

Supervisory board competences transparent for the first time

The qualification matrix of the supervisory board in accordance with the new version of the German Corporate Governance Code

June 2023

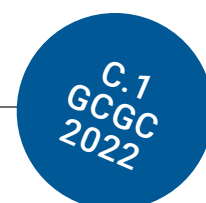
Governance Perspectives

An analysis of the implementation and reporting in the Annual Reports 2022 of the companies in the DAX index family

New transparency on the implementation status of the competence profile

New version of the German Corporate Governance Code (GCGC)

With the new version of the German Corporate Governance Code (GCGC), the requirements for the implementation status of the supervisory board's competence profile were further specified. The recommendation in C.1 of the GCGC now requires the implementation to be presented on the basis of a qualification matrix.



Regarding its composition, the supervisory board shall:

- determine **specific objectives**
- **prepare a profile of skills and expertise** for the entire Board
- while taking the **principle of diversity** into account
- also comprise **expertise regarding sustainability issues** relevant to the enterprise

The implementation status shall be disclosed in the form of a **qualification matrix** in the **Corporate Governance Statement**.

Disclosure of the status of implementation of the competence profile in the form of a qualification matrix allows shareholders and other stakeholders to assess the professional competence of the supervisory board – according to the Government Commission's justification for the amendment.

In the absence of uniform standards for the format and information to be included in the qualification matrix, its implementation in the annual reports 2022 of listed companies has been eagerly awaited.

Objective and methodology of the study

This study is the first to analyse the qualification matrices in the 2022 annual reports of companies listed in the DAX, MDAX and SDAX stock exchange indices. In addition to examining the format, scope and content of the matrices, the individual competences were also analysed. For this purpose, the individual qualification matrices of all companies were systematically recorded and evaluated at the company and individual level.

The main findings: Diversity and a high level of competence

Scope and content of the qualification matrices

Difficult comparability

The scope and content of the matrices vary widely – the heterogeneous selection, distribution and level of detail of the categories and competences make comparability difficult.

Diverse categories

In addition to information on professional competence, many matrices include personal fit, affiliation, diversity or other demographic data.

Discrepancy in the number of professional competences

The number of professional competences reported by the companies vary considerably, ranging from 5 to 27 competences per qualification matrix.

Ranking of competences

Aside from financial expertise, sustainability competence is the most common qualification in the matrices, ahead of industry or business experience and digitalisation competence.

Competences of the supervisory board members

Competences of the members of the Supervisory Board

In most companies, supervisory board members have well over half of the competences listed in the matrix – in some companies more than 90%.

Competence ranking

Most board members have industry or business knowledge and sustainability expertise (2/3 of all board members in the DAX index family), but significantly fewer have digitalization expertise.

Male hubris?

On average, male supervisory board members report more competences than female supervisory board members – this is especially significant for supervisory board chairpersons and shareholder representatives.

The older the more competent?

Older board members report more competencies than younger board members (peak at 74-78 years).



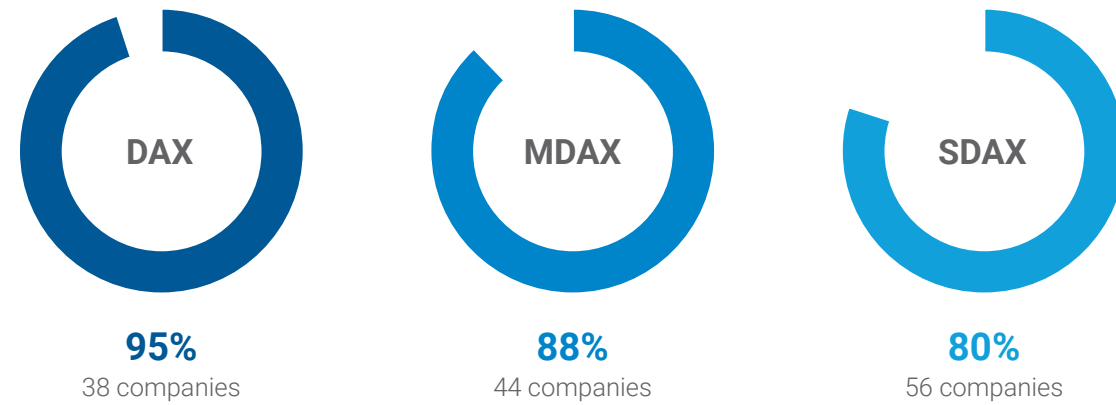
Today, more than ever, the supervisory board is a profession with required knowledge and experience - especially at the level of large listed companies. Making competences systematically publicly visible and thus enabling an independent assessment is becoming self-evident and is proof of successful work in terms of good corporate governance.



Daniela Mattheus
Co-owner and Senior Board Advisor
ECBE

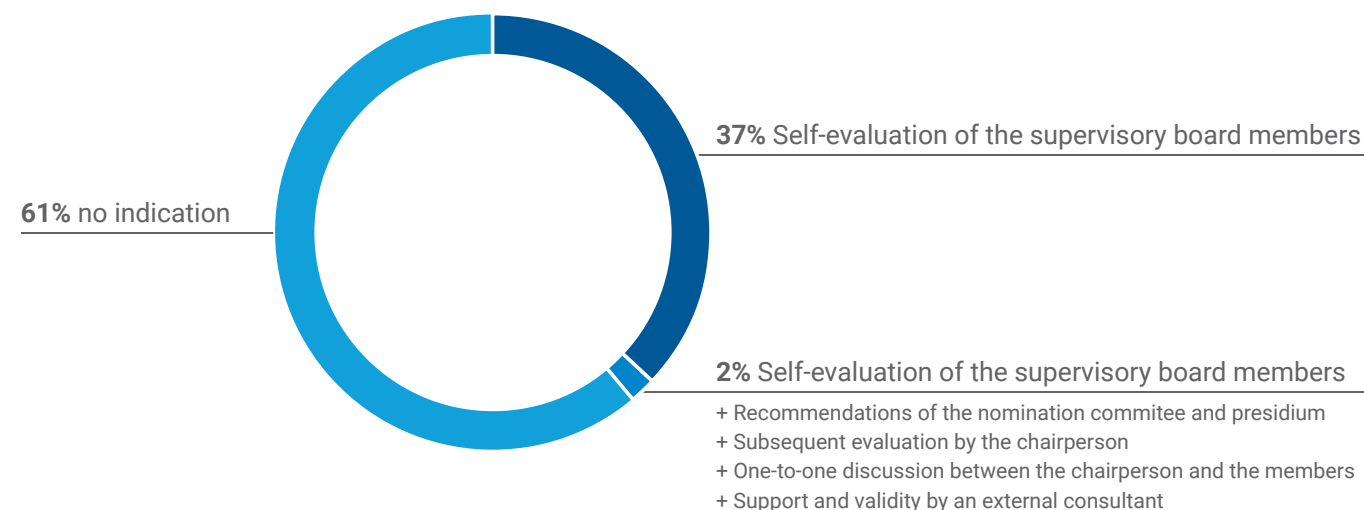
Lack of best practices affect format, content and declarations of compliance

Publication rate



With a total of 38 (out of 40) DAX, 44 (out of 50) MDAX and 56 (out of 70) SDAX companies, around 90% of the companies comply with the requirements of the GCGC. While companies with a foreign legal form do not fall under these requirements and therefore refrain from publication, the other companies without a qualification matrix give a variety of reasons for their deviation from the GCGC. These range from stating that the matrix has not yet been drawn up and the required competences of the supervisory board are sufficiently taken into account. Some comment that the bureaucratic requirements leads to unnecessary additional work and that the qualification matrices do not represent any additional value.

Information about the perspective



Format

Member since	2018	2018	2018
Diversity			
Age	61	57	58
Gender	m	m	w
Nationality	DE	DE	DE
International experience	✓	✓	✓
Educational background			
	Physics	Law	Philosophy
Independence			
according to GCGC C.6	✓		
according to GCGC C.7	✓	✓	✓
Areas of competence			
Sustainability			
Operational	✓	✓	✓
Strategic	✓		✓
Reporting		✓	
Transformation		✓	✓
Procurement	✓		✓
Production and distribution	✓	✓	

- 96% of the companies surveyed use a matrix with a column or row for each member to present the qualifications of their supervisory board members
- In exceptional cases, qualification matrices are only specified for shareholder representatives.
- Alternative or supplementary forms of presentation are texts or curricula vitae as well as the presentation for the entire committee



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We can now see how board members assess their composition and make it transparent to investors. At the same time, we have an indication of the extent to which current topics such as sustainability and digitalisation are being addressed. The analysis shows that supervisory boards give themselves positive reports in this area and demonstrate a high level of competence across the board.

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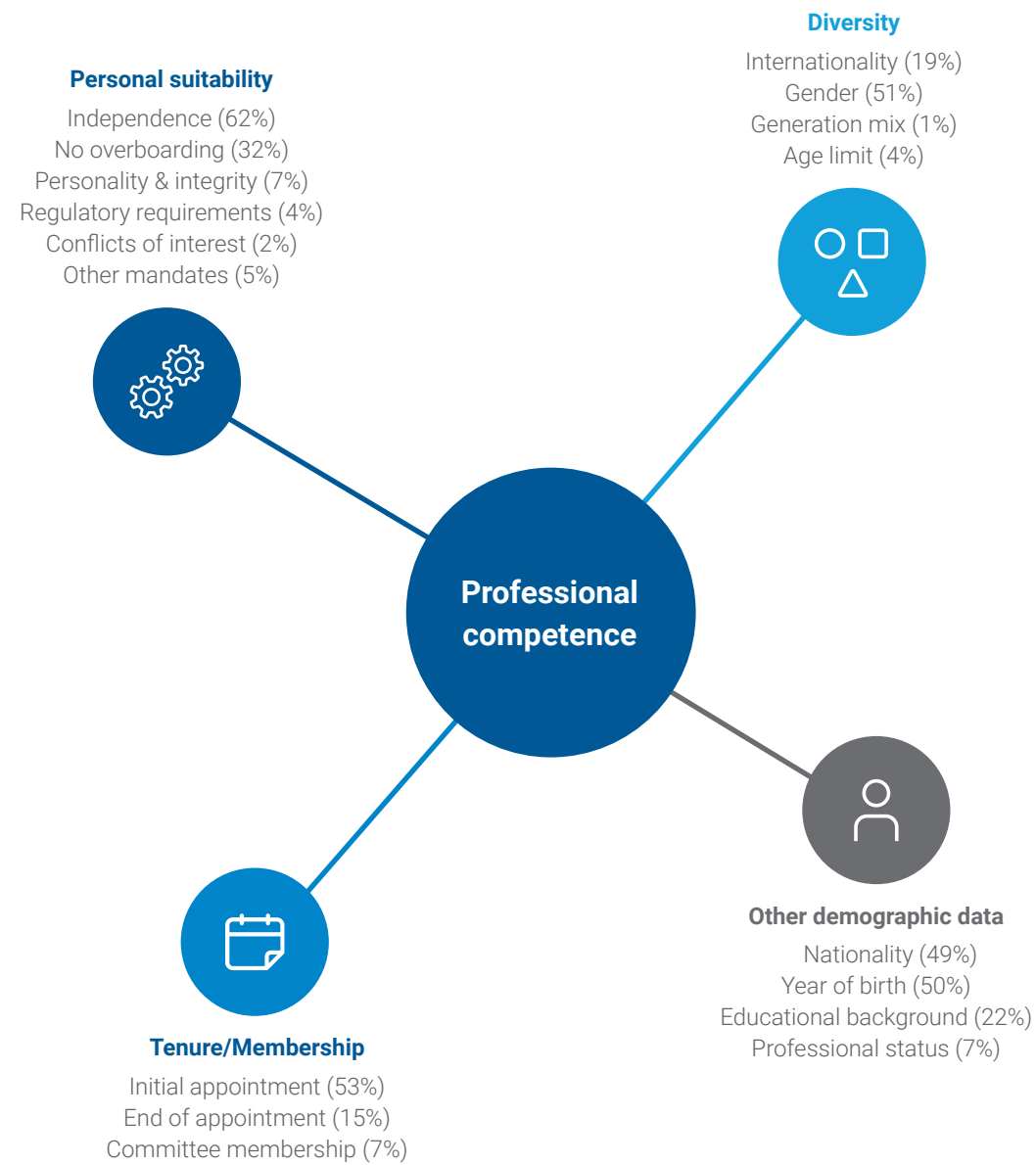
Regine Siepmann
Senior Partner and Head of the Corporate Governance Practice
hkp///group

Diversity makes comparability difficult – even within sectors

Other categories besides professional competence

In addition to professional competences, many companies provide other categories, usually information on personal suitability, tenure, diversity and demographics.

The choice and allocation of categories is very heterogeneous and inconsistent, making comparability difficult. (Frequency of the respective information in percent).



Snapshot: Heterogeneity of the categories

1		2		3			
Qualification matrix		General information		Membership			
Competences (and other characteristics)		Member since	April 2017	April 2017	Member since	2017	2022
Experience as a board- or supervisory board member in other listed companies		Independence	•	•	Regulatory requirement	✓	✓
Financial market expertise		Gender	female	male	Independence	✓	✓
Energy sector		Year of birth	1971	1961	No overboarding	✓	✓
Distribution and customers		Nationality	German	German	Gender	m	w
Regulated industries		Competences		Nationality	German	French	
New technologies, digitalisation, IT		Business area - & Knowledge of sector	•	•	Accounting	✓	-
New business models, innovation, disruption		Marketing & Sales	•		Insurance technology	✓	-
Accounting		Research & Development	•	•	Investment	✓	✓
Audit		Supply Chain			Technology	✓	✓
Legal and compliance		HR and organization	•	•	Digital transformation	-	✓
Human resources, cultural change		ESG			Employee Engagement	✓	✓
Sustainability		Legal & Governance		•	Sustainability	✓	✓
International experience		Digitalisation and IT			North America	✓	-
Independence		Finance & Accounting	•	•	Growth markets	✓	✓
					Europe (EU)	✓	✓



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Qualification matrices are not only an instrument of external capital market communication, but also an important orientation aid in the internal work and composition of the supervisory board. Transparency in this respect is therefore already becoming an accepted market standard in the short run.

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Dr. Lukas Berger
Director and Board Advisor
ECBE

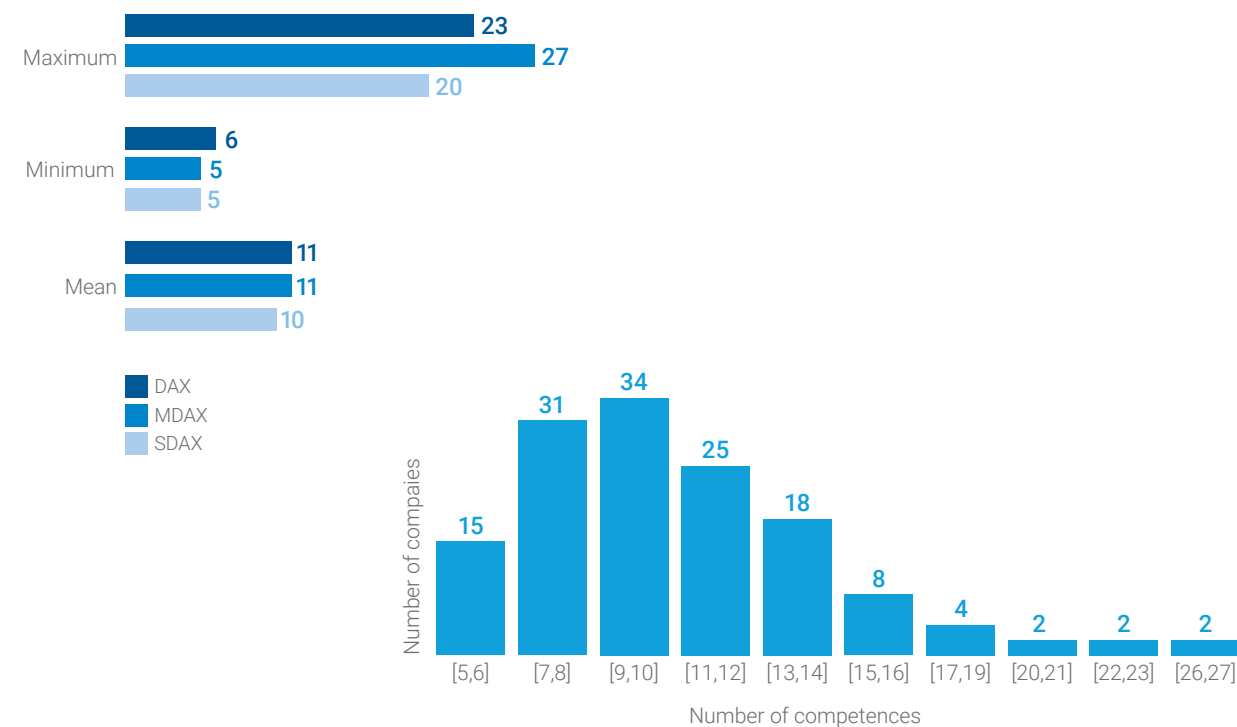
Heterogeneous focus of professional competences on control or transformation topics

Number per qualification matrix

The number of competences reported in the qualification matrices varies greatly from a minimum of 5 to a maximum of 27, with 5 companies reporting more than 20. On average, the companies in the DAX index family report 11 professional competences. In some cases, different numbers of competences are reported for shareholder and employee representatives.

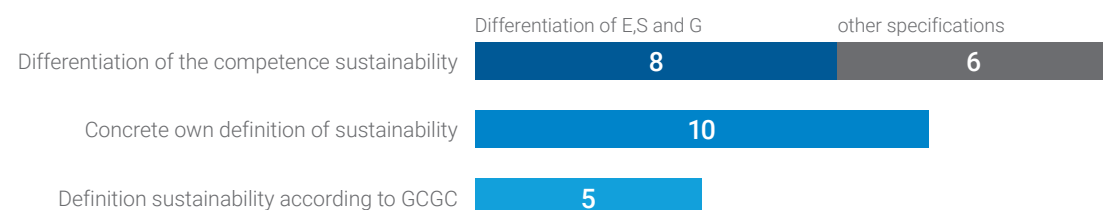
5 - 27
COMPETENCES PER COMPANY

Distribution of competences



Snapshot Sustainability

- 95% in the DAX family indicate ESG, sustainability or CSR competence in the qualification matrix.
- 10 companies in the DAX family specify a concrete target for sustainability.
- Sustainability (117x) is mentioned significantly more often than ESG (42x).
- A differentiation and specification of multiple competences in the topic of sustainability is indicated by 14 companies.



Ranking by mention

	N*	DAX	MDAX	SDAX
Finance, Accounting, Audit	99%	100%	98%	98%
ESG, Sustainability, CSR	95%	95%	95%	95%
Industry Experience/Business Areas	85%	79%	86%	88%
Compliance, Corporate Governance, Legal	80%	76%	84%	79%
Management/Control Expertise	78%	76%	75%	80%
Digitalisation, Technology, IT	74%	82%	73%	70%
International Experience	65%	63%	70%	63%
Human Resources	61%	79%	57%	52%
Internal Control & Risk Management	55%	45%	52%	64%
Strategy	41%	50%	49%	38%

*Across all companies of the DAX index family

- The naming and aggregation of competences vary widely.
- Across all indices, finance, sustainability and industry experience are among the most frequently mentioned competences.
- HR expertise is significantly more prevalent in the DAX (79%) than in the SDAX (52%).
- Company-specific and sector-specific competences are often on the list.
- Strategy competence is indicated by only 41% of the companies.

Snapshot Digitalisation

- 74% of the companies in the DAX family indicate digitalisation competence in their qualification matrix.
- The terms and areas of digitalisation are very heterogeneous.
- Most frequently mentioned: Digitalisation (78x) ahead of IT (45x) and Technology (19x).
- Artificial intelligence is mentioned as a specific competence in 3 qualification matrices.

	N*	DAX	MDAX	SDAX
Digitalisation	78	22	23	33
Information Technology (IT)	45	16	13	16
Technology	19	9	4	6
IT and Data Security	13	7	3	3
Digital Transformation	7	4	2	1
Technical Innovation	7	2	3	2
Cybersecurity	6	3	3	0
Software	5	2	2	1
Industry 4.0	4	0	2	2
Artificial Intelligence	3	1	1	1
Data/Big Data	2	1	1	0
Digital Business Models	2	1	0	1
Automation	1	0	1	0

*Across all companies of the DAX index family

Professional competences vary in their level of detail and expression

Conceptual detailing

- The level of detail in the specification of competences varies.
- Sometimes several competences are summarised, but often there is a granular presentation of the competences or sub-competences.
- Strikingly heterogeneous: the presentation of financial expertise and the distinction between accounting, auditing and financial experts.
- Sustainability, international experience and company- or sector-specific competences are also very heterogeneous in the level of detail.

Snapshots at different levels of detail

Audit ²	✓ (PA) ⁴
Accounting ³	✓ (PA) ⁴
ESG	✓ (G) ⁵ ✓ (E,S,G) ⁴ ✓ (G) ⁵

Finance
Accounting, control systems
Audit
Financial expert accounting
Financial expert audit

Finance, Accounting, Risk Management, Legal & Compliance
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International experience	Europa	▪	▪	▪
	North/ South/ Latin America	▪	▪	▪
	China	▪		
	Asia/Pacific	▪	▪	▪

Health Care competences	Industry experience (Health Care)	✓✓	✓✓	✓✓
	Dialysis products & Services	✓	✓✓	✓✓
	Hospital supplies & services	✓	✓✓	✓✓
	Hospital projects & services	✓	✓✓	✓✓
	Hospital sponsorships	✓	✓✓	✓✓

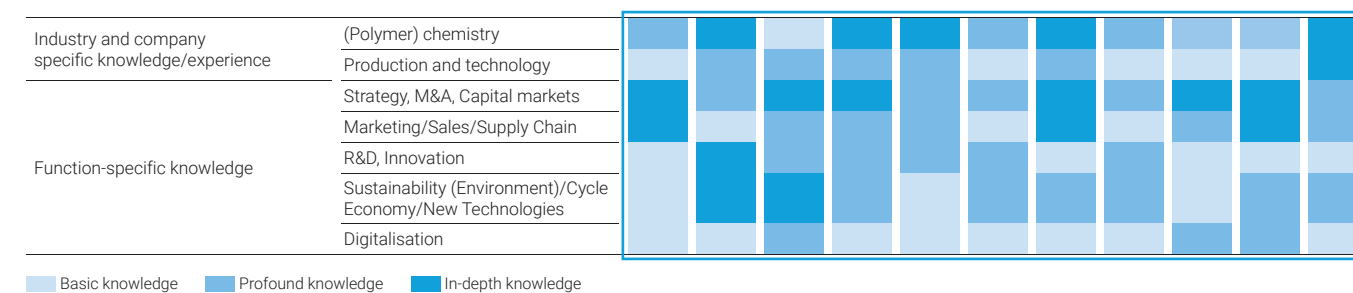
Indication of targets

- In some cases, specific targets are indicated and whether the number of competences achieved is in line with the target.
- However, the majority of the companies present the current status of the implementation of the competence profile without mentioning any targets.
- In some cases the objectives are mentioned in the text of the competence profile in the annual reports.

Competence profile and/or expertise in the areas of					Number achieved/ Minimum number
Material handling and intralogistics and similar industries, including components and drive technology	☒	☒	☒	☒	13/4
Development or assessment of technologies, including particularly environmentally friendly technologies, products and solutions, such as alternative energy sources	☐	☒	☐	☒	9/4
Sales/after-sales business and technological developments in these areas	☐	☒	☐	☒	9/4
Digitalisation and automation	☐	☒	☒	☒	12/4
Development of international marketing and product portfolio strategies	☐	☒	☐	☒	8/2
Company acquisitions and cooperations	☒	☒	☐	☒	9/2
Environmental, Social, Governance (ESG), especially environmental protection	☒	☒	☐	☒	9/2

Level of competence

- In many cases, the descriptions do not indicate the level of a particular qualification, but several companies indicate higher levels in the sense of "profound" or "very good".
- Some companies choose to specify different competence levels, with the number of levels and terminology being diverse and heterogeneous.
 - Basic knowledge, sufficient knowledge
 - Good knowledge, advanced knowledge
 - In-depth knowledge, special knowledge, many years of expert experience
 - Not sufficiently available
 - Not specified



Funktionale Kompetenzen	Digitalisation	✓	✓✓	✓✓	✓✓
	ESG & Sustainability	✓	✓✓	✓✓	✓✓
	Marketing	✓✓	✓✓	✓✓	✓
	M&A/Integration	✓✓	✓	✓✓	✓✓
	HR	✓✓	✓✓	✓✓	✓✓
	Production	X	✓✓	✓✓	✓✓
	Legal & Compliance, Corporate Governance	✓✓	✓✓	✓✓	✓✓
	Risk Management	✓✓	✓✓	✓✓	✓✓
	Transformation	✓✓	✓✓	✓✓	✓✓

✓✓ Specific competence ✓ General competence X Not specified

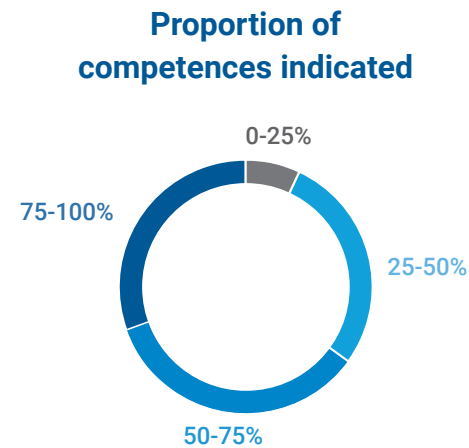
Field of competence	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6
Corporate Governance* (including Compliance & Integrity)	●	●	◐	●	◐	◐
Legal & Regulatory* (including supply chain & human rights due diligence)	●	○	◐	●	◐	◐
M&A	◐	◐	●	◐	●	◐
HR* (including employer attractiveness, competence development, diversity, etc.)	◐	◐	◐	●	◐	●
Environmental concerns* (energy, CO2-emissions, resource consumption, sustainable product solutions)	◐	◐	◐	●	◐	◐
Accounting, Taxes	◐	◐	◐	●	●	○
Audit, ICS, Revision	◐	◐	●	●	●	○
ESG Regulation/Reporting*	◐	◐	◐	●	◐	○

● Very good ● Good ◐ Satisfactory ◐ Sufficient ○ not available to a sufficient degree

Supervisory board members with high levels of competence – deviations by age, gender and role

Proportion of competences reported at individual level

- The proportion of competences indicated by the supervisory board members is very heterogeneous. In most companies, more than 50% of the competences listed in the matrix are indicated by the supervisory board members.
- In 8 companies, more than 90% of the listed competences are indicated by all supervisory board members.
- In some cases the choice is limited, e.g. a maximum of 5 competences can be indicated by the board members.
- One company indicates a key/core competence for each board member.



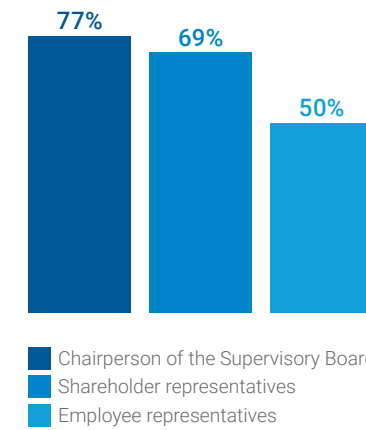
Ranking of mentions at individual level

	N*	DAX	MDAX	SDAX
Industry Experience/Business Areas	69%	68%	74%	65%
ESG, Sustainability, CSR	64%	60%	65%	61%
Management/Control Expertise	60%	61%	53%	66%
Finance, Accounting, Audit	60%	58%	54%	70%
Human Resources	54%	67%	50%	42%
Compliance, Corporate Governance, Legal	50%	49%	47%	56%
International Experience	45%	44%	49%	42%
Digitalisation, Technology, IT	41%	39%	41%	43%
Strategy	39%	47%	32%	36%
Internal Control & Risk Management	32%	31%	30%	37%

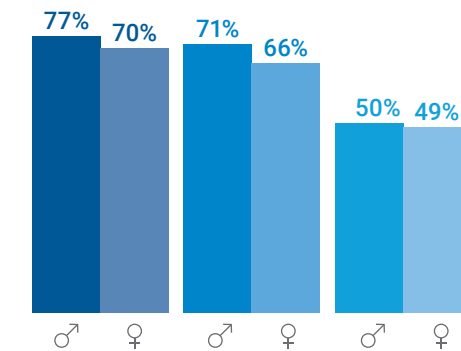
*Across all companies of the DAX index family

- Most supervisory board members have sector or business knowledge (69% of all supervisory board members) as well as sustainability competence (64% of all supervisory board members). Only 41% of the supervisory board members have digital competence.
- There are significant deviations between the indices, especially in the areas of finance, human resources and strategy. Supervisory board members of DAX companies are significantly more likely to report HR and strategy expertise, while supervisory board members of SDAX companies are more likely to report financial expertise.

Specified competencies by supervisory board function

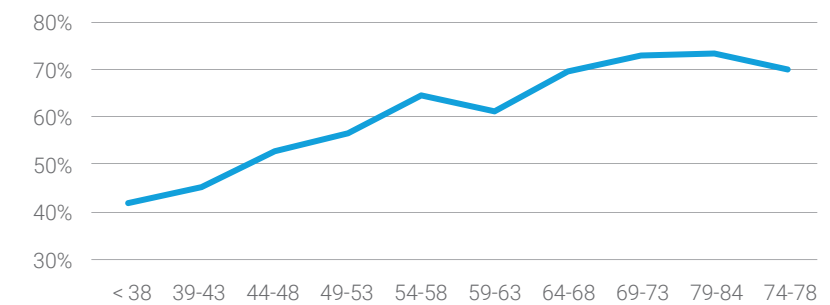


and by gender



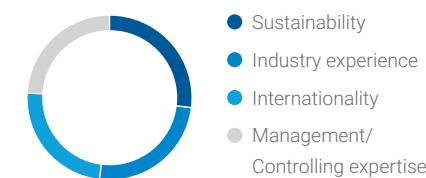
On average, male supervisory board members report more competencies than female supervisory board members (63% vs. 59%), with this difference being particularly significant for the chair of the supervisory board and on the shareholder side.

Distribution of competencies by age



Competences* in the committees

Presidential Committee



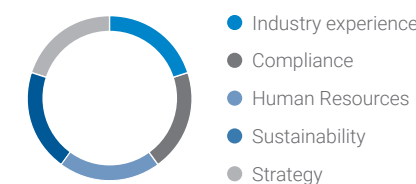
Nomination and Personnel Committee



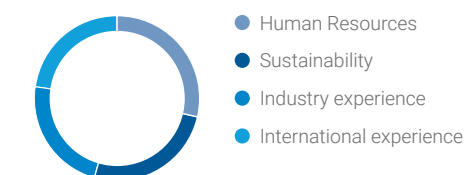
Audit Committee



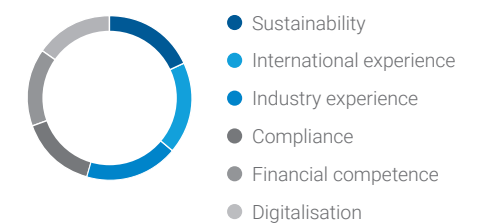
Strategy Committee



Sustainability Committee



Digitalisation Committee



* Only for shareholder representatives prior to the 2023 AGMs. Presentation of the competencies most frequently indicated by the committee members.

Your contacts



Regine Siepmann

Senior Partner and Head of Corporate Governance Practice
hkp///group
regine.siepmann@hkp.com
+49 69 175 363 327



Daniela Mattheus

Co-owner and Senior Board Advisor
ECBE
daniela.mattheus@ecbe.com
+49 69 3487 715 01



Dr. Lukas Berger

Director and Board Advisor
ECBE
lukas.berger@ecbe.com
+49 69 3487 715 02



Thomas Müller

Partner and Head of Marketing & Communication
hkp///group
thomas.mueller@hkp.com
+49 69 175 363 323

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