisory Boards*.)

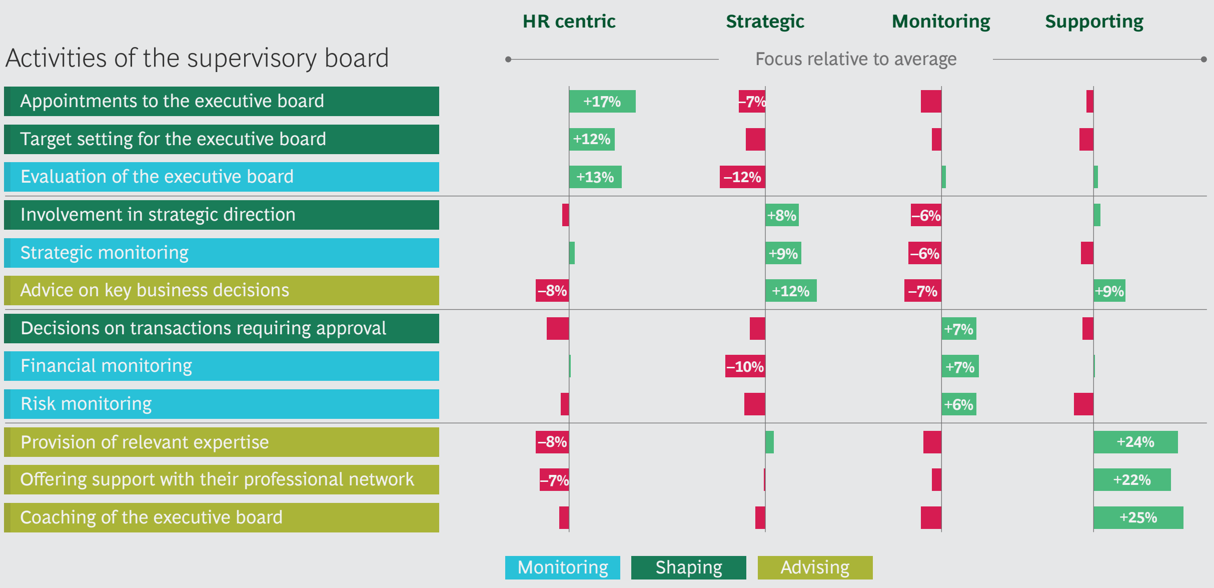
**HR-Centric Supervisory Boards.** These supervisory boards consider their core tasks to be appointing the executive board members, setting their targets, and evaluating them accordingly. HR-centric boards are 15% more involved in these areas than the average. As the supervisory board chair of a German blue-chip company tells us: "The most important value lever of the supervisory board is choosing the management team. Supervisory boards that have to get deeply involved in the business have obviously done something wrong."

To discuss HR topics, the employers' side of HR-centric supervisory boards prealigns 2.5 times more often than average before the full meeting. Naturally, HR-centric boards also attach great importance to good HR information. Supervisory board chairs tend to view themselves as the supervisor of management. This is reflected in the setup of the board: the focus is on formal, legally required activities, while their industry expertise is below average.

**Strategic Supervisory Boards.** A major focus of these boards is to help shape the direction of the company by being actively involved in entrepreneurial decisions. These boards prioritize such strategic activities 8% more than the average. "Strategy discussions should not be understood as control but as advisory," explains a supervisory board chair. Nevertheless, these boards are also very active in strategic monitoring. They are more reticent about personnel activities, however.

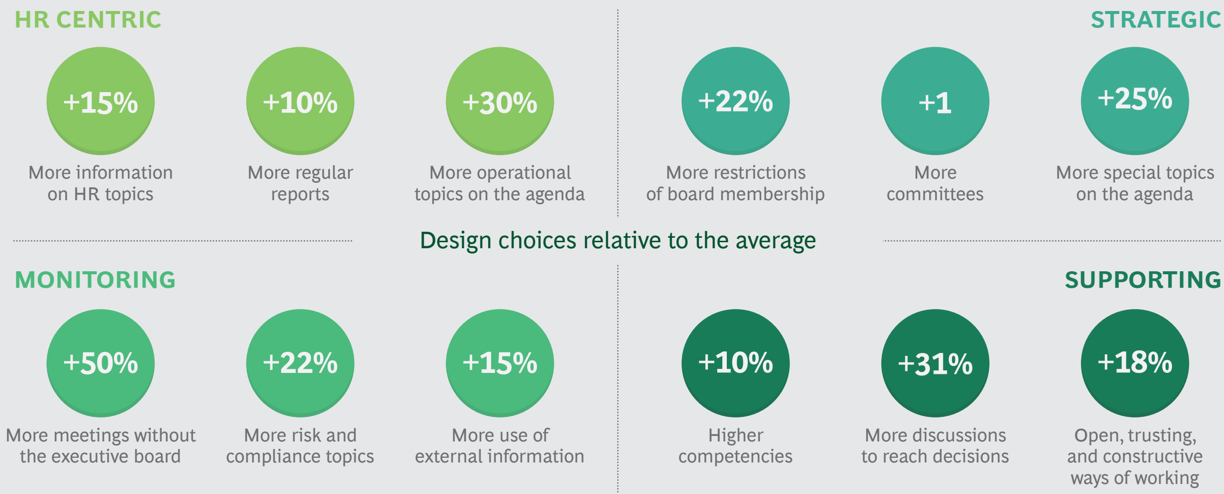
Successful strategic supervisory boards have 6% higher competence scores and 10% better information on strategically relevant topics than the average. In order to give the necessary attention to these

EXHIBIT 2 | The Four Roles Focus on Different Activities




**Source:** BCG Supervisory Board Study.

Exhibit 3 | The Roles Involve Very Different Design Choices




**Source:** BCG Supervisory Board Study.

complex issues, this type of supervisory board relies more heavily on committees, by having on average one additional subcommittee and ensuring that all members actively participate in them. Special topics are frequently on the agenda. The chair of the supervisory board is perceived primarily as a sparring partner for management and ensures constructive cooperation between the supervisory board and the executive board. Usually, management takes part in all supervisory board meetings. In more than 90% of cases, strategy-focused supervisory boards set the agenda together with management—in other roles, this is about a third less common.

We found one key feature of strategic boards particularly striking: they pay close attention to adapting their competence profile to emerging requirements. Half of them limit board members' term in office; only one in five of the other supervisory boards place similar restrictions.

Monitoring Supervisory Boards. The majority of our survey respondents follow the classic role of the monitoring supervisory board. These boards attach great importance to risk monitoring and show above-average involvement in tracking financial targets. "Distance from management is essential for effective control," emphasizes the supervisory board chair of a large, global conglomerate.

The chair of the supervisory board is accordingly perceived as a controller of management. Successful boards with a monitoring focus meet about 50% more often without the participation of management and rely more on external, independent sources of information, such as talking to customers, auditors, and consulting firms. Their agenda addresses risk and compliance questions 22% more frequently and in comparatively formal formats such as regular reports and protocols. Strategic tasks are left to management.

Supporting Supervisory Boards. These boards act as a driver and coach for management. Providing technical expertise and offering support with their own business network are clearly above average and of high relevance. Supporting supervisory boards are particularly common in family businesses and startups. "Control is a must, but the key value add of the supervisory board lies in coaching," is how a supervisory board member at a successful family business describes his understanding of the role. He says he is leading the management of the fast-growing global market leader toward higher ambitions and constant professionalization. He also represents a counterweight to the owner's family. "This is also expected of me," he says. Similarly, a supervisory board member of an up-and-coming startup sees the board in the role of "copilot" and stresses the importance of "arriving at good decisions by consensus."

Successful supporting supervisory board members have a particularly high and broad spectrum of expertise—especially on current topics such as market trends, digitization, and sustainability. At the companies surveyed, the level of competence of these supervisory board members is almost 10% above average. They actively obtain information from external sources, exchange knowledge among themselves, and allow more time for intensive discussions on the agenda. The supervisory board chair acts as a driver and is pushy in a positive sense. Important elements of this model are a particularly good, open, and trusting working culture in cooperation with management.

## The Right Role Depends on the Company Situation

Which supervisory board role is most successful? In principle, all four roles can be, as our survey shows. All roles are represented among outstanding boards. In the study, we define successful boards as those that effectively add value to the company and that are satisfied with their work. (See "Methodology" at the end of the text.)

Nevertheless, certain roles are more successful than others. About two-thirds of the HR-centric supervisory boards are successful; of the supporting ones, about half are successful. In the case of strategic boards, the figure is only 38%, and it's just 25% for supervisory boards with a monitoring function.

This does not mean that the HR-centric supervisory board is the best model in every situation, however. Our analysis shows that different company situations require different roles. The main determinants for deciding on the optimal role are company size, company situation (financial situation and market disruption), and the experience of management. (See Exhibit 4.)

**Company Size.** The optimal role for a value-creating supervisory board depends on the size of the company. In large companies with annual sales of more than €10 billion, monitoring supervisory boards are particularly successful. Although they are also common in midsize companies with sales of €1 billion to €10 billion (44% follow

EXHIBIT 4 | Different Situations Require Different Roles

| Company situation | | HR centric | Strategic | Monitoring | Supporting |
|---|---|---|---|---|---|
| Size (revenue) | <€10 billion | + | ○ | ○ | ○ |
| | >€10 billion | ○ | ○ | + | − |
| Financial situation | Stressed | ○ | − | + | − |
| | Relaxed | + | ○ | ○ | ○ |
| Market disruption | Short term | ○ | + | ○ | ○ |
| | Long term | + | ○ | ○ | ○ |
| Tenure of the CEO | <2 years | + | − | + | − |
| | >2 years | ○ | ○ | ○ | + |

− Less successful  ○ No influence  + More successful

**Source:** BCG Supervisory Board Study.

the monitoring role), HR-centric boards work best here.

Supporting supervisory boards, however, are effective only in smaller companies with a turnover of less than €5 billion. One reason could be that in larger organizations, all the relevant competencies must be available within the company itself—the supervisory board can therefore retreat to a less active role—while in smaller companies, the competencies and experience of supervisory boards can be particularly helpful.

Company Situation. When the company's financial situation is under stress and there are performance problems, monitoring supervisory boards are especially effective. If the company is exposed to major risks, however, control alone is often not enough. Here, a strategy-focused supervisory board can assist in setting the right course. A strategy-focused role is also appropriate when it comes to helping shape the company's response to short-term disruption in its market and solving problems in collaboration with management.

If the disruptions are of a long-term nature, it is more important to select a suitable management team with relevant experience and set appropriate goals. Therefore, in such situations, HR-centric supervisory boards are more successful than average.

In the case of positive business developments, the supervisory board can grant management greater freedom. Here, an HR-centric role contributes particularly often to the success of the company, too. The board formulates goals for management and keeps them on track—but the definition of the strategy and its execution remain completely in the hands of the management team.

Tenure of the CEO. The length of time in the position and thus the experience of the CEO also have a major influence on the success of a particular supervisory board role. For new CEOs with a tenure of less than two years, the support of an HR-centric supervisory board is helpful. The supervisory board selects the CEO, sets clear targets, and then places trust in the newly appointed executive. Supervisory boards that allow the new CEO a high degree of freedom are more likely to create value. Strategic and supporting supervisory boards, which interfere more with the responsibilities of management, are less effective.

CEOs with longer terms of office generally know the company well, and cooperation with the supervisory board is well established. Nevertheless, they can benefit especially from supporting supervisory boards—for example, through selective coaching. These boards can also provide important impetus for startups with less experienced management, especially if the board members have an extensive network of contacts as well as relevant expertise.

## Supervisory Boards Should Proactively Discuss the Right Role

A clear definition of the supervisory board's role is by far the most statistically significant success factor. It increases the probability of the board being outstanding by a factor of 7.2. Our analysis has shown that successful supervisory boards can assume different roles. The supervisory board chair should moderate a structured discussion so that the board consciously chooses its role. The work should then be structured accordingly—for example, decisions should be made regarding the required competencies of the board, the frequency of meetings, and the number of committees.

The supervisory board can create value only if the board's role fits the situation of the company. Personal preferences of the supervisory board members and experience in other companies should be critically examined as arguments for choosing the right role. Major changes in the company's situation may make it necessary to adjust the role. Therefore, a regular review of the role and its design is recommended.

The deliberate choice of the role of a supervisory board lays the foundation for the

## METHODOLOGY

This study is based on the largest survey of supervisory boards in Germany and Austria to date. A total of 120 supervisory board members took part in the survey. We applied different statistical methods to identify the importance and the success criteria of the role of these boards.

Success is measured on the basis of the respondents' view on effectiveness and satisfaction with their work. Supervisory boards with a success measure above the median were classified as "successful." We used a factor analysis to determine the correlation between the various supervisory board activities and aggregated them into activity focus areas. Using a cluster analysis, we calculated the activity profiles of the boards and assigned them to the respective activity areas; this resulted in the four supervisory board roles described above.

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successful and value-creating work of the board. The results of our study provide some thought-provoking insights and the opportunity to make this important decision in a structured way and on the basis of the right arguments.

NOTE
1. The insights from this report apply mainly to two-tiered governance systems where the non-executive supervisory board is clearly separated from the executive board.

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