



Supervisory Board Survey 2021

SEPTEMBER 2021

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A. Foreword

Despite the economic recovery that is now underway, the after-effects of the Covid 19 pandemic continue to have a significant impact on most companies. Their supervisory boards also have a special role to play in dealing with these challenges.

But which topics are setting the agenda besides the pandemic and its aftermath? Where do supervisory board members see a need for legislative reform, particularly in light of the federal elections, to improve the framework for their supervisory board activities and what are the greatest challenges awaiting supervisory board members?

Together with the Arbeitskreis deutscher Aufsichtsrat (AdAR) e.V., we examined these and many other questions in this year's Supervisory Board Study. You can see the results below.

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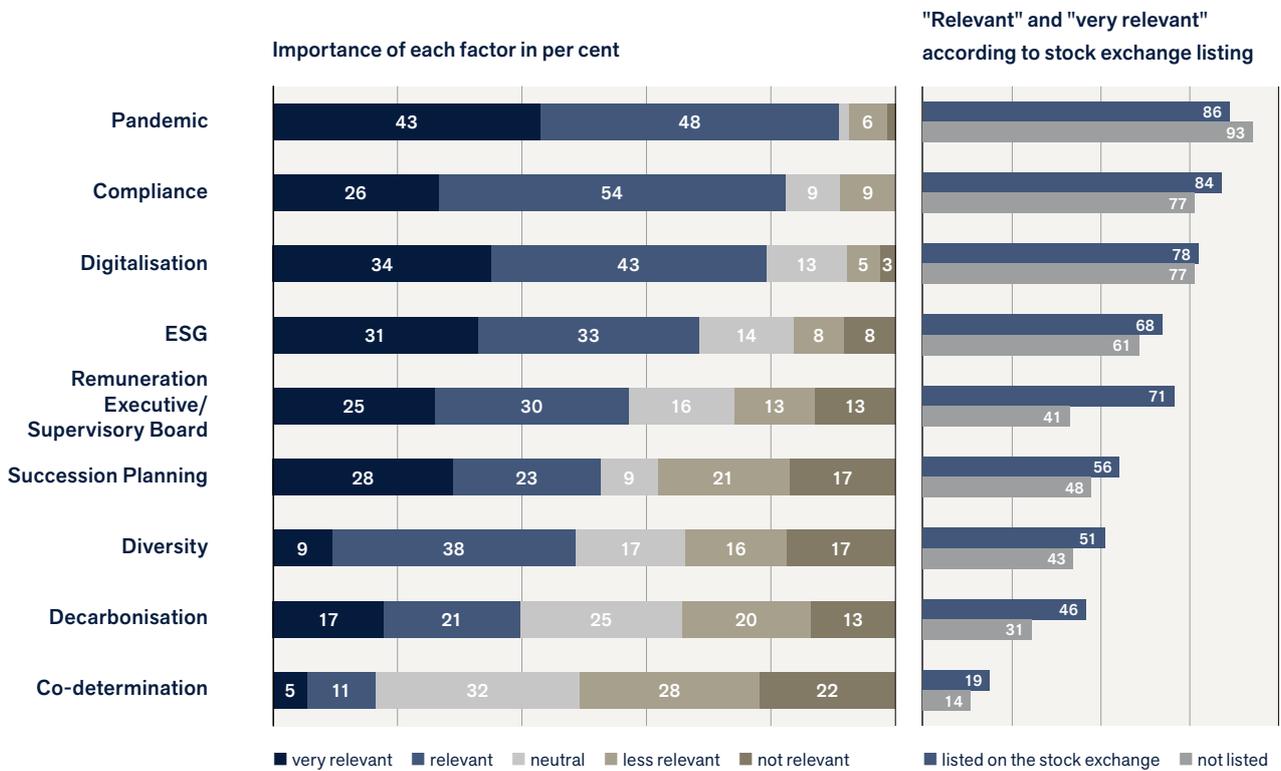
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B. Report

1. The pandemic dominates the agenda of supervisory boards

When asked about the most important topics this year, it becomes clear that although the pandemic and the fight against its after-effects are at the top of the supervisory board's agenda, other important topics have not diminished.

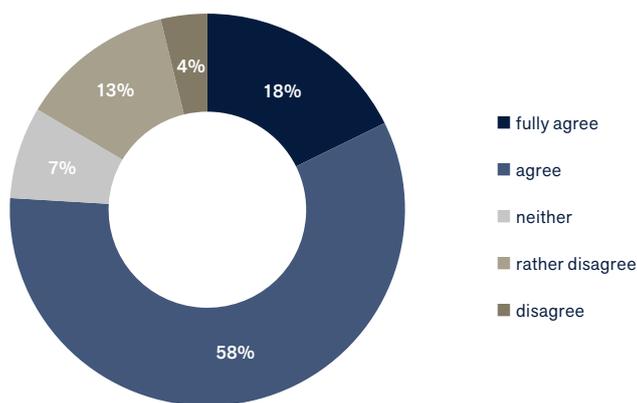
Which topics are particularly high on your agenda in 2021?



Note: The values used in the study document are subject to rounding. Furthermore, statements with "no information" were omitted to provide greater clarity. Therefore, in some cases, totals deviating from 100 per cent may result. In addition, not all participants answered every question, so the numbers of respondents for individual questions may vary.

90 per cent of survey participants rate the pandemic and the management of it as relevant or very relevant. Although the most severe economic impact is limited to certain sectors and the economic recovery had already begun by the time of the survey, the past state of emergency remains the central item on the agenda of supervisory boards.

Is the organisation of your supervisory board fully prepared for crisis management?



This is particularly interesting in relation to the issue of supervisory board crisis management capabilities. More than three quarters of all supervisory board members surveyed gave their organisation good or very good scores. This means that the situation has improved since our 2020 supervisory board survey, in which 70 per cent of respondents (i.e. five percentage points less), reported that their supervisory board organisation had the best possible or good crisis preparation status.

Compliance issues are also high on the agenda, not least because of the Wirecard scandal, which is likely to have made many committee members particularly sensitive. 80 per cent of respondents attach particular importance to compliance on their supervisory board agenda.

They are closely followed by issues concerning the future of the economy. For example, 77 per cent of the supervisory board members surveyed consider the topic of digitalisation to be important or very important. Of course, the pandemic may have played a part here as well, since many companies have implemented short-term digitalisation programmes or prioritised existing initiatives in the context of business closures, remote working and supply chain disruptions.

This is followed by environmental social governance (ESG) aspects (64 per cent), remuneration issues with regard to the executive board and supervisory board (55 per cent), succession planning (51 per cent), and diversity (47 per cent). Despite intense public debate, decarbonisation (38 per cent) lags well behind.

Overall, the supervisory boards of listed companies attach higher significance to almost all agenda topics than the representatives of non-listed companies. In particular, the issues of executive and supervisory board remuneration and decarbonisation stand out, with 71 per cent and 46 per cent of supervisory boards of listed companies, respectively, considering them relevant. However, the comparable figures for the boards of non-listed companies are notably lower - only 42 per cent and 31 per cent, respectively. Diversity, compliance and ESG are also rated as more important in the supervisory boards of listed companies, with differences of around 9 and 7 percentage points, respectively.

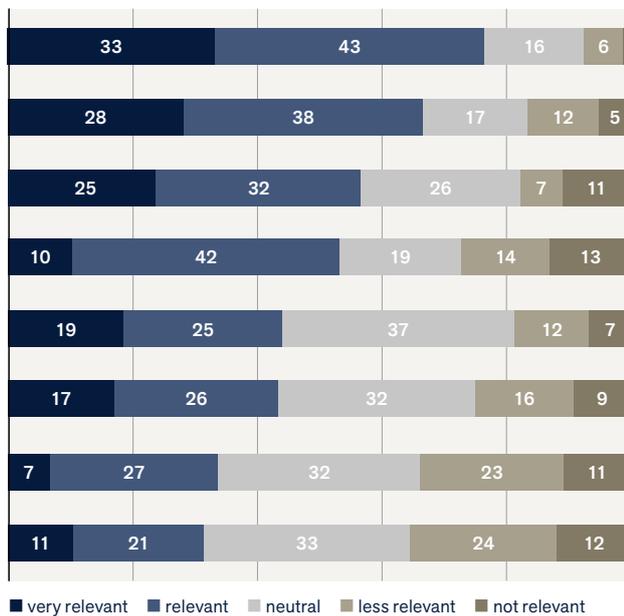
Overall, this seems to reflect the greater legal requirements for listed companies and increasing demands from the capital markets for socially responsible conduct by organisations.

2. Supervisory boards of listed companies see less need for reform

The supervisory board members surveyed see a clear need for reform in the legal framework of their activities. The highest level of consensus is on the topic of professionalisation, which 76 per cent consider to be very relevant or relevant. This is followed by support for the supervisory board - for example, in its own budget and the possible commissioning of experts at 66 per cent, the independence of supervisory board members at 57 per cent, and tasks of the supervisory board at 52 per cent.

On which topics do you see a need for reform with regard to the legal framework of supervisory board activities?

Importance of each factor in per cent



"Relevant" and "very relevant" according to stock exchange listing



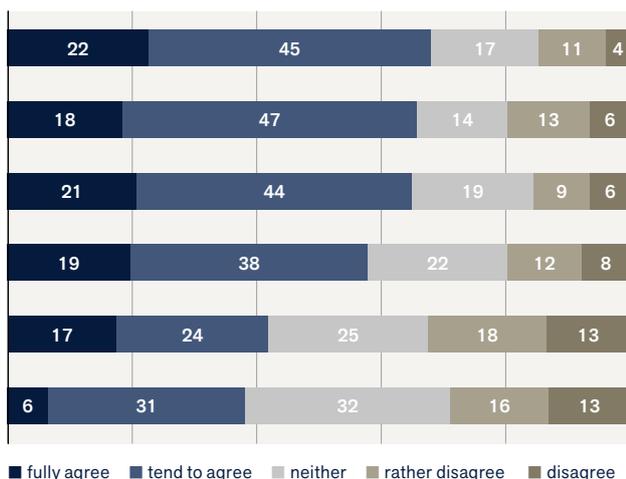
The biggest difference between responses from listed and non-listed companies relates to the independence of supervisory board members: 68 per cent of non-listed companies perceive the need for reform as relevant or very relevant, while only 44 per cent of respondents from listed companies agree. The need for reform in terms of professionalisation is also particularly relevant for the supervisory boards of non-listed companies: 84 per cent of supervisory board members attach high importance to this, compared to 68 per cent for listed companies. There were also significant differences in the need for reform with respect to the level of support required by the supervisory board and treatment of investor contacts: 14 and 9 percentage points higher, respectively, for supervisory board members of unlisted companies compared to supervisory board representatives of listed companies.

3. Resourcing and skills development are the biggest challenges, with strong differences between listed and unlisted companies

When asked about the biggest challenges for the work of the supervisory board, one topic clearly dominates – the adequacy of resources, to which 67 per cent of committee representatives attach special weight. This is followed by various aspects such as qualification, efficiency of supervisory board work and professionalisation of supervisory boards, which are considered relevant or very relevant by 65, 65 and 57 per cent of respondents, respectively.

Where do you see the biggest challenges for your own supervisory board's activities?

Importance of each factor in per cent



"Relevant" and "very relevant" according to stock exchange listing



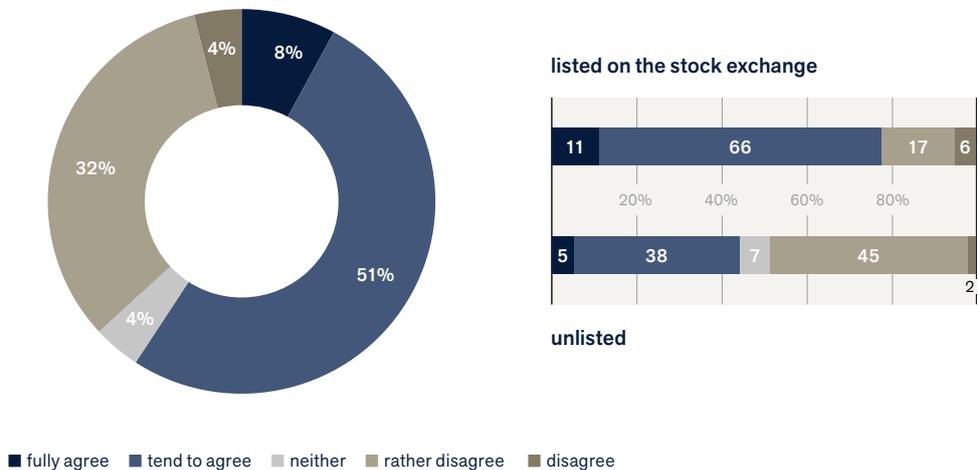
However, there were some significant differences between listed and unlisted companies in several aspects. These were particularly strong in professionalisation, efficiency and qualification. 71 per cent of supervisory board members from non-listed companies perceive the efficiency of their organisation as one of the biggest challenges, compared to only 57 per cent of the representatives of listed companies. For professionalisation, the discrepancy is even higher at 69 per cent (unlisted) and 43 per cent (listed). Linked to this is qualification, which 68 per cent of supervisory board members from non-listed companies perceive as challenging. For listed organisations, the figure is 61 per cent, while a quarter of supervisory board members surveyed see no challenge in qualification.

4. Supervisory board members of unlisted companies under greater time pressure

Even though the resources available to the supervisory board are predominantly rated as challenging (see point 3), the supervisory board members surveyed were largely satisfied with regard to the time available for their work: 59 per cent agree that they have enough time. Again, however, there are major differences between the different types of organisation.

While 77 per cent of listed company representatives consider that they have sufficient time resources available for their respective activities, only 43 per cent of their colleagues from non-listed companies agree whereas 47 per cent of them think they have insufficient time resources.

Do you think that supervisory boards usually have sufficient time resources available?

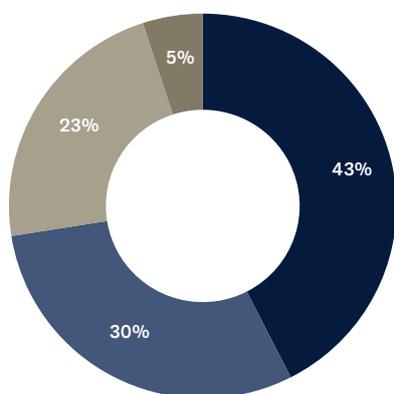


5. Supervisory board members want individual training resources

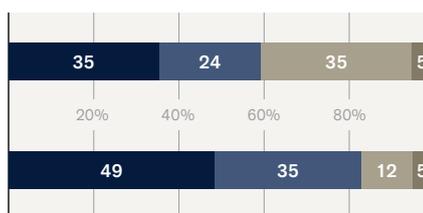
Further major differences exist in possible training formats for supervisory board members.

Representatives of the supervisory bodies of listed companies give training for individual supervisory board members the same importance as company-specific training by the company itself, at 35 per cent each. Meanwhile, 24 per cent would like to see company-specific training provided by external providers. By contrast, their colleagues from non-listed companies have a much stronger desire for individual development opportunities (49 per cent), or training by external providers (35 per cent). Internal training plays only a subordinate role at 12 per cent.

What further training opportunities would you like to have for your supervisory board activities?



listed on the stock exchange



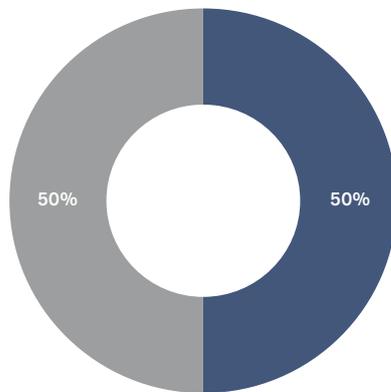
unlisted

- Individual training opportunities for individual Supervisory Board members
- Company-specific training by external providers
- Company-specific training by the company itself
- Other

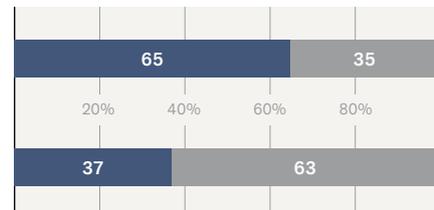
6. Direct reporting lines more common in listed companies

A direct link between the supervisory board and compliance or audit, so that reports can be made directly to it from these departments, exists in 50 per cent of all companies surveyed. Again, there were differences between listed and unlisted companies, possibly resulting from different regulatory requirements and levels of organisational maturity. 65 per cent of the organisations listed have a corresponding "dotted line", while the figure for non-listed companies is only 37 per cent.

Is there a so-called dotted line to your supervisory board (chairman), so that compliance and/or audit can also report directly to the supervisory board?



listed on the stock exchange



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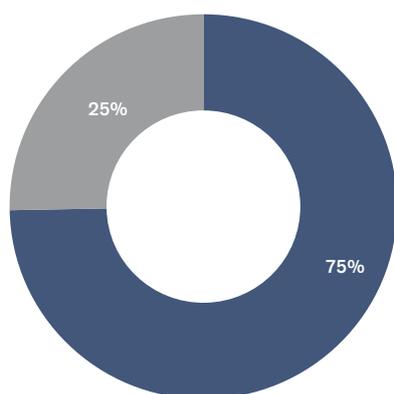
■ Yes ■ No

7. Presentation by Compliance and Audit representatives is common

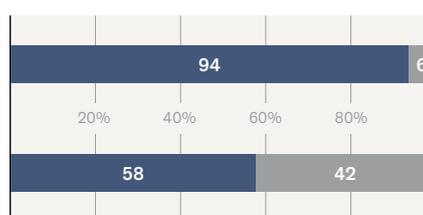
The differences are even clearer in the extent to which compliance and audit representatives present at least once a year to the supervisory board or audit committee.

Overall, this is the case for around 75 per cent. While this applies for 94 per cent of listed companies, only 58 per cent of the supervisory boards of non-listed companies adopt such an approach.

Do their representatives present to the supervisory board or audit committee at least once a year?



listed on the stock exchange



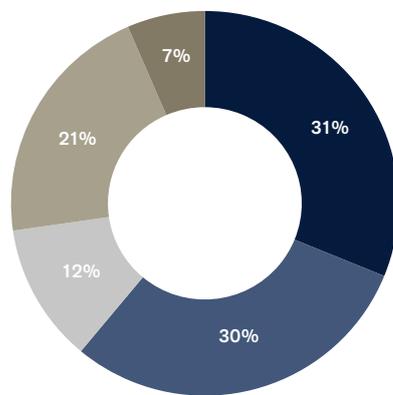
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■ Yes ■ No

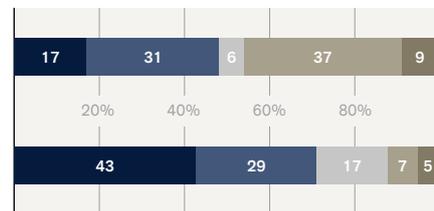
8. In the case of listed companies, direct access to senior executives for information is customary

According to the Financial Market Integrity Strengthening Act (FISG), the chairperson of the audit committee will in future be able to obtain information directly from senior staff. When asked about comparable practices, around 21 per cent of supervisory board members surveyed confirm that the audit committee chairperson in their company can already contact senior staff directly for information, i.e. without involvement of the executive board. For almost 30 per cent, this is possible with the participation of the board, while for just under 12 per cent, the chairperson of the supervisory board can approach senior staff without involvement from the executive board.

According to the FISG, the chairperson of the audit committee should be able to obtain information directly from senior staff. Does a comparable practice already exist in your company today and if so, by whom?



listed on the stock exchange



unlisted

- No, there is not
- Yes, but only with the participation of the Executive Board
- Yes, by the Chairperson of the Supervisory Board without participation of the Executive Board
- Yes, by the Chairperson of the Audit Committee without involvement of the Executive Board
- Other

Here too, a closer look reveals clear differences between companies. While in 37 per cent of listed companies, the audit committee chairman can consult senior executives with requests for information, in unlisted companies this is only 7 per cent. In more than 31 per cent of listed companies, this is also possible with the participation of the executive board (unlisted companies: 29 per cent). By contrast, at just under 6 per cent (17 per cent for non-listed companies), obtaining information from the supervisory board chairperson without executive board participation is less common for listed companies.

C. Conclusion

The survey provides an interesting snapshot. The supervisory board interviewees are still very busy coping with the enduring legacy of the pandemic. In principle, they continue to see their organisations as well-equipped.

Notwithstanding this, it is clear that the capital markets ensure that listed companies (have to) align their agenda more closely with public discourse. Compliance issues, for example, not only continuously fill the business media, they also rank second on the supervisory board agenda. The highest corporate supervisory body has therefore made compliance with the law a top priority, alongside digitalisation, which directly follows in importance. For many companies, these are clearly survival issues. The fact that supervisory boards increasingly regard compliance as a matter of top priority is also shown by the fact that half of the companies – almost twice as many listed as non-listed companies - have already established a reporting line from the compliance or audit department directly to the supervisory board. In this context, compliance and audit representatives present at the supervisory board or audit committee at least once a year in almost every listed company. Representatives of non-listed companies therefore have a lot of catching up to do here and likewise with obtaining information directly from senior staff by the Chair of the Audit Committee.

The qualification and professionalisation of supervisory boards are also important to the survey participants. Representatives of the supervisory board of listed companies give the same importance to training for individual supervisory board members as to own company-specific training.

Supervisory board members from unlisted companies clearly prefer individual development opportunities or training from external providers. Notably, supervisory boards, especially of unlisted companies, see the need for the legislator to take action.

This is a clear sign that respondents do not rely on self-regulation of the economy alone but wish for stronger legislative direction.

The biggest challenge for the activities of the supervisory board is adequacy of resources. Here, respondents would like to see the supervisory board strengthened, including through legal initiatives, with the aim to receive their own budgets and the ability to engage external experts.

The study shows the changes taking place in German supervisory boards. Companies as well as investors and legislators should note the signals and follow appropriate trends constructively and energetically.

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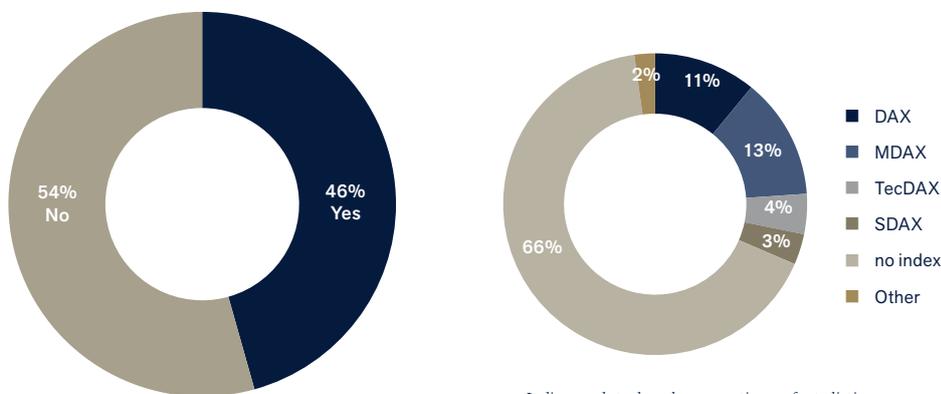
D. Methodology and demographics

The survey was conducted between 16 April and 31 May 2021.

Over 500 supervisory board members were contacted by e-mail with a request to complete an online questionnaire: 92 of them took part in the survey.

Is the company on whose board you serve listed?

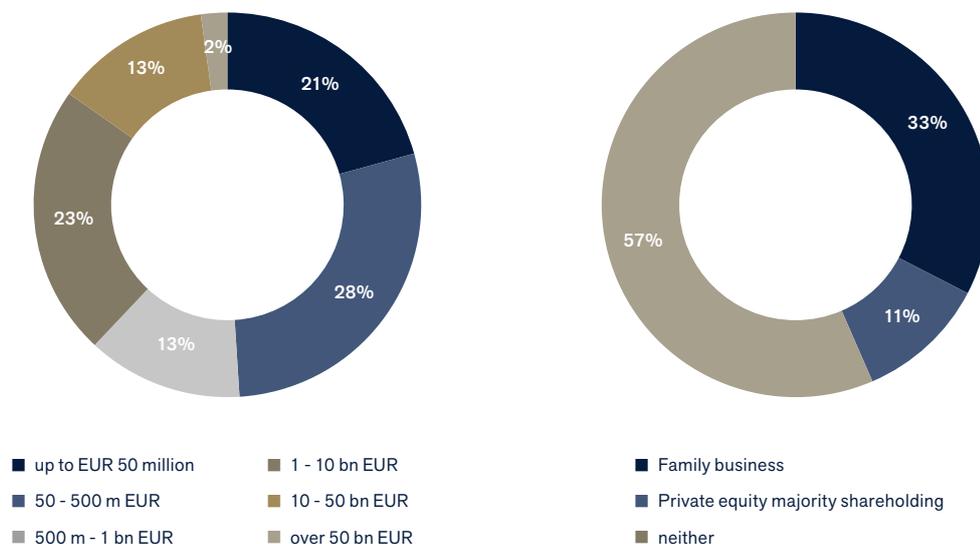
If so, which index or stock exchange segment does the company belong to?



Indices and stock exchange sections refer to listing before 1 September 2021

What is the turnover of the company on whose board you serve?

Is the company a family business or is it majority owned by private equity?



E. The authors



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