



GERMAN CORPORATE LEADERSHIP IN DISRUPTIVE TIMES: CORPORATE PLAYBOOKS, FRUSTRATIONS AND CHALLENGES

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Foreword

Disruption is fundamentally changing the way the world works. It might be tempting to say that this has always been the case and is nothing new. Indeed, waves of disruptions have always been powerful engines for change. However, this time the dynamic is unprecedented due to the deep integration of politics, technologies, businesses and cultures. This interrelationship on multiple levels leads to an amplification of disruptive forces, calls the status quo into question and substantially alters the way we live. Political and business leaders may no longer derive answers from ceteris paribus (other things equal) scenarios.

In this vein, “*Corporate Germany’s*” deep international inclusion, its industry structure and specific characteristics related to corporate governance makes a compelling case for an extensive investigation of German corporate leadership in disruptive times.

Essentially, having a superior ability to manage disruptions is a vital differentiator that enables corporations to survive over the long run while maintaining a competitive advantage. In the recent past, many high-profile cases have highlighted the cognitive, informational and organizational shortcomings of boards and management teams who ultimately proved to be ill-equipped to navigate through stormy conditions, while their competitors emerged from similarly difficult situations even stronger. Given the predominant two-tier board model in Germany, there is little doubt that the relationship between the supervisory board and the management team becomes a focal issue in disruptive situations. Established operating norms may no longer provide an effective basis for collaboration under stressful conditions that call for skills that go beyond “*business as usual*”.

I am therefore delighted that Alvarez & Marsal (A&M), in conjunction with WHU-Otto Beisheim School of Management (WHU), have developed a practical guide for leadership teams, as well as a set of core disciplines designed to help these teams navigate successfully through major disruptions. This report extends the scope of previous research on U.K. businesses conducted within A&M’s Board Leadership Series.

Finally, I would like to express my gratitude to the participating representatives for their generosity and candor. I am also grateful for the research and analytical competence of my co-author Professor Dr. Serden Ozcan (WHU), as well as the sterling advice and support from my colleagues Malcolm McKenzie and Florian Domin.

I hope that this unprecedented compendium of German senior business leaders’ views and experiences provides valuable insights to our esteemed readers.



Patrick Siebert
Managing Director



Introduction

In today's business world, corporate decision-makers are confronted with a plethora of complex and discontinuous business challenges ("disruptions") instigated by technology, market, business and institutional forces. These disruptive forces are more pervasive and more potent than ever. Such forces can generate strategic problems that are poorly defined, have no obvious solutions or quick fixes, pose complex dilemmas, and require bold, decisive and novel forms of action. A superior ability to diagnose and manage these disruptions is the foremost determinant of the success of companies over the long-term.

However, our general understanding of the strategies, practices, processes and leadership imperatives required to deal with these disruptions effectively remains limited.

To help close these important gaps in knowledge and in practice, we, Alvarez & Marsal (A&M) and WHU-Otto Beisheim School of Management (WHU), have embarked upon an in-depth study of how leading German corporations survive, and even thrive, in the face of relentless disruptive forces. Our focus is on both the supervisory boards and the top management of these companies.

Specifically, we are seeking to better understand the roles played by supervisory boards and management teams, the contributions they make, the playbooks they use and the challenges and frustrations they face in trying to keep their organizations one step ahead of these forces of disruption.

Germany provides an interesting setting for our investigation in part because its leading businesses are not only diverse, they are active in industries that are experiencing disruption at a breakneck pace.

Furthermore, German corporate governance has idiosyncratic attributes, such as a dual board structure. Moreover, supervisory boards are made up exclusively of non-executive members. These characteristics can represent unique advantages, but also barriers to managing disruption effectively. Last but not least, German corporations operate at the epicenter of a region that is being hit by strong geopolitical currents, the effects of which are rippling out into corporate environments.

For our study, we conducted 20 semi-structured, face-to-face interviews with members of the supervisory boards and top management teams of some of Germany's largest and most prominent businesses (See Table 1 for the list of our interview participants). Our research sample includes global household names as well as regional leaders. These companies are active in a variety of industries, including retail, steel, semiconductors, consumer products, chemicals, media, e-commerce, energy and real estate. Many of our interview participants have served on multiple supervisory boards and management teams in Germany. Thus, in total, we have been able to collect insights into many prominent German companies.

We hope that the insights provided in this study will help companies strengthen their ability to navigate the volatility of the current business climate, while stimulating serious debate about the deficiencies and handicaps of the corporate governance and leadership structures of Germany's leading businesses.



Table 1
Interviews

Participants	Current role and key former roles*	Companies
Constantin Baack	CFO	MPC Capital AG
	CEO	MPC Container Ships ASA
Frank Beeck	COO	C&A Europa
Dr. Nedim Cen	Chairman of the supervisory board	IVG Immobilien AG
	Former CFO	Kion Group AG
Dr. Julian Deutz	CFO	Axel Springer SE
Thomas Ebeling	CEO	ProSiebenSat 1
	Supervisory board member	Bayer AG
	Supervisory board member	GfK SE
	Former supervisory board member	Lonza Group AG
Prof. Dr. Edgar Ernst	Chairman of the supervisory board	Vonovia SE
	Supervisory board member	Metro AG
	Supervisory board member	Deutsche Postbank AG
	Supervisory board member	TUI AG
	Former supervisory board member	Oesterreichische Post AG
Stephan Gemkow	CEO	Franz Haniel
	Member of the Board of Directors	JetBlue Airways
	Chairman of the supervisory board	Takkt AG
	Member of the Board of Directors	Zurich Airport
	Former supervisory board member	Evonik Industries
	Former CFO	Lufthansa AG
Robert Gentz	Co-CEO	Zalando AG
Henning Gieseke	Co-CEO	real,-

*Note: Current role and key former roles are listed above as stated at the time of interview.

Participants	Current role and key former roles*	Companies
Dr. Jürgen Großmann	Managing Director	Georgsmarienhütte
	Former CEO	RWE
	Supervisory board member	Deutsche Bahn
Herbert Hainer	Former CEO	Adidas AG
	Supervisory board member	Allianz SE
	Supervisory board member	Lufthansa AG
	Supervisory board member	FC Bayern München AG
	Board member	Accenture Plc
Thomas Hegel	CEO	LEG Immobilien AG
Dr. Rainer Hillebrand	Vice Chairman of the Executive Board	Otto Group
	Supervisory board member	Vorwerk
Heiko Hutmacher	CHRO	Metro AG
Friedrich Jousen	CEO	TUI AG
	Chairman of the supervisory board	Sixt AG
Guido Kerkhoff	CFO	Thyssenkrupp AG
Bernhard Mattes	President	German Association of the Automotive Industry (VDA)
	Supervisory board member	Ford Germany
	President	AmCham Germany
Gisbert Rühl	CEO	Klöckner & Co.
Thomas Spitzenpfel	CFO & CIO	Carl Zeiss AG
	Advisory board member	Landesbank Baden-Württemberg
Dr. Wolfgang Ziebart	Chairman of the supervisory board	Nordex
	Board member	Autoliv Inc.
	Board member	ASML Holding
	Former President & CEO	Infineon AG
	Former Deputy Chairman, management board	Continental AG



01

Summary of key findings

The following are some specific findings from our study.

On disruptions

- Disruptive forces abound in today's business environment. Systemic disruptions such as digitalization, shifting consumer behavior, the rise of platforms and activist shareholders feature most prominently on the minds of corporate leaders.
- Systemic disruptions can call a company's purpose into question and spur bouts of soul-searching. They test the limits of top management's cognitive capabilities, strategic understanding and resolve. Still, systemic disruptions can be liberating, as they can pave the way for new mental models, fresh perspectives and unique business opportunities.
- Companies cannot survive systemic disruptions by perpetuating the past — they need new playbooks. To survive and prevail, they need to be prepared to think, act, manage and compete boldly and differently.
- Systemic disruptions call for complex and risky organizational transformations. Corporate leaders need to redefine strategy, reengineer the operating model and revamp the culture. These attempts will unnerve and unsettle internal and external vested interests and cause considerable turmoil.
- Corporate leaders must articulate a clear, compelling and captivating narrative for a better future, engage in proactive and pre-emptive efforts to move hearts and minds and be ruthless in execution.

On supervisory boards

- A frequent complaint is that there is too much "*aufsicht*" and too little "*rat*" on German supervisory boards. Especially in times of systemic disruption, supervisory boards seem to retreat even more from their advisory roles and, in some cases, become nearly invisible. Ironically, it is in these complex times that corporate leaders need the supervisory board members' strategic insights, expertise and wisdom the most.
- Three categories of factors are responsible for this board deficit: capability gap, risk aversion and structural constraints. The first two categories encapsulate the factors that reduce the ability and the motivation of boards to advise. The last category consists of factors that restrict the opportunity of boards to carry out their roles effectively.
- Supervisory board chairs have to step up and set the tone. They must make sure that the supervisory board's composition is aligned with the challenges ahead and that the board is able to confront reality and provide sound and timely advice.
- It is the chair's responsibility get the board members to understand rapidly that systemic disruptions translate into a formidable change agenda for the CEO. The chair should convey a sense of urgency and catalyze transformational thinking on the board.
- Even at the best of times, the chair must develop a close, harmonious and productive working relationship with the CEO. When companies are hit by systemic disruptions, the chair must broaden the depth and scope of the relationship.
- In these situations, the chair must concurrently be a sounding board, a supervisor, a cheerleader, a connector, a mentor and a protector for the CEO.

On CEOs

- In times of systemic disruption, ideal CEOs display a nuanced understanding of the environment and the forces transforming it and are able to see far into the future. They can spell out the strategic problems rigorously, clearly, insightfully and coherently.
- Systemic disruptions make having an entrepreneurial mindset and attitude even more imperative. Ideal CEOs embrace disruption and are positive and pragmatic about change. They stay alert, learn fast, think outside the box and remain on the lookout for new growth opportunities.
- Ideal CEOs do not succumb to organizational inertia. They demonstrate tremendous enthusiasm and passion for, and sustained commitment to, adapting their organizations to the future.
- Efforts to deal with systemic disruptions can quickly set off a burst of organizational initiatives, most of which arise from the desire for quick wins or target the margins of a business, or are poorly conceived. Ideal CEOs carefully define a general strategic framework within which new initiatives can emerge and be pursued.
- Ideal CEOs perform delicate balancing acts. They face up to disruptive forces, but they are not adventurous, reckless or spontaneous. They assume personal, frontline responsibility, but they delegate intelligently to ensure that they stay focused on high-impact missions at hand. They push for bold moves, but they do not underestimate or discard short-term market pressures and realities. They inspire and embolden people to change, but they do not allow critical decisions and actions to be stymied and strangled, or fleeting opportunities to be missed.





On management teams

- In times of systemic disruptions, ideal management teams have a superior understanding of how the company creates value and have the collective ability to think about the big picture.
- They strive to serve as effective, intimate sparring partners for the CEO in formulating strategic responses. They bring insight, knowledge, judgment and analytical skills to bear in this relationship and initiate the right kinds of strategic discussions with the CEO. They expand and reinforce the CEO's ability to maintain a clear perspective as situations unravel and many unforeseen factors materialize.
- Management teams with a strong bias for action and an acute sense of urgency are fundamental assets to CEOs in their battle against systemic disruptions. Such teams understand that standing on the sidelines will only allow disruptive problems to morph into more dangerous forces that threaten the company's survival.
- In times of systemic disruption, management teams should act as one. They must remain inclusive and cohesive. Within the team, they should foster an atmosphere that allows for open, honest discussions about the nature or the extent of the problems facing the company and challenge each other's assumptions and beliefs. Yet when all is said and done, they must be committed to playing for the team. When a decision is reached, they must be willing to come around and get on board quickly.
- The ideal management team is a tech-savvy group. They understand the extent by which digital and technological forces are transforming the landscape of business, seek out opportunities to strengthen their grasp of technology-related issues and make technological proficiency a cornerstone of their management profile.



02

Disruption: The view from the top

These are not ordinary times. Today's corporate leaders are facing a highly complex and rapidly-changing environment in which a variety of disruptive forces are threatening the viability of companies. Prevailing in such an environment is a formidable challenge.

To gain a better understanding of which specific disruptive forces are on the agendas in German corporate boardrooms, we asked our interview participants to describe to us the disruptions they confront. The following forces were mentioned most frequently.

2.1 Key forces of disruption

2.1.1 Digital and technological disruption

Digital and technology-enabled disruption was by far the theme that was mentioned the most. Our participants demonstrated that they are well aware of the mounting challenges they face and the constraints that they must contend with¹:

“My brain simply reaches its limits when pondering the many digital applications and their groundbreaking potential.”

“The digital world is kind of exponential in many respects. Just think about the pace of advancement — sectoral changes that took decades in the industrial age now develop in years or months and often have a much greater impact in many sectors.”

“The pace of technological change — and, let’s face it, digital change — is beyond any structure we are used to. I am talking about consumers, organizations, managers, politics.”

As well as affecting the mechanics of markets and business models, digitalization calls into question longstanding paradigms of operations that led to success in the past. German companies must take bold steps.

For many companies, this transition is proving extremely difficult, as drastic hypotheses need to be formulated and strategies must be pivoted to ensure future success. Moreover, previous plans for capital allocation will have to be tossed out as investments in companies or production infrastructure are rendered obsolete by the emergence of new technologies and competitors. In some cases, these existing assets may even become obstacles to responding to disruptions. Thus, “corporate tankers” will have to rethink their business culture to respond to nimble startup competitors better able to exploit fleeting opportunities. These cultural shifts will involve the creation of incentives and attractive work environments to acquire talent who will drive (digital) innovation and change. Conventional companies will also have to reinvent their structures and encourage entrepreneurial thinking:

“We have to think beyond the trade-off between efficiency and innovation. Being innovative is not straightforward, especially if I am not the one driving the speed of change. I think agility, resilience and the ability to improvise are key.”

“In the end, there is not much available tech talent out there, and there are many companies that pay a lot of money, offer great flexibility and perks, operate in appealing locations and give people the opportunity to work on great stuff. More than ever, it’s a global competition for the best people.”

1: Several of our interview participants requested anonymity in the direct quotes. Thus, we refrain from specifying the sources throughout this report.

2.1.2 Shifting consumer behavior

According to our interview participants, the expectations and behaviors of consumers are very different today than they were in the past. These changes are seen as resulting from an interplay of a multitude of forces that amplify each other. In particular, demographic trends, urban migration and technological advances combined with widespread connectivity have fundamentally transformed consumer demands and value proposals.

This new environment is paving the way for real-life applications of “network economics” and “asset light” business models. In the digital space, such applications are already common. As an interview participant put it, the paradigm of ownership has been overhauled by access to services and assets:

“Disruption is one thing, but essentially it is the combination of new possibilities that really change business economics. Take car-sharing services as an example: People no longer want exclusive ownership of something — they want to use it in certain moments.”

An unprecedented wealth of information reframes the option spaces of companies and consumers alike. Decisions on both sides of the table are now made based on thorough analytics. Algorithms allow businesses to predict distinct and emerging needs and to leverage data to provide customized experiences. Meanwhile, platforms and online communities enable consumers to compare and discuss features or prices in real time. This increased transparency, combined with the relatively seamless ability to share access and share knowledge at any time and from any place, has placed the power in the hands of the consumer. As a result, the drivers of customer loyalty have changed substantially. Switching costs and lock-in instruments have lost relevance:

“For years we assumed that we know what the customer wants, and we did not think enough about how society can change. Today, much more than ever before, we don’t have the loyalty of the customer.”



“...the paradigm of ownership has been overhauled by access to services and assets.”

“If you are not willing to question yourself, to ask whether your product and the way you distribute it to the customer will still be valid in five years, you will run into trouble, or you may even disappear.”

Indeed, there is a feedback loop between shifting customer expectations and technological advancements. The majority of our participants confirmed that the longstanding dictum of segregated services and products has been revised. Instead, they are turning to the concept of “customer centricity”, which embraces the guiding principles of value creation. Thus, it is assumed that technology and data will further drive customer engagement across all processes — ultimately leading to increasingly seamless, customized experiences.

2.1.3 Emergence of platforms and competitive convergence

The word “*boundary*” has lost significance in today’s globalized, digital world. Our interview participants confirmed that many of the established rules related to the demarcation of sectors are no longer valid, as competitive frontiers are blurring:

“The disruptive competition stems from startups and oftentimes from companies with a tech background — companies that were direct competitors just two years ago. They apply advanced solutions and algorithms. They are not restricted by the prevailing patterns of thinking, and their solutions are derived from a very different perspective: They ask which problems they can solve.”

“It’s about what the customer wants right now, right here. We compete within agile ecosystems and players from more than one sector. We are firmly convinced that many of the frictions between consumer demands and the supply of services and products will fade away. Just think about how seamlessly you organize many aspects of everyday life: getting a taxi, sharing cars or paying without cash.”

“We have top-notch engineering skills. But as it turns out, it is no longer about developing the solution 100 percent in-house. It’s not only the product that is connected, but the entire supply chain. For example, ‘connectivity’ means that automotive suppliers that were world leaders in ‘insular solutions’ will have to cooperate with digital leaders.”

“Who expected that a company selling books on the internet would challenge the value propositions of entire sectors? Within a single decade, Amazon uprooted everything in e-commerce, cloud services and artificial intelligence. You have to question yourself and how you can add value to the customer. Engaging in wars with Google, Apple and Facebook is hopeless.”

Technology is the main catalyst for this convergence, as it reduces entry barriers and the “*plug and play*” — sometimes open-source — approach of many solutions strip down formerly enclosed business models and value chains. Nimble players focus on these entry points and attack prevalent notions of value creation at a pace that large incumbents find hard to match. Once superior solutions enter the market space, the nature of network economies leads to commercial upscaling and sets new standards.

Moreover, many of these services can be provided at zero marginal cost. This dynamic greatly interferes with more traditional approaches to strategy development, resource allocation and investment. Creating an infrastructure from scratch has a different starting point than adapting a large organization — especially a company that has “*traditional*” skill sets and is burdened with assets and ongoing contracts — to the new paradigm.

At the same time, legacy players can exploit opportunities and broaden their business model through digital applications that support physical products. This comes as no surprise, as decades of industry dominance can yield a tremendous wealth of information. Yet with the emergence of big data and the integration of value chains in the context of the “*Internet of Things*” or “*Industry 4.0*”, they are able to add new features to their installed base. In this context, our study participants recognize that there are substantial opportunities in the realm of predictive maintenance and in products as a service:

“Our advantage is our knowledge about the products and a huge installed capacity. If we are able to connect the information and derive the right answers, we can really create value for our customers. For example, predictive analyses allow us to order spare parts before our customers call us. In turn, we achieve higher levels of business case certainty, lower costs and less downtime.”

“The more you know about your customer, the better you are able to offer a truly consistent end-to-end experience.”

Industry boundaries are blurring: Interfaces facilitate end-to-end transparency across all stages of value creation, enhancing interactions from the supply of commodities to the last-mile delivery status. In a growing number of industries, entirely new companies are emerging in the spaces between existing businesses and their customers, thereby disrupting these direct, longstanding relationships and channels. Many interactions are now carried out on platforms, including the sharing of product experiences, comparisons of prices and performance features across brands and competitors, and payment processing. One participant noted:

“For example, Uber or mytaxi are real-life applications of platforms that are common practice in the internet. Others like Spotify or Netflix aggregate the offerings of almost all providers and artists. These new middle layers are definitely on the rise and will dominate other sectors quite soon.”



2.1.4 (Geo-)political environment and regulation

Globalization facilitates cross-border collaboration and trade. However, political conflicts, governmental instabilities and trade disputes impose severe uncertainty on highly interdependent business environments.

Even within Europe, the political environment is becoming more and more fractious and uncertain. Legislators are heavily influenced by a plethora of interest groups and compete with both EU member states and unequal, predominantly Asian and American legal frameworks. Recent developments have highlighted the strategic dimensions of taxation, privacy, reliability of energy supply and social and environmental standards. As an example, the German government's legislative reversal on nuclear power following the Fukushima accident radically undermined the business model of large-scale utilities.

From our respondents' perspective, the level playing field is disappearing, and regulatory scrutiny is becoming increasingly important:

"Regulation across Europe is very fragmented. You must check everything and everywhere, because there is no general rule. There is an increasing notion that Europe needs to protect its tech space against U.S. and Chinese companies. For them, it appears that rules just don't apply."

"Regulatory fragmentation in Europe is a disaster."

"American lobbying machines are much more powerful than we are."

Much to our surprise, the U.K.'s divorce from the EU is not regarded by our respondents as a major threat, with most reporting that they have had sufficient time to prepare for Brexit by shoring up future relationships with affected suppliers and customers. But some respondents also pointed out that the impact of Brexit differs considerably across sectors and that the magnitude of the disruption may be especially large within banking and financial services.

By their very nature, political decisions are often preceded by sudden changes in the status quo. Thus, the economic consequences of such decisions are difficult to predict. However, one thing is for sure: The recent dynamics on the political stage have added more unknowns than constants to the equation.



2.1.5 Institutional investors and activists

A major trend in equity markets has been the recent shift in the focus of institutional investors away from governance-related issues and toward issues of shareholder value and the communication of strategic direction.

Formerly passive investment managers are increasingly pursuing their investors' long-term interests by voicing demands and taking active votes. This dynamic is most apparent in the surge of interest among institutional investors in activist transformational campaigns — most significantly expressed in Larry Fink's (CEO of BlackRock) open letter: *"Where activists do offer valuable ideas — which is more often than some detractors suggest — we encourage companies to begin discussions early..."*

As the community of investors calling for active discourse with boards grows, business leaders must be aware that both institutional investors and activists are closely scrutinizing corporate and personal performance and are weighing potential alternatives to proposed strategic trajectories. Overconfidence and insufficient communication can lead to levels of hostility that can have severe consequences for personal reputations or even corporate survival. Most recently, conglomerates have been at the forefront of activists' claims.

According to these activists (and in line with some theoretical perspectives), capital markets attach a *"conglomerate discount"* to diversified groups' inherent inertia, complexity, bureaucracy and poor capital allocation.

We heard mixed views on the engagement of institutional investors and activists in our interviews:

"Of course, not everything is bad with shareholder activism, but one point for sure is that most of these guys have only their own agenda and objective in mind. It's about short term financial returns."

"They challenge strategic decisions from an external lens. This can be valuable, but if you are convinced that you are right, you should stand firm and make the right arguments."

"I think German boards have to open up to active discussions with institutional investors and other funds — there are savvy, sometimes very young guys on the other side of the table. This is common practice abroad, but I see some personal sensitivities in Germany."

Regardless of the strategic options on the table, the growing influence of an increasingly international activist investor base will substantially reshape corporate agenda-setting when it comes to interacting with capital markets.

2.2 Categorizing disruptive forces

The list above is by no means exhaustive. We were told of several other forces that affect certain companies within an industry, or single industries within the economic landscape. Our conversations also provided us with insights into how corporate leaders categorize various disruptive forces.

Gaining a rigorous understanding of the nature of these leaders' cognitive mapping is critical. Gone are the days when environmental challenges were discrete and corporate leaders could tackle them sequentially. What makes today's business environment particularly vexing is the concurrent influence and confluence of a wide variety of disruptive forces. Fighting fires on multiple fronts simultaneously can strain limited attentional, managerial and organizational resources and can put pressure on management teams to make vital trade-offs. The approaches leaders use to cluster disruptive forces will shape their playbooks for defining and framing threats and opportunities and for responding to them.

Of the various categorization dimensions mentioned to us, two came up most frequently: the pace at which disruptive forces gain strength and the magnitude of these forces:

"When it comes to taking action or initiating a response, it all starts with an understanding — indeed, most of the time only a vague estimation — of the size and the speed of its impact on the business. This is highly complex and creates a lot of friction, but denial won't create the right sense of urgency across the board."

"I would rather distinguish between those [forces] that affect everything and everyone directly and substantially, and those that have a partial impact on certain areas or people."

"Having the right focus is crucial. If one of our subsidiaries abroad faces severe disruptions due to changed regulations or something like the bird flu comes up overnight, this is a different story than a market / technology shift. In the first case, we have to assess the risk of contagion, while in the latter case, we have to think about our future."

Our interviews suggest that asking the questions, "How abruptly does the effect pan out?" and "What's the magnitude of the impact?" prepares the organization to navigate successfully through a complex decision-making process characterized by competing priorities and resource allocation constraints. This taxonomy yields four archetypes of disruptions (See Figure 1). We map concrete examples that were repeatedly mentioned throughout our interviews into these archetypes:

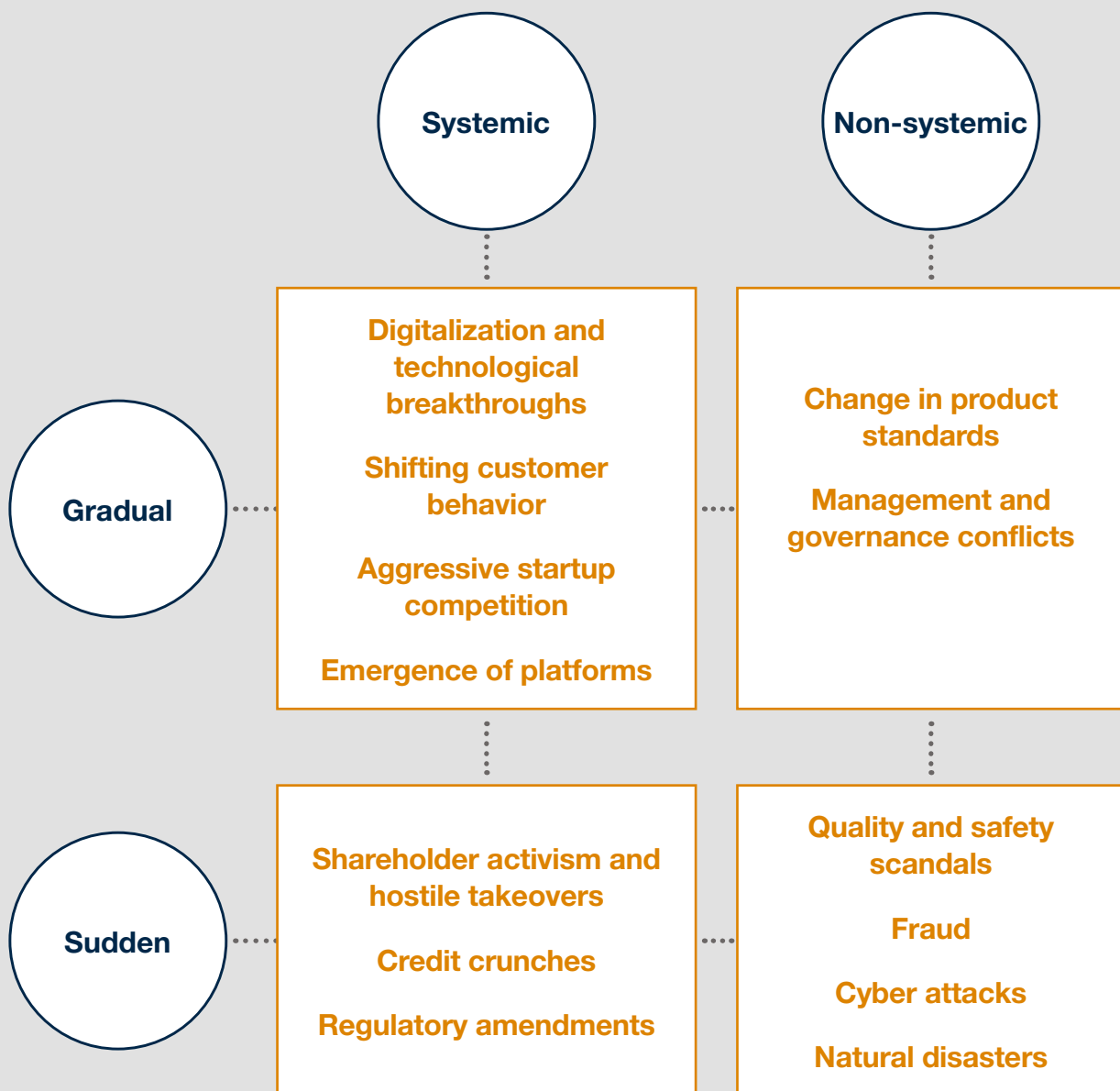
Obviously, this list of examples is not exhaustive, and there are many shades of gray within this framework. Categorical transitions can also occur. What starts out as a non-systemic disruption can escalate into a systemic one if it is ignored or handled poorly. Indeed, it is not uncommon for some non-systemic disruptive forces to foreshadow the arrival of systemic disruptive forces that are far more potent.

This taxonomy provides an overview of how our participants generally evaluate the nature of disruptions. Frameworks as such this one can help leaders avoid viewing powerful disruptive forces in isolation, devise more coherent strategies and orchestrate multiple moving parts more successfully. They are also effective tools for communicating strategic priorities to internal and external constituencies².

2: An earlier study of U.K. boards by Alvarez & Marsal offered an alternative taxonomy of disruption based on whether the disruption was planned or unplanned, and whether the origin of disruption was internal or external. Viewing disruption from these lenses is highly valuable. While our taxonomy is 'outcome-driven', the alternative taxonomy is 'source-oriented'. Together, they provide a comprehensive picture. We summarize the key findings from the U.K. study in Appendix II.



Figure 1
Categorizing disruptions



2.3 Corporate leadership in times of disruption

Over the course of our interviews, four main points about the nature of corporate leadership in times of disruption emerged.

First, systemic disruptions in general and systemic-gradual forces in particular are seen as the most perplexing and formidable threats to survival over the long run. These potential threats are prominent in the minds of corporate leaders, and for good reason. When left unaddressed, systemic disruptions can upend markets and render businesses irrelevant. Still, systemic disruptions can be liberating, as they can pave the way for new mental models, fresh perspectives, novel thinking and unique business opportunities.

Second, the job of corporate leaders will get a lot harder. Systemic disruptions are becoming more common, and the increasing interplay amongst disruptive forces will further amplify the scope, pace and magnitude of their impact. Even today's most successful German companies will not be immune to them. One participant concisely summarized this threat as follows:

"Disruption does not necessarily hit companies for doing the wrong things. Instead, there are many examples of companies that did the right things for decades."

Third, to tackle these immense challenges, certain leadership conditions and imperatives must be in place. These concern not just insights, experiences, mental models and skills, but culture, practices and ways of working.

Fourth, companies cannot survive systemic disruptions by perpetuating the past. Efforts based on old strategies will only temporarily stem the disruptive tides. Companies need new playbooks. Overcoming disruptive forces will require corporate leaders to think, act, manage and compete differently and more boldly than they have in the past.

At the same time, they should seek to recognize and take advantage of the opportunities that disruption can bring. This is easier said than done. Systemic disruptions call for radical organizational transformations, which are complex, risky and contentious. Top management will need to redefine the company's strategy, reengineer its operating model and revamp its culture. These changes may unnerve and unsettle vested interests inside and outside the organization and could cause considerable turmoil.

What then are the leadership conditions and imperatives needed to manage systemic disruptions? To what extent are German corporate leaders endowed with these qualities? And what strategies should an effective playbook include?

In the subsequent chapters, we investigate these questions in depth. We explore nuanced leadership formulas for success, while also looking at the frustrations corporate leaders feel as they seek to navigate their way through systemic disruptions.



“Top management will need to **redefine** the company’s strategy, **reengineer** its operating model, and **revamp** its culture.”



2.4 Spotlight: Shareholder activism — prevention is better than cure

Shareholder activism has evolved from a niche strategy pursued by a limited number of hedge funds and is increasingly seen as a culturally acceptable approach for creating shareholder value across global markets. Thus, the once-stigmatized “corporate raiders” are now seen as “stewards of shareholder value.”

The activist arena largely consists of (pure-play) activist funds or multi-strategy hedge funds. The recent dynamic observed across Europe indicates that players have found ways to deal with the headwinds of cultural and legal peculiarities — which create less inviting conditions than those that characterize the Anglo-Saxon ecosystem. While international activists continue to seek targets in Europe, local funds are rapidly emerging.

However, there is a debate among advocates and opponents of shareholder activism that centers on funds’ intentions and contributions to long-term value. Proponents emphasize activists’ beneficiary impulses regarding governance, strategy and, ultimately, shareholder interests; whereas opponents see activists as short term-oriented opportunists whose meddling harms the company and interferes with long-term value creation.

Regardless of how they are seen, the growth in assets under management and the number of campaigns underline the increasingly global influence of activists on capital markets. Thus, shareholder activism is reshaping many facets of the interactions between publicly traded corporations and their stakeholders.

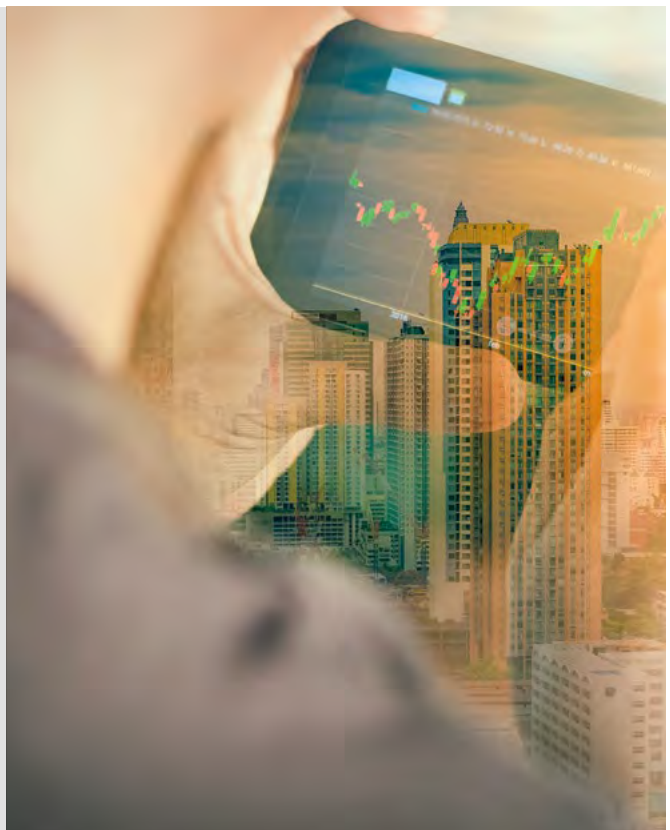


BOX 2.1 Activist playbook

Activist criticism typically addresses the underperformance of potential targets relative to their peers. Their claims can be broadly summarized under the following themes:

- Operating underperformance
- Governance deficits and board remuneration
- Corporate simplification and conglomerate breakups
- M&A arbitrage (“bumpitrage”)
- Capital deployment and payout policies

These archetypes are not conclusively defined, and most campaigns will include a catalog of proposals that touch upon more than one of these themes.



Interestingly, as a result of one of the latest trends in activism, even the largest European corporations are no longer immune against activist campaigns. The non-exclusive list of more recent examples comprises blue chips like Nestlé, Unilever, Credit Suisse and Akzo Nobel.

Activists' persuasiveness is bolstered by their use of thorough analytics, which provides the basis for their campaigns. Moreover, they portray their claims as benefiting the wider shareholder base and have become extremely shrewd in using Public Relations (PR) tactics to convey their message.

Concurrently, the behemoths of global (passive) asset management firms continue to vocally outline their governance priorities — making the case for collaboration with activists within transformative campaigns and gradually transforming the role of Investor Relations (IR) toward proactive, continuous and sustained engagement with shareholders.

Examples abound of the high prices companies have paid for failing to reflect on the implications of activists' outside-in challenges. In addition to bearing direct monetary costs for defense measures, advisory services and communication services, the impact of such a disruption on employee and client relationships could turn out to be severe. Members of both the board and C-Suite can suffer substantial damage to their individual reputations.

To preempt such potentially lethal disruptions, companies can't afford to wait until activists bring alternate proposals to the table. Boards and management teams are called upon to redefine their mode of operation and build trust. This requires critical assessments of their vulnerabilities and unadorned reviews of their strategy. More than ever, a proactive, focused and candid presentation of the managerial agenda is required to manage the many shades of gray in shareholder interests:

"When activists are baying at the door, it's often too late — significant financial and reputational costs may be inevitable. Prevention is better than cure."



BOX 2.2 A&M Activist Alert (AAA)

Our multi-layered predictive algorithm, known as "A&M Activist Alert", enables us to evaluate the likelihood of a listed European corporation ending up in activists' crosshairs.

The methodology rests upon both qualitative and quantitative variables. In addition to providing valuable insights into major activist trends from country-specific, sector-specific, financial, governance and other key perspectives, the entity-specific risk score also provides information about the DNA of a potential activist campaign. Armed with these insights, A&M is able to tailor a bespoke change program for the affected company.

The variables under consideration emulate the activist playbook and are categorized as follows:

- Time scales: How long do activists wait before launching a program?
- Country and industry: What role do legal, cultural and market factors play?
- Profitability: How flexible are the operations, and how agile is the management? Are there significant differences in profitability across divisions?
- Assets and liabilities: Could assets be utilized more efficiently? Does the company maintain excess cash balances?
- Board and governance: Are appropriate governance instruments in place? How effectively does the board operate?
- Equity value and structure: Did shareholder returns decline, and does the shareholder register prepare a fruitful ground for attack?



03

German supervisory boards in times of systemic disruption

Supervisory boards in Germany have two fundamental roles³: an oversight role, which involves the monitoring of corporate risk and corporate risk-taking; and an advisory role, which involves feeding strategic insights to the management team, as well as helping them ask the right surgical questions and make the appropriate assumptions when formulating and executing the company's strategy.

3.1 Too much “Aufsicht” and too little “Rat”

In our interviews, many participants were very careful to stress that the advisory role does not encompass strategy-setting. Nevertheless, there was a strong consensus among the interview participants that while German supervisory boards are visibly diligent and active in playing their oversight role, the actions they take in fulfilling their advisory role are often inadequate and inconsequential. Several participants made this point bluntly:

“If you look at the German ‘Aufsichtsrat’, in most companies the emphasis is on ‘Aufsicht’ rather than on ‘Rat.’ They only govern. Unfortunately, this is the attitude of many German supervisory boards.”

“Supervisory boards need to engage in creating the future by challenging the management to respond to future trends and to explain what they think about them. However, if you look at German corporate governance, it is skewed. It is geared toward control and managing liability.”

“The supervisory board is relatively useless. The members focus purely on governance. I need top-notch sparring partners to stay one step ahead of the competition.”

“What I truly expect from my supervisory board members is that they push me to make sure that the company survives in the changing environment tomorrow. It really is not satisfying... they are not really able to give me advice.”

One potential challenge to these views is that this problem is not specific to German supervisory boards. Fortunately, a large share of our respondents have extensive international board experience. Thus, we were able to ask a number of them to compare the dynamics of corporate boards in the U.S. and in northern Europe with those in Germany. In general, these respondents agreed that German supervisory boards were falling short to a much greater extent than their counterparts:

“In the U.S., they really look at how they can get the best people from whatever industry, or from whatever company. You have much more open and constructive discussions in the board sessions, whereas in Germany you mainly have presentations from the management team and then two or three questions. Then comes the question: ‘Do we all agree?’ Okay, we all agree, because things have already been decided beforehand.”

“Corporate boards abroad and especially those in the U.S. have some governance deficits compared to our boards, but a key difference is that outside of Germany there is far more detailed and engaged discussion about current topics... the intensity of the meetings is also very different. There may be more meetings in Germany, but they are often held in a crisis mode, not to discuss strategy or to talk about growth or building the future of the company.”

“The work on the supervisory board is much better [and more intellectually rewarding] in companies outside of Germany than in German companies.”

3: The supervisory board also appoints the executive management team, which is another important role.

It is also possible to challenge these observations on the grounds that German supervisory boards are unable to perform their advisory roles effectively, either because management starve them of timely and rich information, or because management fail to articulate their strategy or communicate their concerns explicitly and extensively. Thus, it could be argued, the board members lack the information they need to delve into the details, play devil's advocates and provide inspiration. Our participants told us that this was not the case. One executive, for instance, reported that management communicate well with the supervisory board:

"The good thing is that we get the feedback from all of the supervisory board members that they really feel they are well-educated and well-informed by us. They always say that at our company they are not just board members. They compare our board to other boards, and we always get the feedback: 'You are the most transparent company'. But that is our aim. We want to do this."

Other respondents asserted that their company regularly holds off-site strategy retreats for their supervisory board members to discuss strategy and strategic themes. These retreats typically include learning sessions for members on relevant topics to bring them up to speed on issues facing the company. Our participants also assured us that they strive to extend the information exchange beyond the usual meetings to facilitate a deeper understanding and to stay current:

"I would invite the chairman to certain meetings to get deeper into one topic or another or to give him just a better feeling."

"There is a lot of communication in between regular meetings. For example, when a board member is here [HQ city], we just meet up."

The perceived failure of supervisory boards to adequately perform their advisory role is problematic even if the company is relatively stable and is operating in a more predictable environment. As one participant remarked, *"There are still trends; you have to be on your toes and you have to be close to the business."* But these perceived deficits become more dangerous when the company is under threat or in the midst of systemic disruption.



"Digitalization trends are clearly underestimated and often poorly understood by supervisory boards."

Our respondents pointed out that during such critical periods, supervisory board members often retreated even more from their advisory roles and in some cases became nearly invisible. This tendency seems to be particularly evident when the company is faced with digital disruption:

"Whenever you have fast-moving trends, German supervisory boards are ill-equipped. Digitalization trends are clearly underestimated and poorly understood by supervisory boards."

"German supervisory boards are not the right places for driving change in response to digital disruption."

"I believe that on the whole, supervisory boards are valuable if they consist of people who are really curious about the issue of digitalization and have a sense of urgency about the need for digital transformation. You do not see a lot of that."

Ironically, it is in these complex situations that top management need the strategic insights, expertise and knowledge of the supervisory board the most:

- **Systemic disruptions threaten the current state of affairs in companies.** Companies cannot afford to sit still. There are, however, no obvious remedies or commonly agreed-upon solutions.
- **Effective strategic responses to systemic disruptions typically involve novel, radical and long-term measures.** Corporate strategists must distil the right course of action from a set of interrelated, politically sensitive (unpopular) choices with poorly understood or hard-to-specify risks. Moreover, they must do so in a volatile environment in which the realities and the forces on the ground can change suddenly. One participant, for example, described a case in which conditions had changed so rapidly and dramatically in the time between two quarterly board meetings that in the second meeting, the CEO presented a set of strategic priorities that were the opposite of those he had championed in the prior meeting. This situation, the participant reported, left the supervisory board in complete disarray, while hurting the credibility of the CEO.
- **Systemic disruptions call a company's purpose into question and spur bouts of soul-searching.** As one participant observed, *"They force us to think about why we exist."* Designing effective responses to systemic disruptions involves deep reflection and extensive deliberation about the company's heritage, what it stands for and its historic foundations.
- **Systemic disruptions test the limits of CEOs' cognitive capabilities, strategic understanding and resolve.** CEOs can experience high levels of analytical frustration and exasperation and can frequently feel isolated in their roles as they grapple with serious challenges and stark dilemmas. As one participant put it, *"You don't go to your management team for help anymore after doing it at least five times... So who do you go to?"*

Staying on top of systemic disruption requires real-time learning and the continuous monitoring of developments, which can outstrip management's cognitive and attentional resources.



“Staying on top of systemic disruption requires real-time learning.”

Thus, management need the analytical and attentional bandwidth of the supervisory board to sort through the complexities in the environment. Moreover, they need to tap into a greater base of knowledge and insight to make sense of the nature of the disruption and to chart the most appropriate course of action.

But do management teams actively and wholeheartedly demand such input in the first place?

There is a widespread perception that boards in Germany are expected to have limited involvement in strategy-making, as management typically worries about meddling or a loss of control. An active board may stray into management's territory and infringe on their fundamental responsibilities. Indeed, we were given several examples in which management felt that the board went one step too far. These examples included some very dramatic cases in which the supervisory board chair was unhappy with the work management was doing and commissioned external strategy consultants to develop a new strategy for the company. In other cases, the interference was subtler, but was still seen as intrusive.

However, our conversations also made clear that, in most cases, management wanted the supervisory board to be significantly more involved than as they usually are, both under relatively normal conditions and especially in times of systemic disruption. It is also noteworthy that when asked to describe an ideal supervisory board, our respondents generally painted a picture of a board made up of members who provide active support in the formulation and the stress testing of the company's strategy:

"I don't want to have a supervisory board sitting there, just having a look at the papers on the table. 'Okay, I understand it, any questions: No? Next item.' The ideal supervisory board is a board who understand how management acts, the strategy of the company, the details of the company; and who is able — each member should be able — to ask questions to really challenge the management team, thus making sure the management team is not making decisions without having discussed every item, every aspect of the picture of future development."

One caveat should, however, be noted. While the respondents expressed a desire for a more active board and said they appreciate board members who are open and inquiring, such preferences are conditional. Several participants said they expect board members to avoid wasting the precious time of management when dealing with systemic disruption. One participant lamented:

"If they start to ask questions and they don't have a clue and don't prepare, it's a nightmare."

Some respondents reported behavior by board members that is far more detrimental than simply wasting time in meetings. For example, a number of participants said they have witnessed supervisory boards loading management down with tasks during turbulent periods of disruption, when they were already overstretched — even though it was clear that being buried in tasks would hinder managerial efforts to make decisions and act expeditiously. In some cases, the tasks that boards were recommending appear to have been at best tangential to the complex issues at hand and, thus, represented potentially harmful distractions.



Taken together, these observations suggest that the CEOs of leading German companies often find themselves in the relatively precarious situation of having to put out these disruptive fires alone. Thus, corporate leaders are deprived of access to a rich and sound analytical infrastructure that would enable them to develop fresh ideas, find novel solutions, correct serious mistakes and prevent costly lapses.

An important question thus arises: What are the root causes of these perceived board deficiencies?

A thorough understanding of where these deficiencies come from is essential to correct them. Gaining a better understanding of the origins of these problems would also help us explain why some German corporations are better than others at navigating, forestalling, combating and even profiting from systemic disruption.

Our extensive analyses of German corporate governance data and trends, together with the outcomes of the deep conversations we had on these topics, suggest that a range of factors are at play (See Table 2). These factors can be clustered into three categories: capability gap, risk aversion and structural constraints. The first two categories encapsulate the factors that reduce the ability and the motivation of supervisory boards to deliver on their advisory roles. The last category consists of factors that restrict the opportunity of boards to carry out their advisory roles effectively.

We discuss each of these factors in turn.



Table 2

Why German supervisory boards fall short in their advisory responsibilities

1

**Capability gap
(ability)**

- Boards consist of too many finance and legal professionals
- Boards are too old, inactive or detached from the environment
- Unfit board chairs: Building bridges instead of divides
- Captive and locked-in for five years
- Insufficient financial compensation
- Diversity gaps

2

**Risk aversion
(motivation)**

- Personal legal liability
- Cultural perception of what supervisory boards should do
- Risk to reputation

3

**Structural constraints
(opportunity)**

- Boards are too big
- Presence of employee representatives on board

3.2 Capability gap (ability)

3.2.1 Boards consist of too many finance and legal professionals

German supervisory boards have historically been made up of members with backgrounds in finance, accounting and law. As of January 2018, nearly 40 percent of all shareholder representatives on supervisory boards in DAX30 and MDAX companies had finance, accounting or law backgrounds. This was a recurring criticism that came up in our interviews.

Our participants cited various advantages of having a board made up of individuals with these backgrounds, including that the members provide high levels of transparency, financial literacy, compliance, quality control and fiscal stewardship. However, the participants also reported that the imbalance in the composition of supervisory boards is a key impediment to board members keeping pace with management, serving effectively as strategic thought partners and helping management identify and seize opportunities caused by systemic disruption. The reasons for these deficiencies abound. In many cases, the board members lack the right skill sets, backgrounds and expertise to effectively guide management through disruptions in nuanced and measured ways. They may also have difficulties in seeing the “big picture”.

According to some participants, board members reject deep and thought-provoking debates about strategic issues and avoid discussing opportunities to shape the business, preferring instead to focus on compliance matters and other legal formalities. Rather than being alert to the forces shifting beneath the surface and advising management on how they should evolve to respond, board members are seen as reactive and as having a tendency to remain in defensive mode. One participant observed a paradox here:

“Even if you are good at governance, you still have to be able to challenge the strategy as well. And to de-risk the company financially, you still need to de-risk it strategically.”

It appears that this feature of German supervisory boards traps them in a vicious circle. Most members are not serving for the pay, but rather to derive inspiration, knowledge and meaning from board work. Corporate boards are prime professional development settings in which the members can gain exposure to diverse strategic perspectives and challenges and deploy their analytical skills to help resolve complex problems. When supervisory boards use their meetings to focus mainly on governance issues while engaging in less substantive, more superficial deliberations, serving on a board provides the members with more limited opportunities for learning from and feeling inspired by the work. Because of this atmosphere, potential members who want to contribute to the company’s strategic development may become reluctant to serve on a supervisory board.





3.2.2 Boards are too old, inactive, detached from the environment

German supervisory board members are older than their counterparts in the U.K. and the U.S. (See Figure 2 on page 45). Most participants indicated that they see this as inevitable. They cited several reasons why board members in Germany tend to be older, including that younger people simply cannot spare the time that serving on an active board demands:

“If they are still in business, then they have no time to serve on a supervisory board; and if they are not in business, then they are sometimes detached from what is going on. You normally only get people at age 60, 65, who are either just retired or something else.”

Moreover, even if younger people wanted to serve on a supervisory board, their participation would not be viewed favorably at some leading German corporations. One study participant gave a personal account of how he was prevented from sitting on the supervisory board of a DAX30 company by his own board, even though he could have been a great help in turning the company around, while benefiting from the opportunity to glean valuable and timely insights and ideas and to refine his own leadership abilities. *“Very often old boards face challenges in accepting a young, disruptive person.”*

Other respondents identified a generational shift in preferences in favor of more entrepreneurial, technology-driven businesses, which puts some of Germany’s leading companies at a disadvantage: *“A 40-year-old person would not join an old economy company board.”*

According to many of our participants, being a board member who is retired from active corporate duty is not necessarily a problem at the individual level. Some respondents gave us examples of supervisory board members in Germany who *“still came up with great ideas at age 70 or 80,”* or who *“devoted themselves to their work on the board far more than most out there,”* or who *“are still hungry when they are 65 or 70.”* Other respondents said they believe age is weakly correlated with *“learning agility,” “cognitive inertia”* and *“change resistance”*. Our attention was also drawn to the clear advantages older and retired people have in fulfilling the obligations of an advisory role:

“To be able to ask the right questions on a board you have to have deep experience.”

“You should be careful in bringing in too many younger people who are still working because suddenly they have no time.”

“Older members know more about how to behave on a supervisory board. They come with board experience.”



However, several respondents expressed some reservations about older board members, particularly with respect to technology and digitalization:

“The supervisory boards today, they are all old guys, former CEOs, CFOs, and then they are at the end of their careers or have already stopped working on a daily basis. Kraft Heinz appointed a 29-year-old as CFO. Of course, a 29-year-old guy has less experience than a 60-year-old guy, but he has grown up with the digital world, which has value even in the finance department. The young kids grow up with digital technologies; they have them in their daily lives, in their blood.”

Most of the participants agreed that the supervisory board as a whole should have the right mix of ages and that the failure to achieve a balanced age structure is a major shortcoming in Germany. Supervisory boards often lack a healthy blend of members with strong business acumen and fast-moving, entrepreneurial mindsets. Thus, a board is seldom a setting in which people with a deep, specialized understanding of and historical wisdom about the industry come together with people who can bring fresh insights into new technologies, new groups of customers and other emerging and volatile trends.

Still, it is important to approach this issue with some caution. Setting up a board with the right mix of ages does not mean that the board will perform better in times of systemic disruption. Younger board members can be impatient by nature, less at ease in the structured and ceremonial world of supervisory boards or even too edgy and too provocative:

“Young people from entrepreneurial [technology] businesses who are appointed to boards have a hard time understanding how corporate boards work... why everything is so complicated in a corporate setting.”

“Having a good blend is always preferable. On the other hand, many young people believe in trial and error, which is not easy in our corporate structures, given the burdens and obligations organizations have.”

Older members, on the other hand, are often too focused on achieving consensus, overly cautious or unwilling to step outside of their comfort zones. A good deal of effort has to go into integrating a board to create a climate in which the board members see themselves as a team and understand and appreciate each other's perspectives, as well as the need for creative tensions and healthy conflicts. Induction and onboarding processes are especially useful for bridging the differences between cohorts.



3.2.3 Unfit board chairs: Building bridges instead of divides

In most corporate governance systems around the world, the CEO can be a member and even the chair of the corporate board. In the German two-tier governance system, the mandatory division of powers between the management and supervisory boards prohibits the members of a company's management team from serving on its supervisory board. This division makes the job of the supervisory board chair especially critical. Moreover, the power to shape board outcomes resides almost exclusively with the chair.

Our participants generally concur that the chair of the supervisory board needs to be very proactive in helping management get ahead of systemic disruption. At a minimum, the chair should create an atmosphere in which his fellow board members are encouraged and feel free to ask thoughtful and penetrating questions and to have meaningful conversations with management about strategic issues. In addition, the chair should ensure that the members bring to the boardroom a mix of skills and perspectives that can help the company deal with disruptive threats. In addition to demonstrating these abilities, the chair should have a number of key traits. One participant vividly described an ideal chair as follows:

"The chair has to be intelligent and very experienced. He has to know the company and understand what is going on in the environment. He has to be flexible in his thinking because, otherwise, he would not be able to challenge the supervisory board / management team in the interests of avoiding disruptive forces. He has to make sure that his board has the feeling that the board is guided and managed."



“The power to shape board outcomes oftentimes resides almost exclusively with the chair.”

Another respondent shared a real-life example from a German supervisory board:

“The chairman seated the members in alphabetical order, not in separate groups of employees and shareholders. He’d open the discussion; he would let it flow. He actively prompted the members to speak... And then they all more or less said what they were thinking about. At the end of the day, he kind of wrapped things up, made his comments. Sometimes he had a different opinion than the majority in the room. He was opening up the discussion by sharing his own opinion: ‘I was thinking... What do you think about it?’ By working through things again and arriving at a conclusion, he helped to steer the direction of the board. But he was extremely open, and the process was productive. Everybody felt included, listened to, relevant, and he did not try to control anybody in the room. I thought it was a very impressive way to run a board.”

Nevertheless, we were struck by how often our participants described supervisory board chairs from Germany companies who were far from the ideal profile. We heard of chairs who:

- Lacked the necessary confidence to lead the board in difficult times.
- Focused his time and energy on non-substantive issues or pursued pet projects, rather than on helping the management team fight the disruptive tides.
- Had neither an in-depth understanding nor any interest in immersing himself deeply in the technological forces upending the business.
- Only checked in once a month despite mounting disruptive pressures.
- Was blind to the skill and knowledge gaps on the board.
- Failed to defend the management to the board when they had to revise the strategy quickly in light of new realities.
- Suppressed the quality of boardroom discussions, especially when they contradicted his own perspective.
- Preferred working intensely with a small clique of board members instead of engaging in and leveraging the entire board.
- Did not want to fill vacant board seats because he wanted to consolidate his power, even though the board desperately needed additional perspectives and skills.

Dysfunctional behaviors and characteristics such as those mentioned above can significantly increase a company’s vulnerability to systemic disruption, as they can lead an organization to lower its defenses and a supervisory board to become out of sync and out of touch with the disruptive forces on the ground.

3.2.4 Captive and locked-in for five years

In the U.S. and the U.K., board members typically stand for election every two to three years, and there is a recent trend toward annual election cycles. In Switzerland, board members must stand for re-election every year. Under Dutch law, supervisory board members stand for re-election every four years. In Germany, by contrast, a newly elected member does not generally face re-election for five years.

The five-year tenure has its advantages. Considering how busy the members are in general and the average number of board meetings they attend, it can take several years serving on a board for a member to understand the company to any significant extent. The uncertainty created by regular re-elections also disincentivizes the board members from making any significant investments in company-specific learning.

On the other hand, the five-year tenure locks the board into relying on a certain set of skills, which may well turn out to be redundant or obsolete. The tenure length also inhibits efforts to remove unproductive board members and breeds insularity. In today's increasingly complex business environment, in which market turbulence is the rule rather than the exception, no company can afford to stand still.

Furthermore, several study participants highlighted that on many occasions, new board members are selected in a hurried manner. This can occur, for example, if a company is preparing an Initial Public Offering (IPO) or relisting, or is recruiting members in response to pressure from activist shareholders, government mandates (e.g., the female quota), or sudden or unforeseen member departures.

These extraordinary circumstances magnify the lock-in problem. In racing against the clock, board members tend to spend little time deliberating on the specific skills and mindsets the board members will need going forward, or on vetting the candidates. The typical approach seems to be to draw new members from the chair's or a powerful board member's close circle, which does little to foster new thinking or break out of patterns of insularity, while cementing the grip of these individuals on the board. Alternatively, board members may hastily fill the seats with corporate celebrities, who often end up as token figures with mismatched skills, superficial knowledge and little time to spend gaining an understanding of the company's specific concerns.



“The typical approach seems to be to draw new members from the chair’s or a powerful board member’s close circle.”

3.2.5 Insufficient financial compensation

Supervisory board membership is a substantial time commitment. Members are expected to attend regularly scheduled board and committee meetings, as well as last-minute meetings and activities outside of the boardroom (e.g., retreats). Members must also spend considerable amounts of time preparing for these meetings. Board members receive pages and pages of briefing materials, which they are expected to have read and reflected on. For most members, serving on a board requires considerable travel. These commitments create significant opportunity costs for board members. Moreover, these opportunity costs can escalate dramatically in times of systemic disruption. During such periods there may be more meetings, and the meetings will be supplemented by more intense communication and discussions.

While supervisory board members are not expected to know the business as well as management does, they are expected to become familiar enough with the business to be able to add value. However, the majority of our interview participants expressed the view that the financial compensation for supervisory board members in Germany is insufficient to incentivize the members to make a strong commitment to the company or to engage in a serious effort to gain deeper insights into and greater knowledge of the business. Board members are given little incentive to do anything but show up.

“I think in order to understand [the strategy] you really have to get deeper into it. On the other hand, honestly, how much does a board member get?”

“In Germany, supervisory board jobs are not paid very well. So why would you agree to serve on a supervisory board? Maybe because you are applying for a job or trying to start a second career. Most of these people have retired; that means they are 60-plus.”

For younger board members, who usually have pressing career concerns, the poor financial compensation makes devoting time to a board membership even less attractive. Meanwhile, many board members who are retired are guilty of “overboarding”, which dilutes their commitment to each board on which they serve⁴.

“A lot of people serve on multiple supervisory boards so that they have cash flow on top of their incomes. If they were to make more money, they could serve on fewer boards, which means that they could spend more time on the commitments they have.”



“For younger board members the poor financial compensation makes devoting time to a board membership often less attractive.”

⁴ Individuals can take up to 10 seats on supervisory boards in Germany (“Ämterhäufung” – (§ 100 AktG).

3.2.6 Diversity gaps

Most of the interview participants indicated that they think greater diversity on supervisory boards is beneficial in general, and at times of systemic disruption in particular. They expressed the belief that greater diversity has a number of positive effects, such as bringing unique / fresh perspectives to the boardroom, dismantling entrenched social and political relationships and breaking down outdated mental models.

In addition to calling for a more diverse age structure, our participants cited the need for corporate boards to reflect a range of socio-demographic attributes, with all of the respondents saying gender and nationality are characteristics that warrant special consideration.

However, the respondents did not agree completely on what approaches to promoting diversity are advantageous for boards. There was a broad awareness among our participants of the unique value female board members can deliver, at least in theory. Nevertheless, some of the interview participants indicated that they are highly skeptical of the “female quota”, and of the current political pressure to increase women’s representation on supervisory boards in Germany. Their concerns appear to reflect availability constraints, with some respondents saying they believe that the pool of women who are qualified to serve as board members is small. Our participants also emphasized that there was a more urgent need to concentrate on building up more women in executive positions.

The participants’ responses on international diversity were also mixed, and legitimate concerns were expressed on both sides of the issue. The proponents of appointing board members of different nationalities typically explained their position by pointing to the globalized nature of markets, competition and operations, as well as to the potential for building strategic bridges to overseas markets and institutions.

The opponents of internationalization stressed the cultural, practical and logistical barriers to integrating foreigners into German corporate boards, claiming that appointing non-Germans could lead to a loss of value. Two participants explained:

“Most international board members do not speak German. What happens in these supervisory boards? You have to translate simultaneously, and there is always something lost on the way... More importantly, they are unable to communicate with the base [company] and attend the employee briefings.”

“German corporate law is unique. When board members come from abroad, they don’t understand the issues that we are dealing with...”

Many participants indicated that the most vital form of board diversity is having members from different industries and who thus are able bring to the board different experiences from different sectors. Fostering industry diversity can promote an “outside-in” view of the company and its industry, thereby helping the board overcome a tendency toward myopia.

We should emphasize that the right mix of board members is a calculated blend of individuals who together have the know-how, abilities and experiences the company will need in the future. In other words, members should be selected with foresight. This means that when selecting board members, the companies should cast a wider net. Our participants noted that while German corporate boards are becoming more diverse, there is still some way to go. They still hesitate to recruit members from industries that are not intimately connected to their business activities.



But by avoiding recruiting more widely, they end up missing out in at least two ways. First, the future has already happened in some other industry (cf. Peter Drucker). There is a lot that can be learned from the specialized knowledge and experiences of individuals from those industries, even if they have a limited understanding of the company's business or of the industry. Second, as one participant observed based on his personal experience, *"You can be very effective by asking stupid questions from different angles."*

These benefits are especially critical at the onset of and in the midst of periods of systemic disruption. The nearly insurmountable uncertainty and ambiguity brought on by disruptive forces can paralyze the supervisory board. Inertia sets in. Board members tend to be unwilling to contemplate new ideas or novel strategic initiatives, frequently falling back on what they know and what has worked in the past.

"The reflex is to say, 'Let's defend the core business'; not to say, 'Let's see what we can do instead'."

Members who have encountered the issues currently facing the company in other contexts can provide a much-needed antidote to a board's tendency to remain stuck on past mental models and strategic frames. By challenging the board's assumptions about the way things are done, such members can help the company successfully maneuver through these challenges. Indeed, several of our respondents linked the *"existential crisis"* experienced by German car manufacturers to a complete absence of industry diversity on their supervisory boards. A few of the respondents even went so far as to claim that these troubles were self-inflicted, arguing that these boards were nothing more than *"social clubs"* who placed cultivating existing relationships and loyalty above fostering diversity in perspectives, insights and experiences.

3.3 Risk aversion (motivation)

3.3.1 Cultural perception of what supervisory boards should do

We were told repeatedly that most German supervisory boards have an institutionalized perception that challenging management’s strategy and calling attention to potential sources of future disruption are not their main tasks. This belief appears to be a deep-seated product of historical developments. Underlying this assumption is the fear that board members could step on the toes of the management team – who are, after all, ultimately responsible for devising and executing the strategy.

This perception was cited as a major reason why the members of a supervisory board are often unwilling to play a broader role than that of a watchdog. However, why it is assumed that there is a fixed, universal red line between the two boards remains puzzling. Our participants described this perception as being far from formalized and carved in stone. Boundaries and roles are negotiated outcomes, and in periods of protracted uncertainty created by systemic disruption, they must be redrawn and re-conceptualized.

The good news is that this counterproductive perception is not inevitable. However, uprooting it generally requires a vigorous collaborative effort between the management and the supervisory board members to develop an implicit understanding of what the main tasks of each board should be.



“There is a fear to step on management’s toes when challenging its strategy.”

One participant described how his organization succeeded in overcoming this division:

“We have trained our supervisory board in the past to join us in thinking about the strategy of the company, including about situations in which there is a critical disruption. We challenge the members of our supervisory board to think about our future. And at the same time, we encourage them to challenge us, asking us, for example, ‘Are you thinking broadly enough? Are you trying to predict what could happen far enough into the future?’”

3.3.2 Personal legal liability

Several participants pointed out that individuals serving on German supervisory boards face a much higher level of personal liability today than in the past.

Increased personal liability seems to have not only made talented individuals wary of joining supervisory boards; it has led to widespread risk aversion on the board. Most members shy away from probing difficult strategic issues or asking uncomfortable questions:

“The legal risk for German board members has risen tremendously over the years. In such a situation, you need to play a certain kind of supervisory role. If you avoid making tough decisions and go with the flow, you are fine. If you ask or force management to take certain types of action, you become responsible. And you get no reward for doing this, as in most cases you are not rewarded though shareholdings. Since there is no upside if you get things right, but there is a penalty if you get things wrong, the landscape is skewed. And this kind of structure attracts the wrong kind of people: people who are passive, risk-averse and less entrepreneurial.”

“Our corporate law is going in the wrong direction. It burdens the supervisory board with many more accounting, auditing and legal responsibilities. What I want from my supervisory board members is their experience, a certain level of wisdom, certain ways of doing things — a tendency to say, ‘Calm down, wait, the storm will pass’.”

3.3.3 Risk to reputation

In the small world of the German corporate elite, there is a widespread perception is that it is better to be a “rubber stamp” member who simply goes along for the ride, as those who make waves can hurt their chances of getting invitations to other boards at best and can create powerful enemies at worst. Thus, some members are reluctant to raise thorny questions about the company’s strategy, strategic vision or threats. They may also be unwilling to challenge one another’s assumptions and beliefs or simply to go against the grain. For these reasons, it appears that the culture in most supervisory boards in Germany is characterized by a strong desire to go along with the status quo. One participant described the standard behavior of board members with more than a touch of sarcasm:

“Board members carefully prepare three easy questions. At the end, everyone feels good. The management feels good because they were able to answer those questions. The board members feel good because they can go home and say they had a great impact on value.”

3.4 Structural constraints (opportunity)

3.4.1 Boards are too big

An average German supervisory board is larger than its counterparts in the U.K. and the U.S. (See figure 2). The large size of the typical German corporate board exacerbates the other challenges boards face in critical ways:

“In Germany, the supervisory boards are too big and very formal. If you get down to a smaller number, you are really in a different space. You get more proximity.”

“You need something like 10 people, not 20. You need professionals who know exactly what they are doing — people who have experience, can commit a certain amount of time and can really take the supervisory role seriously.”

“Either you have a head of the supervisory board who calls all the members beforehand and explains everything — or who makes the management go around and talk to each and every individual about the important items — or you have a mess, and that is time-consuming. And that’s why I think smaller boards are much better.”

There are two main structural outcomes associated with a large board size that are relatively hard to avoid. First, the decisions tend to be made before board meetings begin. It appears that secret meetings behind closed doors (the so-called *“Hinterzimmer deals”*) are very widespread. In a sense, the two-tiered board model has become a three-tiered board model: There is a management board, there is a small group of supervisory board members who exert real influence and there is another group of supervisory board members who are expected to follow the lead of the smaller group. If the important questions have been settled before the board meetings, there is little impetus for collective thinking that can generate creative solutions or directions. The meetings essentially become ceremonial gatherings.

“Everything is more or less pre-scripted. They can literally write the minutes for board meetings beforehand.”

Second, more and more committees are being established. Committees bring together experts who are tasked with making a comprehensive assessment of specific issues prior to board meetings, where they present their findings, any relevant information and recommendations for board action. Thus, such committees can reduce the workload for individual members and improve the quality of decision-making. However, as one participant pointed out, relying on committees can carry risks, as it can *“create very different levels of information and know-how on the board”*. Board members who are not on a committee can often find themselves out of the loop.

3.4.2 Presence of employee representatives on boards

Co-determination is a significant feature of German corporate governance. More than half of the companies in our sample have employee representatives on their boards. While the question of how well co-determination works is a multi-faceted topic, it is also politically controversial. In our interviews, we took extra time to ask respondents to provide detailed descriptions of the advantages and the disadvantages of co-determination, both under normal conditions and in periods of rapid change. Given the richness of the insights the respondents provided and the wide range of opinions they expressed, we have decided to explore this issue more comprehensively in a separate study. For the time being, we present a few of the general points made about co-determination that can shed some additional light on our discussion.

We heard mixed perspectives on whether having employee representatives on supervisory boards improves the board's ability to perform its advisory role. Some participants commented that these representatives hinder the scope, the depth and the quality of debates on strategic issues and that these debates can further deteriorate under disruptive environmental conditions. These difficulties stem in part from the fact that the presence of these representatives expands the board size considerably and thus contributes to the aforementioned problems associated with a large board size. There also appear to be challenges that arise because of the skill profile of employee representatives, the process through which they are elected and their priorities, mandates and interests. This does not mean that employee

representatives should never be on supervisory boards. We also heard arguments in favor of their presence. Some of the participants mentioned advantages of having rank-and-file employees represented on supervisory boards, especially when it comes to strategy implementation.

There also seem to be contextual differences that lead to differences in the extent to which co-determination interferes with the supervisory board's ability to serve as active, constructive and fully informed thought partners on the issues facing the company. For instance, employee representatives in technology companies tend to have professional profiles that are markedly different from those in companies in traditional sectors. In some companies, the elected members come exclusively from internal work councils; whereas in other companies, labor union representatives sit alongside work council representatives, which makes for an even more diverse group. We were told that employee representatives on supervisory boards who come from two different branches sometimes have serious conflicts with each other. To make matters worse, in some companies the union representatives on the supervisory board come from different labor unions. This complexity adds to the plethora of agendas, interests and opinions on the supervisory board.

3.5 Spotlight: Private Equity (PE) boards

Several our participants have first-hand experience with private equity boards. Those who are seeking to improve the governance structure of German supervisory boards are advised to look to PE boards for inspiration. We recognize that PE boards differ from conventional corporate boards in important ways due to the concentrated ownership of PE firms and the nature of the PE agenda. Nevertheless, they have characteristics that are worthy of serious reflection.

According to these respondents, PE boards have at least four features that place them in the best possible position to cope with disruptive forces. First, the management teams and the supervisory boards are strongly aligned in the goal of driving shareholder value. Thus, everybody is laser-focused on the same goal: turning around challenging situations and creating value. Second, the advice function of the supervisory board is far better developed and is strategic in its outlook. When PE firms recruit boards, they go to great lengths to ensure that the board is made up of people who have the skills the company needs and who are prepared to engage deeply with the management on company strategy. As one participant observed:

"[On PE boards] the decisions are made more quickly... Our pace [on corporate boards] slows down because some supervisory members don't understand us."

Third, supervisory board members are sufficiently informed to enable them to contest management's views. They also have access to outstanding advisers and are armed with rich data to support their involvement. Fourth, these boards engage in real teamwork. They are not bogged down by complex political agendas and are relatively free of factionalism.

Our participants reported that these four factors together make the strategic discussions on PE boards far more serious and in-depth, and more likely to generate fresh perspectives, than the discussions on conventional boards. As two participants observed:

"They seem to be more courageous than the ordinary board members, because they think the unthinkable — and that has to do with the fact that they have seen it happen in many other companies. They do not shy away from saying unpopular things, and they are not clinging to their seats. These people have very high levels of engagement, intelligence and experience. Even if they are only 40 years old, they have experience with so many companies and situations that they have a different understanding of speed and execution."

"Normally, they do not understand the details of the business as well as the management teams do, but they offer some fresh perspectives drawn from their experience, and they tend to grasp certain management principles better than management."

A third participant went further:

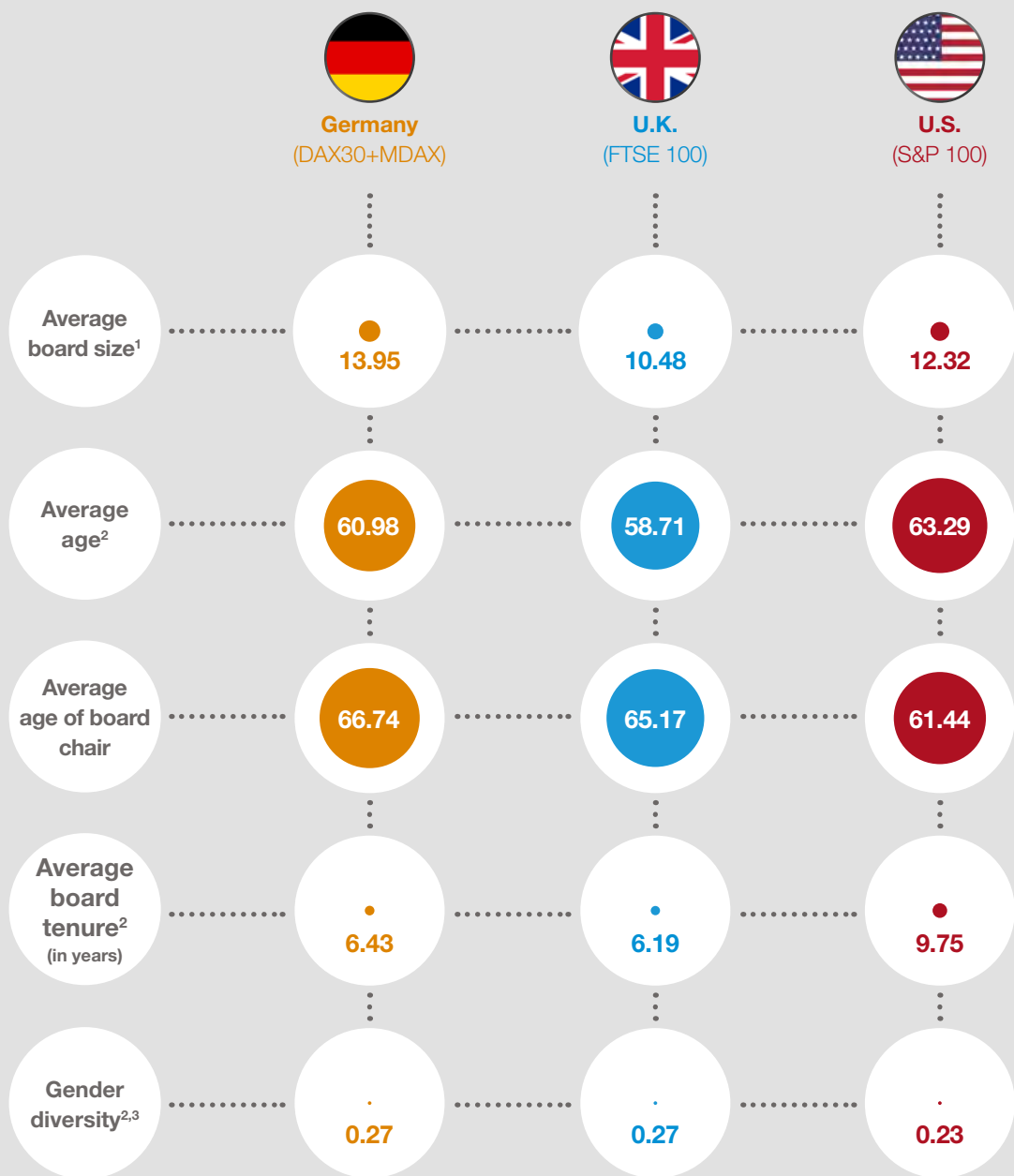
"Very often PE board members have less understanding of the business than the managers, but at least they challenge the management team every week... You get seven to 10 proposals, half of them are worthless but the other three may be okay and two may be really good. You listen and let yourself be challenged by people who are persistent. That level of interaction makes a difference."

It is worth noting that such boards can come across as very intrusive and overwhelming. They demand more intense and more frequent interactions. They move at a faster pace and with a greater sense of urgency. Our participants pointed out that most corporate CEOs find it very difficult to work with these boards. *"A certain level of openness is a must."* Another participant speculated that most CEOs would balk at working with PE boards:

"How many public CEOs are comfortable with having intense, frequent interactions with their boards that constantly challenge their thinking? Only a few."



Figure 2
Corporate boards across Germany, the U.K. and the United States*



* as of January 2018
1 includes employee representatives
2 excludes employee representatives
3 percent of women on all boards



04

German management boards in times of systemic disruption

Managing systemic disruption is first and foremost the responsibility of the management team and of the CEO in particular. The supervisory board is a multiplier. Our in-depth conversations provided an additional window of opportunity to ask Germany's business leaders how CEOs together with their management teams are navigating and battling the forces of systemic disruption.

The picture that emerged can be summarized as follows: The tasks at hand are complex and controversial, the journey is hard and chaotic and the destination is by no means certain. The CEO, together with his or her team, must fashion a clearly thought-out transformational strategy. They must reengineer the operating business model and revamp the culture. They have to get key internal and external constituencies to recognize that the need for change is existential and get them on board. They have to manage expectations and reconcile conflicting interests. They must lead the company through stormy times.

4.1 A new breed of German CEOs

Our participants pointed out that compared to their predecessors, the CEOs of today must wrestle with more powerful currents, and they need to deal with a much more diverse base of external actors who are trying to shape and influence the strategic direction and operations of the company. On the other hand, our participants reported that the incoming and current generations of CEOs in Germany differ qualitatively from the outgoing and the previous generations in important ways:

“The CEOs of today are younger, more risk-conscious. They are more international because they have traveled, and their company has a global footprint. They are also much better informed — they don’t just read FAZ in the morning and that’s it. They have all kinds of sources of information, they are much better networked and they meet a wider range of people on many more and varied occasions.”

“The CEOs of today are much more business- and success-oriented. Of course, the guys of the old guard were not incompetent, but the CEO role has changed. You now get much more responsibility at a younger age, and you retire earlier as well. Twenty years ago, you had to be 60 to become a management team member; today at age 60 you would have already had 15 years of experience as a board member.”

“In the past you could climb the ladder towards a top executive position at age 55 as a reward for your loyalty. This system is gone. If you look at top managers at German companies today, you see that managers are younger and have very diverse backgrounds — they no longer come from the leading families, from Deutschland AG. Today you have to be intelligent, fast-moving, willing to work a lot and to resolve issues.”

Several of these differences can be explained by the evolutionary forces in society and business. Comments such as the one above also strongly challenge the view that the role of the CEO has become largely symbolic in Germany. One participant discussed this point explicitly:

“In the past, you would have heard: ‘It is just management. You don’t have to have knowledge about the company. The management team has the knowledge and you as the CEO just have to be able to lead and guide the people.’ Today, the CEO must have detailed knowledge about the company and the business model of the company. Otherwise, it can’t really work.”

Surprisingly, however, a number of the respondents said they believe that the current generation of CEOs is not as entrepreneurial as their predecessors:

“I would say that the biggest challenge is that the new generation is more life-work balance-oriented, less determined to make a change. Their will to do whatever what it takes is not as strong. I am not impressed by the new generation of corporate guys. I am very impressed by the young founders; there we see many more young people who have an attitude of ‘Yes, let’s try, I can fail but try again and do it better.’ In the past you could hire blindly from banks or Pepsi because any guy was good. Today that is less the case because things are more political, more streamlined.”

The trend toward abandoning corporate environments for entrepreneurial opportunities, which seems to have accelerated over the past decade, was identified by the respondents as a primary driver of this phenomenon:

“The better people move into entrepreneurship at an earlier stage in their [corporate] lives.”

“I think the big question I have is whether it still interesting to become a CEO. If I look at the people in my private network, I see that a lot of them are entrepreneurs.”

The increased regulatory emphasis on risk and liability in German corporate governance, which we discussed extensively in the previous chapter, also seems to suppress entrepreneurship among CEOs. As one participant observed, CEOs face cultural pressures: *“The trial-and-error culture is less popular and is viewed less positively in Germany. In the U.S., you can fail and everybody will say, ‘Okay, try again’.”* Last but not least, the CEOs of today, as one participant explained, *“grew up in a matrix organizational structures that did not allow for entrepreneurship.”*

We also heard comments that many young business leaders in Germany have never witnessed the kinds of dramatic crises in their professional lives as senior managers (i.e., in critical roles as decision-makers). Having experienced nothing but a prolonged period of stability and success, they tend to believe that they and their companies are infallible. This puts them at risk of underestimating the extent and the nature of the challenges ahead, while overestimating their ability to navigate these challenges. *“It’s good to have people who have weathered a few storms”*, one participant said in reference to leadership roles in companies.



“In the U.S., you can fail and everybody will say, ‘Okay, try again’.”



4.2 Ideal CEOs in times of systemic disruption

We were told repeatedly that the ideal qualities of a CEO differ according to time and place. Nevertheless, our participants pointed out five defining qualities of ideal CEOs for disruptive times, which shape and govern their playbooks:

4.2.1 Unusually astute

Most CEOs have a deep knowledge of their business. Having an exceptionally high level of outside knowledge is a clear marker of an ideal CEO. Such individuals have a very nuanced understanding of the environment and are acutely aware of the major forces reshaping it.

In essence, ideal CEOs are naturally curious individuals, and they relentlessly seek to improve their understanding and awareness of current and future trends, even while mired in the drudgery of the daily grind. They have, as one participant observed, *“a rare willingness to make a significant personal investment despite having a calendar that is full for the next six to eight months with ordinary administrative stuff and routines.”* Another participant observed that *“it is challenging to develop such a broad view”, but added that such individuals “like to be challenged”.*

These CEOs rigorously gather detailed information on technology, competition, markets, customers, regulatory and human capital trends. We were told of CEOs who periodically commission studies about *“millennials,”* talk to investment bankers and political scientists about potential *“geopolitical crisis,”* spend considerable amounts of time with experts to understand *“digital workforces and societal implications”* and recruit personal advisers to educate them on complex, nascent technologies. *“Even when they are 65”,* one participant said, *“these CEOs have no problem sitting down with five investment managers around the ages of 30 to 40 to listen to their opinions.”*

Individuals who are knowledgeable about their environment enjoy distinct advantages. They are able to notice inflection points, recognize emerging patterns, detect early signs of trouble and foresee trends that may create new business opportunities. They are able to distinguish the signal from the noise.

More generally, having an exceptional level of understanding gives them sufficient confidence to create an atmosphere around them that facilitates critical reflection. They are not selective in what they want to hear, and they do not discount negative feedback. *“They are open to and prefer to work with a team who challenges them on a regular basis.”* They are also able to stimulate original thinking in their teams. Finally, they have the intellectual sharpness to meld various ideas and arguments into a coherent strategic framework.

4.2.2 Entrepreneurial mindset and attitude

Extraordinary times make having an entrepreneurial mindset and attitude even more imperative. As one participant stated succinctly:

“The people who make a difference in challenging situations are not the mainstream guys.”

According to the respondents, ideal CEOs stay alert, learn fast, think outside of the box, remain on the lookout for new growth opportunities and are prepared to act rapidly.

“They’d rather make a fast and informed decision... or make five of them and maybe accept that two of them will be wrong instead of waiting.”

Ideal CEOs embrace disruption and the associated uncertainty and have a positive and pragmatic approach to change. They avoid minimizing, trivializing or oversimplifying it.

Radical transformation in the wake off systemic disruption tends to be an uphill battle. Frictions and cracks start to appear in a wide range of personal and organizational relationships. Conflicts of interests and priorities abound. Radical ideas rapidly collide with formidable internal inertia. Key external stakeholders may see such ideas as gambles on the future of the company and may prefer to fall back on more immediate solutions that have precedents and more certain outcomes.

Indeed, several of our participants spoke about how, for example, members of the investment community, who tend to have a short-term orientation, hold CEOs back from making significant investments in new, emerging areas in response to disruptive threats. For this reason, some of the respondents argued that private ownership provides a much better setting for undertaking radical transformation.





CEOs must be prepared to overcome such strong pockets of resistance, and having entrepreneurial qualities can help them win over hearts and minds. Ideal CEOs are resilient. They don't break down under frustrating conditions or intense public and private scrutiny, or when the early momentum for change starts to slow. They are able to visibly demonstrate tremendous enthusiasm and passion for steering the company through periods of disruption. They can articulate a clear, compelling and captivating narrative, and they are prepared to communicate it proactively and frequently to motivate and mobilize the stakeholders and to bring them on board.

As novel strategic responses tend to be inherently very complex and confusing, a lot of entrepreneurial effort is needed to ensure that these responses are properly understood and appreciated. One participant, for instance, noted that his company had recently organized a "capital market day" in which the sole focus was on digitalization. The aim was to explain to equity analysts what the company was doing to weather and profit from digitalization. The respondent added that management felt it was essential that the analysts understood the company's position in detail. The benefits of the day went beyond obtaining the analysts' endorsement, as it was useful in showing that the management has not been lagging behind or disengaged, but were actively pursuing smart new businesses and initiatives. He said he did not want to keep going back and having the same conversations, as doing so would only waste precious time and delay action. Echoing this view, other participants touted the importance of holding boot camps with supervisory board members at which the CEO can convey what he intends to do to ensure that the company emerges from the disruption unscathed or even stronger.

4.2.3 Disciplined and accountable

Ideal CEOs are resilient, vigilant, bold and change-oriented. They face reality head-on. They make a sustained commitment to adapting their organizations to the future. But they avoid unnecessary risks and remain disciplined and focused. They have a strong sense of accountability.

We were told repeatedly that companies tend to react to systemic disruption with rapid bursts of organizational activity. However, most of these initiatives are designed to rack up quick wins, are poorly thought out, are cosmetic in nature or target the margins of a business. Such frenzies of experimentation overextend the company. Moreover, these scattershot activities can cause insiders to become confused about how to prioritize their limited resources and attention. They may react by engaging in erratic or inconsistent projects, or they may suffer from decision paralysis. These seemingly haphazard strategic initiatives also send the wrong signal to outsiders, as they suggest that the company is simply grasping at straws while under pressure and in a panic and that there is no coherent logic behind these activities. These signals can be particularly devastating for publicly listed companies.

Ideal CEOs carefully define a general strategic framework within which new initiatives can emerge and be pursued. Such frameworks make a strong, rational and credible case for a new and better future. They inspire, energize and lend legitimacy to initiatives and provide a clear basis for selecting, prioritizing and orchestrating these activities. Hence, they prevent the company from evolving in multiple arbitrary directions.

Ideal CEOs are systematic about nesting initiatives within one another. They emphasize synergies, pay-offs and complementarities, envision platforms, and think in stages and phases. This final point is worthy of elaboration. Several of our participants argued that ideal CEOs don't go for it all at once, and they avoid committing too many resources too quickly. They refrain from making overly ambitious or aggressive public pledges about getting ahead of disruption. Instead, they articulate and communicate clear priorities.

Even under great pressure, ideal CEOs are sufficiently disciplined to avoid making high-stakes bets or jumping impulsively into superficially attractive opportunities on the basis of limited evidence, weak cues, hype or the expectations of outsiders. Instead, as one participant put it: *"They look for a pilot or a trial-and-error experiment. If it fails, it fails. If it works, it works, and they take the next step."* Ideal CEOs worry about constraining future flexibility, which is central to surviving any disruption.

Two remarks are, however, in order. First, even though intelligent and disciplined experimentation are key elements of the playbooks of ideal CEOs, these CEOs do not go after low-hanging fruit or projects on the fringes of the business. These initiatives are geared toward adapting the core businesses to changing circumstances. They are always followed by integration / migration pathways.

Second, ideal CEOs are aware that these experiments will not always succeed. Some will fail, and a few can fail miserably. However, failures do not bring the company to its knees and squander whatever goodwill is left for its leaders. One participant reported a first-hand experience with such a situation. His company wanted to make a series of carefully planned acquisitions to transform its core business in response to a major disruption. The supervisory board did not completely understand the underlying strategy, but were supportive of it. The management team conducted a far more detailed and rigorous analysis of each acquisition target than they had done in the past, or that was the general standard in Germany. They negotiated intensely and made sure the acquisitions built upon each other to create new growth platforms. Still, a few of these acquisitions did not work out as expected, and one turned out to be a big blunder. Nevertheless, having witnessed the managerial discipline that was exercised in executing the strategy, the supervisory board not only chose to ignore the failures, but endorsed the management, which helped the team bounce back swiftly.



“We were **told repeatedly that companies tend to react to **systemic disruption** with a **rapid bursts** of organizational **activity.**”**

4.2.4 Know their limitations

Ideal CEOs maintain a clear understanding not only of the broader situation, but of themselves: “The CEO should have a very strong idea about what he can and cannot do.” The importance of this point cannot be overstated. Systemic disruptions are complex and tangled strategic problems. Under such conditions, CEOs will run up against the limits of their understanding, capabilities, vision and attention. They can easily find themselves overpowered and even cornered.

A number of our participants identified three principles that should guide the behavior of CEOs, especially when they are overwhelmed by situations that are complex, fraught and volatile.

First, they should surround themselves with broader forms of expertise and continue to listen to others.

Second, they should have the courage to ask for more support and should not hesitate to do so. We understand why some may perceive this approach as risky for a CEO’s career, as it may be interpreted as a sign of weakness. Then again, we were also told that CEOs want their supervisory boards to provide them with greater support through their advisory function. More generally, several of our participants emphasized that in tough times, the CEO should maintain an even closer relationship with the head of the supervisory board, who can serve as his go-to person for support and mentoring.

Third, the CEO should delegate tasks and responsibilities to individuals who have the necessary skills and who are highly motivated. Most CEOs have a tendency to get involved in everything. This is understandable to some extent, as in challenging times there is little room for failure. Thus, a CEO may get nervous and believe that micromanagement and the hoarding of responsibility will enable him to better control the environment and reduce uncertainty. But the end result of such an approach is that the CEO gets buried under piles of work, becomes short-sighted and overworked and is no longer able to inspire others to keep going in difficult times.

CEOs need to delegate in order to free up personal bandwidth to focus on the big picture and their real priorities. There are other significant benefits. CEOs must mobilize their organization rapidly to adapt to new realities. Distributing tasks and responsibilities will enable organizational talent to take ownership of their areas of activity. These managers will in turn be much more motivated to accomplish their goals and to champion change. Furthermore, empowerment encourages them to express more openly what they really think and to speak up quickly when things are going wrong.

Ideal CEOs know how to delegate. They are never entirely hands-off. They still take a strong interest in day-to-day business activities, ask pertinent questions and engage in animated debates with the members of the organization to whom they have delegated critical tasks. They also provide cover for these people. If they don’t, delegation can easily backfire during periods of disruption. As one participant cautioned:

“People tend to feel insecure at such times. When people within the organization are of different opinions and are unable to compromise with each other, then the problem escalates to top management. This happens a lot.”

Mismatching — or assigning critical tasks to the wrong people — is an obvious reason why such problems can occur. People may also be confused. When CEOs entrust individuals with tasks and goals, they may fail to make the objectives clear. A third reason why problems with delegation can happen points to a deeper issue:

“We need to ask ourselves at the same time whether we give them the freedom to fail as well.”

“Whenever there is big change... do we make failure part of the leadership culture?”

Indeed, several participants emphasized that in periods of disruption, the CEOs themselves should not be afraid of admitting their mistakes. Such admissions send clear messages to the organization that in these extraordinary times, setbacks are bound to occur and that people should learn from them and recover quickly.



4.2.5 Skillful users of power

We were also told that ideal CEOs skillfully exercise power. Given the obstacles and frustrations CEOs face in moving the company forward in disruptive times while under considerable pressure, they may be tempted to develop autocratic tendencies and combative styles. Some CEOs could even see an opportunity in disruptions to entrench and consolidate their grip on the company. Such an approach is counterproductive.

The CEO is a role model in the organization; people will watch what he / she does very carefully and will emulate him / her. Power grabs will become the norm. Domineering behaviors can also sow the seeds for long-term discontent and discord among upper management in the company. *“When CEOs act like sun kings, you have loads of politics and backstabbing”*, one participant observed. Moreover, people will fear retribution and, consequently, avoid open, fact-based discussions and authentic participation in the decision-making process.

But at the same time, CEOs should be careful not to succumb to deferential tendencies or to engage in a never-ending quest to build consensus. They should move fast, not stay stuck in the problem. The use of power is, therefore, a balancing act. CEOs must intelligently decide when to order decisive action and get people moving, and when to seek consensus or to step away from their position or even get out of way. This balance is connected to a broader insight that CEOs should adapt their leadership style as disruption unfolds and circumstances shift.

Several respondents stressed that CEOs who master the art of power realize consensus is not always possible and that no decision will please everyone in times of systemic disruptions, but don't fall prey to their emotions when making tough decisions. Moreover, they avoid exploiting the need to make complex decisions to promote their personal ambitions or create individual winners or losers:

“When all the arguments are on the table, [they] let the facts decide and not their personal sense of empathy or feelings about this person or that group.”

“They don't decide based on who has power or authority, but based on reasons and who has the best argument.”

4.3 Ideal management teams in times of systemic disruption

The management team are the CEO's leading partners in fighting systemic disruption. Their collective success hinges on several critical factors. Based on our conversations, we identified the following qualities as key characteristics of outstanding management teams in disruptive times.



“Ideal management teams have the collective ability to think about the big picture.”

4.3.1 Superior understanding of value creation

In addition to the CEO, the other members of the management team must demonstrate strong performance, be steeped in their respective domains and have a reasonably good understanding of the full operational scope of the company and its environment.

“First of all, they must be top performers. Everybody has to do his or her job very well. Identification with the company and the willingness to contribute to the greater good of the company are also needed.”

“If you look at the management board, I think the important thing is that you have people there who both understand their business and the factors that lead to success and have a clear understanding of the disruptions to come. ... If you only have one of these two, you might make major mistakes.”

Having a superior understanding of how the company creates value and how their functions contribute to this value creation process can provide members of management boards with a strong foundation for strategic thinking. This is a core managerial competence. Such management teams have the collective ability to think about the big picture even while performing their day-to-day activities. They never opt to hand over the full responsibility for strategic planning to the CEO, but strive to serve as effective, intimate sparring partners. They bring insight, knowledge, judgment and analytical skills to their roles and initiate the right kinds of strategic discussions with the CEO. They expand and reinforce the CEO's ability to maintain perspective as situations unravel and unforeseen challenges materialize.



4.3.2 Strong bias for action

Having an entrepreneurial management team is generally seen as a fundamental requirement for prevailing systemic disruptions. Members of the management team must always be aware that it is their responsibility to ensure that the company is able to weather disruptive storms. Standing on the sidelines will only make disruptive problems morph into more dangerous, survival-threatening forces. They should discuss, reflect upon and challenge deeply held beliefs and assumptions, but they should not procrastinate or hesitate when it comes to making decisions or taking action. Even if there are internal disagreements, they should get on board quickly once a decision is made and they should respond to disruptions in a timely manner. They should know that lower-level employees are watching every move they make and are taking their cues from them.

Management team members need to see themselves as architects and catalysts of creative responses and fresh business models, and engage with disruption confidently. However, our participants were critical of German management teams, asserting that they lack entrepreneurial qualities:

“An entrepreneurial management team encourages change and exploration of new business areas. German management boards are far from being entrepreneurial.”

“Trial-and-error culture is much more popular and is seen more positively in the U.S. than in Germany.”

Though this mentality is unfortunate, it should not come as a surprise. As we discussed earlier, the CEOs themselves appear to be short on entrepreneurial qualities. When CEOs have a lot of freedom to assemble their own management boards, they tend to favor people who are similar to them. However, the consequences of this selection approach can be dire. One participant explained this problematic pattern as follows:

“Managers in a lot of now-defunct German companies, like AEG, Grundig, etc. were not willing to question themselves and their business models regularly. They thought, ‘We know how it is going and we know what the customer wants.’ They did not think enough about how society and the market could change. But today, when things are changing even faster than in the past, you face challenges every day. If you are not willing to question yourself, to ask whether your current assumptions will still be valid in five years, you will run into trouble.”



4.3.3 Diversity in skills and thoughts

Some level of skill and thought diversity on a board can enhance the capacity of the members to deal effectively with disruption by fostering early detection, improving the ability to interpret the situation and stimulating productive and creative thinking. Our participants frequently identified diversity as a major strength of their management team and said they worked very hard to maintain diversity.

A comment we heard repeatedly in our discussions about supervisory boards was that the main responsibility of the chair of the board is to ensure that the supervisory board members have the right skills. A similar remark was made frequently with respect to the CEO. The CEO has to have a dynamic and forward-looking perspective on the skillset in the management team. According to our participants, one of the major mistakes made in corporate Germany is that management teams are not assembled with an eye toward the types of knowledge and skills that are required for the long term. This is in part because there appears to be a general blind faith in the ability of management teams to learn and update their skills continuously, to plan for the future effectively and to respond to new situations appropriately. However, relatively few management team members appear to engage regularly in self-assessment, and even fewer are committed to improving their skills.

In their quest to close the skills gaps in their ranks, it also seems that many CEOs are paying insufficient attention to questions of cultural fit:

"In putting together a management team, you shouldn't just focus on the skills you need. You need to select the members according to their character, because it is important to have people with a range of personalities, perspectives, strengths and experiences. I think that too often members are chosen for having a certain skill. You find a person who has this skill and say, 'Let's bring that person in' — without really reflecting on how the dynamics work, what profile the person has and what type of person is needed."

Diversity should not come by enlarging the size of the management team. Our participants cited the size as a factor that influences the quality and conduct of the management team. One participant who experienced a downsizing of the management team in the midst of disruption noted that *"it made decision-making a lot easier, and personal interests were less likely to interfere with the discussions."* Another respondent agreed:

"I really believe that you should stay with really small teams. I think management teams of more than five don't do it. The higher the number you have, the more formality there is and the more parties you need to convince. This slows down decision-making and can create factions. I don't think that three is ideal, because that is a very small group of people and certain skills may be lacking."



“In addition to understanding *bits* and *bytes*, you need to understand how those *changes* affect the *business model*.”

4.3.4 Tech-savvy

The ideal management team is made up of digitally savvy individuals who understand the extent to which digital forces are transforming the business landscape, take every opportunity to strengthen their grasp of technological issues and make technical proficiency a cornerstone of their management profile.

Many participants lamented that, other than the executives who are specifically tasked with overseeing technology (e.g., chief technology / information officers), most of the management team members in Germany are not sufficiently informed about technology and digitalization issues. They run the risk of getting blindsided. *“They don’t have to be engineers, but they have to be open-minded and able to see what technological changes can mean for the products, services, competition,”* one respondent said. Another participant concurred, stating that a management team member should have the following qualities:

“You need to have a good understanding of the whole technology framework and how it is developing for the future and the impact of those technological developments on the development of products and services. If you are a production company, you have to understand the effects on production, on the workforce and on the customers. In addition to understanding bits and bytes, you need to understand how those changes affect the business model. You need to bring these two areas together.”



4.3.5 Real team not a group

Having members with a wide and deep range of skills and entrepreneurial characteristics is a necessary but insufficient precondition for management boards to bring disruptive forces under control. The challenges brought about by disruption require much closer interactions and much higher levels of cognitive and behavioral alignment within the management team:

"You need smart people and a winning culture on the management board. To me, it is important for people to ultimately have a collaborative attitude as well."

"The management board has to work as a team. If you have the most brilliant people who are not cooperating, then the performance of the whole board will be much lower than if you had mediocre people sitting around and collaborating extensively. This is important. They all have to work in one direction."

This need for collaboration is understandable. Systemic disruption calls for making risky, innovative choices under complex conditions with limited facts at hand. The team must come up with a robust strategy and move it rapidly onto the agenda of the supervisory board, who have to appraise, scrutinize and approve it before it is deployed.

Engaging in a swift, genuine and intensive process of collaboration will allow the team to detect and interpret unfolding events in an accurate and timely manner, to perform a rigorous strategic assessment and to craft a strategy that is built on a strong analytical foundation. Furthermore, if the team members fail to present a unified front, the credibility of their claims, the validity of their assumptions and the legitimacy of their strategic vision will be damaged, and their fitness will be called into question. Thus, by avoiding infighting, strategic responses can be articulated and executed much faster and with greater confidence. Speed and agility are key assets in disruptive times.

Yet ensuring collaboration and alignment is itself a major challenge during periods of disruption. These are tough, chaotic, highly stressful and potentially overwhelming times for everybody involved. People's energy levels and patience are drained as their hard-earned careers, professional legacies and reputations are put at risk. In such situations, emotionally charged and tense meetings are no longer the exception. Management teams are therefore vulnerable to the subversive forces of conflict, power, politics and even hostility.



If the social foundations of the team are not strong, the chances that the team will emerge from the disruption intact are very low. Hence, it is critical that management teams are inclusive, internally cohesive groups in which, as one participant put it, “The members would have no problem spending two months together on a boat.” The following excerpts from our interviews give insights into those types of teams:

“We are extraordinarily close as a management team. On average, every four months we simply take a day in which it is almost like, ‘Put your feet on the table and start talking about what is important what is not, where are we right now.’ We are having most such discussions out in the open; this is the stuff we should be talking to each other about. We have on various occasions talked about our own strengths and weaknesses, and given each other feedback. They are a group of people who, in my view, have a good set of values and a good approach to talking and thinking.”

“In our case, there are no big egos. Everyone has a good mindset and a good attitude to work. I have worked on several [management] boards. This is very rare. If you are a football player, you would say that you have to play for the team and not for yourself, and this is what we are doing. We have a lot of respect for each other, so if somebody says something there’s no screaming and shouting. ‘Let’s listen, is there something he wants to say. What is it? Do we like his opinion or not? Do we agree, or do we disagree?’ And this is where you often have strong egos. We don’t have that.”

A key attribute of real teams is that they have an internal climate that encourages open, honest discussions about the extent of the problems facing the company. They don’t let the CEO dominate these discussions from start to finish, nor do they suppress dissent at the management board table. Members are encouraged to be blunt and to challenge each other’s assumptions and beliefs, including those of the CEO. Yet in the end, they have the ability to bring disparate points of view together.



05

Concluding remarks

In this study, we set out to investigate how some of Germany's most prominent corporations are handling disruptions. In particular, we wanted to understand corporate leaders' playbooks, frustrations and challenges.

We have found that even though companies are facing several concurrent disruptive forces, corporate leaders are most concerned about the systemic changes that threaten to shake companies to their cores, such as digitalization, shifting consumer behavior, the rise of platforms and challenges by activist shareholders. There is a general recognition that, in order to prevail over systemic disruptions, companies need new playbooks. They should think, act, manage and compete boldly — and differently than they have in the past. They should redefine their strategies, reengineer their operating models and revamp their cultures.

The insights we obtained reveal critical deficiencies in supervisory boardrooms. Most CEOs at Germany's leading businesses seem to struggle to get their supervisory boards involved in the company's efforts to deal with systemic disruptive forces. Most corporate executives do not see their supervisory boards as strategic assets in general, in times of systemic disruption in particular. If anything, supervisory boards are viewed more as obstacles to the formulation of timely, novel and bold strategies to counter and get ahead of disruption.

Our conversations with corporate leaders provided a window into why and how supervisory boards fall short in this area. While far from definitive and exhaustive, we can piece together the profile of boards that are ideal sparring partners for management in predicting how systemic disruptions will affect the company and in undertaking concrete and substantive actions to deal with their consequences (See Box 6.1 in Appendix).

Systemic disruptions elevate the significance not only of supervisory boards, but of chairs. Supervisory board chairs must assume a far more proactive, hands-on and expanded role in helping the CEO and the management team to transform the company effectively in response to systemic disruptions.

They should step up and show leadership in the boardroom. They must make sure that the supervisory board members confront reality and provide timely and sound advice and guidance for critical strategic decisions during these challenging periods. Moreover, chairs should catalyze transformational thinking and behavior on the board. It is their responsibility to get their board members to realize rapidly and to acknowledge openly that systemic disruptions will mean that management will have to make a range of bold decisions and implement a radical change agenda (see Box 6.2 in Appendix for ideal profiles of supervisory chairs for times of systemic disruptions).

Even at the best of times, it is important that the chair develops a close and productive working relationship with the CEO. When companies are hit by systemic disruptions, the relationship should turn into a strong partnership with a broader scope. Chairs must simultaneously perform six roles:

- **Sounding board:** They must challenge and debate the CEO's thinking, ideas and strategy.
- **Supervisor:** They must make sure the CEO maintains discipline and accountability.
- **Cheerleader:** They must champion and promote the steps that are being taken to prepare for the future.
- **Connector:** They must help the CEO secure key internal and external allies in executing their transformational agenda.
- **Mentor:** They must show empathy for the CEO and coach the CEO on his / her weaknesses.
- **Protector:** They must provide cover for the CEO in the event of setbacks and, when necessary, should take the heat from internal and external constituents.

Weathering and even profiting from systemic disruption require a renewal of the culture, the mix of skills and the blend of insights in the boardroom. These changes alone are, however, insufficient. Ultimately, it is the responsibility of the CEO and his / her team to manage the company through disruption.



“Corporate leaders should think, act, manage and compete boldly — and differently than they have in the past.”

The insights we gained in the course of our interviews helped us profile a truly effective CEO in disruptive times. Such CEOs possess five essential qualities: they are unusually astute, have an entrepreneurial mindset and attitude, maintain discipline and accountability, know their limitations and have mastered the art of power. These qualities shape and govern their playbooks. We summarize the key elements of ideal CEOs’ playbooks in Box 6.3 in Appendix.

We further conclude that ideal CEOs perform a “series of delicate balancing acts” during disruptive times:

- They have a strong grasp of the environment and the forces transforming it and are able to see far into the future, but they also want their supervisory boards and management teams to ask in-depth questions and to challenge their insights and plans.
- They face up to disruptions and attack them head-on, but they are not impulsive or reckless. Ideal CEOs are entrepreneurial and agile, encourage their people to take initiative, appreciate the processes of learning and discovery, and tolerate stumbles, but they are also disciplined, accountable and systematic in their approaches, and are able to allocate their resources to the activities that really create value.
- They mobilize and involve their organizations and empower their people to take part in the decision-making process, but they are also decisive and don’t allow critical decisions and actions to be stymied and strangled, or fleeting opportunities to be missed.
- They assume personal, frontline responsibility for managing disruption, but they also delegate intelligently and stay focused on the high-impact missions at hand. At certain times they take charge by projecting power, while at other times they step back or even get out of way.
- They draw strength, meaning and a sense of pride from the company’s past, but they are also careful to avoid a slavish adherence to tradition that creates a climate of complacency and sluggish responses to disruptions.
- They do not underestimate or discard short-term market pressures and realities, but they are also keen to take calculated, bold action that will lead their company to success in the long run.

These balancing acts must be the foundation of every CEO’s playbook in dealing with disruptions. However, performing these acts effectively is highly challenging. They are complex conundrums.



Our conversations also provided some fresh insights into the qualities management teams must have and the pivotal elements of the playbooks needed to win the battle against disruption. The quality of German management teams is, in general, hardly ever discussed and dissected. Their collective contributions to the evolution and well-being of the company are often overlooked. These are serious omissions. The skills, preferences, experiences, values and biases of management board members — together with the nature of the relationships between them — can greatly influence how organizations cope with disruption. Their strategic value extends beyond helping the CEO develop the most appropriate courses of action to fend off disruptive tides, as they can facilitate and make those critical balancing acts easier for CEOs to perform. We summarize the pattern of qualities that define ideal management teams in difficult and turbulent times in Appendix see Box 6.4.

This study is not a call to arms to embrace a revolution in German corporate governance and leadership culture and practices. However, as the pace and scale of disruption are likely to increase, we cannot remain hostage to ineffective and unproductive — let alone harmful — ideas, practices, behaviors, visions and mindsets. Failing to engage in a systematic process of critical reflection in the present will lead to devastating outcomes further down the line. We hope that the insights from this study will trigger a hard conversation about the structures, practices, processes, qualities, skills and playbooks of German corporate leadership and offer a robust blueprint for how to proceed with the necessary adjustments, alignments and innovations. This process will be in the spirit of the lessons we learned about disruption throughout our study. Disruptive periods are times of revelation on the one hand, and of deep self-reflection on the other.



06

Appendix I

Ideal Profiles and Playbooks



BOX 6.1

Ideal profiles of supervisory boards for times of systemic disruptions

- Never lose sight of their advisory function and are conscious of the need to cooperate even more actively with management in times of systemic disruption.
- Cultivate board cultures that encourage frank and systematic discussions.
- Have board processes designed to make the best use of skills and insights on offer around the table.
- Are not beholden to the talents and insights of a single individual; they relentlessly seek to have the right mix of skills and know-how present on their boards.
- Recruit members who seek out opportunities to learn and develop in the face of systemic disruptions.
- Engage constructively with management; while they do not attempt to micromanage or replace management, they are candid and forthright and treat no topic as off limits.



BOX 6.2

Ideal profiles of supervisory board chairs for times of systemic disruptions

- Gets the board to confront the reality and acknowledge explicitly that systemic disruptions translate into several bold decisions and a formidable change agenda for the CEO.
- Ensures that board members get relevant and well-organized information and that strategic issues have a prominent position on the agenda in every board meeting.
- Makes sure that the supervisory board's composition is aligned with the challenges ahead and that the board is able to confront reality and provide sound and timely advice.
- Strives to get the board remain focused on key priorities, and every director brings valuable experiences and broader perspectives to the boardroom.
- Makes sure the board is visible and present in top management's efforts to drive change.
- Seeks to transform his / her relationship with the CEO into a committed partnership and focuses diligently on strengthening and broadening it.



BOX 6.3

The playbook of ideal CEOs for battling systemic disruptions

Critical actions	Playbook elements
Redefine strategy	<ul style="list-style-type: none">■ Face disruption head-on.■ Carefully define a general strategic framework within which new initiatives can emerge and are selected, prioritized and orchestrated.■ Be open and willing to share the strategy with the supervisory board. Get them to ask in-depth, challenging questions.■ Envision platforms; think in stages and phases. Incorporate course corrections and worry about constraining future flexibility.■ Prefer a sequence of measured and coherent novel steps over impulsive big bets, ad hoc initiatives or uncontrolled experimentation.■ Do not commit too many resources too quickly.
Reengineer the operating model	<ul style="list-style-type: none">■ Link the key elements of the business strategy to the capabilities required to deliver the strategy.■ Extend the operating model from market-facing dimensions, such as interactions with channels and customers, through business operations and support functions.■ Identify and quantify opportunities to unlock shareholder value by divesting and/or improving underperforming and non-core business units or assets.
Revamp culture	<ul style="list-style-type: none">■ Get internal constituencies to see the need for change as existential.■ Encourage people to take initiative. Emphasize learning and discovery.■ Create incentives and attractive work environments to acquire talent who will drive (digital) innovation and change.■ Make failure part of the leadership culture.■ Draw strength, meaning and a sense of pride from the company's past, but do not let the past reinforce complacency or paralyze change.
Manage expectations	<ul style="list-style-type: none">■ Demonstrate discipline, focus and a strong sense of accountability.■ Articulate a clear, compelling and captivating narrative for a better future.■ Never underestimate or discard short-term market pressures and realities.■ Engage in proactive and preemptive efforts to move hearts and minds.■ Refrain from making overly ambitious or aggressive public pledges about getting ahead of disruption. Instead, communicate clear priorities.■ Strive for consistency in messages and actions.
Lead through the storm	<ul style="list-style-type: none">■ Assume personal, frontline responsibility. Visibly demonstrate enthusiasm and passion for steering the company through disruption.■ Articulate the purpose, take calculated risks and bring people on board.■ Ensure a constructive chairman-CEO relationship. Build trust by recruiting leaders with complementary roles, skills and personalities.■ Ensure effective stakeholder management. Leaders need to communicate continuously.■ Resist the temptation to entrench and consolidate power over the company.■ Do not succumb to deferential tendencies. Be evidence-led.■ Do not micromanage; prioritize and focus on high-impact missions.■ Continue to listen to others. Use trusted, independent advisers.



BOX 6.4

Ideal profiles of management teams for disruptive times

- Have members who excel in their jobs and draw strength from each other's ability to think strategically.
- Share a compelling sense of urgency in disruptive times and key conviction about the way forward, and lead and champion from the front.
- Have the sufficient depth and breadth in skills and thoughts to challenge each other's outlook and conclusions.
- Are an intimate, trustworthy, intelligent sparring partner to the CEOs.
- See themselves as architects, designers and catalysts of new initiatives and business models; not guardians of short-term priorities and vested interests.
- Are forward thinking, proactive and agile.
- Consider teamwork as a prerequisite to drive change. They find ways to prevent biases and personal interests from discouraging open, in-depth conversations.
- Have bonds strong enough to withstand clashing viewpoints, passionate disagreements and challenging questions.
- Understand the far-reaching nature of today's technological forces and are digitally savvy. Each member works to integrate technical proficiency into the way he / she manages.



07

Appendix II

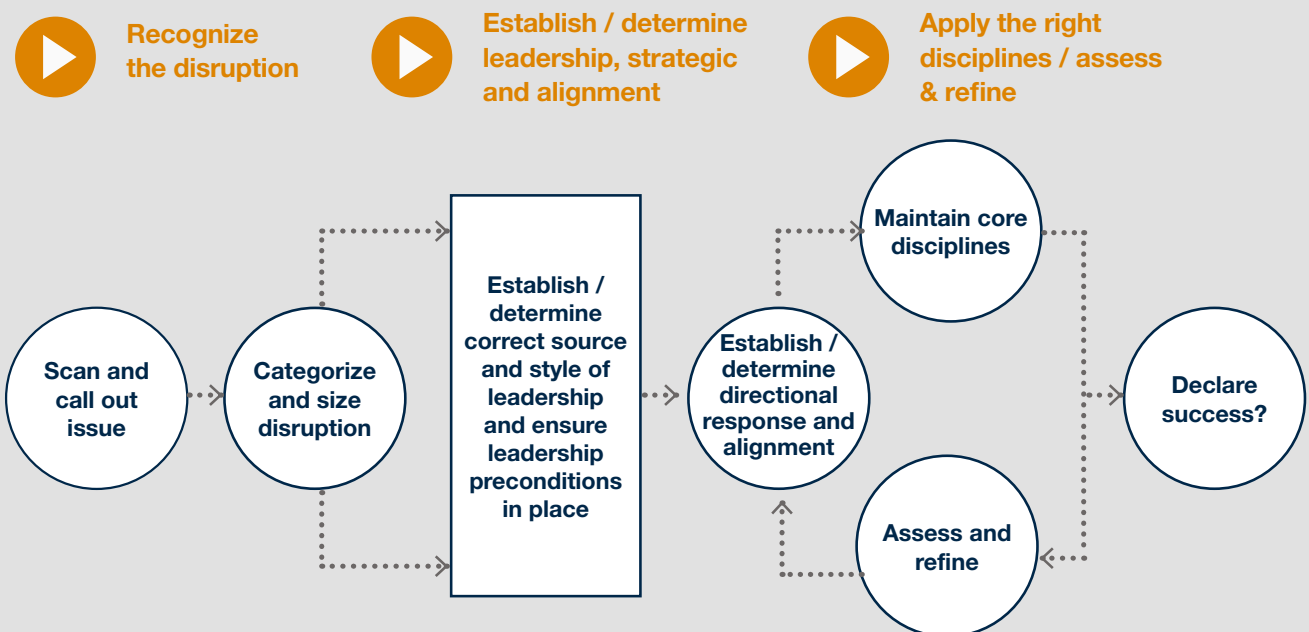
Board study by A&M U.K.

Alvarez & Marsal (A&M) in conjunction with Henley Business School recently published a study of how board members of U.K.-based companies addressed complex and discontinuous challenges⁵.

Through detailed discussions with a large group of board members and grounded analyses of several cases, this study offers valuable guidance and practical check-lists for successfully navigating through major disruption. Based on the findings, the authors created a framework for executives to successfully lead through challenging times. Figure below presents this framework:



Figure 3
Boards in challenging times: a study by A&M U.K.



⁵ The report can be downloaded from www.alvarezandmarsal.com/insights/boards-challenging-times-extraordinary-disruptions

Leading through extraordinary disruption is naturally both unpredictable and difficult. As a first step, corporate boards must recognize the disruption. This is done by scanning the horizon, calling out the issue and ascertaining what size and scale of disruption the business is facing. Study findings indicate that successful boards are strong enough to call out the issue at an early stage.

Once the disruption is recognized, the next step involves establishing the correct source and style of disruption. Different types of disruption demand a different style and source of leadership. In the context of corporate U.K., during the most extreme, unplanned and unpredictable situations, it is the board chair who often takes the lead. In disruptions that are planned (e.g., turnaround, strategic transformations), the CEO tend to take on the critical leadership role. The study also showed that the correct leadership preconditions include emotional resilience, exceptional communication, high-levels of IQ, emotional quotient and execution quotient and integrity.

With the right leadership in place, the next step is to establish the board directional response to the disruption. In most cases, the directional response includes a step-by-step process of *“first survive, then strengthen, and then grow”*.

Directional responses should be executed in a disciplined fashion. In particular, it is vital that the chairman-CEO relationship is constructive, the board and management are aligned strategically, purpose of the response is well articulated, the right people are put in place, the stakeholder management is ensured effectively, trusted independent advisers are utilized and leaders remain objective and evidence-led. The study found that combining these core disciplines tend to ensure a greater chance of success in navigating extraordinary disruption.

In addition, leaders must assess and refine their approach to the disruptive event. The initial response needs to be revised as action is taken and further evidence emerges. Once the main issues are stabilized, initial success should be declared. While it is important to celebrate some form of success, corporate leaders should avoid declaring mission accomplished too soon. After declaring success, normal strategic planning must be put back in place.



“As the **pace and scale** of **disruption** are likely to increase, we cannot remain hostage to **ineffective and unproductive** — let alone **harmful** — ideas, practices, behaviors, visions, and mindsets.”



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